

Town of Skowhegan, Maine

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended June 30, 2012

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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, each major fund, and the aggregate remaining fund information of the Town of Skowhegan, Maine, as of and for the year ended June 30, 2012, 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, each major fund, and the aggregate remaining fund information of the Town of Skowhegan, Maine, as of June 30, 2012, 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 3, 2013, 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 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, budgetary comparison information, and postretirement employee's healthcare plan schedule of funding progress on pages 6 through 13 and 41 through 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 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 on Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the financial statements. Schedules 1 and 2 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.

Brantner Hibbard & Associates

Bangor, Maine
May 3, 2013

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2012

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, 2012. 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. Separate financial statements for Skowhegan Economic Development Corporation can be obtained by calling their office at 474-6905.

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 \$19,794,390 for the year ended June 30, 2012. The current year's governmental activities and component unit financial statements are compared with prior year as follows:

	Governmental Activities		Component Unit	
	<u>06/30/12</u>	<u>06/30/11</u>	<u>06/30/12*</u>	<u>12/31/10</u>
Current and other assets	\$ 11,924,926	\$ 10,318,562	\$ 303,685	\$ 164,160
Capital Assets, net	<u>18,741,877</u>	<u>19,075,456</u>	<u>1,678,386</u>	<u>1,738,875</u>
Total Assets	<u>30,666,803</u>	<u>29,394,018</u>	<u>1,982,071</u>	<u>1,903,035</u>
Current liabilities	611,774	883,324	52,944	52,944
Noncurrent liabilities	<u>10,260,639</u>	<u>11,086,444</u>	<u>317,112</u>	<u>354,890</u>
Total liabilities	<u>10,872,413</u>	<u>11,969,768</u>	<u>370,056</u>	<u>407,834</u>
Net Assets:				
Invested in capital assets, net of related debt	8,499,500	8,002,709	1,361,274	1,383,985
Restricted	2,060,797	2,214,044	-	-
Unrestricted	<u>9,234,093</u>	<u>7,207,497</u>	<u>250,741</u>	<u>111,216</u>
Total Net Assets	<u>\$ 19,794,390</u>	<u>\$ 17,424,250</u>	<u>\$ 1,612,015</u>	<u>\$ 1,495,201</u>

*Note: the component unit, Skowhegan Economic Development Corporation, changed its fiscal year end from December 31 to June 30 in the year ended June 30, 2012.

Our next analysis focuses on changes in net assets of the Town's governmental and component unit activities for the year ended June 30, 2012 and 2011 and June 30, 2012 and December 31, 2010, respectively.

	Governmental Activities		Component Unit	
	06/30/12	06/30/11	06/30/12	12/31/10
REVENUES:				
Program revenues:				
Charges for services	\$ 392,039	\$ 400,025	\$ 84,234	\$ 44,828
Operating grants and contributions	235,090	261,894	86,609	-
Capital grants and contributions	725,047	777,120	-	-
General revenues:				
Property taxes	17,373,757	17,274,479	-	-
Excise and miscellaneous taxes	1,232,942	1,195,999	-	-
Grants and contributions not restricted to specific programs	2,294,493	1,733,037	-	-
Investment earnings (loss)	197,739	161,667	2,343	373
Miscellaneous	28,264	1,000	16	100
Total revenues	22,479,371	21,805,221	45,301	45,301
EXPENSES:				
General government	\$ 1,090,825	\$ 1,084,415	-	-
Public safety	2,164,627	2,059,123	-	-
Public works	1,155,919	1,091,908	-	-
Pollution control	468,880	552,054	-	-
Solid waste facility	824,015	702,407	-	-
Health and human services	66,723	80,825	-	-
Education	9,043,886	9,294,720	-	-
Culture and recreation	425,916	481,668	-	-
County tax	2,553,509	2,613,961	-	-
Cemetery maintenance	87,333	24,482	-	-
Community services	117,867	105,730	-	-
Grant and other special revenue program expense	323,369	502,391	56,388	71,147
Community and economic development	108,634	-	-	-
Tax increment financing	209,284	592,336	-	-
Interest on long-term debt	277,638	202,394	-	-
Capital outlay	1,378,042	1,740,529	-	-
Total expenses	20,296,467	21,128,943	56,388	71,147
Excess (deficiency) before contributions and special items	2,185,099	689,678	114,455	(25,846)
Contributions to permanent fund principal	10,750	10,125	-	-
Special item – Gain(loss) on disposal of assets	(41,258)	-	-	-
Change in net assets	2,144,990	686,403	116,814	(25,846)
Net assets-beginning of year	17,424,250	16,242,370	1,495,201	1,521,047
Restate beginning net assets	225,150	495,477	-	-
Net assets-beginning, restated	17,649,400	16,737,847	1,495,201	1,521,047
Net assets-end of year	\$19,794,390	\$17,424,250	\$ 1,612,015	\$ 1,495,201

The beginning governmental activities net assets were restated by \$225,150. Capital assets were restated by \$225,150 to reflect additions and disposals of fixed assets not previously accounted for.

GOVERNMENTAL ACTIVITIES

The cost of all Governmental activities this year was \$20,303,873. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through Town taxes was only \$17,373,757, 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 \$1,351,176. The Town paid for the remaining "public benefit" portion of governmental activities with taxes and with other revenues, such as interest, state revenue sharing, general contributions and other miscellaneous revenues.

