

Town of Skowhegan, Maine

REPORT ON FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Eighteen Months Ended June 30, 2008

CONTENTS

	Statement	Page
Independent Auditor's Report		4-5
Required Supplementary Information		
Management's discussion and analysis		6-16
Basic Financial Statements		
<i>Government-wide financial statements</i>		
Statement of net assets	1	17
Statement of activities	2	18
<i>Fund financial statements</i>		
Balance sheet – governmental funds	3	19
Reconciliation of the governmental funds balance sheet to the statement of net assets	3A	20
Statement of revenues, expenditures and changes in fund balances – governmental funds	4	21
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities	4A	22
Statement of fiduciary net assets – fiduciary funds	5	23
Statement of changes in fiduciary net assets – fiduciary funds	6	24
Notes to basic financial statements		25-41
	Exhibit	
Required Supplementary Information		
Budgetary comparison schedule – general fund	1	42
	Schedule	
Other Supplementary Information		
Combining schedule of revenues, expenses and changes in fund balances – permanent fund	1	43
Taxes receivable, tax liens and tax acquired property – general fund	2	44
Schedule of revenues, expenses and changes in net assets – Lake George Corporation-Component Unit	3	45

CONTENTS

	Page
Other Supplementary Information (Continued)	
Report on	
Internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Governmental Auditing Standards</i>	46-47
Compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133	48-49
Schedule of expenditures of federal awards	50
Notes to the schedule of expenditures of federal awards	51
Schedule of findings and questioned costs	52-54



674 Mt. Hope Avenue • Suite 1 • Bangor, ME 04401-5662 • (207) 947-3325 • FAX (207) 945-3400
Email: bta@btacpa.com

Independent Auditor's Report

Town Selectmen
Town of Skowhegan, Maine

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units and each major fund of the Town of Skowhegan, Maine, as of and for the eighteen months ended June 30, 2008, 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 Skowhegan, Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, and each major fund of the Town of Skowhegan, Maine, as of June 30, 2008, and the respective changes in financial position thereof for the eighteen months then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2010, on our consideration of the Town of Skowhegan, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 16 and 42, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Town Selectmen
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Skowhegan, Maine's basic financial statements. The other supplementary information described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Town of Skowhegan, Maine. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rantra Hibdon & Associates

Bangor, Maine
February 4, 2010

The Management's Discussion and Analysis (Unaudited)
Eighteen Months Ended June 30, 2008

As management of the Town of Skowhegan, Maine, we offer the citizens of the Town of Skowhegan, Maine's financial statements this narrative overview and analysis of the financial activities of the Town of Skowhegan for the eighteen months ended June 30, 2008. We encourage the citizens to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal, the basic financial statements and the accompanying notes to those financial statements.

THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Town of Skowhegan, Maine (the Town) using the integrated approach as prescribed by Government Accounting Standards Board (GASB) Statement No. 34.

The Government Wide Financial Statements present the financial picture of the Town from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and component units separately. These statements include all assets of the Town (excluding infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The Fund Financial Statements include statements for each of the two categories of activities – governmental and fiduciary. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The fiduciary activities are private purpose trust funds, which only report using the economic resources – measurement focus of accounting. Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach.

REPORTING THE TOWN AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities. These statements include *all* assets and liabilities of the Town using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's *net assets* and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the Town's financial health or *financial position*. Over time, increases and decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating.

Other factors to consider are changes in the Town's property tax base and the condition of the Town's capital assets and other infrastructure.

In the Statement of Net Assets and the Statement of Activities, we separate the Town Activities as follows:

Governmental Activities – Most of the Town's basic services are reported in this category, including the General Government, Fire, Police, Public Works, Planning and Economic Development, Parks and Recreation, Community services. Property taxes, user fees, interest income, state and federal grants finance these activities.

Component Units – The town discreetly presents the Skowhegan Economic Development Corporation and Lake George Corporation as component units.

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the town, assets exceeded liabilities by \$14,988,302 for the eighteen months ended June 30, 2008. Our analysis below focuses on the net assets of the Town's governmental and component unit activities in comparison with the year ended December 31, 2006.

TOWN OF SKOWHEGAN'S NET ASSETS

	6/30/08	12/31/07	12/31/06	
	Governmental Activities	Component Units	Governmental Activities	Component Units
<i>Current and other assets</i>	\$ 9,359,284	\$ 385,056	\$ 7,231,345	\$ 346,480
<i>Capital Assets</i>	<u>19,985,355</u>	<u>997,894</u>	<u>12,050,146</u>	<u>1,034,062</u>
<i>Total Assets</i>	<u>29,344,639</u>	<u>1,382,950</u>	<u>19,281,491</u>	<u>1,380,542</u>
<i>Long-term liabilities</i>	14,053,892	423,049	6,306,964	406,364
<i>Other liabilities</i>	<u>304,945</u>	<u>52,944</u>	<u>3,966,575</u>	<u>66,568</u>
<i>Total liabilities</i>	<u>14,356,837</u>	<u>475,993</u>	<u>10,273,539</u>	<u>472,932</u>
<i>Net Assets:</i>				
<i>Invested in capital assets, net of related debt</i>	5,931,463	574,845	1,500,741	614,074
<i>Restricted</i>	2,247,815	104,293	2,022,455	104,293
<i>Unrestricted</i>	<u>6,808,524</u>	<u>227,819</u>	<u>5,484,756</u>	<u>189,243</u>
<i>Total Net Assets</i>	<u>\$14,988,802</u>	<u>\$ 906,957</u>	<u>\$ 9,007,952</u>	<u>\$ 907,610</u>

Our next analysis focuses on changes in net assets of the Town's governmental and component unit activities between 2008 and 2006.

TOWN OF SKOWHEGAN'S CHANGES IN NET ASSETS

	6/30/08	12/31/07	2006	
	Governmental Activities	Component Units	Governmental Activities	Component Units
<i>Revenues:</i>				
<i>Program revenues:</i>				
<i>Fees, fines, charges for services</i>	\$ 576,093	\$ 109,272	\$ 350,676	\$ 135,417
<i>Operating grants and contributions</i>	1,979,935	119,522	543,925	72,206
<i>Capital grants and contributions</i>	1,250,792	-	224,332	11,206
<i>General revenues:</i>				
<i>Property taxes</i>	26,033,007	-	16,832,266	-
<i>Excise taxes, permits, licenses and other fess</i>	1,919,589	-	1,312,297	-
<i>Grants and contributions not restricted to specific programs</i>	303,697	-	1,121,953	-
<i>Investment earnings</i>	475,274	10,784	434,352	30,702
<i>Sale of assets</i>	-	(34,158)	(2,025,900)	30,604
<i>Miscellaneous</i>	<u>1,659</u>	<u>-</u>	<u>13,818</u>	<u>-</u>
<i>Total revenues</i>	<u>32,540,046</u>	<u>205,420</u>	<u>18,807,719</u>	<u>280,135</u>
<i>Expenses:</i>				
General Government	\$ 1,770,518	-	\$ 1,321,543	-
Public Safety	2,721,164	-	1,824,476	-
Public Works	1,681,378	-	997,584	-
Health, Welfare and Sanitation	2,195,085	-	1,569,746	-
Culture and Recreation	851,043	128,572	543,025	125,834
Education	15,792,772	-	10,989,284	-
Interest on Long-term debt	191,074	-	211,835	-
Economic development and grants	816,505	77,501	206,541	133,313
County tax	1,720,750	-	1,400,797	-
Cemetery maintenance	34,125	-	46,146	-
Capital outlay	978,214	-	874,010	-
Unclassified	-	-	-	-
Tax increment financing	<u>1,304,794</u>	<u>-</u>	<u>470,737</u>	<u>-</u>
	30,057,422	206,073	20,455,724	257,147
<i>Increase(decrease) in net assets</i>	2,482,624	(653)	(1,648,005)	20,988
<i>Net Assets-January 1</i>	9,007,952	907,610	10,655,957	886,622
Restatement of prior year	<u>3,497,226</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net Assets-January 1, restated</i>	<u>12,505,178</u>	<u>907,610</u>	<u>10,655,957</u>	<u>886,622</u>
<i>Net Assets-end of year</i>	<u>\$14,987,802</u>	<u>\$ 906,957</u>	<u>\$ 9,007,952</u>	<u>\$ 907,610</u>

GOVERNMENTAL ACTIVITIES

The cost of all Governmental activities this year was \$30,057,422. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through Town taxes was only \$26,033,007, because some of the cost was paid by those who directly benefited from the programs, or by other governments and organizations that subsidized certain programs, capital grants and contributions. Overall, the Town's governmental program revenues, including intergovernmental aid and fees for services, were \$3,806,820. The Town paid for the remaining "public benefit" portion of governmental activities with in taxes and with other revenues, such as interest, State Revenue Sharing, general contributions and other miscellaneous revenues.

