

Town of Skowhegan, Maine

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

For the Year Ended December 31, 2006

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Independent Auditor's Report

Town Selectmen
Town of Skowhegan, Maine

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units and each major fund of the Town of Skowhegan, Maine, as of and for the year ended December 31, 2006, 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, and each major fund of the Town of Skowhegan, Maine, as of December 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2007, on our consideration of the Town of Skowhegan, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 16 and 45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Skowhegan, Maine's basic financial statements. The other supplementary information described in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rantra Shibodan & Associates

May 23, 2007

The Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended December 31, 2006

As management of the Town of Skowhegan, Maine, we offer the citizens of the Town of Skowhegan, Maine's financial statements this narrative overview and analysis of the financial activities of the Town of Skowhegan for the fiscal year ended December 31, 2006. We encourage the citizens to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal, the basic financial statements and the accompanying notes to those financial statements.

THE FINANCIAL STATEMENTS

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

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

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

REPORTING THE TOWN AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

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

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the town, assets exceeded liabilities by \$9,007,952 for the year ended December 31, 2006. Our analysis below focuses on the net assets of the Town's governmental and component unit activities in comparison with the year ended December 31, 2005.

TOWN OF SKOWHEGAN'S NET ASSETS

	2006		2005	
	Governmental Activities	Component Units	Governmental Activities	Component Units
<i>Current and other assets</i>	\$ 7,231,345	\$ 346,480	\$ 8,170,944	\$ 361,104
<i>Capital Assets</i>	<u>12,050,146</u>	<u>1,034,062</u>	<u>10,219,530</u>	<u>1,072,472</u>
<i>Total Assets</i>	<u>19,281,491</u>	<u>1,380,542</u>	<u>18,390,474</u>	<u>1,433,576</u>
<i>Long-term liabilities</i>	6,306,964	406,364	6,757,576	421,450
<i>Other liabilities</i>	<u>3,966,575</u>	<u>66,568</u>	<u>976,941</u>	<u>125,504</u>
<i>Total liabilities</i>	<u>10,273,539</u>	<u>472,932</u>	<u>7,734,517</u>	<u>546,954</u>
<i>Net Assets:</i>				
<i>Invested in capital assets, net of related debt</i>	1,500,741	614,074	2,852,407	637,398
<i>Restricted</i>	2,022,455	104,293	1,995,610	96,593
<i>Unrestricted</i>	<u>5,484,756</u>	<u>189,243</u>	<u>5,807,940</u>	<u>152,631</u>
<i>Total Net Assets</i>	<u>\$ 9,007,952</u>	<u>\$ 907,610</u>	<u>\$10,655,957</u>	<u>\$ 886,622</u>

Our next analysis focuses on changes in net assets of the Town's governmental and component unit activities between 2006 and 2005.

TOWN OF SKOWHEGAN'S CHANGES IN NET ASSETS

	2006		2005	
	Governmental Activities	Component Units	Governmental Activities	Component Units
<i>Revenues:</i>				
<i>Program revenues:</i>				
<i>Fees, fines, charges for services</i>	\$ 350,676	\$ 135,417	\$ 177,813	\$ 89,678
<i>Operating grants and contributions</i>	543,925	72,206	3,000	73,554
<i>Capital grants and contributions</i>	224,332	11,206	670,254	12,593
<i>General revenues:</i>				
<i>Property taxes</i>	16,832,266	-	16,582,466	-
<i>Excise taxes, permits, licenses and other fess</i>	1,312,297	-	1,349,440	-
<i>Grants and contributions not restricted to specific programs</i>	1,121,953	-	1,118,044	-
<i>Investment earnings</i>	434,352	30,702	229,794	25,083
<i>Sale of assets</i>	(2,025,900)	30,604	-	-
<i>Miscellaneous</i>	<u>13,818</u>	<u>-</u>	<u>72,595</u>	<u>-</u>
<i>Total revenues</i>	<u>18,807,719</u>	<u>280,135</u>	<u>20,203,406</u>	<u>200,908</u>
<i>Expenses:</i>				
General Government	\$ 1,321,543	-	\$ 1,474,474	-
Public Safety	1,824,476	-	1,418,109	-
Public Works	997,584	-	838,110	-
Health, Welfare and Sanitation	1,569,746	-	1,217,515	-
Culture and Recreation	543,025	125,834	634,752	123,355
Education	10,989,284	-	11,282,516	-
Interest on Long-term debt	211,835	-	444,895	-
Economic development	206,541	133,313	170,073	69,926
County tax	1,400,797	-	1,427,169	-
Cemetery maintenance	46,146	-	32,207	-
Capital outlay	874,010	-	352,124	-
Unclassified	-	-	-	-
Tax increment financing	<u>470,737</u>	<u>-</u>	<u>668,980</u>	<u>-</u>
	20,455,724	257,147	19,960,924	193,281
<i>Increase(decrease) in net assets</i>	(1,648,005)	20,988	242,482	7,627
<i>Net Assets-January 1</i>	10,655,957	886,622	9,704,476	878,995
Restatement of prior year	<u>-</u>	<u>-</u>	<u>708,999</u>	<u>-</u>
<i>Net Assets-January 1, restated</i>	<u>10,655,957</u>	<u>886,622</u>	<u>10,413,475</u>	<u>878,995</u>
<i>Net Assets-December 31</i>	<u>\$ 9,007,952</u>	<u>\$ 907,610</u>	<u>\$10,655,957</u>	<u>\$ 886,622</u>

GOVERNMENTAL ACTIVITIES

The cost of all Governmental activities this year was \$20,455,724. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through Town taxes was only \$16,832,266, 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 \$768,257. Overall, the Town's governmental program revenues, including intergovernmental aid and fees for services, were \$350,676. The Town paid for the remaining "public benefit" portion of governmental activities with \$1,570,123 in taxes and with other revenues, such as interest, State Revenue Sharing, general contributions and other miscellaneous revenues.

