

Town of Skowhegan, Maine

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

For the Year Ended June 30, 2009

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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 Year ended June 30, 2009, 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, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2011, 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 on compliance. That report is an integral part of an audit performed in accordance *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 6 through 13); budgetary comparison information (page 39); and postretirement employee's healthcare plan schedule of funding progress (page 40) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on

the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Skowhegan, Maine's basic financial statements as a whole. 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 financial statements. The other supplementary data and the schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Charlene Thibodeau & Associates

Bangor, Maine
May 19, 2011

The Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2009

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 year ended June 30, 2009. 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 \$15,508,609 for the year ended June 30, 2009. Due to the Town's change in fiscal year end comparison of prior year is not presented. We look forward to providing this information in the future.

	6/30/09	12/31/08
	<u>Governmental Activities</u>	<u>Component Units</u>
<i>Current and other assets</i>	\$ 9,103,564	\$ 323,450
<i>Capital Assets</i>	<u>19,946,644</u>	<u>1,852,019</u>
<i>Total Assets</i>	<u>29,050,208</u>	<u>2,175,469</u>
<i>Long-term liabilities</i>	13,055,395	403,004
<i>Other liabilities</i>	<u>486,204</u>	<u>52,944</u>
<i>Total liabilities</i>	<u>13,541,599</u>	<u>455,948</u>
<i>Net Assets:</i>		
<i>Invested in capital assets, net of related debt</i>	6,926,960	1,450,969
<i>Restricted</i>	3,097,838	131,570
<i>Unrestricted</i>	<u>5,483,811</u>	<u>136,982</u>
<i>Total Net Assets</i>	<u>\$15,508,609</u>	<u>\$ 1,719,521</u>

Our next analysis focuses on changes in net assets of the Town's governmental and component unit activities for the year ended June 30, 2009 and December 31, 2008.

	6/30/09	12/31/08
	<u>Governmental</u>	<u>Component</u>
	<u>Activities</u>	<u>Units</u>
<i>Revenues:</i>		
<i>Program revenues:</i>		
<i>Fees, fines, charges for services</i>	\$ 295,963	\$ 96,446
<i>Operating grants and contributions</i>	1,320,466	995,696
<i>Capital grants and contributions</i>	1,089,816	-
<i>General revenues:</i>		
<i>Property taxes</i>	18,270,512	-
<i>Excise taxes, permits, licenses and other fess</i>	1,194,403	-
<i>Grants and contributions not restricted to specific programs</i>	612,070	-
<i>Investment earnings</i>	349,397	(16,253)
<i>Sale of assets</i>	(1,280)	-
<i>Miscellaneous</i>	<u>3,543</u>	<u>-</u>
<i>Total revenues</i>	<u>23,134,890</u>	<u>1,075,889</u>
<i>Expenses:</i>		
General government	\$ 1,186,050	-
Public safety	1,989,460	-
Public works	1,155,138	-
Health, welfare and sanitation	1,411,040	-
Culture and recreation	631,916	151,035
Education	10,201,195	-
Grant and other special revenue program expense	646,236	112,290
County tax	2,547,839	-
Cemetery maintenance	43,443	-
Tax increment financing	901,170	-
Interest on long-term debt	60,451	-
Capital outlay	<u>1,997,270</u>	<u>-</u>
	22,771,208	263,325
<i>Increase(decrease) in net assets</i>	363,682	(812,564)
<i>Net assets-beginning of year</i>	14,987,802	906,957
Restatement of prior year	<u>157,125</u>	<u>-</u>
<i>Net assets-beginning, restated</i>	<u>15,144,927</u>	<u>906,957</u>
<i>Net assets-end of year</i>	<u>\$15,508,609</u>	<u>\$1,719,521</u>

GOVERNMENTAL ACTIVITIES

The cost of all Governmental activities this year was \$22,771,208. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through Town taxes was only \$18,270,512, 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 \$2,706,245. The Town paid for the remaining "public benefit" portion of governmental activities with 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>2009 Net (Expense)</u>
Governmental Activities	
General government	\$ (1,075,881)
Public safety	(1,876,428)
Public works	(3,647)
Health, welfare and sanitation	(1,268,921)
Culture and recreation	(551,581)
Education	(10,201,195)
Grant and other special revenue program expense	143,163
County tax	(2,547,839)
Cemetery maintenance	(19,160)
Tax increment financing	(901,170)
Interest on long-term debt	(60,451)
Capital outlay	<u>(1,701,853)</u>
Total governmental activities	<u>\$ (20,064,963)</u>

Total resources available during the year to finance governmental operations consisted of net assets at June 30, 2008 of \$15,144,927, program revenues of \$2,706,245 and general revenues of \$20,428,645. Total governmental activities expenses during the year were \$22,771,208; thus net assets were increased by \$363,682 to \$15,508,609.

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 as of June 30, 2009.

	<u>2009</u>
General government	\$ 1,147,535
Cemeteries	70,641
Protection	1,899,806
Highways and streets	1,076,161
Pollution control	478,468
Solid waste facility	703,504
Health and human services	91,057
Education	10,201,195
Parks and recreation	400,183
County tax	2,547,839
Community services	168,570
Tax increment financing	901,170
Grant program expenses	671,576
Debt Service:	
Principal	1,034,209
Interest and other charges	60,451
Capital outlay	<u>2,109,805</u>
Total Expenditures	<u>\$23,562,170</u>

DEBT ADMINISTRATION

The Governmental Activities debt summary for the year ended June 30, 2009 is presented below:

	<u>2009</u>
Wastewater treatment facility upgrade	\$1,595,000
Recreation facility	90,000
Wastewater treatment facility upgrade	3,600,000
Clean water revolving loan	6,322,250
Road project	1,200,000
Plow trucks	154,925
Capital lease – backhoe & street sweeper	<u>57,509</u>
Total debt	<u>\$13,019,684</u>

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, 2009, net capital assets of the governmental activities decreased by \$38,711 including a restatement of \$157,125 to a total of \$19,946,644 and the net capital assets of the component units increased by \$854,125 to a total \$1,852,019. 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.