The Town's programs include General Government, Public Safety, Public Works, Health and Human Services, Pollution Control 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>2012 Net (Expense)</u>
Governmental Activities	
General government	\$ (1,000,776)
Public safety	(2,024,186)
Public works	(993,663)
Pollution control	(468,880)
Solid waste facility	(702,500)
Health and human services	(48,821)
Education	(9,043,886)
Culture and recreation	(348,765)
County tax	(2,553,509)
Cemetery maintenance	(74,083)
Community services	(117,867)
Tax increment financing	(209,284)
Grant and other special revenue program expense	340,097
Community and economic development	(108,634)
Interest on long-term debt	(287,961)
Capital outlay	<u>(1,308,979)</u>
Total governmental activities	<u>\$ (18,951,697)</u>

Total resources available during the year to finance governmental operations consisted of beginning net assets of \$17,649,400, program revenues of \$1,352,176, general revenues of \$21,127,195, and contributions to permanent fund principal of \$10,750, reduced by the loss on disposal of capital assets (\$41,258). Total governmental activities expenses during the year were \$20,303,873; thus net assets were increased by \$2,144,990 to \$19,794,390. Net assets were restated by \$225,150 to properly reflect Town funds and the addition of fixed assets not previously accounted for and the correction of payroll liabilities.

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, 2012.

	<u>2012</u>
General government	\$ 1,081,591
Protection	2,100,142
Highways and streets	1,060,551
Pollution control	458,954
Solid waste facility	723,979
Health and human services	66,932
Education	9,043,886
Parks and recreation	404,771
County tax	2,553,509
Cemeteries	87,333
Community services	117,867
Tax increment financing	209,284
Grant program expenses	709,045
Community and economic development	108,634
Debt Service:	
Principal	830,370
Interest and other charges	250,047
Capital outlay	<u>757,899</u>
Total Expenditures	<u>\$ 20,564,794</u>

DEBT ADMINISTRATION

The governmental activities debt summary for the year ended June 30, 2012 is presented below:

	<u>2012</u>
Wastewater treatment facility upgrade	\$1,190,000
Wastewater treatment facility upgrade	2,880,000
Clean water revolving loan	5,324,000
Road project	839,988
Capital leases – copiers	<u>8,389</u>
Total debt	<u>\$10,242,377</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, 2012, net capital assets of the governmental activities decreased by (\$333,579) including a restatement increase of \$225,150 to a total of \$18,741,877 and the net capital assets of the component unit decreased by \$60,489 to a total \$1,678,386. 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, 2012:

During the year actual revenues exceeded budgeted revenues by \$351,391. Most of this variance resulted from under budgeted excise tax, charges for services, and investment earnings.

Budgeted expenditures were higher than actual expenditures by \$436,880 with the utilization of designated carryover balances.

The major budget variances for the year ended June 30, 2012 were as follows:

1. General government expenditures \$91,353 under budget due to savings in legal and personnel costs.
2. Public Works expenditures \$118,033 under budget due to savings in fuel, sand and salt, and personnel costs.
3. Excise tax revenues \$229,942 over budget due to conservative budgeting of this line item.
4. Charges for services \$80,428 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 2013 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 2013 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 and the State's possible plan for discontinuing revenue sharing, homestead exemption, BETE program along with excise tax of large trucks, and many other state proposed cuts to include cuts in the SAD 54 state funding and the 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, 2012

	<u>Governmental Activities</u>	<u>Component Unit Skowhegan Economic Development Corporation</u>
ASSETS		
Cash and cash equivalents	\$ 1,712,780	\$ 196,864
Investments	8,843,328	-
Taxes receivable	781,456	-
Loans receivables, net of allowance for doubtful accounts of \$19,262	393,845	106,821
Due from fiduciary funds	35	-
Due from component units	52,944	-
Due from other governmental agencies	140,538	-
Capital assets, net	<u>18,741,877</u>	<u>1,678,386</u>
Total assets	<u>30,666,803</u>	<u>1,982,071</u>
LIABILITIES		
Accounts payable and accrued expenses	406,551	-
Due to other governmental agencies	11,189	-
Deferred revenues	10,684	-
Prepaid taxes receivable	20,548	-
Due to primary government	-	52,944
Accrued compensated absences	102,876	-
Accrued interest	59,926	-
Long-term liabilities		
Due within one year		
Capital lease obligations	2,769	-
Bonds and notes payable	827,750	23,526
Due in more than one year		
Capital lease obligations	5,620	-
Bonds and notes payable	9,406,238	293,586
Other postemployment benefit obligation	<u>18,262</u>	<u>-</u>
Total liabilities	<u>10,872,413</u>	<u>370,056</u>
NET ASSETS		
Invested in capital assets, net of related debt	8,499,500	1,361,274
Restricted for		
Permanent funds - non-expendable	644,453	-
Permanent funds - expendable	415,959	-
Special revenue funds	1,000,385	-
Unrestricted	<u>9,234,093</u>	<u>250,741</u>
Total net assets	<u>\$ 19,794,390</u>	<u>\$ 1,612,015</u>

See accompanying notes to the basic financial statements.