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

	<u>2006 Net (Expense)</u>	<u>2005 Net (Expense)</u>
Governmental Activities		
General Government	\$ (1,207,126)	\$ (1,474,474)
Public Safety	(1,733,258)	(1,418,109)
Public Works	(739,819)	(837,400)
Health, Welfare and Sanitation	(1,353,592)	(1,055,900)
Culture and Recreation	(525,790)	(619,264)
Education	(10,989,284)	(11,282,516)
Interest on Long-term debt	(211,835)	(444,895)
Economic development	215,603	98,631
County tax	(1,400,797)	(1,427,169)
Cemetery maintenance	(46,146)	(29,207)
Capital outlay	(874,010)	(187,970)
Tax increment financing	(470,737)	(431,584)
Total governmental activities	<u>\$ (19,336,791)</u>	<u>\$ (19,109,857)</u>

Total resources available during the year to finance governmental operations consisted of Net Assets at January 1, 2006 of \$10,655,957, program revenues of \$1,118,933 and General Revenues of \$17,688,786. Total Governmental Activities expenses during the year were \$20,445,724.; thus Net Assets were decreased by \$1,648,005 to \$9,007,952.

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

The following is an analysis of balances in the Town's major individual funds for fiscal years 2006 and 2005.

General Major Governmental Functions

The information below shows revenues for the Town's Major Funds for 2006 and 2005.

	2006			
	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund
Property Taxes	\$16,867,887	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	1,312,297	-	-	-
Fees and fines	3,999	-	-	-
Licenses and permits	40,082	-	-	-
Intergovernmental	1,468,066	197,814	137,808	-
Charges for services	277,743	-	-	-
Investment earnings	241,383	20,178	122,128	47,514
Contributions	-	-	86,524	3,150
Miscellaneous	28,849	13,818	-	-
Total revenues	<u>\$20,240,306</u>	<u>\$231,810</u>	<u>\$346,460</u>	<u>\$ 50,664</u>

	2005			
	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund
Property Taxes	\$16,749,466	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	1,305,118	-	-	-
Fees and fines	3,730	-	-	-
Licenses and permits	2,331	-	-	-
Intergovernmental	1,118,044	268,704	164,154	-
Charges for services	124,470	-	-	-
Tax increment financing	237,396	-	-	-
Investment earnings	141,384	18,212	42,700	27,498
Contributions	-	-	-	3,000
Miscellaneous	136,038	1,357	15,079	-
Total revenues	<u>\$19,817,977</u>	<u>\$288,273</u>	<u>\$221,933</u>	<u>\$ 30,498</u>

The information below shows total expenditures of the Town's Major Funds for 2006 and 2005.

	2006	2005
General government	\$ 1,236,972	\$ 1,392,273
Public properties	27,072	83,662
Protection	1,739,276	1,353,554
Highways and streets	905,883	723,441
Pollution control	441,988	339,595
Health and sanitation	761,388	634,053
General assistance	177,191	85,943
Education	10,989,284	11,282,516
Community and economic development	160,397	80,446
Recreation	314,132	261,599
County tax	1,400,797	1,427,169
Contributions	135,601	151,220
Tax increment financing	470,737	668,980
Unclassified	46,146	37,222
Grant program expenses	46,145	18,187
Debt Service:		
Principal	565,918	189,082
Interest and other charges	120,464	455,382
Capital outlay	5,224,189	1,353,132
Total Expenditures	<u>\$24,763,580</u>	<u>\$20,537,456</u>

DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, decreased in fiscal year 2006 from fiscal year 2005 by \$382,709.

The Governmental Activities debt summary for fiscal year 2006 and 2005 is presented below.

	2006	2005
Road & Parking Lot Improvement	\$ 300,000	\$ 400,918
Wastewater Treatment Facility Upgrade	\$1,865,000	\$2,000,000
Pollution Control – Sludge Storage Bldg.	\$ -	\$ -
Recreation Facility	\$ 270,000	\$ 360,000
Wastewater Treatment Facility Upgrade	\$4,320,000	\$4,560,000
Capital Lease – copiers, backhoe & street sweeper	\$ 230,872	\$ 46,205

The Town also had a bond anticipation note payable outstanding at December 31, 2006 in the amount of \$2,813,731.

CAPITAL ASSETS

The capital assets of the Town are those assets, which are used in the performance of the Town's functions. At December 31, 2006, net capital assets of the governmental activities increased by \$1,830,616 to a total of \$12,050,146 and the net capital assets of the component units decreased by \$38,410 to a total \$1,034,062. Depreciation on capital assets is recognized in the Government-Wide financial statements. Additional information is provided in Note 3 of this report.

BUDGETS AND BUDGETARY ACCOUNTING

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

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

General Fund Budget Variances

Comparing the fiscal year 2006 original budget (or adopted) General Fund amount with revenues of \$19,764,675 expenditures of \$19,687,346 plus transfers of \$958,307, to the final budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

Historical Trend

As the Town enters fiscal year 2006, we are in solid financial shape with many years of higher than anticipated revenues. This has laid the foundation for a strong surplus, which is primarily earmarked for the Town's long term road improvement program. This still needs to be prudently maintained as we move forward into the future.

In reflecting back on the history of the Town's past five budgets, non-tax revenues have grown from \$2,300,802 to over \$2,622,441 annually. During this time span, the Town has been able to stabilize the tax rate with consistent increases in property valuations and strong revenues.

	2002	2003	2004	2005	2006
Total Taxes	\$ 16,146,666	\$ 16,156,896	\$ 17,070,853	\$ 16,719,590	\$16,838,885
Percent Change	10.8%	.06%	5.65 %	- 2.1%	.7%
Total Town Valuation	\$949,803,900	\$944,847,700	\$998,295,500	\$1,007,204,200	\$1,023,640,400

The Budget

The Adopted Final Budget for fiscal year 2006 calls for total expenditures of \$19,604,583, this amount includes school and county assessments. By comparison, since the fiscal year 2001 budget was approved the increase in expenditures has totaled \$2,273,108 for an average increase of 11.5% over the past five years.