The Town's programs include General Government, Public Safety, Public Works, Health, and Sanitation Welfare, Housing Programs, Culture and Recreation, Education, County Tax, Unclassified, Debt Service, Depreciation and Capital Improvements. Each program's net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

	<u>2008 Net (Expense)</u>	<u>2006 Net (Expense)</u>
Governmental Activities		
General Government	\$ (1,589,428)	\$ (1,207,126)
Public Safety	(2,611,784)	(1,733,258)
Public Works	94,360	(739,819)
Health, Welfare and Sanitation	(1,838,918)	(1,353,592)
Culture and Recreation	(731,728)	(525,790)
Education	(15,792,772)	(10,989,284)
Interest on Long-term debt	(191,074)	(211,835)
Economic development	132,302	215,603
County tax	(1,720,750)	(1,400,797)
Cemetery maintenance	(19,787)	(46,146)
Capital outlay	(676,229)	(874,010)
Tax increment financing	(1,304,794)	(470,737)
Total governmental activities	<u>\$ (26,250,602)</u>	<u>\$ (19,336,791)</u>

Total resources available during the year to finance governmental operations consisted of Net Assets at January 1, 2007 of \$12,505,178, program revenues of \$3,806,820 and General Revenues of \$28,733,226. Total Governmental Activities expenses during the year were \$30,057,422.; thus Net Assets were increased by \$5,979,850 to \$14,987,802.

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other money.

Governmental Funds-Most of the Town's basic services are reported in governmental funds, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed shorter-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement. The Town considers the General, Special Revenue, Capital Projects and Permanent Funds to be major governmental funds.

The information below shows total expenditures of the Town's Major Funds for 2008 and 2006.

	<u>2008</u>	<u>2006</u>
General government	\$ 1,732,111	\$ 1,236,972
Public properties	79,881	27,072
Protection	2,539,187	1,739,276
Highways and streets	1,528,514	905,883
Pollution control	658,296	441,988
Health and sanitation	1,072,730	761,388
General assistance	294,662	177,191
Education	15,792,772	10,989,284
Community and economic development	-	160,397
Recreation	574,181	314,132
County tax	1,720,750	1,400,797
Contributions	175,804	135,601
Tax increment financing	1,304,794	470,737
Unclassified	-	46,146
Grant program expenses	982,837	46,145
Debt Service:		
Principal	956,698	565,918
Interest and other charges	466,738	120,464
Capital outlay	5,515,283	5,224,189
Total Expenditures	<u>\$35,395,238</u>	<u>\$24,763,580</u>

DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, increased in fiscal year 2008 from fiscal year 2006 by \$7,186,384.

The Governmental Activities debt summary for fiscal year 2008 and 2006 is presented below.

	2008	2006
Road & Parking Lot Improvement	\$ 103,998	\$ 300,000
Wastewater Treatment Facility Upgrade	\$1,730,000	\$1,865,000
Pollution Control – Sludge Storage Bldg.	\$ -	\$ -
Recreation Facility	\$ 180,000	\$ 270,000
Wastewater Treatment Facility Upgrade	\$3,840,000	\$4,320,000
Clean Water Revolving Loan	\$6,655,000	-
Road project	\$1,200,000	-
Capital Lease – copiers, backhoe & street sweeper	\$ 112,508	\$ 230,872

CAPITAL ASSETS

The capital assets of the Town are those assets, which are used in the performance of the Town's functions. At June 30, 2008, net capital assets of the governmental activities increased by \$9,852,410 including a restatement of 3,497,226 to a total of \$19,985,355 and the net capital assets of the component units decreased by \$36,158 to a total \$997,894. Depreciation on capital assets is recognized in the Government-Wide financial statements. Additional information is provided in Note 3 of this report.

BUDGETS AND BUDGETARY ACCOUNTING

A purchase order is issued for every purchase made. A purchase order can only be signed by the Department Head or authorized designee assigned by the Town Manager. All purchase orders are in three (3) part forms and issued as follows:

1. White copy (original) goes to the vendor.
2. Yellow copy is attached to the invoice and submitted for payment.
3. Pink copy is submitted to the accounts payable clerk at time of purchase and when the invoice is submitted for payment, the pink copy is matched to the yellow copy and stamped COPY with the date of payment written on the purchase order and given back to the Department Head for future reference. This process helps eliminate the potential for paying invoices twice while watching budget lines more closely.

General Fund Budget Variances

Comparing the fiscal year 2008 original budget (or adopted) General Fund amount with revenues of \$30,497,305 expenditures of \$29,341,592 minus transfers out of \$1,437,979, to the final budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Annual Budget assures the efficient, effective and economic uses of the Town's resources, as well as, establishing that the highest priority objectives are accomplished. Through the budget, the Board of Selectmen sets the direction of the Town, allocates its resources and establishes its priorities.

Historical Trend

As the Town enters fiscal year 2009, we are in solid financial shape with many years of higher than anticipated revenues. This has laid the foundation for a strong surplus, which is primarily earmarked for the Town's long term road improvement program. This still needs to be prudently maintained as we move forward into the future.

The Town has been able to stabilize the tax rate with consistent increases in property valuations and strong revenues.

Revenues/Surplus

During 2007-2008 actual revenues have surpassed the estimated revenues resulting in a surplus at the end of each year. This trend appears to be continuing within the Town of Skowhegan. However, as we move forward revenue estimates are starting to inch closer to the actual revenues. This means that growth in expenditures will need to be leveled off in relationship to the Town's more modest growth in revenues.

Obviously the amount of surplus funds being generated will reduce as actual revenues more closely reflect estimated revenues. At this time, the Town has a healthy fund balance due to surplus funds. However, the Town needs to guard against a downturn in the economy, resulting in diminishing revenues.

Major Increases

The major increase in the 2008 operational budget is the additional debt requested for the upgrades to the Wastewater Treatment Facility. The Long Term Debt increase is mentioned previously.

Savings/Increased Demands

The Town's department head's are always looking for ways to save the Town money, whether through increased efficiencies or through the attainment of federal and state grants. The Town is participating in a number of activities related to increased efficiencies. Joint collaborative purchasing efforts with neighboring communities exercises economies of scale in securing reduced pricing for larger purchase amounts and collaborating with many large businesses in the "Maine Power Options" collaborative effort to receive reduced energy costs. The awareness of debt restructuring through advance refunding arrangements has also been entered into in order to save on the amount of interest being charged on general obligation bond debt.

The fiscal year 2009 budget also includes revenue amounts for specific state and federal grants that have been applied for. There is also a local match revenue account to fund those grants requiring a local contribution. There are also several other grant awards that will surface during the course of the fiscal year that were not known at the time of the budget process. These awards will be brought to the Board of Selectmen for consideration upon being awarded and additional funding will be required at that time, to fund any local match requirements above that originally budgeted.

In 2001, the Town of Skowhegan and S.D. Warren (Sappi) negotiated a Tax Increment Financing (TIF) District for up to twenty years. The amount set aside for S.D. Warren was 65% of the captured assessed value in the S.D. Warren Municipal Development Tax Increment Financing District of new valuation. At this time they have completed some projects as discussed in the negotiations, but the Town still hopes for further expansion and upgrades from Sappi. The remaining 35% of the captured valuation amount is retained by the Town of Skowhegan for economic development within the Town of Skowhegan as negotiated. Pursuant to the credit enhancement agreement payment is due to S.D. Warren within 30 days of the payment of the tax by S.D. Warren to the Town of Skowhegan.

In 2006, the Town of Skowhegan and the Downtown Business Association negotiated a TIF District for twelve years. The District will capture all new valuation up to the mutually agreed amount of six million dollars of new valuation. The taxes captured from the TIF will be dedicated to economic improvements in the Downtown TIF District.