Town of Skowhegan, Maine
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Program Revenue			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government	Skowhegan Economic Development Corporation
Primary government						
Governmental activities						
General government	\$ 1,095,390	\$ 78,812	\$ 15,802	\$ -	(1,000,776)	-
Public safety	2,164,627	99,161	41,280	-	(2,024,186)	-
Public works	1,155,919	7,500	154,756	-	(993,663)	-
Pollution control	468,880	-	-	-	(468,880)	-
Solid waste facility	824,015	121,515	-	-	(702,500)	-
Health and human services	66,723	-	17,902	-	(48,821)	-
Education	9,043,886	-	-	-	(9,043,886)	-
Culture and recreation	425,916	71,801	5,350	-	(348,765)	-
County tax	2,553,509	-	-	-	(2,553,509)	-
Cemetery maintenance and other	87,333	13,250	-	-	(74,083)	-
Community services	117,867	-	-	-	(117,867)	-
Tax increment financing	209,284	-	-	-	(209,284)	-
Grant and other special revenue program expense	317,224	-	-	657,321	340,097	-
Community and economic development	108,634	-	-	-	(108,634)	-
Interest on long-term debt	287,961	-	-	-	(287,961)	-
Capital outlay	1,376,705	-	-	67,726	(1,308,979)	-
Total governmental activities	20,303,873	392,039	235,090	725,047	(18,951,997)	-
Component Unit						
Skowhegan Economic Development Corporation	\$ 56,388	\$ 84,234	\$ 86,609	\$ -	\$ 114,455	\$ 114,455
General revenues						
Taxes						
Property taxes					17,373,757	-
Excise taxes, permits, licenses and other fees					1,232,942	-
Grants and contributions not restricted to specific programs					2,294,493	-
Unrestricted investment earnings and interest					197,739	2,343
Miscellaneous					28,264	16
Contributions to permanent fund principal					10,750	-
Special item - gain/(loss) on sale of assets					(41,258)	-
Total general revenues and contributions to permanent fund principal					21,096,687	2,359
Change in net assets					2,144,990	116,814
NET ASSETS - BEGINNING					17,424,250	1,495,201
RESTATE BEGINNING NET ASSETS					225,150	-
NET ASSETS - BEGINNING, RESTATED					17,649,400	1,495,201
NET ASSETS - ENDING					19,794,390	1,612,015

See accompanying notes to the basic financial statements.

**Town of Skowhegan, Maine
Balance Sheet
Governmental Funds
June 30, 2012**

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,317,187	\$ 243,537	\$ 151,485	\$ 571	\$ 1,712,780
Investments	2,475,000	-	5,295,580	1,072,748	8,843,328
Taxes receivable, net	781,456	-	-	-	781,456
Due from other funds	-	304,918	-	-	304,918
Due from Skowhegan Economic Development	52,944	-	-	-	52,944
Receivables	71,769	68,769	-	-	140,538
Loans receivable, net of allowance for doubtful accounts of \$19,262	-	393,845	-	-	393,845
Total assets	\$ 4,698,356	\$1,011,069	\$ 5,447,065	\$ 1,073,319	\$ 12,229,809
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 314,432	\$ -	\$ 79,574	\$ -	\$ 394,006
Due to other funds	89,528	-	202,448	12,907	304,883
Payable to other governments	11,189	-	-	-	11,189
Deferred revenue	-	10,684	-	-	10,684
Deferred property tax revenue	538,556	-	-	-	538,556
Other accrued expenses	12,545	-	-	-	12,545
Prepaid taxes	20,548	-	-	-	20,548
Total liabilities	986,798	10,684	282,022	12,907	1,292,411
Fund balances					
Nonspendable for					
Trust fund principal	-	-	-	644,453	644,453
Loans receivable	-	393,845	-	-	393,845
Restricted for					
Trust fund income	-	-	-	415,959	415,959
Special revenue funds	-	606,540	-	-	606,540
Committed for					
Capital projects	-	-	5,165,043	-	5,165,043
Assigned for					
Other purposes	61,186	-	-	-	61,186
Next year's budget	756,864	-	-	-	756,864
Unassigned	2,893,508	-	-	-	2,893,508
Total fund balances	3,711,558	1,000,385	5,165,043	1,060,412	10,937,398
Total liabilities and fund balances	\$ 4,698,356	\$1,011,069	\$ 5,447,065	\$ 1,073,319	\$ 12,229,809

Town of Skowhegan, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2012

Total fund balance, governmental funds	\$ 10,937,398
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.	18,741,877
Deferred revenues - more specifically, deferred property taxes not reported in governmental activities of the Statement of Net Assets.	538,556
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>(10,423,441)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 19,794,390</u>

