

Town of Skowhegan, Maine

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

For the Year Ended June 30, 2011

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Independent Auditor's Report

Board of Selectmen
Town of Skowhegan, Maine

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and each major fund of the Town of Skowhegan, Maine, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of 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 unit, and each major fund for the Town of Skowhegan, Maine, as of June 30, 2011, 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 June 18, 2012, 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 41); and postretirement employee's healthcare plan schedule of funding progress (page 42) 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 combining schedule of revenues, expenditures, and changes in fund balances for permanent funds and the schedule of taxes receivable, tax liens and tax acquired property presented as other supplementary information 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 information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Robert Chiodini & Associates

Bangor, Maine
June 18, 2012

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2011

As management of the Town of Skowhegan, Maine, we offer the citizens of the Town of Skowhegan this narrative overview and analysis of the financial activities of the Town of Skowhegan for the year ended June 30, 2011. 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 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 Unit – The Town discretely presents the Skowhegan Economic Development Corporation as a component unit.

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 \$17,424,250 for the year ended June 30, 2011. The current year's governmental activities and component unit financial statements are compared with prior year as follows:

	<u>Governmental Activities</u>		<u>Component Unit</u>	
	<u>06/30/11</u>	<u>06/30/10</u>	<u>12/31/10</u>	<u>12/31/09</u>
Current and other assets	\$ 10,318,562	\$ 9,380,704	\$ 164,160	\$ 173,769
Capital Assets, net	<u>19,075,456</u>	<u>19,562,997</u>	<u>1,738,875</u>	<u>1,779,201</u>
Total Assets	<u>29,394,018</u>	<u>28,943,701</u>	<u>1,903,035</u>	<u>1,952,970</u>
Current liabilities	883,324	690,613	52,944	52,944
Noncurrent liabilities	<u>11,086,444</u>	<u>12,010,718</u>	<u>354,890</u>	<u>378,979</u>
Total liabilities	<u>11,969,768</u>	<u>12,701,331</u>	<u>407,834</u>	<u>431,923</u>
Net Assets:				
Invested in capital assets, net of related debt	8,002,709	7,590,249	1,383,985	1,400,222
Restricted	2,214,044	3,721,890	-	-
Unrestricted	<u>7,207,497</u>	<u>4,930,231</u>	<u>111,216</u>	<u>120,825</u>
Total Net Assets	<u>\$ 17,424,250</u>	<u>\$16,242,370</u>	<u>\$ 1,495,201</u>	<u>\$ 1,521,047</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, 2011 and 2010 and December 31, 2010 and 2009, respectively.

	Governmental Activities		Component Unit	
	06/30/11	06/30/10	12/31/10	12/31/09
REVENUES:				
Program revenues:				
Charges for services	\$ 400,025	\$ 357,400	\$ 44,828	\$ 33,183
Operating grants and contributions	261,894	264,548	-	14,503
Capital grants and contributions	777,120	637,187	-	-
General revenues:				
Property taxes	17,274,479	17,723,842	-	-
Excise taxes, permits, licenses and other fess	1,195,999	1,205,419	-	-
Grants and contributions not restricted to specific programs	1,733,037	1,645,538	-	-
Investment earnings (loss)	161,667	213,299	373	365
Miscellaneous	1,000	750	100	293
Total revenues	<u>21,805,221</u>	<u>22,047,983</u>	<u>45,301</u>	<u>48,344</u>
EXPENSES:				
General government	\$ 1,084,415	\$ 1,145,649	-	-
Public safety	2,059,123	2,027,125	-	-
Public works	1,091,908	1,083,356	-	-
Health, welfare and sanitation	1,335,286	1,385,860	-	-
Culture and recreation	587,398	609,276	-	-
Education	9,294,720	9,578,685	-	-
Grant and other special revenue program expense	502,391	551,477	71,147	72,314
County tax	2,613,961	2,494,881	-	-
Cemetery maintenance	24,482	20,791	-	-
Tax increment financing	592,336	917,981	-	-
Interest on long-term debt	202,394	264,395	-	-
Capital outlay	1,740,529	1,364,680	-	-
Total expenses	<u>21,128,943</u>	<u>21,444,156</u>	<u>71,147</u>	<u>72,314</u>
Excess (deficiency) before contributions to permanent fund principal and special items	<u>689,678</u>	<u>603,827</u>	<u>(25,846)</u>	<u>(23,970)</u>
Contributions to permanent fund principal	10,125	9,314	-	-
Special item - Sale of assets	-	(632)	-	-
Change in net assets	686,403	612,509	(25,846)	(23,970)
Net assets-beginning of year	16,242,370	15,508,609	1,521,047	1,719,521
Restate beginning net assets	495,477	121,252	-	(174,504)
Net assets-beginning, restated	<u>16,737,847</u>	<u>15,629,861</u>	<u>1,521,047</u>	<u>1,545,017</u>
Net assets-end of year	<u>\$17,424,250</u>	<u>\$16,242,370</u>	<u>\$ 1,495,201</u>	<u>\$ 1,521,047</u>

The beginning governmental activities net assets were restated by \$495,477. Capital assets were restated by \$453,239 to reflect additions and disposals of fixed assets not previously accounted for, by \$28,838 to reflect a correction of OPEB liability on actuarial valuation reports, and by \$13,400 to reflect loans receivable collected in the current period which were written off as uncollectible in a prior year.

GOVERNMENTAL ACTIVITIES

The cost of all Governmental activities this year was \$21,115,543. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through Town taxes was only \$17,274,479, 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 \$1,439,039. 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, Welfare and Sanitation, Culture and Recreation, Education, grant and other special revenue program expense, County Tax, Cemetery Maintenance, Tax Increment Financing, Debt Service and Capital Outlay. 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>2011 Net (Expense)</u>
Governmental Activities	
General government	\$ (975,973)
Public safety	(1,909,899)
Public works	(935,233)
Health, welfare and sanitation	(1,176,054)
Culture and recreation	(504,687)
Education	(9,294,720)
Grant and other special revenue program expense	219,725
County tax	(2,613,961)
Cemetery maintenance	(18,847)
Tax increment financing	(592,336)
Interest on long-term debt	(202,394)
Capital outlay	<u>(1,685,525)</u>
Total governmental activities	<u>\$ (19,689,904)</u>

Total resources available during the year to finance governmental operations consisted of beginning net assets of \$16,242,370, program revenues of \$1,439,039, general revenues of \$20,366,182, and contributions to permanent fund principal of \$10,125. Total governmental activities expenses during the year were \$21,128,943; thus net assets were increased by \$686,403 to \$17,424,250. Net assets were restated by \$495,477 to properly reflect Town funds and the addition of fixed assets not previously accounted for, the correction of OPEB liability and the collection of loans receivable previously written off.

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 Fund to be major governmental funds.

