

Financial Statements

Town of China, Maine

June 30, 2011

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Town of China, Maine

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Independent Auditors' Report

**To the Board of Selectmen
Town of China
China, Maine**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of China, Maine, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of China, Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of China, Maine, as of June 30, 2011, and the respective changes in financial position and, the respective budgetary comparison for the General Fund and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, 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.

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

As described in Note A to the financial statements, the Town implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Certain prior year fund balance amounts have been restated to reflect the provisions of GASB Statement No. 54.


Professional Association

Portland, Maine
October 31, 2011

Management's Discussion and Analysis

Town of China, Maine

As management of the Town of China, Maine, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011. The Town's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The Town's assets exceeded liabilities by approximately \$4.1 million as of June 30, 2011, compared to approximately \$3.8 million as of June 30, 2010.
- The Town's governmental funds General Fund Balance was \$915 thousand as of June 30, 2011, compared to \$1.0 million as of June 30, 2010.

Overview of the Financial Statements

The Management's Discussion and Analysis introduces the Town's basic financial statements. The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Town also includes in this report supplemental information to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the Town as a whole and present both a long-term and short-term view of the Town's finances. Financial reporting at this level is similar to the accounting used by most private-sector companies.

The Statement of Net Assets includes all assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. Evaluation of the overall economic health requires other non-financial factors, such as changes in the Town's property tax base and the condition of the Town's roads, as well as many others.

The Statement of Activities reports the current year change in net assets. This statement includes all of the current year's revenues and expenses regardless of when cash is received or paid.

- **Governmental activities:** Most of the Town's basic services are reported here, including public works, general administration, public safety and solid waste operations. Taxes, fees, fines, and state and federal grants finance most of these activities.

Management's Discussion and Analysis - Continued

Town of China, Maine

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

The Town has the following fund types:

- Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is different with fund statements reporting short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Management's Discussion and Analysis - Continued

Town of China, Maine

Financial Analysis of the Town as a Whole - Government-wide Financial Statements

The following schedule is a summary of nets assets for the years ended June 30, 2011 and 2010:

	<u>Governmental Activities</u>		
	<u>2011</u>	<u>2010</u>	<u>Change</u>
Current and other assets	\$ 3,203,475	\$ 3,298,754	\$ (95,279)
Capital assets	<u>2,374,933</u>	<u>2,204,572</u>	<u>170,361</u>
Total Assets	5,578,408	5,503,326	75,082
Long-term liabilities	645,921	790,954	(145,033)
Other liabilities	<u>836,790</u>	<u>864,407</u>	<u>(27,617)</u>
Total Liabilities	1,482,711	1,655,361	(172,650)
Net assets:			
Invested in capital assets, net of related debt	1,638,504	1,180,865	457,639
Restricted	722,821	722,821	-
Unrestricted	<u>1,734,372</u>	<u>1,944,279</u>	<u>(209,907)</u>
	<u>\$ 4,095,697</u>	<u>\$ 3,847,965</u>	<u>\$ 247,732</u>

It needs to be noted here that although the China education system is now an autonomous entity included in RSU#18, certain financial obligations continue to be reported in the town's financial statements. The Town of China was the entity that entered into the financial agreements, though the Town of China is reimbursed for expenses incurred as noted in these financial statements.

Considering only the portion of the above reported financial information that pertains directly to the town, it seems to me to be important to point out that the town's financial picture remains stable. Capital assets remain relatively the same and there has been a determined effort in the maintenance of these assets. Short and long term liabilities have been decreasing and as a percentage of total assets, liabilities are relatively small.

Unrestricted funds have decreased as a result of two significant accounting requirements. As booked, summer salaries of educators, in the transition of the China School Department in School Union #52 to a new and autonomous entity associated with RSU#18 decreased the unrestricted fund balance by almost \$300,000. Additionally, with the County budget transitioning from a calendar year budget to a fiscal year July 1 – June 30 budget, the town was assessed a six month obligation that reduced the unrestricted fund balance by almost another \$200,000 as booked. It will be important to increase the unrestricted fund balance over the next few years to align with traditional and recommended reserve ratios.

The restricted fund balance implies that the town is committed to funding segregated assets or activities.

Management's Discussion and Analysis - Continued

Town of China, Maine

The town is involved in an effort to revise its capital improvement plan and should have it completed in 2012.

The following schedule is a summary of the statement of activities for the years ended June 30, 2011 and 2010:

	<u>Governmental Activities</u>		
	<u>2011</u>	<u>2010</u>	<u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 145,595	\$ 131,045	\$ 14,550
Operating grants and contributions	84,635	87,978	(3,343)
General revenues			
Taxes	5,500,257	5,147,700	352,557
Intergovernmental	410,753	370,735	40,018
Investment	114,307	76,318	37,989
All others	139,441	140,739	(1,298)
Total Revenues	<u>6,394,988</u>	<u>5,954,515</u>	<u>440,473</u>
Expenses:			
Administration	767,492	736,511	30,981
Protection	213,778	171,360	42,418
Public works	800,415	729,847	70,568
Solid waste operations	318,574	321,238	(2,664)
Community services	93,953	197,741	(103,788)
Education	3,573,407	3,589,071	(15,664)
Recreation	27,120	41,065	(13,945)
County tax	367,265	562,848	(195,583)
Interest on long-term debt	1,390	17,224	(15,834)
Capital outlay	(16,138)	79,536	(95,674)
Total Expenses	<u>6,147,256</u>	<u>6,446,441</u>	<u>(299,185)</u>
Special item:			
Transfer of funds to RSU #18	-	(3,617,062)	3,617,062
Change in Net Assets	<u>\$ 247,732</u>	<u>\$ (4,108,988)</u>	<u>\$ 4,356,720</u>

Management's Discussion and Analysis - Continued

Town of China, Maine

It is again important to note that although the China education system is now an autonomous entity included in RSU#18; certain financial obligations continue to be reported in the town's financial statements. The Town of China was the entity that entered into the financial agreements, though the Town of China is reimbursed for expenses incurred as noted in these financial statements.

The information immediately above indicates that the Town of China continues to fund operational expenses at significant levels. Additionally, successful grant applications have been successful and funds have been expended through those grants, thereby continuing to improve the town's healthy asset position. Interest on short and long term debt is minimal when compared with asset levels and operations appropriations.

Financial Analysis of the Town's Funds - Fund Financial Statements

Governmental funds. The focus of the Town of China, Maine's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town of China, Maine governmental funds reported combined ending fund balances at June 30, 2011 of \$1.75 million. Approximately 17% of this total constitutes unreserved and undesignated fund balance, which is available for spending at the government's discretion.

As noted, the obligation for summer salaries of educators when transitioning from a municipal school system to being an autonomous entity and member of RSU #18 and the obligation for additional assessments by the County resulting from the County changing from a calendar year budget to a fiscal year budget have resulted in a booked obligation that has reduced unrestricted fund balance below traditional levels. The town is focused on replenishing the unrestricted fund balance and anticipates that within the next three years that the balance will approach 20-25% of the combined ending fund balances in a given year.