The Future

In terms of the future, we continue to be in good financial shape, with revenues starting to level off and several important issues looming over the horizon, we need to be alert to the public benefit versus the costs of the services we provide. In short, as the budget better reflects actual revenues, and as we move into the future, we need to be careful of our spending so that we do not find ourselves in the position of expenditures outpacing revenues.

Capital Improvements Planning has taken on a center role in several areas. Due to a critical need to replace 100 year old water and sewer lines, Capital Improvement Plans are underway with Aqua Maine for water system improvements; and the Town's sewer department for collection system and pump station rebuilding. A similar plan will be developed to prioritize road improvements. Along with these critical targets for planning, Town staff has produced a comprehensive long-range plan for departmental needs through 2013.

Work continues on Phase II of the Combined Sewer Overflow project for the Pollution Control Plant. The Southgate Industrial Park road construction will be completed in 2008-09 and the business park will be available for businesses by the end of 2008. The Waterville Road sewer extension project is under engineering at this time.

To that end, it is especially important that the Board of Selectmen update the comprehensive plan, goals and strategic plan, based upon guidance from appointed and elected officials as well as significant citizen involvement. These processes are already in place and underway. However, by also putting citizens and local government officials into the decision-making loop, the Town will be shifting to a more open and inclusive process of governance.

In response to a concern that revenues may decline, the Board of Selectmen have empanelled an ad hoc committee to review revenues from all sources, and to look for new revenues from user fees. Principal among them is an evaluation of implementing a user fee system from homes and businesses connected to the sewer system.

Prospects for revenue enhancement from property taxes may improve over time with the announcement that the former Middle School may become a hotel-conference center, and that plans are underway for the development of a residential complex in the downtown Solon Manufacturing building. Housing subdivisions seem to be on the rise as several are poised for planning board review.

A great example of how the Town government can better position itself in the future to better meet the needs of its citizens and local governments is through our many established committees. This process involves reviewing all processes and measuring results achieved by the municipality in the area of customer service delivery and presentation. It also involves a close look at all procedures to assure that efficiencies are being maximized. Whether it means changing a specific procedure to lessen expenditures realized or examining new sources of non-tax revenues, the Town needs to be pro-active in its response. Certainly, whatever we can do to keep up with changing trends and emerging issues will help to improve the future fortunes of our citizens. Those successful activities involving a collaborative effort between municipalities need to be reviewed as a potential solution to some of the budget challenges facing us and other municipalities.

Summary

Looking to the future the Town should soon re-inventory and re-assess all property within the Town. Over time, the taxing system which the Town relies on for its principal source of revenue, develops inequities, and inequities create unfairness. This imbalance cannot be corrected by occasional tuning to property tax base.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Town Treasurer at 225 Water Street, Skowhegan, Maine, 04976, phone 207-474-6902, or e-mail skowtreas@skowhegan.org.

Town of Skowhegan, Maine
Statement of Net Assets
June 30, 2008

	Governmental Activities	Component Units*	
		Lake George Corporation	Skowhegan Economic Development Corporation
ASSETS			
Cash and cash equivalents	\$ 5,863,189	\$ 52,925	\$ 62,006
Investments	2,086,411	91,749	-
Taxes receivable	596,582	-	-
Notes receivables, net of allowance for doubtful accounts of \$21,969	357,559	-	147,919
Internal balances	(31,886)	-	30,457
Due from component units	52,944	-	-
Due from other governmental agencies	26,744	-	-
Due from Maine Bond Bank	407,741	-	-
Capital assets, net	19,985,355	36,065	961,829
Total assets	29,344,639	180,739	1,202,211
LIABILITIES			
Accounts payable and accrued expenses	153,314	-	-
Due to other governmental agencies	18,283	-	-
Deferred revenues	10,684	-	-
Prepaid taxes receivable	10,184	-	-
Due to primary government	-	-	52,944
Accrued compensated absences	110,480	-	-
Long-term liabilities			
Due within one year			
Capital lease obligations	54,999	-	-
Bonds and notes payable	979,210	-	18,171
Due in more than one year			
Capital lease obligations	57,509	-	-
Bonds and notes payable	12,962,174	-	404,878
Total liabilities	14,356,837	-	475,993
NET ASSETS			
Invested in capital assets, net of related debt	5,931,463	36,065	538,780
Restricted for			
Capital projects	1,647,187	-	-
Lake George endowment	-	104,293	-
Trust fund principal-endowments	600,628	-	-
Unrestricted	6,808,524	40,381	187,438
Total net assets	\$ 14,987,802	\$ 180,739	\$ 726,218

* component units are presented as of December 31, 2007

**Town of Skowhegan, Maine
Statement of Activities
For the Eighteen Months Ended June 30, 2008**

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units*
Primary government					Governmental Activities	Lake George Corporation
Governmental activities						Skowhegan Economic Development Corporation
General government	\$ 1,770,518	\$ 150,464	\$ 30,626	\$ -	(1,589,428)	
Public safety	2,721,164	58,026	51,354	-	(2,611,784)	
Public works	1,681,378	2,550	1,773,188	-	94,360	
Health, welfare and sanitation	2,195,085	231,400	124,767	-	(1,838,918)	
Culture and recreation	851,043	119,315	-	-	(731,728)	
Education	15,792,772	-	-	-	(15,792,772)	
Grant and other special revenue program expense	816,505	-	-	948,807	132,302	
County tax	1,720,750	-	-	-	(1,720,750)	
Cemetery maintenance and other	34,125	-	-	-	(19,787)	
Tax increment financing	1,304,794	14,338	-	-	(1,304,794)	
Interest on long-term debt	191,074	-	-	-	(191,074)	
Capital outlay	978,214	-	-	301,985	(676,229)	
Total primary government	\$ 30,057,422	\$ 576,093	\$ 1,979,935	\$ 1,250,792	(26,250,602)	
Component Units						
Skowhegan Economic Development Corporation	77,501	77,129	19,832	-	-	-
Lake George Corporation	128,572	32,143	99,690	-	-	-
Total component units	\$ 206,073	\$ 109,272	\$ 119,522	\$ -	3,261	19,460
General revenues						
Taxes						
Property taxes					26,033,007	-
Excise taxes, permits, licenses and other fees					1,919,589	-
Grants and contributions not restricted to specific programs					303,697	-
Unrestricted investment earnings and interest					475,274	7,371
Miscellaneous					1,659	3,413
Special item - gain/(loss) on sale of assets					-	(34,158)
Total general revenues					28,733,226	7,371
Change in net assets					2,482,624	10,632
Net assets - beginning					9,007,952	170,107
Restate beginning fund balance					3,497,226	-
Net assets - beginning, restated					12,505,178	170,107
Net assets - ending					\$ 14,987,802	\$ 180,739

See accompanying notes to the basic financial statements.

* component units are presented as of December 31, 2007

Town of Skowhegan, Maine
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,384,932	\$ 262,237	\$ 1,904,004	\$ 312,016	\$ 5,863,189
Investments	-	-	1,329,191	757,220	2,086,411
Taxes receivable, net	596,582	-	-	-	596,582
Due from other funds	26,437	264,874	-	-	291,311
Due from Skowhegan Economic Development	52,944	-	-	-	52,944
Receivable from other governments	26,744	-	-	-	26,744
Due from Maine Bond Bank	-	-	407,741	-	407,741
Notes receivables, net of allowance for doubtful accounts of \$21,969	-	357,559	-	-	357,559
Total assets	<u>\$ 4,087,639</u>	<u>\$ 884,670</u>	<u>\$ 3,640,936</u>	<u>\$ 1,069,236</u>	<u>\$ 9,682,481</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 112,721	\$ -	\$ 21,173	\$ -	\$ 133,894
Due to other funds	45,197	-	245,410	689	291,296
Due to Skowhegan Economic Development	-	31,901	-	-	31,901
Payable to other governments	18,283	-	-	-	18,283
Deferred revenue	-	10,684	-	-	10,684
Deferred property tax revenue	388,729	-	-	-	388,729
Other accrued expenses	19,419	-	-	-	19,419
Prepaid taxes	10,184	-	-	-	10,184
Total liabilities	<u>594,533</u>	<u>42,585</u>	<u>266,583</u>	<u>689</u>	<u>904,390</u>
Fund balances					
Reserved for					
Trust fund principal	-	-	-	600,628	600,628
Capital projects	-	-	1,647,187	-	1,647,187
Unreserved					
Designated for capital projects and other purposes	58,991	-	1,727,166	-	1,786,157
Undesignated -reported in					
General fund	3,434,115	-	-	-	3,434,115
Special revenue fund	-	842,085	-	-	842,085
Permanent endowment fund	-	-	-	467,919	467,919
Total fund balances	<u>3,493,106</u>	<u>842,085</u>	<u>3,374,353</u>	<u>1,068,547</u>	<u>8,778,091</u>
Total liabilities and fund balances	<u>\$ 4,087,639</u>	<u>\$ 884,670</u>	<u>\$ 3,640,936</u>	<u>\$ 1,069,236</u>	<u>\$ 9,682,481</u>