The following is a discussion of the general fund budgetary highlights during the fiscal year ended June 30, 2009.

During the year budgeted revenues exceeded actual revenues by \$274,042. Most of this variance resulted from over budgeted excise tax, intergovernmental, and investment earnings revenue.

Budgeted expenditures were higher than actual expenditures by \$534,481 with the utilization of designated carryover balances.

The major budget variances for the year ended June 30, 2009 were as follows:

1. Intergovernmental revenue (\$165,463) due to an unforeseen decline in state revenue sharing and general assistance state reimbursements.
2. Excise tax revenues (\$88,617) under budget to a decline in registrations.
3. Investment earnings (\$49,361) due to poor market conditions.

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 2010, we are in solid financial shape with many years of higher than anticipated revenues. This has laid the foundation for a strong surplus at this time.

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

Revenues/Surplus

During this period of time the actual revenues have surpassed the estimated revenues resulting in a surplus at the end of the year. This trend is starting to inch closer to the actual estimated revenues. A lot of this is due to projected revenue cuts At the State level and the slow economy. Surplus was helped by the departments' cost saving methods, with left over appropriation monies being returned. Again, as revenues fall there will be less and less money put back into surplus.

Major Increases

The major increases in operational budgets are caused by the increase in the cost of operating. The economy is driving this. Fuel, utilities and replacement costs have increased, along with more repairs due to wear and tear on equipment. It does not look like these costs will decrease anytime soon, if at all.

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 joint collaborative purchasing efforts with neighboring towns, the County and the State; and is collaborating with large businesses in the "Maine Power Options" to reduce energy costs.

The fiscal year 2010 budget also includes revenue amounts for specific state, federal and private grants that have been applied for. 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 grants will be brought to the Board of Selectmen for consideration upon being awarded.

The Future

In terms of the future, we continue to be in good financial shape. With revenues starting to level off, revenue sharing cuts at the state level and uncertain economic growth; we need to be aware of the public benefit (reduced taxes) versus the costs of the services we provide. In short, 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. We also need to be careful that we don't reduce our budget so much that we can no longer supply the services that the taxpayers expect.

Due to budget reductions in the Reserve Accounts, the Town has not replaced some of its older equipment for numerous years. These reductions help to keep taxes low in the short term, but eventually the equipment and infrastructure will fail and there will be no choice but to increase taxes. More emphasis needs to be placed on setting aside funds every year for future equipment replacement and projects.

Another area of concern for the future is the number of tax-exempt properties in Skowhegan. There is presently approximately \$66 million in tax-exempt property. This puts a large burden on the taxpayers. These tax-exempt properties Account for 1/3 of the sewer usage but pay no taxes or fees for this usage. The Town's Waste Treatment Facility and Infrastructure are funded through taxation. The Town needs to take a look at the Sewer Ordinance, and possibly come up with a sewer fee structure for these tax-exempt properties.

The Town also needs to look at a re-valuation of 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.

Summary

The Town needs to continue to work harder and smarter; doing as much as possible at the lowest possible cost. We will continue to review and update the successful collaborative activities as potential solutions to some of the budget challenges that we are facing. The Town will work toward a re-valuation, and possible sewer use fees for tax-exempt properties. As we will continue to change and work through these issues Skowhegan will become a better place for everyone.

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, 2009

	<u>Governmental Activities</u>	<u>Component Units*</u>	
		<u>Lake George Corporation</u>	<u>Skowhegan Economic Development Corporation</u>
ASSETS			
Cash and cash equivalents	\$ 5,616,204	\$ 45,688	\$ 42,718
Investments	2,284,526	63,900	-
Taxes receivable	528,872	-	-
Notes receivables, net of allowance for doubtful accounts of \$21,969	443,062	-	138,720
Internal balances	(47,145)	-	32,424
Due from component units	52,944	-	-
Due from other governmental agencies	58,428	-	-
Due from Maine Bond Bank	166,673	-	-
Capital assets, net	19,946,644	32,492	1,819,527
Total assets	29,050,208	142,080	2,033,389
LIABILITIES			
Accounts payable and accrued expenses	338,865	-	-
Due to other governmental agencies	9,957	-	-
Deferred revenues	10,684	-	-
Prepaid taxes receivable	15,812	-	-
Due to primary government	-	-	52,944
Accrued compensated absences	110,886	-	-
Long-term liabilities			
Due within one year			
Capital lease obligations	57,509	-	-
Bonds and notes payable	995,212	-	19,151
Due in more than one year			
Bonds and notes payable	11,966,963	-	383,853
Other postemployment benefit obligation	35,711	-	-
Total liabilities	13,541,599	-	455,948
NET ASSETS			
Invested in capital assets, net of related debt	6,926,960	32,492	1,416,523
Restricted for			
Capital projects	2,478,771	-	-
Lake George endowment	-	131,570	-
Trust fund principal-endowments	619,067	-	-
Unrestricted (deficit)	5,483,811	(21,982)	160,918
Total net assets	\$ 15,508,609	\$ 142,080	\$ 1,577,441

* component units are presented as of December 31, 2008

See accompanying notes to the basic financial statements.