The information below shows total expenditures of the Town's major funds as of June 30, 2011.

	<u>2011</u>
General government	\$ 1,080,468
Cemeteries	70,275
Protection	1,989,312
Highways and streets	1,012,787
Pollution control	427,374
Solid waste facility	702,364
Health and human services	81,247
Education	9,294,720
Parks and recreation	395,522
County tax	2,613,961
Community services	130,212
Tax increment financing	592,336
Grant program expenses	631,157
Debt Service:	
Principal	905,223
Interest and other charges	236,986
Capital outlay	<u>940,093</u>
Total Expenditures	<u>\$ 21,104,037</u>

DEBT ADMINISTRATION

The governmental activities debt summary for the year ended June 30, 2011 is presented below:

	<u>2011</u>
Wastewater treatment facility upgrade	\$1,325,000
Wastewater treatment facility upgrade	3,120,000
Clean water revolving loan	5,656,750
Road project	959,988
Capital leases – copiers	<u>11,009</u>
Total debt	<u>\$11,072,747</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, 2011, net capital assets of the governmental activities decreased by \$487,541 including a restatement of \$453,239 to a total of \$19,075,456 and the net capital assets of the component units decreased by \$40,326 to a total \$1,738,875. 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 activity during the fiscal year ended June 30, 2011:

During the year actual revenues exceeded budgeted revenues by \$594,077. Most of this variance resulted from over budgeted excise tax, intergovernmental, and property tax revenue.

Budgeted expenditures were higher than actual expenditures by \$485,092 with the utilization of designated carryover balances.

The major budget variances for the year ended June 30, 2011 were as follows:

1. Intergovernmental revenue \$90,357 over budget due to declines in state revenue sharing being less than anticipated.
2. Excise tax revenues \$367,979 over budget due to conservative budgeting of this line item.
3. Charges for services \$91,379 over budget due to conservative budgeting of this line item.

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 2012 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 budgeted revenues exceeded the actual revenues. 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 heads 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 2011 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 the 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, 2011

	Governmental Activities	Component Unit* Skowhegan Economic Development Corporation
ASSETS		
Cash and cash equivalents	\$ 4,142,004	\$ 47,644
Investments	4,734,388	-
Taxes receivable	715,850	-
Loans receivables, net of allowance for doubtful accounts of \$20,912	490,643	116,516
Due from fiduciary funds	35	-
Due from component units	52,944	-
Due from other governmental agencies	182,698	-
Capital assets, net	19,075,456	1,738,875
Total assets	29,394,018	1,903,035
LIABILITIES		
Accounts payable and accrued expenses	703,731	-
Due to other governmental agencies	20,718	-
Deferred revenues	10,684	-
Prepaid taxes receivable	24,453	-
Due to primary government	-	52,944
Accrued compensated absences	106,600	-
Accrued interest	17,138	-
Long-term liabilities		
Due within one year		
Capital lease obligations	2,620	-
Bonds and notes payable	827,750	21,586
Due in more than one year		
Capital lease obligations	8,389	-
Bonds and notes payable	10,233,988	333,304
Other postemployment benefit obligation	13,697	-
Total liabilities	11,969,768	407,834
NET ASSETS		
Invested in capital assets, net of related debt	8,002,709	1,383,985
Restricted for		
Permanent funds - non-expendable	627,478	-
Permanent funds - expendable	436,235	-
Special revenue funds	1,150,331	-
Unrestricted	7,207,497	111,216
Total net assets	\$ 17,424,250	\$ 1,495,201

* Component unit is presented as of December 31, 2010 as reviewed
See accompanying notes to the basic financial statements.

Town of Skowhegan, Maine
Statement of Activities
For the Year Ended June 30, 2011

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	Skowhegan Economic Development Corporation
Primary government						
Governmental activities						
General government	\$ 1,084,415	\$ 99,742	\$ 8,700	\$ -	\$ (975,973)	
Public safety	2,059,123	77,076	72,148	-	(1,909,899)	
Public works	1,091,908	5,155	151,520	-	(935,233)	
Health, welfare and sanitation	1,335,286	129,706	29,526	-	(1,176,054)	
Culture and recreation	587,398	82,711	-	-	(504,687)	
Education	9,294,720	-	-	-	(9,294,720)	
Grant and other special revenue program expense	502,391	-	-	722,116	219,725	
County tax	2,613,961	-	-	-	(2,613,961)	
Cemetery maintenance and other	24,482	-	-	-	(18,847)	
Tax increment financing	592,336	5,635	-	-	(592,336)	
Interest on long-term debt	202,394	-	-	-	(202,394)	
Capital outlay	1,740,529	-	-	55,004	(1,685,525)	
Total primary government	\$ 21,128,943	\$ 400,025	\$ 261,894	\$ 777,120	(19,689,904)	
Component Unit						
Skowhegan Economic Development Corporation	\$ 71,147	\$ 44,828	\$ -	\$ -	\$ (26,319)	
General revenues						
Taxes						
Property taxes					17,274,479	
Excise taxes, permits, licenses and other fees					1,195,999	
Grants and contributions not restricted to specific programs					1,733,037	
Unrestricted investment earnings and interest					161,667	373
Miscellaneous					1,000	100
Contributions to permanent fund principal					10,125	-
Total general revenues and contributions to permanent fund principal					20,376,307	473
Change in net assets					686,403	(25,846)
NET ASSETS - BEGINNING					16,242,370	1,521,047
RESTATE BEGINNING NET ASSETS					495,477	-
NET ASSETS - BEGINNING, RESTATED					16,737,847	1,521,047
NET ASSETS - ENDING					\$ 17,424,250	\$ 1,495,201

* Component unit is presented as of December 31, 2010

See accompanying notes to the basic financial statements.