Revenues/Surplus

During 2005 & 2006 actual revenues have surpassed the estimated revenues resulting in a surplus at the end of each year. This trend appears to be continuing within the Town of Skowhegan. However, as we move forward revenue estimates are starting to inch closer to the actual revenues. This means that growth in expenditures will need to be leveled off in relationship to the Town's more modest growth in revenues.

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

Major Increases

The major increase in the 2007-2008 operational budget is the additional debt for the upgrades to the Wastewater Treatment Facility. The Long Term Debt increase is mentioned previously.

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 activities related to increased efficiencies. Joint collaborative purchasing efforts with neighboring communities are creating economies of scale in securing reduced pricing for larger purchase amounts and collaborating with many large businesses in the "Maine Power Options" collaborative effort to receive reduced energy costs. The awareness of debt restructuring through advance refunding arrangements has also been entered into in order to save on the amount of interest being charged on general obligation bond debt.

The fiscal year 2007-2008 budget also includes revenue amounts for specific state and federal grants that have been applied for. There is also a local match revenue account to fund those grants requiring a local contribution. There are also several other grant awards that will surface during the course of the fiscal year that were not known at the time of the budget process. These awards will be brought to the Board of Selectmen for consideration upon being awarded and additional funding will be required at that time, to fund any local match requirements above that originally budgeted.

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

In 2005, the Town of Skowhegan and the Downtown Business Association negotiated a TIF District for twelve years. The District will capture all new valuation up to the mutually agreed amount of six million dollars of new valuation. The taxes captured from the TIF will be dedicated to economic improvements in the Downtown TIF District.

At the town meeting of March, 2006, Skowhegan residents voted to move forward with changing the town's fiscal year from a calendar year to a July – June year. This was a strategic move in that fiscal operations of the town will coincide with the timing of operations of the school district and with state government. Economies will be realized as the need for short-term borrowing in anticipation of taxes is significantly reduced; and residents will be able to make their tax payments in two installments – one half due in September and the other half due in March.

The Future

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

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

Work on the "Run of the River Project" to construct a white water facility within the River Gorge of Skowhegan continues. This project will attract many people to the downtown business district as well as all businesses in and around Skowhegan. Congressman Mike Michaud is on board with Skowhegan on this project and he is working to obtain federal funding assistance.

Work continues on Phase II of the Combined Sewer Overflow project for the Pollution Control Plant. An early fall 2007 completion date is anticipated. The Southgate Industrial Park road construction was completed in 2006 and the business park will be available for businesses by the end of 2006. Some lots in the industrial park have been sold. Construction on at least 2 projects is expected soon. The long sought Waterville Road sewer extension project is underway. Contracts have been let for this project with completion by years end expected.

Construction work at the former Middle School converting it into a Best Western Hotel is well under way with a fall 2008 projected opening date. This hotel will be a wonderful asset to the Town and it will complement the "Run of the River Project" while adding significant value to that town's tax base. Bangor Savings Bank moved into a new branch office on Madison Avenue. Other businesses that opened in Skowhegan in 2006 are Tim Horton's at the former Wendy's site and the Dollar Tree at the shopping center where Hannaford's was formerly located. A Tractor Supply outlet and a yet to be named retail store are also planned for this site. Business growth in Skowhegan is on the rise as new businesses have opened in the downtown area and real estate developers are looking to develop some vacant properties into housing units.

Several grants totaling \$875,000 have been awarded to the Town of Skowhegan: More than half of the grant money will go towards improving the downtown with new streetlights, sidewalks and amenities. The remainder will be used for reconstruction of the Stern Building on Water Street.

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

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

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

While general development may have a positive impact on the taxing base of the community, the legislature in 2006 exempted large industries from paying taxes on machinery and equipment. This directly impacts Skowhegan due to the amount of property we have in this tax category. The town has come to rely on Sappi, and to some extent Florida Power and Light Company, for major contributions to operational costs of the community. This strong base of value will erode over the next 6 years to where only statutory and constitutional required reimbursements from the state resulting from this exemption will exist.

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

Summary

The tax rate for 2006 dropped from that of 2005 due mainly to adjustments in the tax base value of the Town. These adjustments are necessary from time to time as market trends in real estate values fluctuate.

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

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

Town of Skowhegan, Maine
Statement of Net Assets
December 31, 2006

	<u>Governmental Activities</u>	<u>Component Units Skowhegan</u>	
		<u>Lake George Corporation</u>	<u>Economic Development</u>
ASSETS			
Cash and cash equivalents	\$ 4,428,486	\$ 25,591	\$ 57,783
Investments	1,600,829	104,741	-
Taxes receivable	725,696	-	-
Notes receivables, net of allowance for doubtful accounts of \$30,159	385,387	-	158,365
Due from component units	52,944	-	-
Due from other governmental agencies	38,003	-	-
Capital assets, net	12,050,146	39,775	994,287
Total assets	<u>19,281,491</u>	<u>170,107</u>	<u>1,210,435</u>
LIABILITIES			
Accounts payable and accrued expenses	442,881	-	-
Due to other governmental agencies	17,613	-	-
Deferred revenues	13,307	-	-
Due to fiduciary fund	225	-	-
Due to primary government	-	-	52,944
Bond anticipation note payable	2,813,731	-	-
Long-term liabilities			
Due within one year			
Capital lease obligations	118,274	-	-
Bonds and notes payable	560,544	-	14,337
Due in more than one year			
Capital lease obligations	112,508	-	-
Bonds and notes payable	6,194,456	-	405,651
Total liabilities	<u>10,273,539</u>	<u>-</u>	<u>472,932</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,500,741	39,775	574,299
Restricted for			
Capital projects	1,431,559	-	-
Lake George endowment	-	104,293	-
Trust fund principal-endowments	590,896	-	-
Unrestricted	5,484,756	26,039	163,204
Total net assets	<u>\$ 9,007,952</u>	<u>\$ 170,107</u>	<u>\$ 737,503</u>

Town of Skowhegan, Maine
Statement of Activities
For the Year Ended December 31, 2006