Town of Skowhegan, Maine
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
June 30, 2008

Total fund balance, governmental funds	\$	8,778,091
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		19,985,355
Deferred revenues - more specifically, deferred property taxes not reported in governmental activities of the Statement of Net Assets.		388,729
Some liabilities, (such as Capital Lease Contract Payable and Bonds and Notes Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		<u>(14,164,373)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	\$	<u><u>14,987,802</u></u>

Town of Skowhegan, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Eighteen Months Ended June 30, 2008

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 26,081,783	\$ -	\$ -	\$ -	\$ 26,081,783
Excise and miscellaneous taxes	1,919,589	-	-	-	1,919,589
Fees and fines	5,840	-	-	-	5,840
Licenses and permits	16,231	-	-	-	16,231
Intergovernmental	2,201,672	938,478	301,985	-	3,442,135
Charges for services	531,188	-	-	-	531,188
Investment and interest earnings	286,343	45,620	117,582	70,792	520,337
Unrealized gains	-	4,276	15,544	19,663	39,483
Contributions	-	-	-	7,282	7,282
Miscellaneous	89,535	10,330	-	-	99,865
Total revenues	31,132,181	998,704	435,111	97,737	32,663,733
EXPENDITURES					
Current					
General government	1,732,111	-	-	-	1,732,111
Cemeteries	79,881	-	-	-	79,881
Protection	2,539,187	-	-	-	2,539,187
Highways and streets	1,528,514	-	-	-	1,528,514
Pollution control	658,296	-	-	-	658,296
Health and sanitation	1,072,730	-	-	-	1,072,730
General assistance	294,662	-	-	-	294,662
Education	15,792,772	-	-	-	15,792,772
Recreation	574,181	-	-	-	574,181
County tax	1,720,750	-	-	-	1,720,750
Community services	148,064	-	-	27,740	175,804
Tax increment financing	1,304,794	-	-	-	1,304,794
Grant program expenses	-	982,837	-	-	982,837
Debt service					
Principal	821,698	-	135,000	-	956,698
Interest and other charges	334,119	-	132,619	-	466,738
Capital outlay	-	-	5,515,283	-	5,515,283
Total expenditures	28,601,759	982,837	5,782,902	27,740	35,395,238
Excess (deficiency) of revenues over expenditures	2,530,422	15,867	(5,347,791)	69,997	(2,731,505)
OTHER FINANCING SOURCES (USES)					
Proceeds from bonds	-	-	8,087,386	-	8,087,386
Transfers in	23,095	-	1,499,932	-	1,523,027
Transfers out	(1,457,479)	(43,972)	-	(21,576)	(1,523,027)
Total other financing sources and uses	(1,434,384)	(43,972)	9,587,318	(21,576)	8,087,386
Net change in fund balances	1,096,038	(28,105)	4,239,527	48,421	5,355,881
Fund balances (deficit) - beginning	2,397,068	870,190	(865,174)	1,020,126	3,422,210
Fund balances - ending	\$ 3,493,106	\$ 842,085	\$ 3,374,353	\$ 1,068,547	\$ 8,778,091

Town of Skowhegan, Maine
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Eighteen Months Ended June 30, 2008

Net change in fund balances - total governmental funds: \$ 5,355,881

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Capital outlays	5,967,501	
Depreciation	<u>(1,639,518)</u>	4,327,983

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. More specifically, this amount represents the change in deferred property taxes. (132,650)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. (7,068,590)

Change in net assets of governmental activities \$ 2,482,624

Town of Skowhegan, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	<u>Private Purpose Trust Fund - Simple</u>
ASSETS	
Cash and cash equivalents	\$ 178,186
Loans receivable	<u>324,281</u>
Total assets	<u>502,467</u>
LIABILITIES AND NET ASSETS	
Due to other funds	<u>\$ 15</u>
NET ASSETS	
Held in trust for benefits and other purposes	<u><u>\$ 502,452</u></u>

Town of Skowhegan, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Eighteen Months Ended June 30, 2008

	<u>Private Purpose</u> <u>Trust Fund -</u> <u>Simple</u>
ADDITIONS	
Income	
Interest	\$ 28,409
Net assets - beginning	<u>463,453</u>
Net assets - ending	<u>\$ 502,452</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Skowhegan, Maine was incorporated in 1823 under the laws of the State of Maine. The Town operates under a selectmen-manager-town meeting form of government and provides the following services: general government services, public safety, public works, health and welfare, library and recreation.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America application to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and the Financial Accounting Standards Board, when applicable. As allowed in section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the Town are described below.

Financial Reporting Entity

The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in its 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, it was determined that the Lake George Corporation and the Skowhegan Economic Development Corporation (SEDC) should be included in this report as component units and discreetly presented. Separate financial statements for Skowhegan Economic Development Corporation can be obtained by calling the office at 474-6905.

All amounts applicable to the component units in the financial statements are for the year ended December 31, 2007.

Fiscal Year End Change

The Town changed its year end from December 31 to June 30 as of January 1, 2007. As a result of the change the Town elected to have an eighteen month audit performed.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements report information of all the activities of the Town, except fiduciary funds. Governmental activities, are normally supported by taxes and intergovernmental revenues.

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

Fund Financial Statements

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and fiduciary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The Town has presented the following major governmental funds:

General Fund

The General fund is the primary operating fund of the Town and always classified as a major fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

Special Revenue Fund

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally or contractually restricted to expenditures for specified purposes. This fund includes federal and state grants for specific purposes.

Capital Projects Fund

The Capital Projects Fund is used to account for all resources for the acquisition or construction of capital facilities or items by the Town.

Permanent Fund

The Permanent Fund accounts for assets held by the Town pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Fiduciary Fund (Not included in government-wide statements)

Private Purpose Trust Funds

Private purpose trust funds are held by the Town in a trustee capacity and accounted for in essentially the same manner as a proprietary fund. Capital maintenance of private purpose funds is critical.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities, whether current or non-current, are included on the statement of net assets and the operating statements present increases, revenues, and decreases, expenses, in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus/Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Agency funds are also presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, intergovernmental revenues and charges for services. All other governmental fund revenues are recognized when received.

Budgets and Budgetary Accounting

The Town utilizes a formal budgetary accounting system to control revenues accounted for in the general fund. These budgets are established in accordance with the various laws which govern the Town's operations.

Generally, appropriations for the general fund lapse at year end, except for balances approved to be carried forward by the Town Selectmen.

Formal budgets are not adopted for the other funds. Grant procedures for many of the revenues included in the Special Revenue Funds require submission of a budget. However, such budgets are not subject to formal adoption procedures and are normally prepared based upon the grant period which does not necessarily correspond with the Town's fiscal year.

Deposits and Investments

For purposes of the Statement of Net Assets, cash and cash equivalents includes all demand, savings accounts and certificates of deposits of the Town.

Investments are carried at fair value. Fair value is based on quoted market price. Additional information, including the composition of cash and investments, is presented in Note 2.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 6 for details of interfund transactions, including receivables and payables at year end.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

General fixed assets capitalized have an original cost of \$2,000 or more and a useful life of more than a year. General infrastructure assets capitalized have an original cost of \$25,000 or more and a useful life of more than one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 years
Sewer systems	50-100 years
Machinery and equipment	3-50 years
Vehicles	3-25 years
Infrastructure	20-50 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.

GASBS No. 34 requires the Town to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (sewer systems), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective this fiscal year. The government-wide net assets balance was restated at the beginning of the year by \$3,497,226 to reflect this implementation.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Debt

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

All long-term debt to be repaid from governmental resources is reported as liabilities in government-wide statements. The long-term debt consists primarily of notes or bonds payable and compensated absences.

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

Compensated Absences

The Town's policies regarding vacation and sick time permit employees to accumulate earned but unused vacation and sick leave until the end of the calendar year. The liability for these governmental compensated absences is recorded in the government-wide financials.