Town of Skowhegan, Maine
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,581,014	\$ 346,929	\$ 1,768,278	\$ 445,783	\$ 4,142,004
Investments	1,811,690	-	2,291,881	630,817	4,734,388
Taxes receivable, net	715,850	-	-	-	715,850
Due from other funds	-	277,217	-	-	277,217
Due from Skowhegan Economic Development	52,944	-	-	-	52,944
Receivable from other governments	136,472	46,226	-	-	182,698
Loans receivables, net of allowance for doubtful accounts of \$20,912	-	490,643	-	-	490,643
Total assets	<u>\$ 4,297,970</u>	<u>\$1,161,015</u>	<u>\$ 4,060,159</u>	<u>\$ 1,076,600</u>	<u>\$ 10,595,744</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 312,016	\$ -	\$ 369,481	\$ -	\$ 681,497
Due to other funds	168,942	-	95,353	12,887	277,182
Payable to other governments	20,718	-	-	-	20,718
Deferred revenue	-	10,684	-	-	10,684
Deferred property tax revenue	488,248	-	-	-	488,248
Other accrued expenses	22,234	-	-	-	22,234
Prepaid taxes	24,453	-	-	-	24,453
Total liabilities	<u>1,036,611</u>	<u>10,684</u>	<u>464,834</u>	<u>12,887</u>	<u>1,525,016</u>
Fund balances					
Nonspendable for					
Trust fund principal	-	-	-	627,478	627,478
Loans receivable	-	490,643	-	-	490,643
Restricted for					
Trust fund income	-	-	-	436,235	436,235
Special revenue funds	-	659,688	-	-	659,688
Committed for					
Capital projects	-	-	3,962,260	-	3,962,260
Assigned for					
Other purposes	77,415	-	-	-	77,415
Next year's budget	400,000	-	-	-	400,000
Unassigned (deficit)	2,783,944	-	(366,935)	-	2,417,009
Total fund balances	<u>3,261,359</u>	<u>1,150,331</u>	<u>3,595,325</u>	<u>1,063,713</u>	<u>9,070,728</u>
Total liabilities and fund balances	<u>\$ 4,297,970</u>	<u>\$1,161,015</u>	<u>\$ 4,060,159</u>	<u>\$ 1,076,600</u>	<u>\$ 10,595,744</u>

**Town of Skowhegan, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2011**

Total fund balance, governmental funds	\$ 9,070,728
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.	19,075,456
Deferred revenues - more specifically, deferred property taxes not reported in governmental activities of the Statement of Net Assets.	488,248
Some liabilities, (such as Accrued interest, 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>(11,210,182)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 17,424,250</u>

See accompanying notes to the basic financial statements.

Town of Skowhegan, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 17,236,332	\$ -	\$ -	\$ -	\$ 17,236,332
Excise and miscellaneous taxes	1,195,999	-	-	-	1,195,999
Fees and fines	10,270	-	-	-	10,270
Licenses and permits	22,592	-	-	-	22,592
Intergovernmental	1,914,093	722,116	55,004	-	2,691,213
Charges for services	352,438	-	-	-	352,438
Investment and interest earnings	70,990	17,999	61,759	10,920	161,668
Contributions and reimbursements	88,644	-	-	-	88,644
Miscellaneous	2,295	-	-	15,760	18,055
Total revenues	20,893,653	740,115	116,763	26,680	21,777,211
EXPENDITURES					
Current					
General government	1,080,468	-	-	-	1,080,468
Cemeteries	70,275	-	-	-	70,275
Protection	1,989,312	-	-	-	1,989,312
Highways and streets	1,012,787	-	-	-	1,012,787
Pollution control	427,374	-	-	-	427,374
Solid waste facility	702,364	-	-	-	702,364
Health and human services	81,247	-	-	-	81,247
Education	9,294,720	-	-	-	9,294,720
Parks and Recreation	395,522	-	-	-	395,522
County tax	2,613,961	-	-	-	2,613,961
Community services	105,730	-	-	24,482	130,212
Tax increment financing	592,336	-	-	-	592,336
Grant program expenses	-	631,157	-	-	631,157
Debt service					
Principal	737,773	-	167,450	-	905,223
Interest and other charges	236,986	-	-	-	236,986
Capital outlay	6,991	-	933,102	-	940,093
Total expenditures	19,347,846	631,157	1,100,552	24,482	21,104,037
Excess (deficiency) of revenues over expenditures	1,545,807	108,958	(983,789)	2,198	673,174
OTHER FINANCING SOURCES (USES)					
Proceeds from capital lease	6,991	-	-	-	6,991
Transfers in	186,793	-	1,132,448	-	1,319,241
Transfers out	(1,299,121)	(1,577)	-	(18,543)	(1,319,241)
Total other financing sources and uses	(1,105,337)	(1,577)	1,132,448	(18,543)	6,991
Net change in fund balances	440,470	107,381	148,859	(16,345)	680,165
FUND BALANCES - BEGINNING	2,820,889	1,029,550	3,446,666	1,080,058	8,377,163
RESTATEMENT OF SPECIAL REVENUE FUNDS	-	13,400	-	-	13,400
FUND BALANCES - BEGINNING, RESTATED	2,820,889	1,042,950	3,446,666	1,080,058	8,390,563
FUND BALANCES - ENDING	\$ 3,261,359	\$ 1,150,331	\$ 3,595,325	\$ 1,063,713	\$ 9,070,728

See accompanying notes to the basic financial statements.

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, 2011

Net change in fund balances - total governmental funds: \$ 680,165

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	583,524	
Depreciation	<u>(1,522,820)</u>	(939,296)

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.

(1,483)

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.

38,148

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.

899,999

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		11,293
Accrued interest		2,142
Other postemployment benefit obligation		<u>(4,565)</u>

Change in net assets of governmental activities

\$ 686,403

Town of Skowhegan, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	<u>Private Purpose</u> <u>Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 240,004
Loans receivable	<u>325,026</u>
Total assets	<u>565,030</u>
LIABILITIES AND NET ASSETS	
Due to other funds	<u>35</u>
NET ASSETS	
Held in trust for benefits and other purposes	<u>\$ 564,995</u>

See accompanying notes to the basic financial statements.

Town of Skowhegan, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2011

	<u>Private Purpose</u> <u>Trust Fund</u>
ADDITIONS	
Income	
Interest	\$ 956
Other additions	
Contributions	<u> 9,418</u>
Change in net assets	10,374
NET ASSETS - BEGINNING	<u> 554,621</u>
NET ASSETS - ENDING	<u><u> \$ 564,995</u></u>

See accompanying notes to the basic financial statements.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 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 applicable 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.

A. 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 Skowhegan Economic Development Corporation should be included in this report as a component unit and discretely presented. Separate financial statements for Skowhegan Economic Development Corporation can be obtained by calling the office at 474-6905. Skowhegan Economic Development Corporation is a non-profit corporation organized to foster economic development in the Town of Skowhegan and in the County of Somerset. The Corporation also leases and maintains buildings.

All amounts applicable to the component unit in the financial statements are for the year ended December 31, 2010.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE 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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS (CONTINUED)

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.

C. BASIC FINANCIAL STATEMENTS – 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. The governmental statements present each major fund as a separate column on the fund financial statements, while the fiduciary statements present a single column for each fund type.

1. 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 is 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.

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. This fund accounts for the activities of the cemetery trust, and various scholarship and other assistance programs.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS (CONTINUED)

2. Fiduciary Funds (not included in government-wide statements)

Private Purpose Trust Fund

Private purpose trust funds are held by the Town in a trustee capacity and accounted for using the economic resources measurement focus and the full accrual basis of accounting. Private purpose funds of the Town account for the activities of the Higgins Loan program. Capital maintenance of private purpose funds is critical.