Town of Skowhegan, Maine
Statement of Activities
For the Year Ended June 30, 2009

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* Skowhegan Economic Development Corporation
Primary government						
Governmental activities						
General government	\$ 1,186,050	\$ 83,943	\$ 26,226	\$ -	\$ (1,075,881)	
Public safety	1,989,460	16,061	91,971	5,000	(1,876,428)	
Public works	1,155,138	3,355	1,148,136	-	(3,647)	
Health, welfare and sanitation	1,411,040	87,986	54,133	-	(1,268,921)	
Culture and recreation	631,916	80,335	-	-	(551,581)	
Education	10,201,195	-	-	789,399	(10,201,195)	
Grant and other special revenue program expense	646,236	-	-	-	143,163	
County tax	2,547,839	-	-	-	(2,547,839)	
Cemetery maintenance and other	43,443	24,283	-	-	(19,160)	
Tax increment financing	901,170	-	-	-	(901,170)	
Interest on long-term debt	60,451	-	-	-	(60,451)	
Capital outlay	1,997,270	-	-	295,417	(1,701,853)	
Total primary government	\$ 22,771,208	\$ 295,963	\$ 1,320,466	\$ 1,089,816	(20,064,963)	
Component Units						
Skowhegan Economic Development Corporation	112,290	62,657	893,416	-	\$ -	\$ 843,783
Lake George Corporation	151,035	33,789	102,280	-	(14,966)	-
Total component units	\$ 263,325	\$ 96,446	\$ 995,696	\$ -	(14,966)	843,783
General revenues						
Taxes						
Property taxes					18,270,512	-
Excise taxes, permits, licenses and other fees					1,194,403	-
Grants and contributions not restricted to specific programs					612,070	-
Unrestricted investment earnings (loss) and interest					349,397	7,440
Miscellaneous					3,543	-
Special item - gain/(loss) on sale of assets					(1,280)	-
Total general revenues					20,428,645	7,440
Change in net assets					363,682	851,223
Net assets - beginning					14,987,802	726,218
Restate beginning fund balance					157,125	-
Net assets - beginning, restated					15,144,927	726,218
Net assets - ending					\$ 15,508,609	\$ 1,577,441

See accompanying notes to the basic financial statements.

* component units are presented as of December 31, 2008

Town of Skowhegan, Maine
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,498,430	\$ 322,610	\$ 1,383,835	\$ 411,329	\$ 5,616,204
Investments	-	-	1,606,556	677,970	2,284,526
Taxes receivable, net	528,872	-	-	-	528,872
Due from other funds	13,342	280,407	60,982	-	354,731
Due from Skowhegan Economic Development	52,944	-	-	-	52,944
Receivable from other governments	58,428	-	-	-	58,428
Due from Maine Bond Bank	-	-	166,673	-	166,673
Notes receivables, net of allowance for doubtful accounts of \$21,969	-	443,062	-	-	443,062
Total assets	<u>\$ 4,152,016</u>	<u>\$ 1,046,079</u>	<u>\$ 3,218,046</u>	<u>\$ 1,089,299</u>	<u>\$ 9,505,440</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 317,517	\$ -	\$ -	\$ -	\$ 317,517
Due to other funds	244,421	-	101,831	13,342	359,594
Due to Skowhegan Economic Development	-	42,282	-	-	42,282
Payable to other governments	9,957	-	-	-	9,957
Deferred revenue	-	10,684	-	-	10,684
Deferred property tax revenue	367,418	-	-	-	367,418
Other accrued expenses	21,348	-	-	-	21,348
Prepaid taxes	15,812	-	-	-	15,812
Total liabilities	<u>976,473</u>	<u>52,966</u>	<u>101,831</u>	<u>13,342</u>	<u>1,144,612</u>
Fund balances					
Reserved for					
Trust fund principal	-	-	-	619,067	619,067
Capital projects	-	-	2,478,771	-	2,478,771
Unreserved					
Designated for capital projects and other purposes	55,563	-	637,444	-	693,007
Undesignated -reported in General fund	3,119,980	-	-	-	3,119,980
Special revenue fund	-	993,113	-	-	993,113
Permanent endowment fund	-	-	-	456,890	456,890
Total fund balances	<u>3,175,543</u>	<u>993,113</u>	<u>3,116,215</u>	<u>1,075,957</u>	<u>8,360,828</u>
Total liabilities and fund balances	<u>\$ 4,152,016</u>	<u>\$ 1,046,079</u>	<u>\$ 3,218,046</u>	<u>\$ 1,089,299</u>	<u>\$ 9,505,440</u>

**Town of Skowhegan, Maine
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
June 30, 2009**

Total fund balance, governmental funds	\$	8,360,828
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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.		19,946,644
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Deferred revenues - more specifically, deferred property taxes not reported in governmental activities of the Statement of Net Assets.		367,418
--	--	---------

Some liabilities, (such as Capital Lease Contract Payable, Accrued Compensated Absences, Other Postemployment Benefit Obligation 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>(13,166,281)</u>
--	--	---------------------

Net Assets of Governmental Activities in the Statement of Net Assets	\$	<u><u>15,508,609</u></u>
--	----	--------------------------

Town of Skowhegan, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 18,291,822	\$ -	\$ -	\$ -	\$ 18,291,822
Excise and miscellaneous taxes	1,194,403	-	-	-	1,194,403
Fees and fines	3,597	-	-	-	3,597
Licenses and permits	10,288	-	-	-	10,288
Intergovernmental	1,814,338	789,399	295,417	-	2,899,154
Charges for services	333,555	-	-	-	333,555
Investment and interest earnings	86,139	2,025	214,407	45,452	348,023
Contributions	2,316	-	-	18,053	20,369
Miscellaneous	43,696	-	-	-	43,696
Total revenues	21,780,154	791,424	509,824	63,505	23,144,907
EXPENDITURES					
Current					
General government	1,147,535	-	-	-	1,147,535
Cemeteries	70,641	-	-	-	70,641
Protection	1,899,806	-	-	-	1,899,806
Highways and streets	1,076,161	-	-	-	1,076,161
Pollution control	478,468	-	-	-	478,468
Solid waste facility	703,504	-	-	-	703,504
Health and human services	91,057	-	-	-	91,057
Education	10,201,195	-	-	-	10,201,195
Parks and Recreation	400,183	-	-	-	400,183
County tax	2,547,839	-	-	-	2,547,839
Community services	132,730	-	-	35,840	168,570
Tax increment financing	901,170	-	-	-	901,170
Grant program expenses	-	671,576	-	-	671,576
Debt service					
Principal	1,034,209	-	-	-	1,034,209
Interest and other charges	60,451	-	-	-	60,451
Capital outlay	-	-	2,109,805	-	2,109,805
Total expenditures	20,744,949	671,576	2,109,805	35,840	23,562,170
Excess (deficiency) of revenues over expenditures	1,035,205	119,848	(1,599,981)	27,665	(417,263)
OTHER FINANCING SOURCES (USES)					
Transfers in	20,255	31,180	1,373,023	-	1,424,458
Transfers out	(1,373,023)	-	(31,180)	(20,255)	(1,424,458)
Total other financing sources and uses	(1,352,768)	31,180	1,341,843	(20,255)	-
Net change in fund balances	(317,563)	151,028	(258,138)	7,410	(417,263)
Fund balances - beginning	3,493,106	842,085	3,374,353	1,068,547	8,778,091
Fund balances - ending	\$ 3,175,543	\$ 993,113	\$ 3,116,215	\$ 1,075,957	\$ 8,360,828