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government						
Governmental activities						
General government	\$ 1,321,543	\$ 114,417	-	-	(1,207,126)	
Public safety	1,824,476	91,218	-	-	(1,733,258)	
Public works	997,584	2,500	255,265	-	(739,819)	
Health, welfare and sanitation	1,569,746	125,306	90,848	-	(1,353,592)	
Culture and recreation	543,025	17,235	-	-	(525,790)	
Education	10,989,284	-	-	-	(10,989,284)	
Economic development	206,541	-	197,812	224,332	215,603	
County tax	1,400,797	-	-	-	(1,400,797)	
Cemetery maintenance and other	46,146	-	-	-	(46,146)	
Tax increment financing	470,737	-	-	-	(470,737)	
Interest on long-term debt	211,835	-	-	-	(211,835)	
Capital outlay	874,010	-	-	-	(874,010)	
Total primary government	<u>20,455,724</u>	<u>350,676</u>	<u>543,925</u>	<u>224,332</u>	<u>(19,336,791)</u>	
Component Units						
Skowhegan Economic Development Corporation	133,313	99,387	-	-	-	-
Lake George Corporation	125,834	36,030	72,206	11,206	(6,392)	(33,926)
Total component units	<u>\$ 259,147</u>	<u>\$ 135,417</u>	<u>\$ 72,206</u>	<u>\$ 11,206</u>	<u>(6,392)</u>	<u>(33,926)</u>
General revenues						
Taxes						
Property taxes						
Excise taxes, permits, licenses and other fees					16,832,266	
Grants and contributions not restricted to specific programs					1,312,297	
Unrestricted investment earnings and interest					1,121,953	
Miscellaneous					434,352	17,297
Special item - gain/(loss) on sale of assets					13,818	-
					(2,025,900)	30,604
Total general revenues					<u>17,688,786</u>	<u>47,901</u>
Change in net assets					<u>(1,648,005)</u>	<u>13,975</u>
Net assets - beginning					<u>10,655,957</u>	<u>163,094</u>
Net assets - ending					<u>\$ 9,007,952</u>	<u>\$ 170,107</u>
					<u>\$</u>	<u>\$</u>

18 See accompanying notes to the basic financial statements.

Town of Skowhegan, Maine
Balance Sheet
Governmental Funds
December 31, 2006

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 2,285,016	\$ 182,128	\$ 1,560,739	\$ 400,603	\$ 4,428,486
Investments	-	-	981,306	619,523	1,600,829
Taxes receivable, net	725,696	-	-	-	725,696
Due from other funds	-	315,981	-	-	315,981
Due from Skowhegan Economic Development	52,944	-	-	-	52,944
Receivable from other governments	38,003	-	-	-	38,003
Notes receivables, net of allowance for doubtful accounts of \$30,159	-	385,387	-	-	385,387
Total assets	\$ 3,101,659	\$ 883,496	\$ 2,542,045	\$ 1,020,126	\$ 7,547,326
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 26,263	\$ -	\$ 402,705	\$ -	\$ 428,968
Due to other funds	125,423	-	190,783	-	316,206
Payable to other governments	17,613	-	-	-	17,613
Deferred revenue	521,379	13,306	-	-	534,685
Other accrued expenses	10,368	-	-	-	10,368
Prepaid taxes	3,545	-	-	-	3,545
Bond anticipation note payable	-	-	2,813,731	-	2,813,731
Total liabilities	704,591	13,306	3,407,219	-	4,125,116
Fund balances					
Reserved for					
Trust fund principal	-	-	-	590,896	590,896
Capital projects	-	-	1,431,559	-	1,431,559
Unreserved (deficit)					
Designated for capital projects and other purposes (deficit)	36,691	-	(2,296,733)	-	(2,260,042)
Undesignated -reported in					
General fund	2,360,377	-	-	-	2,360,377
Special revenue fund	-	870,190	-	-	870,190
Permanent endowment fund	-	-	-	429,230	429,230
Total fund balances (deficit)	2,397,068	870,190	(865,174)	1,020,126	3,422,210
Total liabilities and fund balances	\$ 3,101,659	\$ 883,496	\$ 2,542,045	\$ 1,020,126	\$ 7,547,326

**Town of Skowhegan, Maine
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
December 31, 2006**

Total fund balance, governmental funds	\$	3,422,210
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.		12,050,146
Deferred revenues - more specifically, deferred property taxes not reported in governmental activities of the Statement of Net Assets.		521,379
Some liabilities, (such as Capital Lease Contract Payable and Bonds and Notes Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		<u>(6,985,783)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	\$	<u><u>9,007,952</u></u>

Town of Skowhegan, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 16,867,887	\$ -	\$ -	\$ -	\$ 16,867,887
Excise and miscellaneous taxes	1,312,297	-	-	-	1,312,297
Fees and fines	3,999	-	-	-	3,999
Licenses and permits	40,082	-	-	-	40,082
Intergovernmental	1,468,066	197,814	137,808	-	1,803,688
Charges for services	277,743	-	-	-	277,743
Investment earnings	241,383	20,178	122,128	47,514	431,203
Contributions	-	-	86,524	3,150	89,674
Miscellaneous	28,849	13,818	-	-	42,667
Total revenues	20,240,306	231,810	346,460	50,664	20,869,240
EXPENDITURES					
Current					
General government	1,236,972	-	-	-	1,236,972
Public properties	27,072	-	-	-	27,072
Protection	1,739,276	-	-	-	1,739,276
Highways and streets	905,883	-	-	-	905,883
Pollution control	441,988	-	-	-	441,988
Health and sanitation	761,388	-	-	-	761,388
General assistance	177,191	-	-	-	177,191
Education	10,989,284	-	-	-	10,989,284
Community and economic development	-	160,397	-	-	160,397
Recreation	314,132	-	-	-	314,132
County tax	1,400,797	-	-	-	1,400,797
Contributions	135,601	-	-	-	135,601
Unclassified	-	-	-	46,146	46,146
Tax increment financing	470,737	-	-	-	470,737
Grant program expenses	-	46,145	-	-	46,145
Debt service					
Principal	565,918	-	-	-	565,918
Interest and other charges	120,464	-	-	-	120,464
Capital outlay	70,000	-	5,154,189	-	5,224,189
Total expenditures	19,356,703	206,542	5,154,189	46,146	24,763,580
Excess (deficiency) of revenues over expenditures	883,603	25,268	(4,807,729)	4,518	(3,894,340)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	958,307	-	958,307
Transfers out	(958,307)	-	-	-	(958,307)
Total other financing sources and uses	(958,307)	-	958,307	-	-
SPECIAL ITEM					
Proceeds from sale of property	70,000	-	-	-	70,000
Net change in fund balances	(4,704)	25,268	(3,849,422)	4,518	(3,824,340)
Fund balances - beginning	2,401,772	844,922	2,984,248	1,015,608	7,246,550
Fund balances (deficit) - ending	\$ 2,397,068	\$ 870,190	\$ (865,174)	\$ 1,020,126	\$ 3,422,210

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 December 31, 2006

Net change in fund balances - total governmental funds: \$ (3,824,340)

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.