D. 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 the fund financial statements for fiduciary trust 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. 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 and intergovernmental revenues. All other governmental fund revenues are recognized when received.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. 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.

F. FINANCIAL STATEMENT AMOUNTS

1. 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.

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.

3. 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.

4. 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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

4. Capital Assets (Continued)

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

Buildings and improvements	5-50 years
Sewer systems	30-100 years
Machinery and equipment	3-50 years
Vehicles	3-25 years
Infrastructure	15-50 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.

5. 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.

6. Compensated Absences

The Town's policies regarding vacation and sick time permit employees to accumulate earned but unused vacation until the end of the calendar year and unused sick time up to a maximum 26 weeks for certain employees. The liability for these governmental compensated absences is recorded on the government-wide financial statement.

7. 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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

8. Government-wide 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. All other net assets are reported as unrestricted. For expenditures that qualify for either classification, amounts will be first spent from restricted net assets then from unrestricted net assets.

9. Governmental Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance to be properly reported within one of the five fund balance categories listed below:

Nonspendable such as fund balances associated with inventories or prepaid expenses. The nonspendable fund balance may also include amounts that are required to be maintained intact, such as the corpus of an endowment fund.

Restricted fund balance classification includes amounts that can be used only for the specific purposes stipulated by constitution, grantors or through enabling legislation.

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision making authority, which is voter approval in the selectmen form of government.

Assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The Board of Selectmen is authorized to assign amounts for a particular purpose for the Town, usually in the form of fund balance carry-overs under authority granted by voter approval.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Town has not formally adopted a fund balance policy, but has implemented GASB 54 based on the definitions above. For expenditures that qualify for multiple categories, amounts will be first spent from restricted fund balance, followed by committed fund balance, then assigned fund balance, and finally unassigned fund balance.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

10. Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2010 and were due on September 26, 2010 and March 14, 2011. Interest was charged at 7% 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.

For purposes of the fund financial statements, property taxes assessed and collected during the year ended June 30, 2011, and during the first sixty days of the next fiscal year are recognized as revenue in 2011. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

The following summarizes the year ended June 30, 2011 levy:

Assessed value:	
Real estate	\$ 564,069,800
Personal property	<u>550,411,400</u>
	1,114,481,200
Tax rate (per \$1,000)	<u>15.50</u>
Commitment	17,274,459
Less: collections and abatements	<u>(16,775,424)</u>
Receivable at June 30, 2011	<u>\$ 499,035</u>
Collection rate	97%

G. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2009 the Governmental Accounting Standards Board issued GASB Statement No.57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* effective for fiscal periods beginning after June 15, 2011. The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting. As a result of this change, the cost of compliance with the requirements of Statement 45 for eligible agent employers may be reduced while achieving an appropriate balance between the goals of reliable measurement of reported information and reasonable cost. In addition, the clarification that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date will improve the consistency of reporting with regard to funded status and funding progress information. The effect on the Town of Skowhegan is currently being assessed by the Town.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits

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, 2011, the Town reported deposits of \$4,382,008 with bank balances of \$4,556,279. Of the Town's total bank balance of \$4,556,279, \$84,845 was exposed to custodial credit risk as this amount was not insured or collateralized and \$2,065,764 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	\$4,142,004
Reported in fiduciary funds	<u>240,004</u>
Total deposits	<u>\$4,382,008</u>

Component unit

Custodial Credit Risk: The Town's component unit reported deposits of \$47,644 with bank balances of \$50,054. Of the Town's component units total bank balance of \$50,054, \$0 was exposed to custodial credit risk as this amount was insured.

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 \$4,734,388 invested in repurchase agreements, 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.

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:

	Due in less than one year	Due in 1-5 years	Due in more than five years
Governmental activities			
Repurchase agreements	\$1,811,690	\$ -	\$ -
U.S. Agency notes	253,931	2,375,172	245,017
U.S. Treasury notes	-	48,579	-
Total debt investments	<u>\$ 2,065,620</u>	<u>\$2,423,751</u>	<u>\$ 245,017</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 3. CAPITAL ASSETS

	Balance June 30, 2010	Restate- ment	Additions	Disposals	Balance June 30, 2011
Governmental activities:					
<i>Capital assets not being depreciated</i>					
Land	\$ 185,609	\$ -	\$ 8,000	\$ -	\$ 193,609
Total	<u>185,609</u>	<u>-</u>	<u>8,000</u>	<u>-</u>	<u>193,609</u>
<i>Capital assets being depreciated</i>					
Buildings and improvements	5,232,524	8,492	79,837	-	5,320,853
Vehicles	2,822,341	(74,400)	-	(5,000)	2,742,941
Roads and bridge network	15,704,958	-	408,485	-	16,113,443
Distributions and collections	7,139,397	505,200	-	-	7,644,597
Machinery and equipment	3,174,863	100,045	87,202	(96,001)	3,266,109
Total	<u>34,074,083</u>	<u>539,337</u>	<u>575,524</u>	<u>(101,001)</u>	<u>35,087,943</u>
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(3,293,232)	-	(155,053)	-	(3,448,285)
Vehicles	(2,381,854)	74,400	(92,258)	5,000	(2,394,712)
Roads and bridge network	(6,189,485)	(58,337)	(853,528)	-	(7,101,350)
Distributions and collections	(882,285)	(120,057)	(190,624)	-	(1,192,966)
Machinery and equipment	(1,949,839)	17,896	(231,357)	94,517	(2,068,783)
Total accumulated depreciation	<u>(14,696,695)</u>	<u>(86,098)</u>	<u>(1,522,820)</u>	<u>99,517</u>	<u>(16,206,096)</u>
Total capital assets being depreciated, net	<u>19,377,388</u>	<u>453,239</u>	<u>(947,296)</u>	<u>(1,484)</u>	<u>18,881,847</u>
Total governmental activities, net	<u>\$ 19,562,997</u>	<u>\$ 453,239</u>	<u>\$ (939,296)</u>	<u>\$ (1,484)</u>	<u>\$ 19,075,456</u>
Component unit:					
<i>Capital assets not being depreciated</i>					
Land	\$ 83,547	\$ -	\$ -	\$ -	\$ 83,547
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,959,281	1	-	-	1,959,282
Equipment and fixtures	9,026	-	-	-	9,026
Total	<u>1,968,307</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>1,968,308</u>
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(269,999)	-	(39,185)	-	(309,184)
Equipment and fixtures	(2,654)	-	(1,142)	-	(3,796)
Total accumulated depreciation	<u>(272,653)</u>	<u>-</u>	<u>(40,327)</u>	<u>-</u>	<u>(312,980)</u>
Total capital assets being depreciated, net	<u>1,695,654</u>	<u>1</u>	<u>(40,327)</u>	<u>-</u>	<u>1,655,328</u>
Total component unit, net	<u>\$ 1,779,201</u>	<u>\$ 1</u>	<u>\$ (40,327)</u>	<u>\$ -</u>	<u>\$ 1,738,875</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 3. CAPITAL ASSETS (CONTINUED)

Depreciation was charged to the following activities as follows:

Governmental activities:	
General government	\$ 7,209
Public safety	74,266
Public works	87,308
Health, welfare and sanitation	133,392
Culture and recreation	21,440
Capital outlay	<u>1,199,205</u>
Total	<u>\$1,522,820</u>

Component unit:

Skowhegan Economic Development	\$ <u>40,327</u>
--------------------------------	------------------

NOTE 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, 2011. 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.