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 Year Ended June 30, 2009

Net change in fund balances - total governmental funds: \$ (417,263)

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	1,292,049	
Depreciation	<u>(1,486,606)</u>	(194,557)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain (loss) on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.

(1,280)

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.

(21,310)

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 repayments exceeded proceeds.

1,034,209

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Change in accrued compensated absences		(406)
Other postemployment benefit obligation		<u>(35,711)</u>

Change in net assets of governmental activities

\$ 363,682

Town of Skowhegan, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	<u>Private Purpose</u> <u>Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 184,530
Due from other funds	4,863
Loans receivable	<u>339,436</u>
 Total assets	 <u>528,829</u>
NET ASSETS	
Held in trust for benefits and other purposes	<u>\$ 528,829</u>

Town of Skowhegan, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2009

	<u>Private Purpose</u> <u>Trust Fund</u>
ADDITIONS	
Income	
Interest	\$ 2,351
Contributions	<u>24,025</u>
Total additions	<u>26,377</u>
Net assets - beginning	<u>502,452</u>
Net assets - ending	<u>\$ 528,829</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

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. The more significant accounting policies of the Town are described below.

Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in 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, 2008.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

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 for fiduciary funds. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Town has no business-type activities.

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 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. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

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.

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 except for amounts owed to fiduciary funds and component units. Any residual balances outstanding between the governmental activities and component units are reported in the governmental-wide financial statements as "internal balances". 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 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:

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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.

Long-term Liabilities

The accounting treatment of long-term liabilities 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 liabilities to be repaid from governmental resources are reported as liabilities in government-wide statements. The long-term liabilities consist primarily of notes or bonds payable and compensated absences.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. 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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Recent Accounting Pronouncements

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intent of this statement is to provide clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The new statement is effective for financial statement periods beginning after June 15, 2010. The Town is currently assessing the impact of this statement on its financial statements.

Revenue Recognition - Property Taxes

Property taxes assessed and were levied on assessed values of April 1, 2008 and were due on September 15, 2008 and March 16, 2009. Interest was charged at 11% 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 2009.

Property taxes assessed and collected during the year ended June 30, 2009, and during the first sixty days of the fiscal year are recognized as revenue in 2009. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

The following summarizes the year ended June 30, 2009 levy:

Assessed value:	
Real estate	\$ 547,335,200
Personal property	<u>590,937,200</u>
	1,138,272,400
Tax rate (per \$1,000)	<u>16.05</u>
Commitment	18,269,272
Less: collections and abatements	<u>(17,908,751)</u>
Receivable at June 30, 2009	<u>\$ 360,521</u>
Collection rate	98%

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

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, 2009, the Town reported deposits of \$5,800,734 with bank balances of \$5,805,348. Of the Town's total bank balance of \$5,805,348, \$84,313 was exposed to custodial credit risk as this amount was not insured or collateralized and \$5,721,035 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	\$5,616,204
Reported in fiduciary funds	<u>184,530</u>
Total deposits	<u>\$5,800,734</u>

Component units

Custodial Credit Risk: The Town's component units reported deposits of \$88,406 with bank balances of \$93,802. Of the Town's component units total bank balance of \$93,802, \$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 \$2,284,526 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.

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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	\$ 381,529	\$1,854,289	\$ -
U.S. Treasury notes	<u>-</u>	<u>-</u>	<u>48,667</u>
Total debt investments	<u>\$ 381,529</u>	<u>\$1,854,289</u>	<u>\$ 48,667</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' \$63,900 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:

Component units	<u>Due in less than one year</u>
U.S. Agency notes	<u>\$10,010</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

3. CAPITAL ASSETS

	Balance June 30, 2008	Restate- ment	Additions	Disposals	Balance June 30, 2009
Governmental activities:					
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 143,043	\$ -	\$ 241,068	\$ -	\$ 384,111
Land	185,609	-	-	-	185,609
Total	<u>328,652</u>	<u>-</u>	<u>241,068</u>	<u>-</u>	<u>569,720</u>
<i>Capital assets being depreciated</i>					
Buildings and improvements	5,249,629	-	-	(60,000)	5,189,629
Vehicles	2,792,013	-	43,433	(36,000)	2,799,446
Roads and bridge network	13,874,914	-	839,285	-	14,714,199
Distributions and collections	6,755,286	-	-	-	6,755,286
Machinery and equipment	2,847,629	144,625	168,263	(21,300)	3,139,217
Total	<u>31,519,471</u>	<u>144,625</u>	<u>1,050,981</u>	<u>(117,300)</u>	<u>32,597,777</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(3,077,501)	-	(135,721)	60,000	(3,153,222)
Vehicles	(2,222,805)	-	(102,790)	36,000	(2,289,595)
Roads and bridge network	(4,500,336)	-	(842,980)	-	(5,343,316)
Distributions and collections	(528,533)	-	(170,474)	-	(699,007)
Machinery and equipment	(1,533,593)	12,500	(234,641)	20,021	(1,735,713)
	<u>(11,862,768)</u>	<u>12,500</u>	<u>(1,486,606)</u>	<u>116,021</u>	<u>(13,220,853)</u>
Total	<u>19,656,703</u>	<u>157,125</u>	<u>(435,625)</u>	<u>(1,279)</u>	<u>19,376,924</u>
Total governmental activities, net	<u>\$ 19,985,355</u>	<u>\$ 157,125</u>	<u>\$ (194,557)</u>	<u>\$ (1,279)</u>	<u>\$ 19,946,644</u>
Component units:					
Buildings and improvements	\$ 1,114,756	\$ -	\$ 880,000	\$ -	\$ 1,994,756
Equipment and fixtures	16,469	-	7,988	-	24,457
Vehicles	5,074	-	-	-	5,074
Land	83,547	-	-	-	83,547
Total	<u>1,219,846</u>	<u>-</u>	<u>887,988</u>	<u>-</u>	<u>2,107,834</u>
<i>Less accumulated depreciation for:</i>					
Buildings and improvements	(204,376)	-	(31,588)	-	(235,964)
Equipment and fixtures	(14,024)	-	(1,260)	-	(15,284)
Vehicles	(3,552)	-	(1,015)	-	(4,567)
Total accumulated depreciation	<u>(221,952)</u>	<u>-</u>	<u>(33,863)</u>	<u>-</u>	<u>(255,815)</u>
Total component units	<u>\$ 997,894</u>	<u>\$ -</u>	<u>\$ 854,125</u>	<u>\$ -</u>	<u>\$ 1,852,019</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