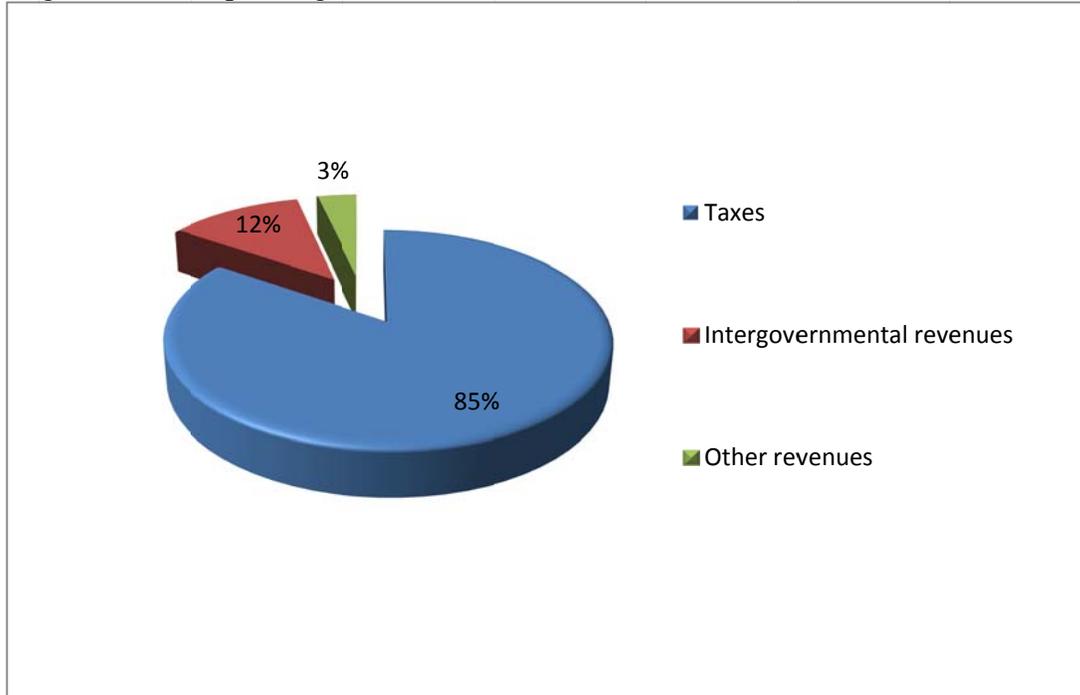
The general fund is the central operating fund of the Town of China, Maine. At the end of the current fiscal year the unassigned fund balance of the general fund was \$292,927. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

The unassigned fund balance equates to approximately 14.7% of the total municipal fund expenditures. When considering the total fund balance, or adding the restricted or assigned balances, you will note that the percentage equates to over 50% of the total municipal fund expenditures. The Town of China has not incurred debt as a way to finance capital projects. On the contrary, it has provided for a capital budget that anticipates capital needs and has thus appropriated funds for specific purposes in restricted/reserved fund balances.

Management's Discussion and Analysis - Continued

Town of China, Maine

The Town's general fund operating fund revenues were as follows:

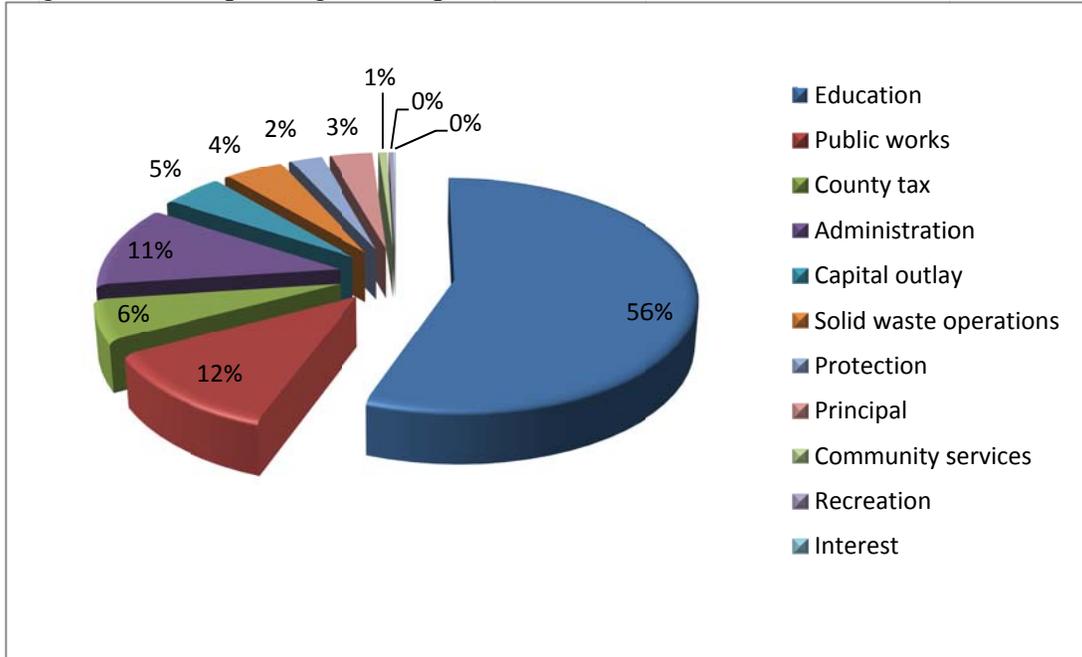


The Town of China's major revenue source is the property tax. Property tax collections are traditionally reliable and the town's collection rate approaches 98% annually. Recently, intergovernmental revenues have been unreliable to the extent that they have been reduced in the middle of fiscal years. Other revenues are reasonably steady considering the poor state of the State and Federal budgets. The town has been able to maintain a stable mil rate and not experience deferred maintenance or high debt obligations. There will need to be a focus on "other revenues" as the town grows.

Management's Discussion and Analysis - Continued

Town of China, Maine

The Town's general fund operating fund expenditures were as follows:



As in most Maine municipalities, the education expenditure continues to be the largest, even though China's State education subsidy approaches 65% of the total education budget. The town has been able to maintain a relatively constant operational budget minimum level over time, that is to say that there have not been arbitrary reductions in any of the departments listed above. It has been accommodated by a multi-year scheduling of capital and system replacement accompanied by the intended sources of funding for those improvements and an approximate timetable for accomplishing the projects.

General Fund Budgetary Highlights

Liquidity is very important in any entity's budget considerations. As noted, at the end of the current fiscal year the unassigned fund balance of the general fund was \$292,927. Municipalities occasionally are faced with cash flow concerns and the amount of the unassigned fund balance may be relied upon in those circumstances. The only other option is executing a Tax Anticipation Note and the Town of China has not traditionally relied upon this type of cash flow vehicle. The general fund's liquidity is useful when both unreserved fund balance and total fund balance are compared to total fund expenditures. The picture in these financials markedly improves when total fund balance is compared to total fund expenditures.