Town of Skowhegan, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 17,323,450	\$ -	\$ -	\$ -	\$ 17,323,450
Excise and miscellaneous taxes	1,232,942	-	-	-	1,232,942
Fees and fines	11,772	-	-	-	11,772
Licenses and permits	25,630	-	-	-	25,630
Intergovernmental	2,467,151	657,321	67,726	-	3,192,198
Charges for services	354,637	-	-	-	354,637
Investment and interest earnings	72,025	20,412	90,713	14,589	197,739
Contributions and reimbursements	-	-	-	15,101	15,101
Miscellaneous	77,995	-	-	-	77,995
Total revenues	21,565,602	677,733	158,439	29,690	22,431,464
EXPENDITURES					
Current					
General government	1,081,591	-	-	-	1,081,591
Protection	2,100,142	-	-	-	2,100,142
Highways and streets	1,060,551	-	-	-	1,060,551
Pollution control	458,954	-	-	-	458,954
Solid waste facility	723,979	-	-	-	723,979
Health and human services	66,932	-	-	-	66,932
Education	9,043,886	-	-	-	9,043,886
Parks and Recreation	404,771	-	-	-	404,771
County tax	2,553,509	-	-	-	2,553,509
Cemeteries	70,591	-	-	16,742	87,333
Community services	117,867	-	-	-	117,867
Tax increment financing	209,284	-	-	-	209,284
Grant program expenses	-	709,045	-	-	709,045
Community and economic development	-	108,634	-	-	108,634
Debt service					
Principal	695,370	-	135,000	-	830,370
Interest and other charges	188,353	-	61,694	-	250,047
Capital outlay	-	-	757,899	-	757,899
Total expenditures	18,775,780	817,679	954,593	16,742	20,564,794
Excess (deficiency) of revenues over expenditures	2,789,822	(139,946)	(796,154)	12,948	1,866,670
OTHER FINANCING SOURCES (USES)					
Transfers in	16,249	-	2,365,872	-	2,382,121
Transfers out	(2,355,872)	(10,000)	-	(16,249)	(2,382,121)
Total other financing sources and uses	(2,339,623)	(10,000)	2,365,872	(16,249)	-
Net change in fund balances	450,199	(149,946)	1,569,718	(3,301)	1,866,670
FUND BALANCES - BEGINNING	3,261,359	1,150,331	3,595,325	1,063,713	9,070,728
FUND BALANCES - ENDING	\$ 3,711,558	\$ 1,000,385	\$ 5,165,043	\$ 1,060,412	\$ 10,937,398

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, 2012

Net change in fund balances - total governmental funds: \$ 1,866,670

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

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

Capital outlays	1,033,968	
Depreciation	<u>(1,551,439)</u>	(517,471)

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.

(41,258)

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.

50,307

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.

830,370

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	3,725	
Accrued interest	(42,788)	
Other postemployment benefit obligation	<u>(4,565)</u>	

Change in net assets of governmental activities \$ 2,144,990

Town of Skowhegan, Maine
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Private Purpose</u> <u>Trust Fund</u>
ASSETS	
Cash and cash equivalents	\$ 268,739
Loans receivable	<u>318,212</u>
Total assets	<u>586,951</u>
LIABILITIES AND NET ASSETS	
Due to other funds	<u>35</u>
NET ASSETS	
Held in trust for benefits and other purposes	<u>\$ 586,916</u>

Town of Skowhegan, Maine
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	<u>Private Purpose</u> <u>Trust Fund</u>
ADDITIONS	
Income	
Interest	\$ 794
Other additions	
Contributions	<u>21,627</u>
Change in net assets	21,921
NET ASSETS - BEGINNING	<u>564,995</u>
NET ASSETS - ENDING	<u>\$ 586,916</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

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.

Skowhegan Economic Development Corporation changed its fiscal year from a year ending December 31 to a year ending June 30 effective for year ending June 30, 2012. All amounts applicable to the component unit in the financial statements are for the year ended June 30, 2012.

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, 2012

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; all non-major funds are aggregated and presented in a single column, when applicable. The fiduciary statements aggregate and present each fund type as a separate column on the fund financial statements.

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 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, 2012

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 funds are funds held by the Town in a trustee capacity and are accounted for in essentially the same manner as a private entity. Capital maintenance of private purpose funds is critical. Private purpose funds of the Town account for the activities of the Higgins Loan program.

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 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. 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, 2012

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 government-wide financial statements except for amounts owed to fiduciary funds and component units, which are reported as "Due from component units" and "Due from fiduciary funds". See Note 6 for details of interfund transactions, including receivables and payables at year end.

3. Interfund Transfers

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of the governmental funds on the fund financial statements. For the purposes of the government-wide statement of activities, all interfund transfers between individual funds within governmental activities have been eliminated.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities 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, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

4. Capital Assets (Continued)

Assets capitalized have an original cost of \$2,000 or more and over one year of useful life. General infrastructure assets capitalized have an original cost of \$25,000 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 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 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 are reported as liabilities in government-wide statements. The long-term debt consists primarily of notes and bonds payable.

Long-term debt for governmental funds is 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 time permit employees to accumulate earned but unused vacation up to five weeks. The liability for these governmental compensated absences is recorded on the government-wide financial statements.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

7. 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.

The computation of net assets invested in capital assets, net of related debt is as follows:

	Primary government	Component unit
Capital assets	\$ 36,076,260	\$ 2,051,855
Accumulated depreciation	(17,334,383)	(373,469)
Related debt	(10,242,377)	(317,112)
Total	\$ 8,499,500	\$ 1,361,274

8. 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 the passage of a resolution by simple majority vote of the Board of Selectmen.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

8. Governmental Fund Balances (Continued)

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 Finance Director is authorized to assign funds for a particular purpose, in an amount not to exceed \$20,000 per purpose or \$200,000 in total. The Board of Selectmen has the authority to modify or rescind fund balances assigned by the Finance Director, and is authorized to assign amounts for a particular purpose for the Town, usually in the form of fund balance carry-overs, through a simple majority vote. The authority to assign fund balances is granted through the passage of the Town's fund balance policy.

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 formally adopted a fund balance policy that addresses the requirements of GASB 54. 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. The Town has adopted a minimum fund balance policy which requires that an amount equal to 10% of the Town's general fund expenditures be maintained as unassigned fund balance, only to be used upon a majority vote of the Board of Selectmen.

9. Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2011 and were due on September 15, 2011 and March 15, 2012. Interest was charged at 7% per annum 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, 2012, and during the first sixty days of the next fiscal year are recognized as revenue in 2012. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue in the general fund.