This is the amount by which capital outlays \$4,459,951 exceeded depreciation \$533,435 in the current period. 3,926,516

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. (2,095,900)

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. (35,621)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. 381,340

Change in net assets of governmental activities \$ (1,648,005)

Town of Skowhegan, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2006

	<u>Private Purpose Trust Fund - Simple</u>
ASSETS	
Cash and cash equivalents	\$ 114,130
Due from other funds	225
Loans receivable	<u>349,098</u>
Total assets	<u>463,453</u>
NET ASSETS	
Held in trust for benefits and other purposes	<u><u>\$ 463,453</u></u>

Town of Skowhegan, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2006

	<u>Private Purpose Trust Fund - Simple</u>
ADDITIONS	
Income	
Interest	\$ 21,810
Net assets - beginning	<u>441,643</u>
Net assets - ending	<u>\$ 463,453</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Reporting Entity

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

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

Based on the aforementioned criteria, it was determined that the Lake George Corporation and the Skowhegan Economic Development Corporation (SEDC) should be included in this report as component units and discreetly presented. Separate financial statements for Skowhegan Economic Development Corporation can be obtained by calling the office at 474-6905.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

Government-wide Financial Statements

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

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

Fund Financial Statements

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental, proprietary, and fiduciary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

The Town has presented the following major governmental funds:

General Fund

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

Special Revenue Fund

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

Capital Projects Fund

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

Permanent Fund

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

Fiduciary Fund (Not included in government-wide statements)

Private Purpose Trust Funds

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

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus/Basis of Accounting

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

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

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

Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. The revenues susceptible to accrual are property taxes, intergovernmental revenues and charges for services. All other governmental fund revenues are recognized when received.

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

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

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

Deposits and Investments

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

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

Interfund Receivables and Payables

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

Interfund Transfers

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

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

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

Buildings	20-50 years
Sewer systems	30-50 years
Infrastructure	20-35 years
Machinery and equipment	3-10 years
Improvements	20-30 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.

The Town has elected to utilize the infrastructure transition option in the implementation of GASB Statement #34 which allows the Town to defer capitalizing certain infrastructure assets until the new fiscal year ended June 30, 2007.

Long-term Debt

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

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

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Debt

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

Short-term Debt

The Town borrowed \$6,000,000 of tax anticipation notes during the year and repaid the entire balance by year end.

Compensated Absences

There is no material liability for compensated absences as vacation benefits cannot be brought forward to the next year and sick pay benefits are nonvesting.

Reserves

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

Net Assets

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

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes

Property taxes assessed and were levied on assessed values of April 1, 2006 and were due on September 15, 2006. Interest was charged at 7.75% annual percentage rate on amounts not paid by the due date. Upon the expiration of eight months, and within one year from the date of the original commitment, a tax lien is recorded for all delinquent taxes on real estate. Liens are expected to be filed in June 2007.

Property taxes assessed and collected during the year ended December 31, 2006, and during the first sixty days of the fiscal year are recognized as revenue in 2006. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

The following summarizes the 2006 levy:

Assessed value:	
Real estate	\$ 440,019,300
Personal property	<u>583,621,100</u>
	1,023,640,400
Tax rate (per \$1,000)	<u>16.45</u>
Commitment	16,838,885
Supplemental taxes assessed	6,630
Less: collections and abatements	<u>(16,227,091)</u>
Receivable at December 31, 2006	<u>\$ 618,424</u>
Collection rate	96%

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

2. DEPOSITS AND INVESTMENTS

Deposits

Governmental activities

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of December 31, 2006, the Town reported deposits of \$4,542,616 with bank balances of \$5,026,403. Of the Town's total bank balance of \$5,026,403, \$13,905 was exposed to custodial credit risk as this amount was not insured or collateralized and \$5,012,498 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	\$4,428,486
Reported in fiduciary funds	<u>114,130</u>
Total deposits	<u>\$4,542,616</u>

Component units

Custodial Credit Risk: As of December 31, 2006, the Town's component units reported deposits of \$83,374 with bank balances of \$88,107. Of the Town's component units total bank balance of \$88,107, \$0 was exposed to custodial credit risk as this amount was insured or collateralized.

Investments

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

Governmental activities

Custodial Credit Risk: Custodial credit risk is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments. The Town does not have an investment policy for custodial credit risk. Of the Town's \$1,600,829 invested in U.S. Treasury notes and U.S. Agency notes, none are exposed to custodial credit risk as the investments are in the Town's name.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

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

	<u>Due in less than one year</u>	<u>Due in 1-5 years</u>	<u>Due in more than five years</u>
Governmental activities			
U.S. Agency notes	\$ 472,750	\$982,630	\$ 101,563
U.S. Treasury notes	<u>-</u>	<u>-</u>	<u>43,886</u>
Total debt investments	<u>\$ 472,750</u>	<u>\$982,630</u>	<u>\$ 145,449</u>

Component Units

Custodial Credit Risk: Custodial credit risk is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments. The Town does not have an investment policy for custodial credit risk. Of the Town's component units' \$104,741 invested in money market funds, U.S. Treasury notes, U.S. Agency notes, stock mutual funds and common stock, none are exposed to custodial credit risk as the investments are in the component unit's name.