Management's Discussion and Analysis - Continued

Town of China, Maine

Capital Assets

As you will note in the financials, capital assets have been increasing over the past several years. Moreover, all assets have been kept in good repair as a capital improvement plan is being followed and not a pay-as-you-go plan. Road budgets have been substantial and maintained over the past decade and there has not been any deferred maintenance. Consequently, indebtedness has been minimized and total indebtedness is a small percentage of total asset value. A true capital improvement plan is a road map to the future of an infrastructure system of any kind. The Town of China has supported and continues to support capital improvement/reserve initiatives over a long period of time.

Long Term Liabilities

The Town of China's long term liabilities are minimal compared to total asset value. Capital Investment Planning has been the main driver allowing the town of finance asset improvements without incurring long term debt. A majority of the long term debt noted in the financials is related to the education department and is actually reimbursed to the town by the RSU#18. For the foreseeable future, the town will continue to invest in a capital reserve. This has allowed the town to exist in a pro-active and planned for mode when considering future capital needs.

Economic Factors and Next Year's Budgets and Rates

In the next twelve to eighteen months the town expects that traditional revenue sources will be flat or might be slightly lower than average. Cash flow will be monitored regularly.

The town has been anticipating the poor economic conditions and has implemented several efficiency improvement initiatives to offset upward pressures on expenditures. Furthermore, the town has been fortunate to realize successful grant applications that have offset significant anticipated costs while improving asset value.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Office at 445-2014 and ask for the Town Manager. Citizens are welcomed to visit with the appropriate staff on any financial matters.

Statement of Net Assets

Town of China, Maine

As of June 30, 2011

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,601,833
Investments	695,019
Accounts receivable	66,117
Taxes receivable	209,025
Receivable for long-term obligations from RSU #18	631,481
Capital assets, net of accumulated depreciation	<u>2,374,933</u>
Total Assets	5,578,408
Liabilities	
Accounts payable	239,850
Accrued wages payable to RSU #18	226,897
County tax payable	137,174
Accrued interest payable	17,000
Amounts held in escrow	25,000
Long-term liabilities:	
Portion due or payable within one year:	
Bonds and notes payable	48,389
Capital lease obligations	64,235
Accrued compensated absences	42,000
Portion due or payable after one year:	
Bonds and notes payable	182,942
Capital lease obligations	440,863
Accrued compensated absences	<u>58,361</u>
Total Liabilities	<u>1,482,711</u>
Net Assets	
Invested in capital assets, net of related debt	1,638,504
Restricted	832,857
Unrestricted	<u>1,624,336</u>
Total Net Assets	<u>\$ 4,095,697</u>

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

Statement of Activities

Town of China, Maine

For the Year Ended June 30, 2011

Function/Programs	Expenses	Program Revenues		Net (Expense) Revenue and
		Charges for Services	Operating Grants and Contributions	Changes in Net Assets
				Governmental Activities
Governmental Activities:				
Administration	\$ 767,492	\$ 58,143	\$ -	\$ (709,349)
Protection	213,778	-	-	(213,778)
Public works	800,415	-	62,724	(737,691)
Solid waste operations	318,574	87,452	-	(231,122)
Community services	93,953	-	-	(93,953)
Education	3,573,407	-	21,911	(3,551,496)
Recreation	27,120	-	-	(27,120)
County tax	367,265	-	-	(367,265)
Interest on long-term debt	1,390	-	-	(1,390)
Capital outlay - special projects	(16,138)	-	-	16,138
Total Governmental Activities	6,147,256	145,595	84,635	(5,917,026)
Total Primary Government	\$ 6,147,256	\$ 145,595	\$ 84,635	(5,917,026)
General revenues:				
Taxes				5,500,257
Intergovernmental				410,753
Miscellaneous				139,441
Interest income				26,244
Change in investment value				88,063
Gain (loss) on disposal of capital assets				-
			Total General Revenues	6,164,758
			Change in Net Assets	247,732
Net assets at beginning of year				<u>3,847,965</u>
			Net Assets at End of Year	\$ <u>4,095,697</u>

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

Balance Sheet - Governmental Funds

Town of China, Maine

As of June 30, 2011

	General	D.L. Young Scholarship	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 1,583,525	\$ 17,552	\$ 756	\$ 1,601,833
Investments	-	695,019	-	695,019
Accounts receivable	66,117	-	-	66,117
Taxes receivable	209,025	-	-	209,025
Due from other funds	-	350	119,180	119,530
	<u>-</u>	<u>350</u>	<u>119,180</u>	<u>119,530</u>
Total Assets	<u>\$ 1,858,667</u>	<u>\$ 712,921</u>	<u>\$ 119,936</u>	<u>\$ 2,691,524</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 239,850	\$ -	\$ -	\$ 239,850
Accrued wages payable to RSU #18	226,897	-	-	226,897
County tax payable	137,174	-	-	137,174
Amounts held in escrow	25,000	-	-	25,000
Due to other funds	119,530	-	-	119,530
Deferred property taxes	195,000	-	-	195,000
	<u>195,000</u>	<u>-</u>	<u>-</u>	<u>195,000</u>
Total Liabilities	943,451	-	-	943,451
Fund Balances				
Nonspendable				
Permanent funds	-	649,736	73,085	722,821
Restricted				
Permanent funds	-	63,185	41,146	104,331
Special revenue funds	-	-	5,705	5,705
Assigned				
General fund	622,289	-	-	622,289
Unassigned				
General fund	292,927	-	-	292,927
	<u>292,927</u>	<u>-</u>	<u>-</u>	<u>292,927</u>
Total Fund Balances	<u>915,216</u>	<u>712,921</u>	<u>119,936</u>	<u>1,748,073</u>
Total Liabilities and Fund Balances	<u>\$ 1,858,667</u>	<u>\$ 712,921</u>	<u>\$ 119,936</u>	<u>\$ 2,691,524</u>

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

**Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets**

Town of China, Maine

As of June 30, 2011

Total Fund Balances - Governmental Funds \$ 1,748,073

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

Long-term assets are not available in the current period and therefore
are not reported as assets in the funds. The Receivable for long-term
obligations from RSU #18 at year-end was: 631,481

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in governmental
funds. The cost of capital assets, net of accumulated depreciation is: 2,374,933

Property tax revenues are presented on the modified accrual basis
of accounting in the governmental funds but in the Statement of
Activities, property tax revenue is reported under the accrual method.
The balance in deferred property tax revenue in the governmental
funds as a liability is: 195,000

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds. Long-term
and related liabilities at year-end consist of:

Bonds and notes payable	\$ (231,331)	
Capital lease obligations	(505,098)	
Accrued interest payable	(17,000)	
Accrued vacation and sick leave	<u>(100,361)</u>	
		<u>(853,790)</u>