Assessed value	
Real estate	\$ 558,794,600
Personal property	<u>533,003,900</u>
	1,091,798,500
Tax rate (per \$1,000)	<u>15.86</u>
Commitment	17,315,924
Less: collections and abatements	<u>(16,759,477)</u>
Receivable at June 30, 2012	<u>\$ 556,447</u>
Collection rate	97%

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

10. Recent Accounting Pronouncements

In June 2011, the Governmental Accounting Standards Council (GASB) issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The intent of this statement is to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. The Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The new Statement is effective for financial statement periods beginning after December 15, 2011. The Town is currently assessing the impact of this Statement on its financial statements.

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits

Governmental activities

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2012, the Town reported deposits of \$1,981,519 with bank balances of \$2,097,974. Of the Town's total bank balance of \$2,097,974, \$90,203 was exposed to custodial credit risk and was not collateralized.

Deposits in the primary government have been reported as follows:

Reported in governmental funds	\$1,712,780
Reported in fiduciary funds	<u>268,739</u>
Total deposits	<u>\$1,981,519</u>

Component unit

Custodial Credit Risk: The Town's component unit reported deposits of \$196,864 with bank balances of \$197,911. Of the Town's component units total bank balance of \$197,911, \$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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Investments of the Town as of June 30, 2012 are as follows:

Repurchase agreements	\$ 2,475,000
Money market mutual funds	1,098,389
U.S. Treasury notes	47,004
U.S. Agency debt securities	<u>5,222,935</u>
 Total investments	 <u>\$ 8,843,328</u>

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 \$8,843,328 invested in repurchase agreements, money market mutual funds, U.S. Treasury notes and U.S. Agency notes, \$7,744,939 are exposed to custodial credit risk as the investments are held by the counterparty's trust department, in the name of the bank's custodian.

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	\$ 2,475,000	\$ -	\$ -
U.S. Agency notes	841,252	3,287,447	1,094,236
U.S. Treasury notes	-	<u>47,004</u>	-
Total debt investments	<u>\$ 3,316,252</u>	<u>\$ 3,334,451</u>	<u>\$ 1,094,236</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Restate- ment	Additions	Disposals	Balance June 30, 2012
Governmental activities:					
<i>Capital assets not being depreciated</i>					
Land	\$ 193,609	\$ -	\$ -	\$ -	\$ 193,609
Construction in progress	-	-	179,122	-	179,122
Total	<u>193,609</u>	<u>-</u>	<u>179,122</u>	<u>-</u>	<u>372,731</u>
<i>Capital assets being depreciated</i>					
Buildings and improvements	5,320,853	-	419,292	(20,000)	5,720,145
Vehicles	2,742,941	-	284,945	(52,485)	2,975,401
Roads and bridge network	16,113,443	202,276	37,500	(320,612)	16,032,607
Distributions and collections	7,644,597	(54,639)	-	-	7,589,958
Machinery and equipment	3,266,109	-	119,309	-	3,385,418
Total	<u>35,087,943</u>	<u>147,637</u>	<u>861,046</u>	<u>(393,097)</u>	<u>35,703,529</u>
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(3,448,285)	-	(207,363)	20,000	(3,635,648)
Vehicles	(2,394,712)	-	(101,429)	52,485	(2,443,656)
Roads and bridge network	(7,101,350)	(13,166)	(840,780)	273,154	(7,682,142)
Distributions and collections	(1,192,966)	90,679	(189,941)	-	(1,292,228)
Machinery and equipment	(2,068,783)	-	(211,926)	-	(2,280,709)
Total accumulated depreciation	<u>(16,206,096)</u>	<u>77,513</u>	<u>(1,551,439)</u>	<u>345,639</u>	<u>(17,334,383)</u>
Total capital assets being depreciated, net	<u>18,881,847</u>	<u>225,150</u>	<u>(690,393)</u>	<u>(47,458)</u>	<u>18,369,146</u>
Total governmental activities, net	<u>\$ 19,075,456</u>	<u>\$ 225,150</u>	<u>\$ (511,271)</u>	<u>\$ (47,458)</u>	<u>\$ 18,741,877</u>
Component unit:					
<i>Capital assets not being depreciated</i>					
Land	\$ 83,547	\$ -	\$ -	\$ -	\$ 83,547
<i>Capital assets being depreciated</i>					
Buildings and improvements	1,959,282	-	-	-	1,959,282
Equipment and fixtures	9,026	-	-	-	9,026
Total	<u>1,968,308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,968,308</u>
<i>Less accumulated depreciation for</i>					
Buildings and improvements	(309,184)	-	(59,632)	-	(368,816)
Equipment and fixtures	(3,796)	-	(857)	-	(4,653)
Total accumulated depreciation	<u>(312,980)</u>	<u>-</u>	<u>(60,489)</u>	<u>-</u>	<u>(373,469)</u>
Total capital assets being depreciated, net	<u>1,655,328</u>	<u>-</u>	<u>(60,489)</u>	<u>-</u>	<u>1,594,839</u>
Total component unit, net	<u>\$ 1,738,875</u>	<u>\$ -</u>	<u>\$ (60,489)</u>	<u>\$ -</u>	<u>\$ 1,678,386</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 3. CAPITAL ASSETS (CONTINUED)

Depreciation was charged to the following activities as follows:

Governmental activities:	
General government	\$ 9,276
Public safety	70,869
Public works	97,402
Pollution control	8,539
Solid waste facility	103,786
Culture and recreation	23,483
Capital outlay	<u>1,238,084</u>
Total	<u>\$1,551,439</u>