3. CAPITAL ASSETS (CONTINUED)

Depreciation was charged to the following activities as follows:

Governmental activities:	
General government	\$ 6,704
Public safety	83,341
Public works	82,900
Health, welfare and sanitation	136,818
Culture and recreation	27,668
Capital outlay	1,149,175
Total	<u>\$1,486,606</u>
 Component units:	
Lake George Corporation	\$ 3,572
Skowhegan Economic Development	<u>30,291</u>
Total	<u>\$ 33,863</u>

4. TAX INCREMENT FINANCING DISTRICTS

The Town currently has two approved tax increment financing (TIF) districts, both of which were active during the year ended June 30, 2009. 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 LIABILITIES

Obligation under capital leases

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, 2009 are:

2010	\$ 60,133
Less amount representing interest	<u>2,624</u>
Present value of minimum lease payments	<u>\$ 57,509</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

5. LONG-TERM LIABILITIES

General obligation bonds and notes payable

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2009:

	Original Amount	Balance June 30, 2008	Bonds and Notes Issued (Retired)	Balance June 30, 2009
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	\$ 103,998	\$ (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	180,000	(90,000)	90,000
Maine Municipal Bond Bank, Wastewater Facility, dated April 16, 2005, due 2024, interest rate at 1.1%	4,800,000	3,840,000	(240,000)	3,600,000
Maine Municipal Bond Bank, Wastewater Facility, dated December 22, 2006, due 2020, interest varies from 4.75-5.0%	2,000,000	1,730,000	(135,000)	1,595,000
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	(332,750)	6,322,250
Skowhegan Savings Bank, Road Project Bond, dated June 13, 2009, 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%	232,386	<u>232,386</u>	<u>(77,463)</u>	<u>154,923</u>
Total primary government		<u>\$13,941,384</u>	<u>\$ 979,209</u>	<u>\$12,962,173</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

5. LONG-TERM LIABILITIES (CONTINUED)

General obligation bonds and notes payable (Continued)

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

	Original Amount	Balance June 30, 2008	Bonds and Notes Issued (Retired)	Balance June 30, 2009
Component Unit – Skowhegan				
Economic Development Corporation				
<i>Note Payable</i>				
<i>Richard Stearns,</i>				
<i>Building note dated February</i>				
<i>10, 2006, due 2013,</i>				
<i>interest rate at 6%</i>				
	\$ 40,000	\$ 20,491	\$ (3,349)	\$ 17,142
<i>General Obligation Note Payable</i>				
<i>Skowhegan Savings Bank,</i>				
<i>Industrial Park dated September</i>				
<i>7, 1999, due 2025,</i>				
<i>interest rate at 5.11%</i>				
	500,000	<u>402,558</u>	<u>(16,696)</u>	<u>385,862</u>
<i>Total component unit</i>		<u>\$ 423,049</u>	<u>\$ (19,516)</u>	<u>\$ 403,004</u>

Future maturities of long-term debt are as follows:

Governmental Activities			
Fiscal year ended	Principal	Interest	Total
2010	\$ 995,212	\$ 321,177	\$ 1,316,389
2011	905,211	276,850	1,182,061
2012	827,750	255,023	1,082,773
2013	827,750	235,767	1,063,517
2014	827,750	216,345	1,044,095
2015-2019	4,123,750	790,095	4,913,845
2020-2024	3,123,750	387,397	3,511,147
2025-2028	<u>1,331,000</u>	<u>113,228</u>	<u>1,444,228</u>
	<u>\$12,962,173</u>	<u>\$2,595,882</u>	<u>\$15,558,055</u>
Component Units			
Year ended	Principal	Interest	Total
2009	\$ 19,151	\$ 20,555	\$ 39,706
2010	20,183	19,523	39,706
2011	21,586	18,120	39,706
2012	22,419	17,287	39,706
2013	22,515	16,133	38,648
2014-2018	113,727	63,654	177,381
2019-2023	146,754	30,627	177,381
2024-2025	<u>36,669</u>	<u>2,889</u>	<u>39,558</u>
	<u>\$ 403,004</u>	<u>\$188,788</u>	<u>\$591,792</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

5. LONG-TERM LIABILITIES (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, 2009, the County had debt outstanding of \$28,750,000 of which the Town share was 21.67% for a total of \$6,230,125.

Other Postemployment Benefits

The Government Accounting Standards Board (GASB) promulgated Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*," which addresses the reporting and disclosure requirements for other post employment benefits (OPEB). As promulgated, it requires that the long-term cost of retirement health care and obligations for other postemployment benefits be determined on an actuarial basis and reported similar to pension plans.