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

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

	<u>Due in 1-5 years</u>	<u>Due in more than five years</u>
Component units		
U.S. Agency notes	\$ -	\$ 9,819
U.S. Treasury notes	<u>19,637</u>	<u>-</u>
Total debt investments	<u>\$19,637</u>	<u>\$ 9,819</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

3. CAPITAL ASSETS

	Balance January 1, 2006	Increases	Decreases	Balance December 31, 2006
Governmental activities:				
<i>Capital assets not being depreciated</i>				
Construction in progress	\$ 4,010,461	\$ 3,563,623	\$ -	\$ 7,574,084
Land	<u>185,609</u>	<u>-</u>	<u>-</u>	<u>185,609</u> ✓
Total	<u>4,196,070</u>	<u>3,563,623</u>	<u>-</u>	<u>7,759,693</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	7,255,725	361,424	(2,420,000)	5,197,149 ✓
Vehicles	2,853,384	63,436	(63,000)	2,853,820 ✓
Machinery and equipment	<u>2,361,981</u>	<u>471,468</u>	<u>(97,481)</u>	<u>2,735,968</u> ✓
Total	<u>12,471,090</u>	<u>896,328</u>	<u>(2,580,481)</u>	<u>10,786,937</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(3,019,856)	(196,708)	340,000	(2,876,564)
Vehicles	(2,335,044)	(101,923)	59,100	(2,377,867)
Machinery and equipment	<u>(1,092,730)</u>	<u>(234,804)</u>	<u>85,481</u>	<u>(1,242,053)</u>
	<u>(6,447,630)</u>	<u>(533,435)</u>	<u>484,581</u>	<u>(6,496,484)</u>
Total	6,023,460	362,893	(2,095,900)	4,290,453
Total governmental activities, net	<u>\$10,219,530</u>	<u>\$ 3,926,516</u>	<u>\$(2,095,900)</u>	<u>\$ 12,050,146</u>
Component units:				
Buildings and improvements	\$ 1,115,539	\$ 10,941	\$ -	\$ 1,126,480
Equipment and fixtures	13,377	3,092	-	16,469
Vehicles	5,074	-	-	5,074
Land	111,880	-	(28,333)	83,547
Total	<u>1,245,870</u>	<u>14,033</u>	<u>(28,333)</u>	<u>1,231,570</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(159,633)	(22,236)	-	(181,869)
Equipment and fixtures	(12,243)	(859)	-	(13,102)
Vehicles	<u>(1,522)</u>	<u>(1,015)</u>	<u>-</u>	<u>(2,537)</u>
Total accumulated depreciation	<u>(173,398)</u>	<u>(24,110)</u>	<u>-</u>	<u>(197,508)</u>
Total component units	<u>\$ 1,072,472</u>	<u>\$ (10,077)</u>	<u>\$(28,333)</u>	<u>\$ 1,034,062</u>

Depreciation was charged to the following activities as follows:

Governmental activities:	
General government	\$ 84,571
Public safety	101,765
Public works	91,701
Health, welfare and sanitation	189,178
Culture and recreation	<u>66,220</u>
Total	<u>\$533,435</u>
Component units:	
Lake George Corporation	\$ 3,375
Skowhegan Economic Development	<u>20,735</u>
Total	<u>\$ 24,110</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

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 December 31, 2006. The objective of these TIF districts is to stimulate new investment in the community by financing, through various tax increment financing projects, various public improvements. Taxes derived from increased assessed valuation within the districts can be "captured" for approved uses. The Town accounts for a portion of the activity of the TIF districts, including captured taxes and expenditures for approved purposes, in a capital reserve fund. The following is a brief description of each:

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

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

5. LONG-TERM DEBT

Capital leases payable

The Town is the lessee of copiers, a backhoe, and a street sweeper under capital leases expiring in 2007 and 2009. 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 December 31, 2006 are:

2007	\$122,819
2008	60,133
2009	<u>60,133</u>
	243,085
Less amount representing interest	<u>12,303</u>
Present value of minimum lease payments	<u>\$230,782</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

5. LONG-TERM DEBT (CONTINUED)

General Obligation Bonds and Notes Payable

The following is a summary of long-term debt transactions of the Town for the year ended December 31, 2006:

	Original Amount	Balance December 31, 2005	Bonds and Notes Issued (Retired)	Balance December 31, 2006
Primary Government				
General Obligation Notes Payable Skowhegan Savings Bank, Road Project, dated July 1, 1999, due 2009, interest rate at 4.5%	\$1,000,000	\$ 400,918	\$ (100,918)	\$ 300,000
General Obligation Bonds Payable Maine Municipal Bond Bank, Skowhegan Community Center, dated May 4, 1989, due 2009 interest varies from 7.25-7.3%	1,800,000	360,000	(90,000)	270,000
Maine Municipal Bond Bank, Wastewater Facility, dated April 16, 2005, due 2024, interest rate at 1.1%	4,800,000	4,560,000	(240,000)	4,320,000
Maine Municipal Bond Bank, Wastewater Facility, dated December 22, 2006, due 2020, interest varies from 4.75-5.0%	2,000,000	<u>2,000,000</u>	<u>(135,000)</u>	<u>1,865,000</u>
Total primary government		<u>7,320,918</u>	<u>(565,918)</u>	<u>6,755,000</u>
Component Unit – Skowhegan Economic Development Corporation				
General Obligation Notes Payable Skowhegan Savings Bank, Industrial Park dated September 7, 1999, due 2025, interest rate at 5.11%	\$ 500,000	<u>435,074</u>	<u>(15,086)</u>	<u>419,988</u>
Total general obligation notes and bonds		<u>\$7,755,992</u>	<u>\$ (581,004)</u>	<u>\$7,174,988</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

5. LONG-TERM DEBT (CONTINUED)

General Obligation Bonds and Notes Payable (continued)

Future maturities of long-term debt are as follows:

<u>Year ended</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2007	\$ 560,544	\$ 170,197	\$ 730,741
2008	564,933	150,230	715,163
2009	569,523	130,017	699,540
2010	375,000	109,592	484,592
2011	375,000	100,540	475,540
2012-2016	1,870,000	366,575	2,236,575
2017-2021	1,720,000	137,600	1,857,600
2022-2025	<u>720,000</u>	<u>11,880</u>	<u>731,880</u>
	<u>\$6,755,000</u>	<u>\$1,176,631</u>	<u>\$7,931,631</u>

<u>Year ended</u>	<u>Component Units</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2007	\$ 14,337	\$ 21,139	\$ 35,476
2008	15,087	20,389	35,476
2009	15,876	19,600	35,476
2010	16,707	18,769	35,476
2011	17,895	17,581	35,476
2012-2016	102,700	74,680	177,380
2017-2021	132,525	44,855	177,380
2022-2025	<u>104,861</u>	<u>10,618</u>	<u>115,479</u>
	<u>\$ 419,988</u>	<u>\$227,631</u>	<u>\$647,619</u>

In accordance with Maine law, no municipality shall incur debt for specific purposes in excess of certain percentages of State valuation of such municipality. At December 31, 2006, the Town was in compliance with these limitations.

**Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006**

5. LONG-TERM DEBT (CONTINUED)

Bond Anticipation Note Payable

In October of 2004, the Town entered into an agreement with the Maine Municipal Bond Bank to borrow up to \$6,730,000 at an interest rate of 3.00%. The Town has committed the proceeds to the cost of acquisition, design, construction and equipping of improvements to the wastewater treatment facility. As of December 31, 2006, the Town had borrowed \$2,813,731.

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 December 31, 2006, the County had debt outstanding of \$622,000 of which the Town share was 24.8% for a total of \$154,256.

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 December 31, 2006 arising from these transactions were as follows:

	Receivable	Payable
General fund	\$ -	\$125,423
Special revenue fund	315,981	-
Capital projects fund	-	190,783
Private purpose trust fund	225	-
	<u>\$316,206</u>	<u>\$316,206</u>

Interfund transfers

In the year ended December 31, 2006, the Town transferred the amount budgeted of \$958,307 from the general fund to capital projects in accordance with budget authorization.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

7. CAPITAL PROJECTS – RESRICTED FOR CAPITAL EXPENDITURES

Capital projects – restricted for capital expenditures consist of the following at December 31, 2006:

Administration	\$ 409
Capacity	41,018
Cemetery	8,909
Community 911	1,576
Community & economic development	1,425
Creative playground maintenance	3,134
Dare program	14,993
Debe Park construction	2,230
Downtown TIF	24,039
Economic development Sappi TIF	387,946
Fire department - protective clothing	139,579
Municipal building renovation	28,493
Opera House renovations	1,337
Parks & recreation	129,048
Planning, ordinance administration	18,060
Police equipment repair/replace	8,632
Pollution control	67,081
Public works building	17,289
Public works equipment maintenance	70,245
Public works roads & sidewalks	142,864
Revaluation	47,703
Sale of town property	120,728
Second industrial park project	75,177
Solid waste disposal	25,245
Subdivisions	<u>54,399</u>
	<u>\$1,431,559</u>

8. DESIGNATED FUND BALANCES

The general fund designated balances carried forward at December 31, 2006 consist of the following:

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

8. DESIGNATED FUND BALANCES (CONTINUED)

	Balance December 31, 2005	Revenues	Expenses/ Transfers	Balance December 31, 2006
Animal control officer	\$14,434	\$ 15	\$ (557)	\$13,892
Armory security dep	3,123	-	(3,123)	-
Court St sidewalks	5,500	-	-	5,500
Eggs & ideas	99	370	(469)	-
General assistance donations	380	550	(832)	98
Road construction	26,682	-	(26,682)	-
Roads and parking lot	11,406	-	-	11,406
Sewer master plan	9,906	-	(9,906)	-
Town clerk fees	18,377	-	(12,765)	5,612
Town office renovations	<u>45,458</u>	<u>-</u>	<u>(45,275)</u>	<u>183</u>
	<u>\$135,365</u>	<u>\$ 935</u>	<u>\$ (99,609)</u>	<u>\$36,691</u>

9. RESTRICTED FOR ENDOWMENTS – PERMANENT FUNDS

Permanent funds – restricted for endowments consist of the following at December 31, 2006:

Bradford-women's aid	\$ 5,659
Coburn-worthy poor	11,932
Coburn-woman's aid	11,711
McClellan-woman's aid	20,054
McClellan-Lecture	10,574
Benjamin Sawyer award	999
William and Emma Walker fund	9,507
Cemetery fund	323,167
Coburn fund	196,301
Whitmore fund	<u>992</u>
	<u>\$ 590,896</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

10. DEFICIT DESIGNATED FUND BALANCES – CAPITAL PROJECTS FUND

The Town has a deficit in its capital project designated fund balance of \$2,296,733 which is due to temporary funding of the bond anticipation note. The fund balance will become positive once permanent financing is in place.

11. PENSION PLANS

Defined Benefit Pension Plan - Plan Description

The Town has contributed, to the Maine State Retirement System (M.S.R.S) Participating Local Town Consolidated Retirement Plan, a cost-sharing multiple-employer defined benefit plan. The Town's payroll for the year ended December 31, 2006 for employees covered by this plan was \$1,750,061.

Defined Benefit Pension Plan - Funding Status and Progress

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

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

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

	Year ended 12/31/06		Year ended 12/31/05		Year ended 12/31/04	
	Amount	Percent- age	Amount	Percent- age	Amount	Percent- age
Employer	\$ 16,698	.95%	\$ 7,846	.50%	\$ 9,405	.57%
Employee	124,026	7.1%	110,539	7.1%	117,485	7.1%

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

12. COMMITMENTS

The Town is currently committed to approximately \$2,889,760 in future construction costs associated with the Town's wastewater treatment plant.

13. SIGNIFICANT TAXPAYER

For the fiscal year ending December 31, 2006, the Town of Skowhegan received \$10,598,059 in property tax revenue from S.D. Warren, Inc. This amount represents 62.9% of total property taxes assessed.