Total Net Assets - Governmental Activities \$ 4,095,697

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

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds**

Town of China, Maine

For the Year Ended June 30, 2011

	<u>General</u>	<u>D.L. Young Scholarship</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 5,470,257	\$ -	\$ -	\$ 5,470,257
Intergovernmental revenues	765,915	-	-	765,915
Other revenues	<u>230,215</u>	<u>117,043</u>	<u>52,085</u>	<u>399,343</u>
Total Revenues	6,466,387	117,043	52,085	6,635,515
Expenditures				
Current				
Administration	737,834	-	-	737,834
Protection	160,025	-	-	160,025
Public works	765,066	-	-	765,066
Solid waste operations	290,380	-	-	290,380
Community services	42,038	23,465	28,450	93,953
Education	3,646,496	-	-	3,646,496
Recreation	24,161	-	-	24,161
County tax	367,265	-	-	367,265
Debt service - principal	214,189	-	-	214,189
- interest	5,890	-	-	5,890
Capital outlay - Special projects	<u>303,150</u>	<u>-</u>	<u>-</u>	<u>303,150</u>
Total Expenditures	<u>6,556,494</u>	<u>23,465</u>	<u>28,450</u>	<u>6,608,409</u>
Revenues Over (Under) Expenditures	(90,107)	93,578	23,635	27,106
Other Financing Sources (Uses)				
Operating transfers in	3,000	-	26,200	29,200
Operating transfers out	<u>(26,200)</u>	<u>-</u>	<u>(3,000)</u>	<u>(29,200)</u>
Total Other Financing Sources (Uses)	<u>(23,200)</u>	<u>-</u>	<u>23,200</u>	<u>-</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(113,307)</u>	<u>93,578</u>	<u>46,835</u>	<u>27,106</u>
Fund balances at beginning of year	<u>1,028,523</u>	<u>619,343</u>	<u>73,101</u>	<u>1,720,967</u>
Fund Balances at End of Year	<u>\$ 915,216</u>	<u>\$ 712,921</u>	<u>\$ 119,936</u>	<u>\$ 1,748,073</u>

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Town of China, Maine

As of June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ 27,106

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

Property tax revenues are presented on the modified accrual basis of accounting in the governmental funds but in the Statement of Activities, property tax revenue is reported under the accrual method. The current year change in deferred property tax revenue reported in the governmental funds and not in the statement of activities is: 30,000

Governmental funds report capital asset additions 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 depreciation expense and capital asset additions were different in the current period:

Capital asset additions	\$ 319,288	
Depreciation expense	<u>(148,927)</u>	170,361

Governmental funds report the long-term obligation payments made by RSU #18 on behalf of the Town as revenues. However, in the Statement of Activities, these amounts are reported as a reduction of the receivable from RSU #18 . (270,527)

Bond proceeds, issuance of long-term debt and entering into capital lease obligations provide current resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt and capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which repayments differed from proceeds and additions to debt and capital lease obligations in the current period:

Principal portion of debt service payments	214,189	
Proceeds from entering into debt obligations	-	
Reductions in capital lease obligations	<u>73,089</u>	287,278

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 the governmental funds.

Change in accrued compensated absences	(986)	
Change in accrued interest payable	<u>4,500</u>	<u>3,514</u>

Change in Net Assets of Governmental Activities \$ 247,732

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

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund**

Town of China, Maine

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Favorable (Unfavorable)
Revenues				
Taxes	\$ 5,529,825	\$ 5,529,825	\$ 5,470,258	\$ (59,567)
Intergovernmental revenues	370,547	734,153	765,915	31,762
Other revenues	200,650	200,650	215,025	14,375
Total Revenues	6,101,022	6,464,628	6,451,198	(13,430)
Expenditures				
Current				
Administration	736,182	736,182	737,833	(1,651)
Protection	160,744	160,744	160,024	720
Public works	676,164	676,164	677,446	(1,282)
Solid waste operations	290,117	290,117	290,380	(263)
Community services	52,437	52,437	42,038	10,399
Education	3,595,397	3,690,397	3,688,496	1,901
Recreation	22,030	22,030	24,161	(2,131)
County tax	402,106	402,106	401,516	590
Debt service - principal	16,000	213,438	214,189	(751)
- interest	-	-	5,890	(5,890)
Capital outlay - Special projects	199,098	270,267	198,854	71,413
Total Expenditures	6,150,275	6,513,882	6,440,827	73,055
Revenues Over (Under) Expenditures	(49,253)	(49,254)	10,371	59,625
Other Financing Sources (Uses)				
Operating transfers in	3,000	3,000	3,000	-
Operating transfers out	(26,200)	(26,200)	(26,200)	-
Transfer to assigned fund balances	(60,000)	(60,000)	(60,000)	-
Utilization of unassigned fund balance	191,759	191,759	-	(191,759)
Utilization of assigned fund balance	57,136	57,137	-	(57,137)
Total Other Financing Sources (Uses)	165,695	165,696	(83,200)	(248,896)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 116,442	\$ 116,442	(72,829)	\$ (189,271)
Budgetary fund balance at beginning of year			784,792	
Budgetary Fund Balance at End of Year			\$ 711,963	

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

Notes to Financial Statements

Town of China, Maine

Note A - Summary of Significant Accounting Policies

The Town of China, Maine operates under a Selectmen - Town Manager form of government. The accounting policies of the Town of China, Maine, conform to United States generally accepted accounting principles (GAAP). The Town applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant accounting policies established in GAAP and used by the Town are discussed below.

Principles Determining Scope of Reporting Entity

The basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in GAAP include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Town holds the corporate powers of the organization
- the Town appoints a voting majority of the organization's board
- the Town is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Town
- there is fiscal dependency by the organization on the Town

Based on the aforementioned criteria, the Town of China has no component units.

Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities report information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. 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 services 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 does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges 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.

Notes to Financial Statements - Continued

Town of China, Maine

Note A - Summary of Significant Accounting Policies - Continued

Separate financial statements are provided for governmental 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.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures.

Governmental Activities

Governmental funds are identified as either general, special revenue, capital projects, or permanent funds based upon the following guidelines.

The *General Fund* is the operating fund of the Town and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific sources (other than major capital projects or expendable trusts) that are legally restricted to expenditures for specified purposes.

Permanent Funds are used to account for resources legally held in trust. All resources of the fund, including any earnings on invested resources, may be used to support the organization as stipulated by the specific trust instrument.

Basis of Accounting

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

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Notes to Financial Statements - Continued

Town of China, Maine

Note A - Summary of Significant Accounting Policies - Continued

Modified Accrual

Governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Cash and Cash Equivalents

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

Investments

The Town follows GASBS No. 31, Accounting and Reporting of Certain Investments and External Investment Pools. Under GASBS No. 31, certain investments held by governments are reported at their fair value in the balance sheet. Unrealized gains and losses are included in the statement of revenues, expenditures and changes in fund balance.