NOTE 5. LONG-TERM LIABILITIES

Capital leases payable

The Town is the lessee of copiers under capital leases expiring in fiscal years ended June 30, 2014 and 2016. 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, 2011 are:

2012	\$ 3,207
2013	3,207
2014	3,208
2015	1,548
2016	<u>1,290</u>
	12,460
Less amount representing interest	<u>1,451</u>
Present value of minimum lease payments	<u>\$ 11,009</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

General obligation bonds payable

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2011:

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011
Primary Government				
General Obligation Bonds Payable				
Maine Municipal Bond Bank, Wastewater Facility, dated April 16, 2005, due 2024, interest rate at 1.1%	3,360,000	-	(240,000)	3,120,000
Maine Municipal Bond Bank, Wastewater Facility, dated December 30, 2006, due 2020, interest varies from 4.75-5.0%	1,460,000	-	(135,000)	1,325,000
Maine Municipal Bond Bank, Clean Water Revolving, dated December 30, 2006, due 2020, interest varies from 4.75-5.0%	5,989,500	-	(332,750)	5,656,750
Skowhegan Savings Bank, Road Project Bond, dated June 13, 2009, due 2019, interest rate at 3.6%	1,080,000	-	(120,012)	959,988
Bangor Savings Bank, Plow Trucks Bond, dated November 20, 2007, due 2011, interest rate at 3.21%	<u>77,462</u>	<u>-</u>	<u>(77,462)</u>	<u>-</u>
Total primary government	<u>\$11,966,962</u>	<u>\$ -</u>	<u>\$ (905,224)</u>	<u>\$11,061,738</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

General obligation bonds payable (Continued)

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

	Balance December 31, 2009	Increases	Decreases	Balance December 31, 2010
Component Unit -- Skowhegan Economic Development Corporation				
<i>Note Payable</i>				
<i>Richard Stearns, Building note dated February 10, 2006, due 2013, interest rate at 6%</i>				
	\$ 13,852	\$ -	\$ (3,794)	\$ 10,058
<i>General Obligation Note Payable Skowhegan Savings Bank, Industrial Park dated September 7, 1999, due 2025, interest rate at 5.11%</i>				
	<u>365,127</u>	<u>-</u>	<u>(20,295)</u>	<u>344,832</u>
<i>Total component unit</i>	<u>\$ 378,979</u>	<u>\$ -</u>	<u>\$ (24,089)</u>	<u>\$ 354,890</u>

Future maturities of long-term debt are as follows:

Governmental Activities			
Fiscal year ended	Principal	Interest	Total
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	827,750	197,005	1,024,755
2016	827,750	177,497	1,005,247
2017-2021	3,873,738	604,171	4,477,909
2022-2026	2,383,750	267,102	2,650,852
2027-2029	<u>665,500</u>	<u>44,945</u>	<u>710,445</u>
	<u>\$11,061,738</u>	<u>\$1,997,855</u>	<u>\$ 13,059,593</u>
Component Unit			
Year ended	Principal	Interest	Total
2011	\$ 21,586	\$ 18,120	\$ 39,706
2012	22,419	17,287	39,706
2013	21,917	16,133	38,050
2014	20,487	14,989	35,476
2015	21,558	13,918	35,476
2016-2020	125,937	51,444	177,381
2021-2025	<u>120,986</u>	<u>15,363</u>	<u>136,350</u>
	<u>\$ 354,890</u>	<u>\$ 147,254</u>	<u>\$502,145</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 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, 2011, the County had debt outstanding of \$25,720,000 of which the Town share was 20.85% for a total of \$5,362,620.

Other Postemployment Benefits

The Government Accounting Standards Board (GASB) has issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. The Town has implemented the provisions of Statement 45 effective for the year ended June 30, 2009. Under Statement 45, the long term cost of retirement health care and obligations for other postemployment benefits are determined on an actuarial basis rather than a "pay-as-you-go" accounting approach. The Town is adopting this standard prospectively.

Plan Description

The Town of Skowhegan contributes to the Maine Municipal Employees Health Trust, a cost-sharing multiple-employer defined benefits postretirement healthcare plan. The benefits are provided in accordance with employment contracts or agreements between employees and the Town. The benefit is available to retirees meeting the eligibility criteria. The Maine Municipal Employees Health Trust issues a publicly available financial report that may be obtained by calling (207) 621-2645.

Funding Policy and Annual Other Postemployment Benefits (OPEB) Cost

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

The following table represents the OPEB cost for the year and the annual required contribution, on an actuarial basis:

	<u>2011</u>	<u>2010</u>
Normal cost	\$ 20,176	\$ 32,069
Amortization of unfunded liability	17,589	36,223
Interest	<u>748</u>	<u>1,366</u>
Annual required contribution (ARC)	<u>\$ 38,513</u>	<u>\$ 69,658</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

Funding Status and Funding Progress

The Town's annual OPEB cost, the net OPEB obligation and the percentage of annual OPEB cost contributed to the plan for the year ended June 30, 2011 were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual required contribution (annual OPEB cost)	\$ 38,513	\$ 38,513	\$ 38,513
Town contributions paid (ARC offset – implicit subsidy)	<u>(33,948)</u>	<u>(33,947)</u>	<u>(33,947)</u>
OPEB liability expense	\$ 4,565	\$ 4,566	\$ 4,566
Beginning OPEB obligation balance	<u>9,132</u>	<u>4,566</u>	<u>-</u>
Net OPEB obligation	<u>\$ 13,697</u>	<u>\$ 9,132</u>	<u>\$ 4,566</u>
Percentage of annual OPEB contributed	<u>88%</u>	<u>88%</u>	<u>88%</u>

The unfunded actuarial accrued liability as a percentage of covered payroll for the year ended June 30, 2011 is as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarial valuation date	<u>Jan 1, 2011</u>	<u>Jan 1, 2009</u>	<u>Jan 1, 2009</u>
Actuarial accrued liability (AAL)	\$ 316,310	\$ 651,420	\$ 651,420
Actuarial value of plan assets	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 316,310</u>	<u>\$ 651,420</u>	<u>\$ 651,420</u>
Covered payroll	<u>\$2,159,764</u>	<u>\$2,545,931</u>	<u>\$2,221,776</u>
UAAL as a percentage of covered payroll	<u>14.65%</u>	<u>25.59%</u>	<u>29.32%</u>