14. PARTICIPATION IN PUBLIC ENTITY RISK POOL

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

15. IN-KIND CONTRIBUTIONS RECEIVED BY COMPONENT UNIT - LAKE GEORGE CORPORATION

The following is a list of in-kind contributions received by component unit - Lake George Corporation for the year ending December 31, 2006:

Auction items	\$ 7,474
Office equipment	547
Winter carnival prizes	275
Contracting	<u>3,300</u>
	<u>\$ 11,596</u>

The above amounts are not included in the revenues or expenses of Statement 2.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
December 31, 2006

16. CONTINGENCIES

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

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

Town of Skowhegan, Maine
 Combining Schedule of Revenues, Expenses and
 Changes in Fund Balances - Permanent Fund
 For the Year Ended December 31, 2006

	Mary Brainerd Worthy and Unfortunate Poor Fund	Edith Paradis Elderly and Worthy Poor	Cemetery Trust Fund	Bradford Woman's Aid	Coburn Worthy Poor	Coburn Woman's Aid	McClellan Woman's Aid	McClellan Lecture Funds	Benjamin Sawyer Award	Coburn Fund	William & Emma Walker Fund	Shirley Stedman Whittemore Fund	Totals
PRINCIPAL													
Revenues													
Additional principal	\$ -	\$ -	\$ 3,150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,150
Capital gains	-	-	80	1	3	3	5	3	-	48	2	-	145
Transfers	-	-	(80)	-	-	-	-	-	-	-	-	-	(80)
Unrealized gain	-	-	214	4	9	9	15	8	1	148	7	1	416
Net revenues	-	-	3,364	5	12	12	20	11	1	196	9	1	3,631
Fund balance, beginning	-	-	319,803	5,654	11,920	11,699	20,034	10,563	998	196,105	9,498	991	587,265
Fund balance, ending	\$ -	\$ -	\$ 323,167	\$ 5,659	\$ 11,932	\$ 11,711	\$ 20,054	\$ 10,574	\$ 999	\$ 196,301	\$ 9,507	\$ 992	\$ 590,896
UNDESIGNATED													
Revenues													
Investment income and other	\$ 3,035	\$ 581	\$ 30,909	\$ 254	\$ 693	\$ 526	\$ 901	\$ 476	\$ 45	\$ 8,715	\$ 443	\$ 57	\$ 46,635
Unrealized gain (loss)	97	12	219	-	(1)	-	-	(1)	(1)	(6)	(3)	-	316
Transfers	-	-	80	-	-	-	-	-	-	-	-	-	80
Expenses	(12,007)	(761)	(23,490)	(242)	(74)	(501)	(858)	(400)	(39)	(7,719)	(47)	(6)	(46,144)
Excess (deficiency) of revenues over expenditures	(8,875)	(168)	7,718	12	618	25	43	75	5	990	393	51	887
Fund balance, beginning	33,056	13,450	375,009	37	3,599	77	132	215	20	2,038	415	295	428,343
Fund balance, ending	\$ 24,181	\$ 13,282	\$ 382,727	\$ 49	\$ 4,217	\$ 102	\$ 175	\$ 290	\$ 25	\$ 3,028	\$ 808	\$ 346	\$ 429,230
TOTAL PRINCIPAL AND UNDESIGNATED													
FUND BALANCE, ENDING	\$ 24,181	\$ 13,282	\$ 705,894	\$ 5,708	\$ 16,149	\$ 11,813	\$ 20,229	\$ 10,864	\$ 1,024	\$ 199,329	\$ 10,315	\$ 1,338	\$ 1,020,126

Town of Skowhegan, Maine
Taxes Receivable, Tax Liens and Tax Acquired Property
General Fund
December 31, 2006

Taxes receivable	
2006	\$ 618,424
2005	2,968
2004	1,518
2003	1,518
2002 and prior	<u>4,495</u>
Total taxes receivable	<u>628,923</u>
Tax liens	
2005	92,435
2004	253
2003 and prior	<u>285</u>
Total tax liens	<u>92,973</u>
Tax acquired	<u>3,800</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 725,696</u>

Town of Skowhegan, Maine
Schedule of Revenue, Expenses and Changes in
Net Assets - Lake George Corporation - Component Unit
For the Year Ended December 31, 2006

UNRESTRICTED NET ASSETS**Unrestricted revenues and gains**

Contributions	\$ 42,118
User fees	35,625
Fundraising	13,879
Investment income	13,405
Miscellaneous	405
Net assets released from restrictions	<u>3,739</u>

Total unrestricted revenue and gains 109,171

Expenses

Administration and general government	
Payroll and related expenses	84,404
Insurance	16,411
Telephone	1,277
Office expense	347
Other administrative	2,984
Repairs and ground maintenance	3,357
Fundraising and program expenses	7,628
Occupancy	2,855
Depreciation	3,375
Miscellaneous	<u>3,196</u>

Total expenses 125,834

Increase (decrease) in unrestricted net assets (16,663)

TEMPORARILY RESTRICTED NET ASSETS**Revenue**

Contributions	3,706
Program revenue	16,009
Net assets released from restrictions	<u>(3,739)</u>

Increase in temporarily restricted net assets 15,976

PERMANENTLY RESTRICTED NET ASSETS**Revenue**

Contributions	<u>7,700</u>
---------------	--------------

INCREASE IN NET ASSETS 7,013

NET ASSETS, BEGINNING OF YEAR 163,094

NET ASSETS, END OF YEAR \$ 170,107



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

Town Selectmen
Town of Skowhegan, Maine

We have audited the financial statements of the governmental activities, the discretely presented component units, and each major fund of the Town of Skowhegan, Maine, as of and for the year ended December 31, 2006, which collectively comprise the Town of Skowhegan, Maine's basic financial statements and have issued our report thereon dated May 23, 2007. 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 in the effectiveness of the Town of Skowhegan, Maine's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Skowhegan, Maine's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 matters that we have reported to management of the Town of Skowhegan, Maine, in a separate letter dated May 23, 2007.

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.

Randru Thibodeau & Associates

May 23, 2007