Capital Assets

In the government-wide financial statements, capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line method. Estimated useful lives are as follows: land improvements, 15 to 20 years; buildings and improvements, 20 to 50 years; infrastructure, 5 to 60 years; and vehicles and equipment, 3 to 25 years.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

Notes to Financial Statements - Continued

Town of China, Maine

Note A - Summary of Significant Accounting Policies - Continued

Vacation and Sick Leave

Under the terms of personnel policies, vacation leave is granted in varying amounts according to length of service. Sick leave is granted in equal amounts to all employees. In some cases, employees are entitled to payment for unused vacation upon termination or retirement.

Budget

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

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

- Early in the second half of the last fiscal year the Town prepared a budget for this fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- A vote of the inhabitants of the Town was then taken for the purpose of adopting the proposed budget after public notice of the vote was given.
- The budget was adopted subsequent to passage by the inhabitants of the Town.

The Town does not adopt budgets for special revenue funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Activity

Interfund activity is reported as loans, reimbursements, or transfers. Loans are reported as interfund loan receivables and payables as appropriate and are subject to elimination upon consolidation in the government-wide presentation. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related costs as a reimbursement. Since not all funds maintain a separate cash account, cash is pooled in the General Fund cash account and activity for individual funds are recorded through the General Fund and each respective individual fund through the recognition of a "due to/due from" as appropriate. The due to/from other funds balances are subject to elimination upon consolidation in the government-wide presentation. All interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Notes to Financial Statements - Continued

Town of China, Maine

Note A - Summary of Significant Accounting Policies - Continued

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Debt Issuance Costs

In governmental funds, debt issuance costs are recognized in the current period. For the government-wide financial statements, governmental activity debt issuance costs are amortized over the life of the debt issue.

Revenue Recognition - Property Taxes

The Town's property tax for the current year was levied September 27, 2010, on the assessed value listed as of April 1, 2010, for all real and personal property located in the Town. Taxes were due September 30, 2010, and March 31, 2011. Interest on unpaid taxes commenced on October 1, 2010 and April 1, 2011, at 7% per annum.

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

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$116,442 for the year ended June 30, 2011.

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.

Notes to Financial Statements - Continued

Town of China, Maine

Note A - Summary of Significant Accounting Policies - Continued

Government-wide Fund Net Assets

Government-wide net assets are divided into three components:

Invested in capital assets, net of related debt - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted net assets - consist of net assets that are restricted by the Town's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.

Unrestricted - All other net assets are reported in this category.

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified 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 are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed through constitutional provisions or enabling legislation.

Committed - resources which are subject to limitations the government imposes upon itself at its highest level of design making, and that remain binding unless removed in the same manner.

Assigned - resources neither restricted nor committed for which a government has a stated intended use as established by the Selectboard or a body or official to which the Selectboard has designated the authority to assign amounts for specific purposes.

Unassigned - resources which cannot be properly classified in one of the other four categories.

Use of Restricted Resources

The Town has no formal fund balance policy. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

New Accounting Pronouncements

During the year ended June 30, 2011 the Town implemented Governmental Accounting Standards Board Statement (GASBS) No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Certain prior year fund balance amounts have been restated to reflect the provisions of GASBS No. 54.

Notes to Financial Statements - Continued

Town of China, Maine

Note B - Cash and Investments

The Town conducts all its banking and investment transactions with depository banks and investment firms.

Custodial Credit Risk - Deposits

At June 30, 2011, the carrying amount of the Town's deposits was \$1,601,833, and the bank balance was \$1,780,198. The difference between these balances relates to deposits in transit and outstanding checks. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy on custodial credit risk. As of June 30, 2011 \$408,103 of the Town's bank balance of \$1,780,198 was exposed to credit risk as the funds were uninsured and the collateral was held by the pledging bank's trust department in the Town's name.

Investments

Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, certain corporate stocks, bonds and mutual funds.

Interest Rate Risk

The Town does not have an investment policy on interest rate risk. At June 30, 2011, the Town had the following investments and maturities:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Not Applicable</u>	<u>Maturity</u>		
			<u>Less than 1 Year</u>	<u>1-5 years</u>	<u>More than 5 years</u>
Corporate bonds	\$ 190,809	\$ -	\$ 37,810	\$ 152,999	\$ -
U.S. Treasury securities	51,571	-	-	20,955	30,616
Common stock	373,176	373,176	-	-	-
Mutual funds	79,463	79,463	-	-	-
	<u>\$ 695,019</u>	<u>\$ 452,639</u>	<u>\$ 37,810</u>	<u>\$ 173,954</u>	<u>\$ 30,616</u>

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have an investment policy on custodial credit risk. As of June 30, 2011 the Town had no investments subject to custodial credit risk.

Notes to Financial Statements - Continued

Town of China, Maine

Note B - Cash and Investments - Continued

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town does not have an investment policy on credit risk. At June 30, 2011, the Town had the following credit quality distribution in debt securities:

<u>Standard & Poor Rating</u>	<u>Fair Value</u>
AA	\$ 46,030
A	<u>144,779</u>
Total debt securities	<u>\$ 190,809</u>

Concentration of Credit Risk

The Town does not have an investment policy on concentration of credit risk. At June 30, 2011, the Town held the following corporate bonds which represented greater than 5% of total investments held; \$49,452 of SBC Communications.

Notes to Financial Statements - Continued

Town of China, Maine

Note C - Capital Assets

A summary of capital asset transactions for the year ended June 30, 2011, follows:

Governmental Activities:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Non-Depreciable Assets:				
Land	\$ 312,989	\$ -	\$ -	\$ 312,989
Construction in progress	-	112,570	-	112,570
Depreciable Assets:				
Buildings	1,324,904	14,744	-	1,339,648
Equipment	714,996	74,678	-	789,674
Improvements	64,830	91,658	-	156,488
Land Improvements	4,150	-	-	4,150
Vehicles	<u>796,557</u>	<u>25,638</u>	<u>23,225</u>	<u>798,970</u>
Totals at historical cost	3,218,426	319,288	23,225	3,514,489
Less Accumulated Depreciation:				
Buildings	336,490	45,833	-	382,323
Equipment	440,708	37,064	-	477,772
Improvements	43,020	7,485	-	50,505
Land Improvements	311	415	-	726
Vehicles	<u>193,325</u>	<u>58,130</u>	<u>23,225</u>	<u>228,230</u>
Total accumulated depreciation	<u>1,013,854</u>	<u>148,927</u>	<u>23,225</u>	<u>1,139,556</u>
Capital Assets, Net	<u>\$ 2,204,572</u>	<u>\$ 170,361</u>	<u>\$ -</u>	<u>\$ 2,374,933</u>

Depreciation expense was charged to the following functions:

Governmental Activities:	
Administration	\$ 29,724
Protection	53,753
Public works	35,072
Solid waste operations	27,419
Recreation	<u>2,959</u>
Total governmental activities depreciation expense	<u>\$ 148,927</u>

Notes to Financial Statements - Continued

Town of China, Maine

Note D - Interfund Receivables and Payables

Interfund balances at June 30, 2011, consisted of the following:

Governmental Activities:	<u>Due from</u>	<u>Due to</u>	
General Fund:			
Special Revenue Funds	\$ -	\$ (5,705)	
Major Permanent Fund: D.L. Young Scholarship	-	(350)	
Non-major Permanent Funds	<u>-</u>	<u>(113,475)</u>	
	-	(119,530)	\$ (119,530)
Special Revenue Fund:			
General Fund	5,705	-	5,705
Major Permanent Fund: D.L. Young Scholarship:			
General Fund	350	-	350
Non-major Permanent Funds:			
General Fund	<u>113,475</u>	<u>-</u>	<u>113,475</u>
Net Governmental Activities	<u>\$ 119,530</u>	<u>\$ (119,530)</u>	<u>\$ -</u>

All interfund balances resulted from (1) the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

Notes to Financial Statements - Continued

Town of China, Maine

Note E - Interfund Transfers

Interfund transfers for the year ended June 30, 2011 consisted of the following amounts:

Governmental Activities:	<u>Transfers in</u>	<u>Transfers out</u>	
General Fund:			
Special Revenue Funds	\$ -	\$ (26,200)	
Non-major Permanent Funds	<u>3,000</u>	<u>-</u>	
	3,000	(26,200)	\$ (23,200)
Special Revenue Fund:			
General Fund	26,200	-	26,200
Non-major Permanent Fund:			
General Fund	<u>-</u>	<u>(3,000)</u>	<u>(3,000)</u>
Net Governmental Activities	<u>\$ 29,200</u>	<u>\$ (29,200)</u>	<u>\$ -</u>

Transfers are used to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note F - Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

Governmental Activities:	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>	Amounts Due within <u>Once Year</u>
General obligation debt	\$ 445,520	\$ -	\$ 214,189	\$ 231,331	\$ 48,389
Capital lease obligations	578,187	-	73,089	505,098	64,235
Compensated absences	<u>99,375</u>	<u>45,460</u>	<u>44,474</u>	<u>100,361</u>	<u>42,000</u>
Total Governmental	<u>\$ 1,123,082</u>	<u>\$ 45,460</u>	<u>\$ 331,752</u>	<u>\$ 836,790</u>	<u>\$ 154,624</u>

Notes to Financial Statements - Continued

Town of China, Maine

Note F - Long-Term Liabilities - Continued

The following is a summary of debt outstanding at June 30, 2011:

School Renovation Revolving loan payable to Maine Municipal Bond Bank from 2007, due in annual installments of \$16,022, through December 2011. Interest is stated at 0%.	\$ 16,022
School Renovation Revolving loan payable to Maine Municipal Bond Bank from 2008, due in annual installments of \$15,766, through March 2018. Interest is stated at 0%. Debt forgiveness of \$367,343 was recognized in the year ended June 30, 2009.	110,360
Note payable to a financial institution from 2009, due in monthly installments of \$1,383 plus interest payment at 5%, through December 2019.	<u>104,950</u>
	<u>\$ 231,332</u>

The annual requirements to amortize debt payable are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 48,389	\$ 4,872	\$ 53,261
2013	32,367	4,042	36,409
2014	32,367	3,212	35,579
2015	32,367	2,382	34,749
2016	32,367	1,552	33,919
2017-2019	<u>53,474</u>	<u>778</u>	<u>54,252</u>
Total Governmental	<u>\$ 231,331</u>	<u>\$ 16,838</u>	<u>\$ 248,169</u>

Notes to Financial Statements - Continued

Town of China, Maine

Note F - Long-Term Liabilities - Continued

Capital Lease Obligations:

The present value of capital lease obligations and future years' minimum lease payments are as follows:

<u>Year ending June 30,</u>	
2012	\$ 83,092
2013	84,389
2014	56,749
2015	58,138
2016	59,576
2017-2020	<u>253,714</u>
	595,658
Less amount representing interest (various rates)	<u>90,560</u>
Obligations under capital leases	<u>\$ 505,098</u>

As of June 30, 2011 the gross amount of fixed assets associated with capital lease obligations was \$0 with accumulated depreciation of \$0.

Note G - Commitment

The Town has entered into an agreement for support services related to energy efficiency at the school through 2020. Future required payments under the agreement are as follows:

<u>Year ending June 30,</u>	
2012	\$ 3,501
2013	3,606
2014	3,714
2015	3,826
2016	3,941
2016-2020	<u>16,980</u>
	<u>\$ 35,568</u>

Notes to Financial Statements - Continued

Town of China, Maine

Note H - Pension Plan

Maine Public Employees Retirement System

Town employees contribute to the Maine Public Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for public school teachers, state employees (except as members of the judiciary and legislature who are covered under the Judicial and Legislative Retirement Systems) and political subdivisions.

Benefits vest after five years of service. Employees who retire at or after age sixty with one year of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to two percent of the average of their highest three years earnings per year of service. The system also provides death and disability benefits. These benefits provisions and all other requirements are established by state statute.

The System also allows maintenance, support workers, and custodial support staff to participate voluntarily in the System. Participants are required to contribute 6.5% of their annual gross salary to the plan and the district is required to make a contribution based on an historical assessment of the plan by the System. Vesting of benefits occurs after five years of service. Disability, pre-retirement and death benefits are provided under the Town's plan. No cost of living increase is provided under the Town's plan. Upon retirement at or after age sixty, the participant is entitled to an annual retirement benefit of two-percent of the average of their three highest years earnings multiplied by the number of years of credited service. The Town's contribution as a participating local district for the year ended June 30, 2011 was \$42,436.

Effective July 1, 1995 the Town's Participating Local District (PLD) joined with other PLD's forming a consolidated PLD. All PLD's that enter the Consolidated Plan cease to be individual sponsors of a "Single - Employer Defined Benefit Pension Plan" and instead become participants in a "Cost-Sharing Multiple - Employer Defined Benefit Pension Plan." As such, the disclosures made by individual PLD's reflect the assets and liabilities under the Consolidated Plan in which the PLD participates and not those of the PLD itself. A complete report is available from the Maine Public Employees Retirement System.

Note I - 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 is effectively self-insured. Currently, the Town carries commercial insurance for any risks of loss to which it may be exposed.

Based on the 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, 2011.