Actuarial amounts were changed to reflect corrections to calculations. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, which is required supplementary information, presents trend information that will show whether the actual value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the Town and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

Actuarial valuation date	January 1, 2011
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level dollar
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4%
Participation	80.77% of eligible employees
Increase in future medical costs	7.6% for pre-Medicare and 8.7% for Medicare eligible

NOTE 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, 2011 arising from these transactions were as follows:

	Receivable	Payable	Transfers In	Transfers Out
General fund	\$ -	\$ 168,942	\$ 186,793	\$1,299,121
Special revenue fund	277,217	-	-	1,577
Capital projects fund	-	95,353	1,132,448	-
Permanent fund	-	12,887	-	18,543
Private purpose trust fund	-	35	-	-
	<u>\$277,217</u>	<u>\$277,217</u>	<u>\$ 1,319,241</u>	<u>\$1,319,241</u>

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 7. RESTATED BEGINNING NET ASSETS AND FUND BALANCE

The beginning governmental activities net assets were increased by \$453,239 to reflect additions net of disposals of capital assets occurring in prior years previously not recorded, and by \$28,838 to restate for correction of OPEB liability on actuarial valuation reports. The beginning governmental activities net assets and the beginning governmental funds fund balance for special revenue were increased by \$13,400 to reflect loans receivable collected in the year ended June 30, 2011 which had been previously written off.

NOTE 8. NONSPENDABLE FOR ENDOWMENTS – PERMANENT FUND

Permanent fund – nonspendable for endowment principal consist of the following at June 30, 2011:

Bradford-women's aid	\$ 5,298
Coburn-worthy poor	12,263
Coburn-woman's aid	11,073
McCiellen-woman's aid	18,931
McCiellen-Lecture	10,440
Benjamin Sawyer award	991
William and Emma Walker fund	9,771
Cemetery fund	358,993
Coburn fund	198,698
Whitmore fund	<u>1,020</u>
	<u>\$ 627,478</u>

NOTE 9. RESTRICTED FOR ENDOWMENTS – PERMANENT FUND

Permanent fund – restricted for endowment income consist of the following at June 30, 2011:

Bradford-women's aid	\$ 421
Brainerd-worthy poor	27,902
Coburn-worthy poor	3,880
Coburn-woman's aid	761
McCiellen-woman's aid	1,333
McCiellen-Lecture	410
Paradis elderly/worthy	9,764
Benjamin Sawyer award	27
William and Emma Walker fund	2,215
Cemetery fund	397,797
Coburn fund	4,077
Whitmore fund	535
Due to general fund	<u>12,887</u>
	<u>\$ 436,235</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 10. COMMITTED FOR CAPITAL EXPENDITURES - CAPITAL PROJECTS FUND

Capital projects -- committed for capital expenditures consist of the following at June 30, 2011:

Administration	\$ 35,219
Capacity	186,904
Cemetery	5,044
Community & economic development	1,493
Creative playground maintenance	3,642
Dare program	13,371
Downtown TIF	135,617
Economic development Sappi TIF	2,235,506
Fire department	229,790
Municipal building renovation	69,730
Opera House renovations	1,554
Parks & recreation	11,333
Planning, ordinance administration	14,033
Police equipment repair/replace	43,397
Pollution control	199,144
Public works building	20,603
Public works equipment maintenance	148,629
Revaluation	222,622
Road project	189,497
Sale of town property	123,600
Second industrial park project	939
Solid waste disposal	7,381
Subdivisions	<u>63,212</u>
Total	<u>\$3,962,260</u>

NOTE 11. ASSIGNED FUND BALANCES FOR OTHER PURPOSES

The general fund assigned balances for other purposes carried forward at June 30, 2011 consist of the following:

General assistance donations	\$ 3,915
Economic development	59,000
Other	<u>14,500</u>
Total	<u>\$ 77,415</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 12. 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, 2011 for employees covered by this plan was \$1,838,563.

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.

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 6/30/11		Year ended 6/30/10		Year ended 6/30/09	
	Amount	Percent- age	Amount	Percent- age	Amount	Percent- age
Employer	\$ 50,286	2.7%	\$ 19,287	1.1%	\$ 14,484	.89%
Employee	131,730	7.2%	123,445	7.1%	115,587	7.1%

NOTE 13. PARTICIPATION IN PUBLIC ENTITY RISK POOL

The Town is exposed to various risks of losses related to torts, theft, damage, and destruction of assets, injuries to employees, and natural disasters. The Town has purchased commercial insurance policies to mitigate most of these types of risk.

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2011

NOTE 14. SIGNIFICANT TAXPAYER

For the year ending June 30, 2011, the Town of Skowhegan received \$9,896,234 in property tax revenue from S.D. Warren, Inc. This amount represents 57.29% of total property taxes assessed.

NOTE 15. LOANS RECEIVABLE

The Town has four revolving loan programs, which are accounted for within its special revenue fund. Funding for these programs came from federal grants. Federal grants and program income continue to fund program loans, which are made to qualified borrowers for housing and economic development activities.

The Town annually determines the collectibility of these loans and adjusts its reserve for uncollectible loans to the calculated amounts. At June 30, 2011, the Town had established a reserve for uncollectible loans of \$20,912.

NOTE 16. CONTINGENCIES

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.

NOTE 17. GAIN CONTINGENCY

During the year ending June 30, 2012, the Town received a settlement for a lawsuit related to the unauthorized cutting of timber on Town land. The amount of the settlement was \$55,000, and, in accordance with generally accepted accounting principles, this amount was not recognized in the financial statements for the year ended June 30, 2011.