The Town of Skowhegan is a member of the Maine Municipal Employees Health Trust. The Health Trust is a multiple employer Voluntary Employees' Benefit Association. The Town is an individually rated member of the Association. The Health Trust contracted with an outside consultant, Mercer, to assist in the valuation of the Town's OPEB liability under GASB Statement No. 45. An OPEB liability actuarial valuation was completed by Mercer in January 2009. The Trust issues a publicly available financial report which may be obtained by contacting the Maine Municipal Association at 60 Community Drive, Augusta, Maine 04332.

Description of the Plan

The Town provides health insurance for certain retired employees. Eligibility to receive health care benefits follows the same requirements as MainePERS. Eligible retirees are required to pay 100% of the health insurance premium to receive health benefit coverage.

Description of Funding Policy

GASB Statement No. 45 does not mandate the prefunding of postemployment benefits liability. The Town currently plans to utilize a pay-as-you-go program to fund these benefits. No assets have been segregated and restricted to provide postemployment benefits. The annual required contribution (ARC), an actuarial determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year. The unfunded actuarial liability is amortized as a level dollar amount over a period of 30 years.

The following table represents the OPEB cost for the year and the annual required contribution:

Normal cost	\$ 32,069
Amortization of unfunded liability	36,223
Interest	<u>1,366</u>
Annual required contribution (ARC)	<u>\$69,658</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

5. LONG-TERM LIABILITIES (CONTINUED)

Funding Status and Unfunded Actuarial Liability

The Town of Skowhegan's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009, the only year available, is as follows:

Annual required contribution (ARC)	\$69,658
Actual contribution	\$33,947
Percent contributed	48.73%
Net OPEB obligation	\$35,711
Actuarial accrued liability	\$ 651,420
Plan assets	<u> -</u>
Unfunded actuarial accrued liability	<u>\$ 651,420</u>
Covered payroll	<u>\$2,221,776</u>
Unfunded actuarial accrued liability as a percentage of covered payroll	<u>29.32%</u>

Projections of benefits are based on the substantive plan as understood by the employer and plan members and include the benefits in force at the valuation date of January 2009, and the cost sharing arrangement at that time. Actuarial calculations reflect a long-term perspective and utilize methods that reduce short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets. The actuarial assumptions used in the plan evaluation include: normal entry age actuarial cost method, a 4% return on investment, 4-9.6% healthcare inflation rate, and a 0% future cost-of-living adjustment. The unfunded actuarial accrued liability is being recognized as a level dollar amount over a 30 year period.

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, 2009 arising from these transactions were as follows:

	Receivable	Payable	Transfers In	Transfers Out
General fund	\$ 13,342	\$ 244,421	\$ 20,255	\$1,373,023
Special revenue fund	280,407	-	31,180	-
Capital projects fund	60,982	101,831	1,373,023	31,180
Private purpose trust fund	-	13,342	-	20,255
Fiduciary fund	<u>4,863</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$359,594</u>	<u>\$359,594</u>	<u>\$1,424,458</u>	<u>\$1,424,458</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

6. INTERFUND TRANSACTIONS (CONTINUED)

Interfund transfers

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

7. RESTATED BEGINNING NET ASSETS

The beginning governmental activities net asset fund balance was restated by \$157,125 to reflect the addition of fixed assets not previously accounted for.

8. CAPITAL PROJECTS – RESTRICTED FOR CAPITAL EXPENDITURES

Capital projects – restricted for capital expenditures consist of the following at June 30, 2009:

Administration	\$ 28,038
Capacity	174,391
Cemetery	322
Community & economic development	1,442
Creative playground maintenance	3,516
Dare program	13,857
Debe Park construction	2,501
Downtown TIF	40,035
Economic development Sappi TIF	1,080,836
Fire department	179,906
Municipal building renovation	30,178
Opera House renovations	1,500
Parks & recreation	23,458
Planning, ordinance administration	13,547
Police equipment repair/replace	4,923
Pollution control	124,633
Public works building	16,361
Public works equipment maintenance	6,091
Public works roads & sidewalks	353,846
Revaluation	164,574
Sale of town property	114,550
Second industrial park project	14,259
Solid waste disposal	24,983
Subdivisions	<u>61,024</u>
	<u>\$2,478,771</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

9. DESIGNATED FUND BALANCES

The general fund designated balances carried forward at June 30, 2009 consist of the following:

	Balance June 30, 2008	Revenues	Expenses/ Transfers	Balance June 30, 2009
Animal control officer	\$ 5,744	\$ -	\$ (5,744)	\$ -
General assistance donations	303	3,910	(1,594)	2,619
Economic development	<u>52,944</u>	<u>-</u>	<u>-</u>	<u>52,944</u>
	<u>\$58,991</u>	<u>\$ 3,910</u>	<u>\$ (7,338)</u>	<u>\$55,563</u>

10. RESTRICTED FOR ENDOWMENTS – PERMANENT FUNDS

Permanent funds – restricted for endowments consist of the following at June 30, 2009:

Bradford-women's aid	\$ 5,474
Coburn-worthy poor	12,298
Coburn-woman's aid	11,438
McClellan-woman's aid	19,556
McClellan-Lecture	10,695
Benjamin Sawyer award	1,031
William and Emma Walker fund	9,799
Cemetery fund	348,481
Coburn fund	199,271
Whitmore fund	<u>1,024</u>
	<u>\$ 619,067</u>

11. PENSION PLANS

Defined Benefit Pension Plan - Plan Description

The Town has contributed to the Maine Public Employees Retirement System (MainePERS) Participating Local Town Consolidated Retirement Plan, a cost-sharing multiple-employer defined benefit plan. The Town's payroll for the Year ended June 30, 2009 for employees covered by this plan was \$1,619,825.

Defined Benefit Pension Plan - Funding Status and Progress

Participating employees' benefits vest after five years of service. Prior to five years of service, should an employee terminate their participation in the system, they would receive their contribution plus interest. Beyond the five year period, the employee would receive a certain benefit upon reaching the normal retirement age; 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 MainePERS or by calling 1-800-451-9800.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2009

11. PENSION PLANS (CONTINUED)

Defined Benefit Pension Plan - Funding Status and Progress (Continued)

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.