Reserves

The Town records reserves to indicate that a portion of the fund balance is legally segregated for a specific future use, which is indicated by the title of each reserve listed in the balance sheet and statement of net assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes

Property taxes assessed and were levied on assessed values of April 1, 2007 and were due on October 10, 2007 and March 17, 2008. Interest was charged at 7.75% annual percentage rate on amounts not paid by the due date. Upon the expiration of eight months, and within one year from the date of the original commitment, a tax lien is recorded for all delinquent taxes on real estate. Liens are expected to be filed in November 2008.

Property taxes assessed and collected during the year ended June 30, 2008, and during the first sixty days of the fiscal year are recognized as revenue in 2008. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

The following summarizes the six months ended June, 30 2007 levy:

Assessed value:	
Real estate	\$ 439,766,000
Personal property	<u>583,238,500</u>
	1,023,004,500
Tax rate (per \$1,000)	<u>7.70</u>
Commitment	7,877,135
Supplemental taxes assessed	1,291
Less: collections and abatements	<u>(7,821,492)</u>
Receivable at June 30, 2008	<u>\$ 56,935</u>
Collection rate	99%

The following summarizes the year ended June 30, 2008 levy:

Assessed value:	
Real estate	\$ 497,265,100
Personal property	<u>628,689,300</u>
	1,125,954,400
Tax rate (per \$1,000)	<u>16.00</u>
Commitment	18,015,270
Supplemental taxes assessed	29,984
Less: collections and abatements	<u>(17,581,808)</u>
Receivable at June 30, 2008	<u>\$ 463,446</u>
Collection rate	97%

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

2. DEPOSITS AND INVESTMENTS

Deposits

Governmental activities

Custodial Credit Risk: 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 for custodial credit risk. As of June 30, 2008, the Town reported deposits of \$6,041,375 with bank balances of \$6,977,546. Of the Town's total bank balance of \$6,977,546, \$1,328,635 was exposed to custodial credit risk as this amount was not insured or collateralized and \$5,648,911 was collateralized by underlying securities held by the related bank, which were not in the Town's name.

Deposits in the primary government have been reported as follows:

Reported in governmental funds	\$5,863,189
Reported in fiduciary funds	<u>178,186</u>
Total deposits	<u>\$6,041,375</u>

Component units

Custodial Credit Risk: The Town's component units reported deposits of \$114,931 with bank balances of \$118,986. Of the Town's component units total bank balance of \$88,107, \$0 was exposed to custodial credit risk as this amount was insured or collateralized.

Investments

Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, and other available bank investments. In addition, the Town can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law. The trust and agency fund is also authorized to invest in various instruments in accordance with laws of the State of Maine.

Governmental activities

Custodial Credit Risk: Custodial credit risk 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. The Town does not have an investment policy for custodial credit risk. Of the Town's \$1,600,829 invested in U.S. Treasury notes and U.S. Agency notes, none are exposed to custodial credit risk as the investments are in the Town's name.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Concentration of Credit Risk: The Town does not have any investments that meet the criteria to be classified as a concentration of credit risk investment.

Interest Rate Risk: The Town does not have a policy related to investment rate risk. The Town is required to disclose the interest rate risk of its debt investments as follows:

	<u>Due in less than one year</u>	<u>Due in 1-5 years</u>	<u>Due in more than five years</u>
Governmental activities			
U.S. Agency notes	\$ 451,923	\$1,484,276	\$ 103,250
U.S. Treasury notes	<u>-</u>	<u>-</u>	<u>46,962</u>
Total debt investments	<u>\$ 451,923</u>	<u>\$1,484,276</u>	<u>\$ 150,212</u>

Component Units

Custodial Credit Risk: Custodial credit risk 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. The Town does not have an investment policy for custodial credit risk. Of the Town's component units' \$91,749 invested in money market funds, U.S. Treasury notes, U.S. Agency notes, stock mutual funds and common stock, none are exposed to custodial credit risk as the investments are in the component unit's name.

Concentration of Credit Risk: The Town's component units do not have any investments that meet the criteria to be classified as a concentration of credit risk investment.

Interest Rate Risk: The Town's component units do not have a policy related to investment rate risk. The Town is required to disclose on it's component units the interest rate risk of its debt investments as follows:

	<u>Due in 1-5 years</u>	<u>Due in more than five years</u>
Component units		
U.S. Agency notes	\$ -	\$10,019
U.S. Treasury notes	<u>10,000</u>	<u>-</u>
Total debt investments	<u>\$10,000</u>	<u>\$ 10,019</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

3. CAPITAL ASSETS

	Balance January 1, 2007	Restate- ment	Increases	Decreases	Balance June 30, 2008
Governmental activities:					
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 7,574,084	\$(5,656,883)	\$ 143,043	\$(1,917,201)	\$ 143,043
Land	185,609	-	-	-	185,609
Total	<u>7,759,693</u>	<u>(5,656,883)</u>	<u>143,043</u>	<u>(1,917,201)</u>	<u>328,652</u>
<i>Capital assets being depreciated</i>					
Buildings and improvements	5,197,149	-	52,480	-	5,249,629
Vehicles	2,853,820	(222,000)	270,193	(110,000)	2,792,013
Roads and bridge network	-	6,649,903	7,225,011	-	13,874,914
Distributions and collections	-	6,544,148	211,138	-	6,755,286
Machinery and equipment	2,735,968	18,824	92,837	-	2,847,629
Total	<u>10,786,937</u>	<u>12,990,875</u>	<u>7,851,659</u>	<u>(110,000)</u>	<u>31,519,471</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(2,876,564)	-	(200,937)	-	(3,077,501)
Vehicles	(2,377,867)	222,000	(176,938)	110,000	(2,222,805)
Roads and bridge network	-	(3,713,307)	(787,029)	-	(4,500,336)
Distributions and collections	-	(358,059)	(170,474)	-	(528,533)
Machinery and equipment	(1,242,053)	12,600	(304,140)	-	(1,533,593)
Total	<u>(6,496,484)</u>	<u>(3,836,766)</u>	<u>(1,639,518)</u>	<u>110,000</u>	<u>(11,862,768)</u>
Total governmental activities, net	<u>\$ 12,050,146</u>	<u>\$ 3,497,226</u>	<u>\$ 6,355,184</u>	<u>\$(1,917,201)</u>	<u>\$ 19,985,355</u>
Component units:					
Buildings and improvements	\$ 1,126,480	\$ -	\$ 42,500	\$ (54,224)	\$ 1,114,756
Equipment and fixtures	16,469	-	-	-	16,469
Vehicles	5,074	-	-	-	5,074
Land	83,547	-	-	-	83,547
Total	<u>1,231,570</u>	<u>-</u>	<u>42,500</u>	<u>-</u>	<u>1,219,846</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(181,869)	-	(22,507)	-	(204,376)
Equipment and fixtures	(13,102)	-	(922)	-	(14,024)
Vehicles	(2,537)	-	(1,015)	-	(3,552)
Total accumulated depreciation	<u>(197,508)</u>	<u>-</u>	<u>(24,444)</u>	<u>-</u>	<u>(221,952)</u>
Total component units	<u>\$ 1,034,062</u>	<u>\$ -</u>	<u>\$ 18,056</u>	<u>\$ (54,224)</u>	<u>\$ 997,894</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

3. CAPITAL ASSETS (CONTINUED)

Depreciation was charged to the following activities as follows:

Governmental activities:	
General government	\$ 10,678
Public safety	144,097
Public works	131,700
Health, welfare and sanitation	151,740
Culture and recreation	42,864
Capital outlay	<u>1,158,439</u>
Total	<u>\$1,639,518</u>
Component units:	
Lake George Corporation	\$ 3,711
Skowhegan Economic Development	<u>20,733</u>
Total	<u>\$ 24,444</u>

4. TAX INCREMENT FINANCING DISTRICTS

The Town currently has two approved tax increment financing (TIF) districts, both of which were active during the eighteen months ended June 30, 2008. The objective of these TIF districts is to stimulate new investment in the community by financing, through various tax increment financing projects, various public improvements. Taxes derived from increased assessed valuation within the districts can be "captured" for approved uses. The Town accounts for a portion of the activity of the TIF districts, including captured taxes and expenditures for approved purposes, in a capital reserve fund. The following is a brief description of each:

S.D. Warren (Sappi) – This TIF was established in 2001 and is for 20 years. The amount set aside for S.D. Warren is 65% of the captured assessed value in the District. The remaining 35% is retained by the Town for economic development within the Town and is maintained in a capital reserve fund.