Town of Skowhegan, Maine
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts			Actual	Variance with Final Budget - Positive (Negative)
	Original	Changes	Final*		
REVENUES					
Property Taxes	\$ 17,274,459	\$ -	\$ 17,274,459	\$ 17,236,332	\$ (38,127)
Excise and miscellaneous taxes	828,020	-	828,020	1,195,999	367,979
Fees and fines	5,300	-	5,300	10,270	4,970
Licenses and permits	12,855	-	12,855	22,592	9,737
Intergovernmental	1,823,736	-	1,823,736	1,914,093	90,357
Charges for services	261,059	-	261,059	352,438	91,379
Contributions and reimbursements	51,147	-	51,147	88,644	37,497
Investment earnings	43,000	-	43,000	70,990	27,990
Miscellaneous	-	-	-	2,295	2,295
Total revenues	20,299,576	-	20,299,576	20,893,653	594,077
EXPENDITURES					
Current					
General government	1,176,108	-	1,176,108	1,080,468	95,640
Cemeteries	70,428	-	70,428	70,275	153
Protection	2,063,953	-	2,063,953	1,989,312	74,641
Public works	1,152,035	-	1,152,035	1,012,787	139,248
Waste water and pollution control	492,047	-	492,047	427,374	64,673
Solid waste management	751,009	-	751,009	702,364	48,645
Health and human services	98,429	1,100	99,529	81,247	18,282
Education	9,294,720	-	9,294,720	9,294,720	-
Recreation	426,286	-	426,286	395,522	30,764
County tax	2,613,961	-	2,613,961	2,613,961	-
Community services	105,730	-	105,730	105,730	-
Tax increment financing	1,394,317	(801,981)	592,336	592,336	-
Debt service					
Principal	612,590	145,172	757,762	737,773	19,989
Interest and other charges	215,533	21,501	237,034	236,986	48
Capital outlay	-	-	-	6,991	(6,991)
Total expenditures	20,467,146	(634,208)	19,832,938	19,347,846	485,092
Excess (deficiency) of revenues over expenditures	(167,570)	634,208	466,638	1,545,807	1,079,169
OTHER FINANCING SOURCES (USES)					
Proceeds from capital lease	-	-	-	6,991	6,991
Transfers in	20,000	166,673	186,673	186,793	120
Transfers out	(497,140)	(801,981)	(1,299,121)	(1,299,121)	-
Total other financing sources and uses	(477,140)	(635,308)	(1,112,448)	(1,105,337)	7,111
Net change in fund balances	(644,710)	(1,100)	(645,810)	440,470	\$ 1,086,280
FUND BALANCES - BEGINNING	2,820,889	-	2,820,889	2,820,889	
FUND BALANCES - ENDING	\$ 2,176,179	\$ (1,100)	\$ 2,175,079	\$ 3,261,359	

* includes designated carryover accounts

**Town of Skowhegan, Maine
Postretirement Employee Healthcare Plan -
Schedule of Funding Progress
For the Year Ended June 30, 2011**

	<u>Year Ended June 30, 2011 Actuarial Valuation Date January 1, 2011</u>	<u>Year Ended June 30, 2010 Actuarial Valuation Date January 1, 2009</u>	<u>Year Ended June 30, 2009 Actuarial Valuation Date January 1, 2009</u>
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	<u>316,310</u>	<u>651,420</u>	<u>651,420</u>
Unfunded actuarial accrued liability	<u>\$ 316,310</u>	<u>\$ 651,420</u>	<u>\$ 651,420</u>
Funded ratio	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Covered payroll	<u>\$ 2,159,764</u>	<u>\$ 2,545,931</u>	<u>\$ 2,221,776</u>
UAAL as a percentage of covered payroll	<u>14.65%</u>	<u>25.59%</u>	<u>29.32%</u>

Town of Skowhegan, Maine
Combining Schedule of Revenues, Expenses and
Changes in Fund Balances - Permanent Fund
For the Year Ended June 30, 2011

	Mary Brainard Worthy and Unfortunate Poor Fund	Edith Paradis Elderly and Worthy Poor	Cemetery Trust Fund	Bradford Woman's Aid	Coburn Worthy Poor	Coburn Woman's Aid	McClellan Woman's Aid	McClellan Lecture Funds	Benjamin Sawyer Award	Coburn Fund	William & Emma Walker Fund	Shirley Stedman Whittemore Fund	Totals
PRINCIPAL													
Revenues	\$ -	\$ -	\$ 10,125	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,125
Additional principal	-	-	(43)	(1)	(2)	(1)	(2)	(1)	-	(24)	(1)	-	(75)
Capital gains (losses)	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	(2,421)	(40)	(84)	(84)	(145)	(72)	(7)	-	(68)	(7)	(2,928)
Unrealized gain (losses)	-	-	(8,145)	(158)	-	(326)	(558)	-	-	(1,365)	-	-	(10,552)
Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Net revenues	-	-	(484)	(199)	(86)	(411)	(705)	(73)	(7)	(1,389)	(69)	(7)	(3,430)
Fund balance, beginning	-	-	359,477	5,497	12,349	11,484	19,636	10,513	998	200,087	9,840	1,027	630,908
Fund balance, ending	\$ -	\$ -	\$ 358,993	\$ 5,298	\$ 12,263	\$ 11,073	\$ 18,931	\$ 10,440	\$ 991	\$ 198,698	\$ 9,771	\$ 1,020	\$ 627,478
UNDESIGNATED													
Revenues	\$ 538	\$ 231	\$ 15,379	\$ 117	\$ 324	\$ 241	\$ 413	\$ 218	\$ 21	\$ 4,088	\$ 241	\$ 31	\$ 21,842
Investment income and other	5,635	-	-	-	-	-	-	-	-	-	-	-	5,635
Contributions	(102)	(211)	(2,377)	-	(19)	-	-	2	(1)	(125)	(10)	(3)	(2,846)
Unrealized gain (loss)	(2,840)	(5,538)	(21,180)	(20)	(55)	(41)	(70)	(37)	(25)	(7,694)	(41)	(5)	(37,546)
Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	3,231	(5,518)	(8,178)	97	250	200	343	183	(5)	(3,731)	190	23	(12,915)
Fund balance, beginning	24,671	15,282	393,088	324	3,630	561	980	227	32	7,808	2,025	512	449,150
Fund balance, ending	\$ 27,902	\$ 9,764	\$ 384,910	\$ 421	\$ 3,880	\$ 761	\$ 1,333	\$ 410	\$ 27	\$ 4,077	\$ 2,215	\$ 535	\$ 436,235
TOTAL PRINCIPAL AND UNDESIGNATED													
FUND BALANCE, ENDING	\$ 27,902	\$ 9,764	\$ 743,903	\$ 5,719	\$ 16,143	\$ 11,834	\$ 20,264	\$ 10,850	\$ 1,018	\$ 202,775	\$ 11,986	\$ 1,555	\$ 1,063,713

Town of Skowhegan, Maine
Taxes Receivable, Tax Liens and Tax Acquired Property
General Fund
June 30, 2011

Taxes receivable	
2011	\$ 499,035
2010	5,088
2009 and prior	<u>9,839</u>
Total taxes receivable	<u>513,962</u>
Tax liens	
2010	179,436
2009	13,833
2008 and prior	<u>2,550</u>
Total tax liens	<u>195,819</u>
Tax acquired	<u>6,069</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 715,850</u>

**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 unit, and each major fund of the Town of Skowhegan, Maine as of and for the year ended June 30, 2011, which collectively comprise the Town of Skowhegan, Maine's basic financial statements and have issued our report thereon dated June 18, 2012. 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 discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: #2011-1 and #2011-2.

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 a separate letter dated June 18, 2012.

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.