Notes to Financial Statements - Continued

Town of China, Maine

Note J - Budget to Actual Reconciliation

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

Budgetary Basis:

Revenues and Other Sources Over (Under) Expenditures and Other Uses \$ (72,829)

Sources/inflows of resources reconciling items:

Interest income allocated to assigned balances not included in general fund operating budget 15,189

Uses/outflows of resources reconciling items:

The Town budgets for County Taxes on a cash basis, however on the modified accrual basis these amounts have been expensed when incurred 34,251

The Town budgets for accrued wages payable to RSU #18 on a cash basis, however on the modified accrual basis these amounts have been expensed when incurred 42,000

The Town budgets for paving costs on a cash basis, however on the modified accrual basis these amounts have been expensed when incurred (87,621)

The Town does not budget to use assigned fund balance amounts which have been expended during the current year:

 Equipment replacement expenditures (89,553)

 Weeks Mills fire department building (14,744)

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes 60,000

Generally Accepted Accounting Principles Basis:

Revenues and Other Sources Over (Under) Expenditures and Other Uses \$ (113,307)

Notes to Financial Statements - Continued

Town of China, Maine

Note K - Fund Balances

At June 30, 2011, the nonspendable fund balance consisted of the following:

	Permanent <u>Funds</u>
Dinsmore Assistance	\$ 500
Cemetery Care	<u>72,585</u>
	<u>\$ 73,085</u>

At June 30, 2011, the restricted fund balance consisted of the following:

	Permanent <u>Funds</u>	Special <u>Revenues</u>
Dinsmore Assistance	\$ 256	\$ -
Cemetery Care	40,890	-
CRLA	-	200
Fuel Assistance Fund	<u>-</u>	<u>5,505</u>
	<u>\$ 41,146</u>	<u>\$ 5,705</u>

Notes to Financial Statements - Continued

Town of China, Maine

Note K - Fund Balances - Continued

At June 30, 2011, the assigned general fund balance consisted of the following:

	Balance at <u>7/1/2010</u>	<u>Appropriated</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>6/30/2011</u>
State revenue sharing	\$ 61,172	\$ (215,000)	\$ 186,664	\$ -	\$ 32,836
Road assistance	34,637	(63,000)	62,724	-	34,361
Cemeteries purchase	8,945	-	-	-	8,945
Emergency services supplies	5,000	-	-	-	5,000
Bulk storage tank	11,461	-	-	-	11,461
Transfer station furnace	2,700	-	-	-	2,700
Box trailers	10,000	-	-	-	10,000
Transfer station container	8,500	-	-	8,500	-
Revaluation	10,530	-	-	-	10,530
Equipment reserve	166,409	39,000	4,194	89,553	120,050
Compactor reserve	37,175	-	1,105	-	38,280
Boat launch reserve	1,589	-	47	-	1,636
Thurston Park	4,336	-	129	-	4,465
Growth management reserve	8,747	-	260	-	9,007
Fire department reserve	52,043	6,000	1,636	-	59,679
Rescue vehicle reserve	18,966	-	564	-	19,530
Sand/salt shed	28,686	-	852	-	29,538
Lake access	118,121	-	3,510	-	121,631
Weeks Mills FD building	15,637	5,915	333	14,744	7,141
Recreation reserve	4,139	-	123	-	4,262
Legal reserve	20,899	2,429	657	-	23,985
Community days	5,321	-	126	2,131	3,316
Rescue reserve	5,200	-	148	432	4,916
Planning board	4,270	-	106	1,399	2,977
Dispatching	31,235	-	928	-	32,163
PSAP e911	8,333	-	248	-	8,581
South China VFD	-	74	1	-	75
Accrued compensation reserve	-	15,000	223	-	15,223
	<u>\$ 684,051</u>	<u>\$ (209,582)</u>	<u>\$ 264,578</u>	<u>\$ 116,759</u>	<u>\$ 622,288</u>

**Schedule of Revenues, Expenditures and Changes in Fund Balance (1 of 4)
Budget and Actual - General Fund**

Town of China, Maine

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Favorable (Unfavorable)
Revenues				
Taxes:				
Property taxes	\$ 4,800,325	\$ 4,800,325	\$ 4,759,094	\$ (41,231)
Excise taxes	703,500	703,500	684,216	(19,284)
Interest and costs on taxes	26,000	26,000	26,948	948
Total Taxes	<u>5,529,825</u>	<u>5,529,825</u>	<u>5,470,258</u>	<u>(59,567)</u>
Intergovernmental:				
State revenue sharing	215,000	215,000	186,664	(28,336)
Road assistance	63,000	63,000	62,724	(276)
Homestead reimbursement	79,118	79,118	79,178	60
Education	-	-	-	-
Tax reimbursements and relief	5,429	5,429	10,188	4,759
General assistance	8,000	8,000	-	(8,000)
One Room Schoolhouse Grant	-	-	48,480	48,480
Efficiency Maine grant	-	-	15,075	15,075
DOT Sidewalk grant	-	71,168	71,168	-
RSU debt and capital lease funding	-	292,438	292,438	-
Total Intergovernmental	<u>370,547</u>	<u>734,153</u>	<u>765,915</u>	<u>31,762</u>
Other Revenues:				
Interest on investments	62,000	62,000	26,244	(35,756)
Permits and fees	56,500	56,500	58,143	1,643
Miscellaneous revenues	13,150	13,150	43,185	30,035
Solid waste revenues	69,000	69,000	87,453	18,453
Total Other Revenues	<u>200,650</u>	<u>200,650</u>	<u>215,025</u>	<u>14,375</u>
Total Revenues	<u>6,101,022</u>	<u>6,464,628</u>	<u>6,451,198</u>	<u>(13,430)</u>

See accompanying independent auditors' report.

**Schedule of Revenues, Expenditures and Changes in Fund Balance (2 of 4)
Budget and Actual - General Fund**

Town of China, Maine

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
	Original	Final		
Expenditures				
Administration:				
Administrative payroll costs	\$ 349,644	\$ 349,644	\$ 355,135	\$ (5,491)
Administrative expenses	103,100	103,100	107,812	(4,712)
Planning Board expenses	8,000	8,000	9,399	(1,399)
Association dues	10,893	10,893	6,596	4,297
Assessing	35,350	35,350	34,550	800
Computer costs	20,000	20,000	19,912	88
Legal services	11,500	11,500	9,071	2,429
Insurance and benefits	197,695	197,695	195,358	2,337
Total Administration	736,182	736,182	737,833	(1,651)
Protection:				
Constable services	23,452	23,452	23,435	17
Fire departments	59,450	59,450	53,618	5,832
China rescue squad	17,000	17,000	17,432	(432)
Health officer	1,010	1,010	424	586
E-911	19,000	19,000	27,133	(8,133)
Dispatching	25,000	25,000	23,738	1,262
Emergency services insurance	15,832	15,832	14,244	1,588
Total Protection	160,744	160,744	160,024	720
Public Works:				
Road maintenance	646,664	646,664	646,122	542
Street signs	2,500	2,500	1,808	692
Street lights	7,000	7,000	6,518	482
Cemeteries	20,000	20,000	22,998	(2,998)
Total Public Works	676,164	676,164	677,446	(1,282)
Solid Waste Operations	290,117	290,117	290,380	(263)

See accompanying independent auditors' report.