Downtown District – This TIF was established in 2005 and is for 12 years. The District will capture up to \$6,000,000 of new valuation. 100% of this TIF is maintained in a capital reserve fund.

5. LONG-TERM DEBT

Capital leases payable

The Town is the lessee of a backhoe and a street sweeper under capital leases expiring in fiscal year ended June 30, 2010. The liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the asset acquired.

Minimum future lease payments under capital leases as of June 30, 2008 are:

2009	\$ 60,133
2010	<u>60,132</u>
	120,265
Less amount representing interest	<u>7,757</u>
Present value of minimum lease payments	<u>\$112,508</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

5. LONG-TERM DEBT (CONTINUED)

General Obligation Bonds and Notes Payable

The following is a summary of long-term debt transactions of the Town for the eighteen months ended June 30, 2008:

	Original Amount	Balance December 31, 2006	Bonds and Notes Issued (Retired)	Balance June 30, 2008
Primary Government				
General Obligation Notes Payable Skowhegan Savings Bank, Road Project, dated July 1, 1999, due 2009, interest rate at 4.5%	\$1,000,000	\$ 300,000	\$ (196,002)	\$ 103,998
General Obligation Bonds Payable Maine Municipal Bond Bank, Skowhegan Community Center, dated May 4, 1989, due 2009 interest varies from 7.25-7.3%	1,800,000	270,000	(90,000)	180,000
Maine Municipal Bond Bank, Wastewater Facility, dated April 16, 2005, due 2024, interest rate at 1.1%	4,800,000	4,320,000	(480,000)	3,840,000
Maine Municipal Bond Bank, Wastewater Facility, dated December 22, 2006, due 2020, interest varies from 4.75-5.0%	2,000,000	1,865,000	(135,000)	1,730,000
Maine Municipal Bond Bank, Clean Water Revolving, dated December 22, 2006, due 2020, interest varies from 4.75-5.0%	6,655,000	-	6,655,000	6,655,000
Skowhegan Savings Bank, Road Project Bond, dated June 13, 2008, due 2019, interest rate at 3.6%	1,200,000	-	1,200,000	1,200,000
Bangor Savings Bank, Plow Trucks Bond, dated November 20, 2007, due 2011, interest rate at 3.21%	<u>232,386</u>	<u>-</u>	<u>232,386</u>	<u>232,386</u>
Total primary government		<u>6,755,000</u>	<u>7,186,384</u>	<u>13,941,384</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

5. LONG-TERM DEBT (CONTINUED)

The following is a summary of long-term debt transactions of the Town's component units.

	Original Amount	Balance December 31, 2006	Bonds and Notes Issued (Retired)	Balance June 30, 2008
Component Unit – Skowhegan Economic Development Corporation				
<i>Note Payable</i>				
<i>Richard Stearns, Building note dated February 10, 2006, due 2013, interest rate at 6%</i>				
	\$ 40,000	\$ -	\$ 20,491	\$ 20,491
<i>General Obligation Note Payable Skowhegan Savings Bank, Industrial Park dated September 7, 1999, due 2025, interest rate at 5.11%</i>				
	500,000	<u>419,988</u>	<u>(17,430)</u>	<u>402,558</u>
<i>Total component unit</i>		<u>\$ 419,988</u>	<u>\$ 3,061</u>	<u>\$ 423,049</u>

General Obligation Bonds and Notes Payable (continued)

Future maturities of long-term debt are as follows:

Year ended	Governmental Activities		
	Principal	Interest	Total
2009	\$ 979,210	\$ 275,864	\$ 1,255,074
2010	995,212	321,177	1,316,389
2011	905,212	276,849	1,182,061
2012	827,750	255,023	1,082,773
2013	827,750	235,767	1,063,517
2014-2018	4,128,750	887,347	5,016,097
2019-2023	3,373,750	448,823	3,822,573
2024-2028	<u>1,903,750</u>	<u>170,894</u>	<u>352,304</u>
	<u>\$13,941,384</u>	<u>\$2,871,744</u>	<u>\$15,090,788</u>
Year ended	Component Units		
	Principal	Interest	Total
2008	\$ 18,171	\$ 21,535	\$ 39,706
2008	19,151	20,555	39,706
2009	20,183	19,523	39,706
2010	21,586	18,120	39,706
2011	22,419	17,287	39,706
2012-2016	111,120	69,433	180,553
2017-2021	139,458	37,922	177,380
2022-2025	<u>70,961</u>	<u>5,948</u>	<u>76,909</u>
	<u>\$ 423,049</u>	<u>\$210,323</u>	<u>\$633,372</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

5. LONG-TERM DEBT (CONTINUED)

In accordance with Maine law, no municipality shall incur debt for specific purposes in excess of certain percentages of State valuation of such municipality. The Town was in compliance with these limitations.

Overlapping Debt

In addition to the bonds payable, the Town is contingently responsible for a proportionate share of the overlapping debt of Somerset County. At June 30, 2008, the County had debt outstanding of \$30,000,000 of which the Town share was 22.31% for a total of \$6,693,000.

6. INTERFUND TRANSACTIONS

During the course of normal operations, the Town has numerous transactions between funds including expenditures and transfers.

Individual fund interfund receivable and payable balances at June 30, 2008 arising from these transactions were as follows:

	<u>Receivable</u>	<u>Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 26,437	\$ 45,197	\$ 23,095	\$1,457,479
Special revenue fund	264,874	-	-	43,972
Capital projects fund	-	245,410	1,499,932	-
Private purpose trust fund	-	689	-	21,576
Fiduciary fund	-	15	-	-
	<u>\$291,311</u>	<u>\$291,311</u>	<u>\$1,523,027</u>	<u>\$1,523,027</u>

Interfund transfers

Transfers are used to (1) move revenues that are collected in accordance with the budget to the appropriate fund to expend and (2) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorization.

**Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008**

7. CAPITAL PROJECTS – RESTRICTED FOR CAPITAL EXPENDITURES

Capital projects – restricted for capital expenditures consist of the following at June 30, 2008:

Administration	\$	37,409
Capacity		138,093
Cemetery		9,735
Community & economic development		1,388
Creative playground maintenance		3,385
Dare program		14,630
Debe Park construction		2,408
Downtown TIF		26,116
Economic development Sappi TIF		667,415
Fire department		98,210
Municipal building renovation		14,736
Opera House renovations		1,444
Parks & recreation		121,181
Planning, ordinance administration		19,503
Police equipment repair/replace		14,337
Pollution control		83,683
Public works building		20,739
Public works equipment maintenance		27,049
Public works roads & sidewalks		44,596
Revaluation		108,444
Sale of town property		84,101
Second industrial park project		13,727
Solid waste disposal		36,112
Subdivisions		<u>58,746</u>
		<u>\$1,647,187</u>

8. DESIGNATED FUND BALANCES

The general fund designated balances carried forward at June 30, 2008 consist of the following:

	<u>Balance December 31, 2006</u>	<u>Revenues</u>	<u>Expenses/ Transfers</u>	<u>Balance June 30, 2008</u>
Animal control officer	\$13,892	\$ -	\$ (8,148)	\$ 5,744
Court St sidewalks	5,500	-	(5,500)	-
General assistance donations	98	205	-	303
Economic development	-	52,944	-	52,944
Roads and parking lot	11,406	-	(11,406)	-
Town clerk fees	5,612	-	(5,612)	-
Town office renovations	<u>183</u>	<u>-</u>	<u>(183)</u>	<u>-</u>
	<u>\$36,691</u>	<u>\$ 935</u>	<u>\$ (30,849)</u>	<u>\$58,991</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

9. RESTRICTED FOR ENDOWMENTS – PERMANENT FUNDS

Permanent funds – restricted for endowments consist of the following at June 30, 2008:

Bradford-women's aid	\$ 5,669
Coburn-worthy poor	12,164
Coburn-woman's aid	11,838
McClellan-woman's aid	20,243
McClellan-Lecture	10,982
Benjamin Sawyer award	1,019
William and Emma Walker fund	9,692
Cemetery fund	330,913
Coburn fund	197,096
Whitmore fund	<u>1,012</u>
	<u>\$ 600,628</u>

10. PENSION PLANS

Defined Benefit Pension Plan - Plan Description

The Town has contributed, to the Maine State Retirement System (M.S.R.S) Participating Local Town Consolidated Retirement Plan, a cost-sharing multiple-employer defined benefit plan. The Town's payroll for the eighteen months ended June 30, 2008 for employees covered by this plan was \$2,539,357.