	Year ended 6/30/09		Eighteen months ended 6/30/08		Year ended 12/31/06	
	Amount	Percent- age	Amount	Percent- age	Amount	Percent- age
	Employer	\$ 14,484	.89%	\$ 23,428	.92%	\$ 16,698
Employee	115,587	7.1%	179,185	7.1%	124,026	7.1%

12. SIGNIFICANT TAXPAYER

For the year ending June 30, 2009, the Town of Skowhegan received \$10,844,592 in property tax revenue from S.D. Warren, Inc. This amount represents 59.4% 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 Year Ended June 30, 2009

	Budgeted Amounts			Actual	Variance with Final Budget - Positive (Negative)
	Original	Changes	Final*		
REVENUES					
Property Taxes	\$ 18,269,262	\$ -	\$ 18,269,262	\$ 18,291,822	\$ 22,560
Excise and miscellaneous taxes	1,283,020	-	1,283,020	1,194,403	(88,617)
Fees and fines	2,700	-	2,700	3,597	897
Licenses and permits	12,255	-	12,255	10,288	(1,967)
Intergovernmental	1,979,801	-	1,979,801	1,814,338	(165,463)
Charges for services	337,209	-	337,209	333,555	(3,654)
Donations	-	2,316	2,316	2,316	-
Investment earnings	135,500	-	135,500	88,139	(49,361)
Miscellaneous	32,133	-	32,133	43,896	11,563
Total revenues	22,051,880	2,316	22,054,196	21,780,154	(274,042)
EXPENDITURES					
Current					
General government	1,277,618	-	1,277,618	1,147,535	130,083
Cemeteries	71,178	-	71,178	70,641	537
Protection	1,954,247	5,744	1,959,991	1,899,806	60,185
Public works	1,206,562	-	1,206,562	1,076,161	130,401
Waste water and pollution control	492,482	-	492,482	478,468	14,014
Solid waste management	743,367	-	743,367	703,504	39,863
Health and human services	219,809	-	219,809	91,057	128,752
Education	10,201,195	-	10,201,195	10,201,195	-
Recreation	404,695	-	404,695	400,183	4,512
County tax	2,547,839	-	2,547,839	2,547,839	-
Community services	132,730	-	132,730	132,730	-
Tax increment financing	1,551,128	(649,958)	901,170	901,170	-
Debt service					
Principal	899,209	-	899,209	899,209	-
Interest and other charges	221,585	-	221,585	195,451	26,134
Total expenditures	21,923,644	(644,214)	21,279,430	20,744,949	534,481
Excess of revenues over expenditures	128,236	646,530	774,766	1,035,205	260,439
OTHER FINANCING SOURCES (USES)					
Transfers in	20,000	-	20,000	20,255	255
Transfers out	(723,065)	(649,958)	(1,373,023)	(1,373,023)	-
Total other financing sources and uses	(703,065)	(649,958)	(1,353,023)	(1,352,768)	255
Net change in fund balances	(574,829)	(3,428)	(578,257)	(317,563)	\$ 260,694
Fund balances - beginning	3,493,106	-	3,493,106	3,493,106	
Fund balances - ending	\$ 2,918,277	\$ (3,428)	\$ 2,914,849	\$ 3,175,543	

* Includes designated carryover accounts

**Town of Skowhegan, Maine
 Postretirement Employee Healthcare Plan -
 Schedule of Funding Progress
 For the Year Ended June 30, 2009**

	<u>Actuarial Valuation Date January 1, 2009</u>
Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)	<u>651,420</u>
Unfunded actuarial accrued liability	<u>\$ 651,420</u>
Funded ratio	<u>0.00%</u>
Covered payroll	<u>\$ 2,221,776</u>
UAAL as a percentage of covered payroll	<u>29.32%</u>

Only one year has been presented because GASB Statement 45 was implemented in the current year.

Town of Skowhegan, Maine
Combining Schedule of Revenues, Expenses and
Changes in Fund Balances - Permanent Fund
For the Year Ended June 30, 2009

	Mary Brainerd Worthy and Unfortunate Poor Fund	Edith Parads 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			12,850										12,850
Capital gains (losses)			(23)		(1)	(1)	(1)	(1)		(14)	(1)		(42)
Unrealized gain (losses)			4,740	(194)	135	(399)	(685)	(287)	12	2,189	108	12	5,631
Net revenues			17,567	(194)	134	(400)	(686)	(288)	12	2,175	107	12	18,439
Fund balance, beginning			330,913	5,668	12,164	11,838	20,243	10,982	1,019	197,096	9,693	1,012	600,628
Fund balance, ending			348,480	5,474	12,298	11,438	19,557	10,694	1,031	199,271	9,800	1,024	619,067
UNDESIGNATED													
Revenues													
Investment income and other	736	443	22,720	177	539	367	629	328	32	6,399	344	45	32,759
Contributions	5,203												5,203
Unrealized gain (loss)	310	168	4,511	257	69	530	908	404	(35)	(47)	23	6	7,104
Expenses	(4,127)	(55)	(36,967)	(273)	(65)	(565)	(967)	(640)	(3)	(12,784)	(42)	(6)	(56,095)
Excess (deficiency) of revenues over expenditures	2,122	556	(9,336)	161	542	332	570	92	(6)	(6,432)	325	45	(11,029)
Fund balance, beginning	22,540	14,337	410,816	177	5,273	258	470	169	16	11,983	1,447	433	467,919
Fund balance, ending	24,662	14,893	401,480	338	5,815	590	1,040	261	10	5,551	1,772	478	456,890
TOTAL PRINCIPAL AND UNDESIGNATED													
FUND BALANCE, ENDING	24,662	14,893	749,960	5,812	18,113	12,028	20,597	10,955	1,041	204,822	11,572	1,502	1,075,957

Town of Skowhegan, Maine
Taxes Receivable, Tax Liens and Tax Acquired Property
General Fund
June 30, 2009