Grantur Shibodeau & Associates

Bangor, Maine
June 18, 2012

**Independent Auditor's Report on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133**

Board of Selectmen
Town of Skowhegan, Maine

Compliance

We have audited the Town of Skowhegan, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Skowhegan, Maine's major federal programs for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questions costs as item #2011-3.

Internal Control Over Compliance

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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control in accordance with OMB Circular A-133, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there that is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected or corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. However, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item #2011-3. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Christine Hebdouan & Associates

Bangor, Maine
June 18, 2012

**Town of Skowhegan, Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disburse- ments/ Expenditures
<i>U.S. Department of Agriculture</i>			
Food and Nutrition Service			
Summer Food Service for Children	10.559	013-05A-3018-05	\$ 11,010
<i>U.S. Department of Homeland Security</i>			
Passed through Maine State Department of Defense, Veterans and Emergency Management			
Assistance to firefighters	97.044	2010-M9-3120GF-2500000	57,369
<i>U.S. Department of Justice</i>			
<i>Direct</i>			
Bulletproof vest partnership program	16.607	2030/3029	347
Public Safety Partnership and Community Policing	16.710	2009-RK-WX-0426	56,512
Passed through State of Maine Department of Public Safety			
Edward Byrne Memorial Justice Assistance Grant	16.738	VC1000084876	32,126
Total U.S. Department of Justice			88,985
<i>U.S. Department of Energy</i>			
<i>Passed through Efficiency Maine Trust</i>			
ARRA - Energy efficiency and conservation block grant	81.128	20100721*0073	49,500
<i>U.S. Department of Transportation</i>			
Passed through State of Maine Bureau of Highway Safety			
State and Community Highway Safety	20.600	SCE-10-11	1,106
Alcohol traffic safety and drunk driving prevention	20.601	SCE-10-11	7,953
Occupant protection	20.602	SCE-10-11	1,331
Recreational Trails Program	20.219	not known	620
Highway Planning and Construction	20.205	pin 017605.00	12,042
Total U.S. Department of Transportation			23,052
<i>U.S. Housing and Urban Development</i>			
Passed through State Department of Economic and Community Development			
Community Enterprise Grant	14.228	015-19A-0587-012-6331	5
2008 Special Projects Matching Fund	14.228	015-19A-0587-012-6331	21,028
2010 Community Enterprise	14.228	015-19A-0587-012-6331	103,509
2010 Public service	14.228	CT19A201008040000000000	50,000
2009 EDP-BA Somerset Grist Mill	14.228	CT19A201002230000000000	24,247
Total Department of Housing and Urban Development			198,789
<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	166,673
Total federal assistance			\$ 595,378

Town of Skowhegan, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

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, 2011. 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, 2011**

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 - *Qualified 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

CFDA Number(s)	Name of Federal Program or Cluster
16.710	Public safety partnership and community policing
81.128	ARRA- Energy efficiency and conservation block grant
14.228	Public infrastructure community development block grants

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

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

Town of Skowhegan, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2011

Section II — Financial Statement Findings

#2011-1

<i>Criteria or specific requirement</i>	Internal control over accurate financial statements and timely reporting. The Town should issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws and regulations, grant contracts, and long-term debt contracts.
<i>Condition and context</i>	The Town has relied on its auditors to prepare the financial statements and footnote disclosures for them to review and approve as well as some components of supporting schedules. However the Town is responsible for maintaining an accurate accounting system and timely financial statements.
<i>Effect</i>	Management may not be able to identify an error or misstatement in the financial statements in a timely manner, budget appropriately for future periods and late issuance of the Single Audit Reporting Package.
<i>Cause</i>	Lack of knowledge and training necessary to permit the Town to understand its own financial statements and required footnotes.
<i>Recommendation</i>	The Town should seek to establish rules and procedures to assist with the completion of timely and accurate financial reporting.
<i>Management's response</i>	We concur and will continue with enforcing and building upon the process started for this fiscal year.

#2011-2

<i>Criteria or specific requirement</i>	Internal control over capital asset tracking and recording depreciation.
<i>Condition</i>	Management does not have an effective system of identifying additions and disposals of capital assets or computing and recording depreciation. This results in significant audit adjustments and restatements to the government-wide statements.
<i>Context</i>	Management has attempted to maintain the capital assets listings, but significant adjustments are required on a yearly basis.
<i>Effect</i>	Management may not be able to identify an error or misstatement in the financial statements related to capital assets. In addition, management may not be able to recognize that capital assets are being misappropriated.
<i>Cause</i>	Finance office relies on department heads to inventory capital assets on hand each year, as well as to compute depreciation in some cases.
<i>Recommendation</i>	Management should compare expenditures to the capitalization policy as the invoices come in, maintain capital assets listings with additions and disposals throughout the year, and periodically do a physical count of assets on hand. Management should also obtain the necessary training to allow them to compute depreciation accurately and in accordance with GAAP.
<i>Management's response</i>	We concur and will continue with enforcing and building upon the process started for this fiscal year.

Town of Skowhegan, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2011

Section III — Federal Award Findings and Questioned Costs

	#2011-3
	CFDA#: Not applicable
<i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i>	Internal control over reporting. OMB Circular A-133, <i>Audits of States, Local Governments and Non-Profit Organizations</i> , Subpart 320 requires the Town to submit its Single Audit Reporting Package to the federal audit clearinghouse no later than 9 months after fiscal year-end.
<i>Condition and context:</i>	The reporting deadline was March 31, 2012 and the Town had not identified all of its federal funds to determine the requirement for a Single Audit.
<i>Questioned costs</i>	N/A
<i>Effect</i>	The late submission affects all federal programs of the Town. This finding is a significant deficiency in internal control over compliance and noncompliance with OMB Circular A-133, <i>Audits of States, Local Governments and Non-Profit Organizations</i> , Subpart 320.
<i>Cause</i>	Timing of financial statement readiness and lack of training.
<i>Recommendation</i>	The Town should improve its financial reporting process to ensure timely submission of the Single Audit Package.
<i>Management's response</i>	Prior to the deadline, the Town did not have knowledge that a draw of funds on an old federally funded Maine Bond Bank bond which was used to cover a debt service payment for the project was required to be included in the Schedule of Expenditures of Federal Awards. This requirement was discovered during the audit process after discussion with the auditors and the Maine Bond Bank. In the future the Town will be sure to research all questionable expenditures in a timely fashion.

**Town of Skowhegan, Maine
Summary Schedule of Prior Findings
Year ended June 30, 2011**

2010-01
Condition

Ineffective internal control over financial reporting which results in significant audit adjustments to several funds and restatements to the financial statements. Inappropriate reviews of accounting entries or system inputs led to significant accounting services.

Current Status

Management implemented several changes in procedures to address however some related control issues remain as addressed in Finding #2011-1.