Defined Benefit Pension Plan - Funding Status and Progress

All full-time Town employees are eligible to participate in the M.S.R.S. Benefits vest after ten years of service. Prior to ten years of service, should an employee terminate their participation in the system, they would receive their contribution plus interest. Beyond the ten year period, the employee would receive a certain benefit upon attaining the age of sixty; this benefit would be computed at that time. Police and fire employees may receive a certain benefit after 25 years of service.

A copy of the most recent financial report for the plan may be obtained from the Maine State Retirement System or by calling 1-800-451-9800.

All participating town employees, except police and fire, are required to contribute 6.5% of their annual salary to the Plan by State Statute. Police and fire employees are required to contribute 8.0% of their annual salary to the Plan.

	Eighteen months ended 6/30/08		Year ended 12/31/06		Year ended 12/31/05	
	Amount	Percent- age	Amount	Percent- age	Amount	Percent- age
Employer	\$ 23,428	.92%	\$ 16,698	.95%	\$ 7,846	.50%
Employee	179,185	7.1%	124,026	7.1%	110,539	7.1%

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2008

11. COMMITMENTS

The Town is currently committed to approximately \$237,185 in future construction costs associated with the Town's wastewater treatment plant.

12. SIGNIFICANT TAXPAYER

For the eighteen months ending June 30, 2008, the Town of Skowhegan received \$16,185,136 in property tax revenue from S.D. Warren, Inc. This amount represents 62.9% of total property taxes assessed.

13. PARTICIPATION IN PUBLIC ENTITY RISK POOL

The Town is a member of the Maine Municipal Association - Unemployment Compensation Fund ("Fund"). The fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain lower costs for unemployment compensation coverage and develop a comprehensive loss control program. The Town contributes to the fund based on the first \$12,000 of wages for unemployment compensation. Each member has its reserve, which is determined by the actuary. The annual rate set by the Fund's actuary is based on the member's reserve and on estimated future claims. Each member is responsible for its own excess of claims over reserve.

14. CONTINGENCIES

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

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

Town of Skowhegan, Maine
 Budgetary Comparison Schedule
 General Fund
 For the Eighteen Months Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final*		
REVENUES				
Property Taxes	\$ 25,892,405	\$ 25,892,405	\$ 26,081,783	\$ 189,378
Excise and miscellaneous taxes	1,937,040	1,937,040	1,919,589	(17,451)
Fees and fines	2,900	2,900	5,840	2,940
Licenses and permits	10,630	10,630	16,231	5,601
Intergovernmental	2,018,467	2,018,467	2,201,672	183,205
Charges for services	420,105	420,105	531,188	111,083
Investment earnings	180,000	180,000	286,343	106,343
Miscellaneous	35,758	35,758	89,535	53,777
	30,497,305	30,497,305	31,132,181	634,876
Total revenues				
EXPENDITURES				
Current				
General government	1,849,515	1,855,310	1,732,111	123,199
Cemeteries	80,793	80,793	79,881	912
Protection	2,769,578	2,783,470	2,539,187	244,283
Highways and streets	1,626,137	1,626,137	1,528,514	97,623
Pollution control	679,430	679,430	658,296	21,134
Health and sanitation	1,107,642	1,107,642	1,072,730	34,912
General assistance	327,080	327,178	294,662	32,516
Education	15,792,772	15,792,772	15,792,772	-
Recreation	613,243	613,243	574,181	39,062
County tax	1,720,750	1,720,750	1,720,750	-
Community services	148,064	148,064	148,064	-
Tax increment financing	2,031,767	1,304,794	1,304,794	-
Debt service				
Principal	956,173	956,173	956,173	-
Interest and other charges	345,836	345,836	199,644	146,192
	30,048,780	29,341,592	28,601,759	739,833
Total expenditures				
Excess of revenues over expenditures	448,525	1,155,713	2,530,422	1,374,709
OTHER FINANCING SOURCES (USES)				
Transfers in	19,500	19,500	23,095	3,595
Transfers out	(713,600)	(1,457,479)	(1,457,479)	-
	(694,100)	(1,437,979)	(1,434,384)	3,595
Total other financing sources and uses				
Net change in fund balances	(245,575)	(282,266)	1,096,038	\$ 1,378,304
Fund balances - beginning	2,360,377	2,397,068	2,397,068	
Fund balances - ending	\$ 2,114,802	\$ 2,114,802	\$ 3,493,106	

*.includes designated carryover accounts

Town of Skowhegan, Maine
 Combining Schedule of Revenues, Expenses and
 Changes in Fund Balances - Permanent Fund
 For the Eighteen Months Ended June 30, 2008

	Mary Brainerd Worthy and Unfortunate Poor Fund	Edith Paradis Elderly and Worthy Poor	Cemetery Trust Fund	Bradford Woman's Aid	Coburn Worthy Poor	Coburn Woman's Aid	McClellan Woman's Aid	McClellan Lecture Funds	Benjamin Sawyer Award	Coburn Fund	William & Emma Walker Fund	Shirley Stedman Whittemore Fund	Totals
PRINCIPAL													
Revenues													
Additional principal	\$ -	\$ -	\$ 1,435	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,435
Capital gains	-	-	172	3	6	6	11	6	1	103	5	1	314
Transfers	-	-	(7)	(100)	-	(100)	(200)	200	-	(3,000)	-	-	(3,207)
Unrealized gain	-	-	6,146	106	226	221	378	202	19	3,692	181	19	11,190
Net revenues	-	-	7,746	9	232	127	189	408	20	795	186	20	9,732
Fund balance, beginning	-	-	323,167	5,659	11,932	11,711	20,054	10,574	999	196,301	9,507	992	590,896
Fund balance, ending	\$ -	\$ -	\$ 330,913	\$ 5,668	\$ 12,164	\$ 11,838	\$ 20,243	\$ 10,982	\$ 1,019	\$ 197,096	\$ 9,693	\$ 1,012	\$ 600,628
UNDESIGNATED													
Revenues													
Investment income and other	\$ 5,186	\$ 878	\$ 46,294	\$ 371	\$ 1,068	\$ 769	\$ 1,316	\$ 707	\$ 66	\$ 13,051	\$ 682	\$ 89	\$ 70,477
Contributions	5,771	-	77	-	-	-	-	-	-	-	-	-	5,848
Unrealized gain (loss)	436	261	7,488	3	90	4	6	4	-	152	22	7	8,473
Transfers	-	-	(18,369)	-	-	-	-	-	-	-	-	-	(18,369)
Expenses	(13,034)	(84)	(7,401)	(246)	(102)	(617)	(1,027)	(832)	(75)	(4,248)	(65)	(9)	(27,740)
Excess (deficiency) of revenues over expenditures	(1,641)	1,055	28,089	128	1,056	156	295	(121)	(9)	8,955	639	87	38,689
Fund balance, beginning	24,181	13,282	382,727	49	4,217	102	175	290	25	3,028	808	346	429,230
Fund balance, ending	\$ 22,540	\$ 14,337	\$ 410,816	\$ 177	\$ 5,273	\$ 258	\$ 470	\$ 169	\$ 16	\$ 11,983	\$ 1,447	\$ 433	\$ 467,919
TOTAL PRINCIPAL AND UNDESIGNATED													
FUND BALANCE, ENDING	\$ 22,540	\$ 14,337	\$ 741,729	\$ 5,845	\$ 17,437	\$ 12,096	\$ 20,713	\$ 11,151	\$ 1,035	\$ 209,079	\$ 11,140	\$ 1,445	\$ 1,068,547

Town of Skowhegan, Maine
Taxes Receivable, Tax Liens and Tax Acquired Property
General Fund
June 30, 2008

Taxes receivable	\$ 463,446
2008	405
2007	865
2006	<u> </u>
Total taxes receivable	<u>464,716</u>
Tax liens	56,530
2007	72,959
2006	859
2005 and prior	<u> </u>
Total tax liens	<u>130,348</u>
Tax acquired	<u>1,518</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 596,582</u>