**Schedule of Revenues, Expenditures and Changes in Fund Balance (3 of 4)
Budget and Actual - General Fund**

Town of China, Maine

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Favorable (Unfavorable)
Expenditures - continued				
Community Services:				
General assistance	\$ 17,500	\$ 17,500	\$ 10,350	\$ 7,150
Social service agencies	13,957	13,957	12,957	1,000
China Historical Society	4,500	4,500	2,252	2,248
South China Library	4,500	4,500	4,500	-
K.V. Humane Society	6,530	6,530	6,529	1
Memorial Day/Veteran's markers	5,450	5,450	5,450	-
Total Community Services	52,437	52,437	42,038	10,399
Education:				
RSU Assessment	3,595,397	3,595,397	3,593,496	1,901
Capital lease obligations	-	95,000	95,000	-
Total Education	3,595,397	3,690,397	3,688,496	1,901
Recreation:				
General recreation	19,530	19,530	19,530	-
China community days	2,500	2,500	4,631	(2,131)
Total Recreation	22,030	22,030	24,161	(2,131)
Total County Tax	402,106	402,106	401,516	590
Debt service:				
Principal	16,000	213,438	214,189	(751)
Interest	-	-	5,890	(5,890)
Total Debt Service	16,000	213,438	220,079	(6,641)

See accompanying independent auditors' report.

Schedule of Revenues, Expenditures and Changes in Fund Balance (4 of 4)
Budget and Actual - General Fund

Town of China, Maine

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Favorable (Unfavorable)
Expenditures - continued				
Special Projects:				
Equipment replacement	\$ -	\$ -	\$ -	\$ -
One Room School House	-	-	7,774	(7,774)
Oakland Super Park	38,462	38,462	38,462	-
Contingency	45,000	45,000	18,758	26,242
Project Learning Tree	-	-	7,796	(7,796)
Grant expenses	50,000	50,000	6,921	43,079
Cemetery	8,945	8,945	-	8,945
Bulk storage tank	11,461	11,461	-	11,461
Revaluation	10,530	10,530	-	10,530
Box trailers	10,000	10,000	-	10,000
Transfer station container	17,000	17,000	16,500	500
Emergency services supplies	5,000	5,000	-	5,000
Transfer station furnace	2,700	2,700	-	2,700
Weeks Mills fire department building	-	-	-	-
Sidewalk project	-	71,169	102,643	(31,474)
Total Special Projects	<u>199,098</u>	<u>270,267</u>	<u>198,854</u>	<u>71,413</u>
Total Expenditures	<u>6,150,275</u>	<u>6,513,882</u>	<u>6,440,827</u>	<u>73,055</u>
Revenues Over (Under) Expenditures	(49,253)	(49,254)	10,371	59,625
Other Financing Sources (Uses)				
Operating transfers in	3,000	3,000	3,000	-
Operating transfers out	(26,200)	(26,200)	(26,200)	-
Transfer to assigned fund balances	(60,000)	(60,000)	(60,000)	-
Utilization of unassigned fund balance	191,759	191,759	-	(191,759)
Utilization of assigned fund balance	57,136	57,137	-	(57,137)
Total Other Financing Sources (Uses)	<u>165,695</u>	<u>165,696</u>	<u>(83,200)</u>	<u>(248,896)</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 116,442	\$ 116,442	(72,829)	\$ (189,271)
Budgetary fund balance at beginning of year			<u>784,792</u>	
Budgetary Fund Balance at End of Year			<u>\$ 711,963</u>	

See accompanying independent auditors' report.

**Combining Balance Sheet
Other Governmental Funds**

Town of China, Maine

As of June 30, 2011

	<u>Permanent Funds</u>	<u>Special Revenues</u>	<u>Total Other Governmental Funds</u>
Assets			
Cash	\$ 756	\$ -	\$ 756
Accounts receivable	-	-	-
Due from other funds	<u>113,475</u>	<u>5,705</u>	<u>119,180</u>
Total Assets	<u>\$ 114,231</u>	<u>\$ 5,705</u>	<u>\$ 119,936</u>
Liabilities and Fund Balances			
Liabilities			
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Liabilities	-	-	-
Fund Balances			
Nonspendable	73,085	-	73,085
Restricted	<u>41,146</u>	<u>5,705</u>	<u>46,851</u>
Total Fund Balances	<u>114,231</u>	<u>5,705</u>	<u>119,936</u>
Total Liabilities and Fund Balances	<u>\$ 114,231</u>	<u>\$ 5,705</u>	<u>\$ 119,936</u>

See accompanying independent auditors' report.

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Special Revenue Funds**

Town of China, Maine

For the Year Ended June 30, 2011

	<u>CRLA</u>	<u>Fuel Assistance Reserve</u>	<u>Total</u>
Revenues			
Interest	\$ -	\$ 5	\$ 5
Other income	43,259	5,500	48,759
Total Revenues	<u>43,259</u>	<u>5,505</u>	<u>48,764</u>
Expenditures	<u>28,450</u>	<u>-</u>	<u>28,450</u>
Revenues Over (Under) Expenditures	14,809	5,505	20,314
Other Financing Sources (Uses)			
Operating transfers in	26,200	-	26,200
Operating transfers out	-	-	-
Total Other Sources (Uses)	<u>26,200</u>	<u>-</u>	<u>26,200</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>41,009</u>	<u>5,505</u>	<u>46,514</u>
Fund balances at beginning of year	<u>(40,809)</u>	<u>-</u>	<u>(40,809)</u>
Fund Balances at End of Year	<u>\$ 200</u>	<u>\$ 5,505</u>	<u>\$ 5,705</u>

See accompanying independent auditors' report.

**Combining Schedule of Revenues, Expenses and Changes in Fund Balances
Permanent Funds - Trust Funds**

Town of China, Maine

For the Year Ended June 30, 2011

	<u>Dinsmore Assistance</u>	<u>Cemetery Care</u>	<u>Total</u>
Revenues			
Principal additions	\$ -	\$ -	\$ -
Investment income (loss)	<u>1</u>	<u>3,320</u>	<u>3,321</u>
Total Revenues	1	3,320	3,321
Expenses			
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>-</u>	<u>-</u>	<u>-</u>
Revenues Over (Under) Expenses	1	3,320	3,321
Other Financing Sources (Uses)			
Operating transfers out	<u>-</u>	<u>(3,000)</u>	<u>(3,000)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(3,000)</u>	<u>(3,000)</u>
Revenues and Other Sources Over (Under) Expenses and Other Uses	1	320	321
Fund balances at beginning of year	<u>755</u>	<u>113,155</u>	<u>113,910</u>
Fund Balances at End of Year	<u><u>\$ 756</u></u>	<u><u>\$ 113,475</u></u>	<u><u>\$ 114,231</u></u>

See accompanying independent auditors' report.

Schedule of Valuation, Assessment and Collection of Taxes

Town of China, Maine

For the Year Ended June 30, 2011

Valuation

Real estate		\$ 389,247,000
Personal property		<u>7,474,100</u>
	Total Valuation	<u><u>\$ 396,721,100</u></u>

Assessment

Valuation x Rate - \$396,721,100 x 0.0121	\$ 4,800,325	
Supplemental taxes	<u>2,948</u>	
	Total Assessment Charged to Collector	\$ 4,803,273

Collections and Credits

Cash collections	\$ 4,644,017	
Tax abatements & adjustments	<u>14,347</u>	
	Total Collections and Credits	<u><u>4,658,364</u></u>

2011 Taxes Receivable - June 30, 2011 \$ 144,909

See accompanying independent auditors' report.