Component unit:

Skowhegan Economic Development	\$ <u>60,489</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, 2012. 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 committed 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 committed fund.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 5. LONG-TERM LIABILITIES

The following is a summary of long-term liabilities of the Town for the year ended June 30, 2012:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Portion due within one year
Primary Government					
General Obligation Bonds					
Maine Municipal Bond Bank, Wastewater Facility, dated April 16, 2005, due 2024, interest rate at 1.1%	3,120,000	-	(240,000)	2,880,000	240,000
Maine Municipal Bond Bank, Wastewater Facility, dated December 30, 2006, due 2020, interest varies from 4.75-5.0%	1,325,000	-	(135,000)	1,190,000	135,000
Maine Municipal Bond Bank, Clean Water Revolving, dated December 30, 2006, due 2020, interest varies from 4.75-5.0%	5,656,750	-	(332,750)	5,324,000	332,750
Skowhegan Savings Bank, Road Project Bond, dated June 183, 2009, due 2019, interest rate at 3.6%	<u>959,988</u>	<u>-</u>	<u>(120,000)</u>	<u>839,988</u>	<u>120,000</u>
Total general obligation bonds	11,061,738	-	827,750	10,233,988	827,750
Capital Leases Payable	11,009	-	(2,620)	8,389	2,769
OPEB Liability	<u>13,697</u>	<u>4,565</u>	<u>-</u>	<u>18,262</u>	<u>N/A</u>
Total primary government	<u>\$ 11,086,444</u>	<u>\$ 4,565</u>	<u>\$ (830,370)</u>	<u>\$ 10,260,639</u>	<u>\$ 830,519</u>
Component Unit – Skowhegan Economic Development Corporation					
Note Payable					
Richard Stearns, Building note dated February 10, 2006, due 2013, interest rate at 6%	\$ 13,852	-	\$ (9,142)	\$ 4,710	\$ 4,058
General Obligation Note Payable Skowhegan Savings Bank, Industrial Park dated September 7, 1999, due 2025, interest rate at 5.11%	<u>365,127</u>	<u>-</u>	<u>(52,725)</u>	<u>312,402</u>	<u>19,468</u>
Total component unit	<u>\$ 378,979</u>	<u>\$ -</u>	<u>\$ (61,867)</u>	<u>\$ 317,112</u>	<u>\$ 23,526</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

General obligation bonds payable

Future maturities of long-term debt are as follows:

Governmental Activities			
Fiscal year ended	Principal	Interest	Total
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	822,750	157,981	980,731
2018-2022	3,623,738	521,070	4,144,808
2023-2027	2,143,750	217,612	2,361,362
2028-2032	332,750	19,555	352,305
	<u>\$10,233,988</u>	<u>\$1,742,832</u>	<u>\$ 11,976,820</u>

Component Unit			
Year ended	Principal	Interest	Total
2013	\$ 23,526	\$ 16,180	\$ 39,706
2014	21,139	14,994	36,133
2015	21,559	13,917	35,476
2016	22,686	12,790	35,476
2017	23,873	11,603	35,476
2018-2022	139,458	37,923	177,381
2023-2027	64,871	4,492	69,363
	<u>\$ 317,112</u>	<u>\$ 111,899</u>	<u>\$429,011</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. The Town was in compliance with these limitations.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

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.

As of June 30, 2012, the Town had recorded \$14,436 in equipment related to outstanding capital leases. Amortization of these assets is included with depreciation expense. Accumulated depreciation for these assets at June 30, 2012 is \$6,448.

Minimum future lease payments under capital leases as of June 30, 2012 are:

2013	\$ 3,207
2014	3,207
2015	1,548
2016	<u>1,290</u>
	9,252
Less amount representing interest	<u>863</u>
Present value of minimum lease payments	<u>\$ 8,389</u>

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, 2012, the County had debt outstanding of \$23,260,594 of which the Town share was 21.77% for a total of \$5,064,994.

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

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

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:

Normal cost	\$ 20,176
Amortization of unfunded liability	17,589
Interest	<u>748</u>
Annual required contribution (ARC)	<u>\$ 38,513</u>

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, 2012 were as follows:

Annual required contribution (annual OPEB cost)	\$ 38,513
Town contributions paid (ARC offset -- implicit subsidy)	<u>(33,948)</u>
OPEB liability expense	\$ 4,565
Beginning OPEB obligation balance	<u>13,697</u>
Net OPEB obligation	<u>\$ 18,262</u>
Percentage of annual OPEB contributed	<u>88%</u>

The unfunded actuarial accrued liability as a percentage of covered payroll for the year ended June 30, 2012 is as follows:

Actuarial valuation date	Jan 1, 2011
Actuarial accrued liability (AAL)	\$ 316,310
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 316,310</u>
Covered payroll	<u>\$2,209,374</u>
UAAL as a percentage of covered payroll	<u>14.32%</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

Funding Status and Funding Progress (Continued)

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.

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, 2012 arising from these transactions were as follows:

	Receivable	Payable	Transfers In	Transfers Out
General fund	\$ -	\$ 89,528	\$ 16,249	\$ 2,355,872
Special revenue fund	304,918	-	-	10,000
Capital projects fund	-	202,448	2,365,872	-
Permanent fund	-	12,907	-	16,249
Private purpose trust fund	-	35	-	-
	<u>\$ 304,918</u>	<u>\$ 304,918</u>	<u>\$ 2,382,121</u>	<u>\$ 2,382,121</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 6. INTERFUND TRANSACTIONS (CONTINUED)

Interfund transfers

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

NOTE 7. RESTATED BEGINNING NET ASSETS

The beginning governmental activities net assets were increased by \$225,150 to reflect additions net of disposals of capital assets occurring in prior years previously not recorded.