Town of Skowhegan, Maine
Schedule of Revenue, Expenses and Changes in
Net Assets - Lake George Corporation - Component Unit
For the Year Ended December 31, 2007

UNRESTRICTED NET ASSETS**Unrestricted revenues and gains**

Contributions	\$ 56,829
User fees	31,609
Fundraising	22,666
Investment income	7,371
Miscellaneous	535
Net assets released from restrictions	<u>3,740</u>

Total unrestricted revenue and gains 122,750

Expenses

Administration and general government	85,133
Payroll and related expenses	16,695
Insurance	1,091
Telephone	1,258
Office expense	1,927
Other administrative	2,409
Repairs and ground maintenance	9,174
Fundraising and program expenses	2,995
Occupancy	5,329
Depreciation	2,562
Miscellaneous	<u>2,562</u>

Total expenses 128,573

Increase (decrease) in unrestricted net assets (5,823)

TEMPORARILY RESTRICTED NET ASSETS**Revenue**

Contributions	100
Program revenue	20,095
Net assets released from restrictions	<u>(3,740)</u>

Increase in temporarily restricted net assets 16,455

INCREASE IN NET ASSETS

10,632

NET ASSETS, BEGINNING OF YEAR

170,107

NET ASSETS, END OF YEAR

\$ 180,739

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance With Government Auditing Standards**

Board of Selectmen
Town of Skowhegan, Maine

We have audited the financial statements of the governmental activities, the discretely presented component units and each major fund of the Town of Skowhegan, Maine as of and for the eighteen months ended June 30, 2008, which collectively comprise the Town of Skowhegan, Maine's basic financial statements and have issued our report thereon dated February 4, 2010. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Skowhegan, Maine's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Skowhegan, Maine's financial statements that is more than inconsequential will not be prevented or detected by the Town of Skowhegan, Maine's internal control. We consider the deficiencies described as #2008-1 and #2008-2 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Skowhegan, Maine's internal control. We consider the significant deficiencies #2008-1 and #2008-2 noted above to be material weaknesses.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

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

We noted certain other matters that we have reported to management of the Town of Skowhegan, Maine, in the letter dated February 4, 2009.

The Town of Skowhegan, Maine's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Skowhegan, Maine's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town selectmen, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Randee Thibodeau & Associates

Bangor, Maine
February 4, 2010

**Report on Compliance With Requirements Applicable to
Each Major Program and Internal Control Over Compliance in
Accordance With OMB Circular A-133**

Board of Selectmen
Town of Skowhegan, Maine

Compliance

We have audited the compliance of the Town of Skowhegan, Maine, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the eighteen months ended June 30, 2008. The Town of Skowhegan, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Skowhegan, Maine's management. Our responsibility is to express an opinion on the Town of Skowhegan, Maine's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Skowhegan, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Skowhegan, Maine's compliance with those requirements.

In our opinion, the Town of Skowhegan, Maine, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the eighteen months ended June 30, 2008.

Internal Control Over Compliance

The management of the Town of Skowhegan, Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Skowhegan, Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the Town of Skowhegan, Maine's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as described below. However, as described below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2008-3 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Town of Skowhegan, Maine's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Skowhegan, Maine's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Selectmen, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Randee Whitbread & Associates

Bangor, Maine
February 4, 2010

Town of Skowhegan, Maine
 Schedule of Expenditures of Federal Awards
 For the Eighteen Months Ended June 30, 2008

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disburse- ments/ Expenditures
<i>U.S. Department of Homeland Security</i>			
Passed through Maine State Department of Defense, Veterans and Emergency Management 2006 Assistance to Firefighters Grant Program	97.044	2006-GE-T6-00047	\$ 7,035
<i>U.S. Department of Transportation</i>			
Passed through State of Maine Bureau of Highway Safety State and Community Highway Assistance	20.660	PT08-023	1,461
Alcohol traffic safety and drunk driving prevention	20.601	2007-AL07-748 2008-ALC08-121	3,934
Occupant protection	20.602	OP108-023	1,252
Passed through State of Maine Department of conservation Recreational trails program	20.219	G606053	6,800
			<u>13,447</u>
<i>U.S. Housing and Urban Development</i>			
Passed through State Department of Economic and Community Development			
2006 Downtown Revitalization	14.228	G1206168	335,178
2007 Community Enterprise	14.228	2007071200000001555	98,555
2006 Non-Profit Development	14.228	20080519000000011488	110,124
2006 Non-Profit Development	14.228	G1106118	252,500
Total Department of Housing and Urban Development			<u>796,357</u>
			<u>\$ 816,839</u>
Total federal assistance			

Town of Skowhegan, Maine
Notes to Schedule of Expenditures of Federal Awards
Eighteen Months Ended June 30, 2008

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Town of Skowhegan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

Town of Skowhegan, Maine
Schedule of Findings and Questioned Costs
Eighteen months ended June 30, 2008

Section I — Summary of Auditor's Results

Financial Statements

- Type of auditor's report issued - *Unqualified opinion*
- Internal control over financial reporting
- Material weakness(es) identified? - yes no
 - Significant deficiency(ies) identified that are not considered to be material weaknesses? - yes none reported
- Noncompliance material to financial statements noted? - yes no

Federal Awards

- Internal control over major programs
- Material weakness(es) identified? - yes no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? - yes none reported
- Type of auditor's report issued on compliance for major programs - *Unqualified opinion*
- Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? - yes no
- Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants

- Dollar threshold used to distinguish between Type A and Type B programs - \$300,000
- Auditee qualified as low-risk auditee? - yes no

Town of Skowhegan, Maine
Schedule of Findings and Questioned Costs (Continued)
Eighteen months ended June 30, 2008

Section II — Financial Statement Findings

#2008-1

<i>Criteria or specific requirement</i>	Significant additional services needed.
<i>Condition</i>	Inadequate reviews and approvals of transactions; accounting entries or system outputs leading to significant accounting services.
<i>Questioned costs</i>	None
<i>Effect</i>	Failure to perform certain management functions could result in misstated information and unreliable reporting.
<i>Cause</i>	Lack of adequate oversight and fiscal management.
<i>Recommendation</i>	Town should have more oversight of its financial reporting and entries, supporting documentation and fixed asset schedules.
<i>Management's response</i>	Due to lack of sufficient training the Town was unable to perform certain functions.

#2008-2

<i>Criteria or specific requirement</i>	Internal control over financial reporting.
<i>Condition</i>	Management does not control the preparation of the financial statements and fixed asset reporting which also results in significant audit adjustments.
<i>Questioned costs</i>	None
<i>Context</i>	Management has relied on its auditors to prepare the financial statements.
<i>Effect</i>	Management may not be able to identify an error or misstatement in the financial statements. In addition, management may not be able to recognize that a required footnote had been omitted or an inappropriate footnote was included in the footnotes.
<i>Cause</i>	Lack of knowledge and training in financial statement preparation (including required note disclosures).
<i>Recommendation</i>	Management should obtain the training necessary to permit the Town to understand its own financial statements and required footnotes.
<i>Management's response</i>	Management will attempt to obtain training that will provide the knowledge necessary to assist more in the preparation of the financial statements.

Town of Skowhegan, Maine
Schedule of Findings and Questioned Costs (Continued)
Eighteen months ended June 30, 2008

Section III — Federal Award Findings and Questioned Costs

	#2008-3
<i>Information on the federal program</i>	CFDA# 14.228 – Community Development Block Grants
<i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i>	Internal control over reporting. OMB Circular A-133, Subpart C. 300 (a), (b) and (d), and Subpart C. 320. The auditee shall identify, in its accounts, all federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. The required filing of the reporting package was also not filed on time.
<i>Condition</i>	Management does not control the preparation of the financial statements and federal grant reporting, including the schedule of expenditures of federal awards and data collection form.
<i>Questioned costs Context</i>	None Management has relied on its auditors to prepare the financial statements and the schedule of expenditures of federal awards.
<i>Effect</i>	Failure to perform certain management functions could result in misstated information and unreliable reporting.
<i>Cause</i>	Lack of training, staffing levels and oversight of the Town's grant activity.
<i>Recommendation</i>	Town should obtain the necessary training to alleviate its reliance on its auditor to perform these functions.
<i>Management's response</i>	Due to change in personnel in finance and lack of sufficient staff training in finance, the Town was unable to perform certain functions. This Town will work toward correcting this situation.