Taxes receivable	
2009	\$ 360,521
2008	<u>6,506</u>
Total taxes receivable	<u>367,027</u>
Tax liens	
2008	125,951
2007	29,015
2006 and prior	<u>810</u>
Total tax liens	<u>155,776</u>
Tax acquired	<u>6,069</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 528,872</u>

Town of Skowhegan, Maine
Schedule of Revenue, Expenses and Changes in
Net Assets - Lake George Corporation
For the Year Ended December 31, 2008

UNRESTRICTED NET ASSETS**Unrestricted revenues and gains**

Contributions	34,377
User fees	33,789
Fundraising	17,669
Investment income	3,366
Miscellaneous	8,001
Net assets released from restrictions	14,956
Unrealized loss	<u>(27,059)</u>

Total unrestricted revenue and gains 85,099

Expenses

Administration and general government	
Payroll and related expenses	92,903
Insurance	16,579
Telephone	1,225
Office expense	1,235
Other administrative	3,134
Repairs and ground maintenance	8,983
Fundraising and program expenses	19,857
Occupancy	1,984
Depreciation	3,572
Miscellaneous	<u>1,563</u>

Total expenses 151,035

Increase (decrease) in unrestricted net assets (65,936)

TEMPORARILY RESTRICTED NET ASSETS**Revenue**

Contributions	18,073
Program revenue	24,160
Net assets released from restrictions	<u>(14,956)</u>

Increase in temporarily restricted net assets 27,277

INCREASE (DECREASE) IN NET ASSETS (38,659)

NET ASSETS, BEGINNING OF YEAR 180,739

NET ASSETS, END OF YEAR \$ 142,080



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**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 year ended June 30, 2009, which collectively comprise the Town of Skowhegan, Maine's basic financial statements and have issued our report thereon dated May 19, 2011. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town of Skowhegan, Maine's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #2009-1 to be a material weakness.

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 May 19, 2011.

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 responses, and accordingly, we express no opinion on the Town of Skowhegan, Maine's responses.

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.

Robert M. Hibbard & Associates

Bangor, Maine
May 19, 2011



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**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 year ended June 30, 2009. 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 year ended June 30, 2009.

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 the 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 on 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. However, as discussed below, we identified a certain 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 #2009-2 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 the significant deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs to be a material weakness.

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, others within the entity, 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.

Rachel M. Meehan & Associates

Bangor, Maine
May 19, 2011

Town of Skowhegan, Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

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 Homeland Security Grant Program	97.067	2008-GS-T8-0037	<u>3,311</u>
<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	2,463
Alcohol traffic safety and drunk driving prevention	20.601	2008-ALC08-121	3,142
Occupant protection	20.602	OP108-023	<u>1,332</u>
Total U.S. Department of Transportation			<u>6,937</u>
<i>U.S. Housing and Urban Development</i>			
Passed through State Department of Economic and Community Development Downtown Revitalization	14.228	G1206168	64,693
2008 Non-Profit Development	14.228	200805190000000114882	169,876
Community Enterprise Grant	14.228	20070712000000001555	<u>44,669</u>
Total Department of Housing and Urban Development			<u>279,238</u>
<i>U.S. Department of Agriculture</i>			
Food and Nutrition Service Summer Food Service for Children	10.559	13-05A-7130-05	<u>21,138</u>
<i>U.S. Environmental Protection Agency</i>			
Office of Water Passed through Maine Municipal Bond Bank Capitalization Grants for Clean Water State Revolving Funds	66.458	not known	<u>6,235,867</u>
Total federal assistance			<u>\$ 6,546,491</u>

Town of Skowhegan, Maine
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) Circular A-133, requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal award program as identified in the catalog of Federal Domestic Assistance (CFDA).

SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

The accompanying schedule includes all federal award programs of the Town for the fiscal year ended June 30, 2009. The reporting entity is defined in the Notes to the Financial Statements of the Town of Skowhegan, Maine.

2. BASIS OF PRESENTATION

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.

- a. Pursuant to OMB Circular A-133, federal financial assistance is defined as assistance provided by federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations.
- b. OMB Circular A-133 establishes the level of expenditures to be used in defining major federal financial award programs. Major programs for the Town have been identified in the Schedule of Findings and Questioned Costs.

3. BASIS OF ACCOUNTING

The information presented in the Schedule of Expenditures of Federal Awards is presented on a basis consistent with the Town's general purpose financial statements. The grants included are all accounted for on a modified accrual basis of accounting which is described in the notes to the general purpose financial statements.

Town of Skowhegan, Maine
Schedule of Findings and Questioned Costs
Year ended June 30, 2009

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? - X yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? - yes X none reported

Noncompliance material to financial statements noted? - yes X no

Federal Awards

Internal control over major programs

- Material weakness(es) identified? - yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? - X 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? - X yes no

Identification of major programs

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs - \$300,000

Auditee qualified as low-risk auditee? - yes X no

Town of Skowhegan, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2009

Section II — Financial Statement Findings

	#2009-1
<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. There are inadequate reviews and approvals of transactions, accounting entries or system outputs leading to significant additional time to complete the audit.
<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 and unreliable reporting. 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) and oversight.
<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>	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)
Year ended June 30, 2009

Section III — Federal Award Findings and Questioned Costs

	#2009-2
<i>Information on the federal program</i>	CFDA# 66.458 – Capitalization grant for clean water revolving loan fund.
<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.
<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.
<i>Questioned costs</i>	None.
<i>Context</i>	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.

**Town of Skowhegan
Summary Schedule of Prior Audit Findings
Year ended June 30, 2009**

2008-01

Condition

Inadequate reviews and approvals of transactions, accounting entries or system outputs leading to significant accounting services.

Current Status

Management corrected the finding.

2008-02

Condition

Management does not control the preparation of the financial statements and fixed asset reporting which also results in significant audit adjustments.

Current Status

Management continues to devote more time to fixing problem.

2008-03

Condition

Management does not control the preparation of the financial statements and federal grant reporting, including the schedule of expenditures of federal awards.

Current Status

Management continues to devote more time to fixing problem.