NOTE 8. COMMITTED FOR CAPITAL EXPENDITURES - CAPITAL PROJECTS FUND

Capital projects – committed for capital expenditures consist of the following at June 30, 2012:

Administration	\$ 43,156
Capacity	201,124
Cemetery	67,790
Community & economic development	1,514
Creative playground maintenance	3,692
Dare program	11,823
Downtown TIF	165,032
Economic development Sappi TIF	3,328,680
Fire department	260,914
Municipal building renovation	53,597
Opera House renovations	1,575
Parks & recreation	25,843
Planning, ordinance administration	15,588
Police equipment repair/replace	57,438
Pollution control	252,479
Public works building	20,625
Public works equipment maintenance	6,772
Revaluation	251,417
Road project	223,611
Sale of town property	84,437
Second industrial park project	951
Solid waste disposal	22,916
Subdivisions	<u>64,069</u>
 Total	 <u>\$ 5,165,043</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 9. ASSIGNED FUND BALANCES FOR OTHER PURPOSES

The general fund assigned balances for other purposes carried forward at June 30, 2012 consist of the following:

General assistance donations	\$ 2,186
Economic development	<u>59,000</u>
 Total	 <u>\$ 61,186</u>

NOTE 10. 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 pension plan. The Town's payroll for the year ended June 30, 2012 for employees covered by this plan was \$1,918,040.

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. These benefit provisions and all other requirements are established and may be amended by state statute.

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. The Town is required to pay contributions as determined on an annual basis by the Plan's actuaries.

	Year ended 6/30/12		Year ended 6/30/11		Year ended 6/30/10	
	Amount	Percent- age	Amount	Percent- age	Amount	Percent- age
Employer	\$ 83,013	4.3%	\$ 50,286	2.7%	\$ 19,287	1.1%
Employee	137,886	7.2%	131,730	7.2%	123,445	7.1%

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2012

NOTE 11. 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.

NOTE 12. SIGNIFICANT TAXPAYER

For the year ending June 30, 2012, the Town of Skowhegan received \$9,668,109 in property tax revenue from S.D. Warren, Inc. This amount represents 55.83% of total property taxes assessed.

NOTE 13. 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, 2012, the Town had established a reserve for uncollectible loans of \$19,262.

NOTE 14. 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.

**Town of Skowhegan, Maine
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2012**

	Budgeted Amounts			Actual	Variance with Final Budget - Positive (Negative)
	Original	Changes	Final*		
REVENUES					
Property Taxes	\$ 17,315,924	\$ -	\$ 17,315,924	\$ 17,323,450	\$ 7,526
Excise and miscellaneous taxes	1,003,000	-	1,003,000	1,232,942	229,942
Fees and fines	4,800	-	4,800	11,772	6,972
Licenses and permits	12,050	-	12,050	25,630	13,580
Intergovernmental	2,472,178	27,756	2,499,934	2,467,151	(32,783)
Charges for services	274,209	-	274,209	354,637	80,428
Investment earnings	47,500	-	47,500	72,025	24,525
Miscellaneous	48,239	-	48,239	77,995	29,756
Total revenues	21,177,900	27,756	21,205,656	21,585,602	359,946
EXPENDITURES					
Current					
General government	1,161,651	14,500	1,176,151	1,084,798	91,353
Protection	2,165,737	-	2,165,737	2,100,142	65,595
Public works	1,178,584	-	1,178,584	1,060,551	118,033
Waste water and pollution control	495,731	-	495,731	458,954	36,777
Solid waste management	766,446	-	766,446	723,979	42,467
Health and human services	97,618	-	97,618	66,932	30,686
Education	9,043,886	-	9,043,886	9,043,886	-
Recreation	435,252	-	435,252	404,771	30,481
County tax	2,553,509	-	2,553,509	2,553,509	-
Cemeteries	70,628	-	70,628	70,591	37
Community services	117,867	-	117,867	117,867	-
Tax increment financing	1,610,259	(1,400,975)	209,284	209,284	-
Debt service					
Principal	692,750	-	692,750	692,750	-
Interest and other charges	209,217	-	209,217	187,766	21,451
Total expenditures	20,599,135	(1,386,475)	19,212,660	18,775,780	436,880
Excess (deficiency) of revenues over expenditures	578,765	1,414,231	1,992,996	2,789,822	796,826
OTHER FINANCING SOURCES (USES)					
Transfers in	20,000	-	20,000	16,249	(3,751)
Transfers out	(927,140)	(1,428,731)	(2,355,871)	(2,355,872)	(1)
Total other financing sources and uses	(907,140)	(1,428,731)	(2,335,871)	(2,339,623)	(3,752)
Net change in fund balances	(328,375)	(14,500)	(342,875)	450,199	\$ 793,074
FUND BALANCES - BEGINNING	3,261,359	-	3,261,359	3,261,359	
FUND BALANCES - ENDING	\$ 2,932,984	\$ (14,500)	\$ 2,918,484	\$ 3,711,558	

* includes assigned carryover accounts

**Town of Skowhegan, Maine
Postretirement Employee Healthcare Plan -
Schedule of Funding Progress
For the Year Ended June 30, 2012**

	Year Ended June 30, 2012 Actuarial Valuation Date <u>January 1, 2011</u>	Year Ended June 30, 2011 Actuarial Valuation Date <u>January 1, 2011</u>	Year Ended June 30, 2010 Actuarial Valuation Date <u>January 1, 2009</u>	Year Ended June 30, 2009 Actuarial Valuation Date <u>January 1, 2009</u>
Actuarial value of assets	\$ -	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	<u>316,310</u>	<u>316,310</u>	<u>651,420</u>	<u>651,420</u>
Unfunded actuarial accrued liability	<u>\$ 316,310</u>	<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>	<u>0.00%</u>
Covered payroll	<u>\$ 2,209,374</u>	<u>\$ 2,159,764</u>	<u>\$ 2,545,931</u>	<u>\$ 2,221,776</u>
UAAL as a percentage of covered payroll	<u>14.32%</u>	<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, 2012

	Mary	Edith	Paradis	Brainerd	Cemetery	Bradford	Coburn	McClellan	Benjamin	William &	Shirley	Totals
	Worthy and	Paradis	Worthy	Worthy and	Trust	Woman's	Woman's	Woman's	Sawyer	Emma	Stedman	
	Poor Fund	and Worthy	Poor	Worthy	Fund	Ald	Ald	Ald	Award	Walker	Whittemore	Fund
		Poor		Poor						Fund	Fund	
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additional principal	-	-	-	-	10,750	-	-	-	-	-	-	10,750
Capital gains (losses)	-	-	-	-	4	-	-	-	-	-	-	4
Transfers	-	-	-	158	8,145	-	326	558	-	-	-	9,187
Unrealized gain (losses)	-	-	-	4	(1,536)	-	9	17	1	3	-	(1,468)
Expenses	-	-	-	-	-	-	-	-	-	-	-	(1,500)
Net revenues	-	-	-	162	17,363	162	335	575	1	3	-	16,975
Fund balance, beginning	-	-	-	5,298	358,993	5,298	11,073	18,931	991	9,771	1,020	627,478
Fund balance, ending	\$ -	\$ -	\$ -	\$ 5,460	\$ 376,356	\$ 5,460	\$ 11,408	\$ 19,506	\$ 992	\$ 9,774	\$ 1,020	\$ 644,453

	Mary	Edith	Paradis	Brainerd	Cemetery	Bradford	Coburn	McClellan	Benjamin	William &	Shirley	Totals
	Worthy and	Paradis	Worthy	Worthy and	Trust	Woman's	Woman's	Woman's	Sawyer	Emma	Stedman	
	Poor Fund	and Worthy	Poor	Worthy	Fund	Ald	Ald	Ald	Award	Walker	Whittemore	Fund
		Poor		Poor						Fund	Fund	
Revenues	\$ 457	\$ 123	\$ 123	\$ 93	\$ 12,239	\$ 93	\$ 263	\$ 329	\$ 16	\$ 195	\$ 25	\$ 17,348
Investment income and other	4,348	-	-	-	-	-	-	-	-	-	-	4,348
Contributions	32	(51)	(51)	(2)	(1,222)	(2)	5	(8)	1	4	1	(1,294)
Unrealized gain (loss)	-	-	-	(158)	(24,394)	(158)	-	(558)	-	-	-	(25,496)
Transfers	(3,806)	(2,775)	(2,775)	(48)	(2,537)	(48)	(53)	(170)	(23)	(39)	(6)	(15,242)
Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	1,231	(2,703)	(2,703)	(115)	(15,914)	(115)	215	(407)	(6)	160	21	(20,276)
Fund balance, beginning	27,902	9,764	9,764	421	384,910	421	3,880	1,333	27	2,215	535	436,235
Fund balance, ending	\$ 29,133	\$ 7,061	\$ 7,061	\$ 306	\$ 368,996	\$ 306	\$ 4,095	\$ 928	\$ 21	\$ 2,375	\$ 556	\$ 415,959
TOTAL PRINCIPAL AND UNDESIGNATED FUND BALANCE, ENDING	\$ 29,133	\$ 7,061	\$ 7,061	\$ 5,766	\$ 745,352	\$ 5,766	\$ 16,362	\$ 20,432	\$ 1,013	\$ 12,149	\$ 1,576	\$ 1,060,412

Town of Skowhegan, Maine
Taxes Receivable, Tax Liens and Tax Acquired Property
General Fund
June 30, 2012

Taxes receivable	
2012	\$ 556,447
2011	10,875
2010 and prior	<u>14,547</u>
Total taxes receivable	<u>581,869</u>
Tax liens	
2011	178,371
2010	13,530
2009 and prior	<u>1,617</u>
Total tax liens	<u>193,518</u>
Tax acquired	<u>6,069</u>
Total taxes receivable, tax liens and tax acquired property	<u>\$ 781,456</u>



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

Board of Selectmen
Town of Skowhegan, Maine

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Skowhegan, Maine as of and for the year ended June 30, 2012, which collectively comprise the Town of Skowhegan, Maine's basic financial statements and have issued our report thereon dated May 3, 2013. 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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of finding and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency #2012-1 described in a separate communication letter a material weakness.

Compliance and Other Matters

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

We noted certain other matters that we have reported to management of the Town of Skowhegan, Maine, in a separate letter dated May 3, 2013.

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.

Brenton Hibbard & Associates

Bangor, Maine
May 3, 2013