

Town of Skowhegan, Maine

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended June 30, 2016

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Independent Auditor's Report

Board of Selectmen
Town of Skowhegan, Maine

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Schedules of Pension Amounts by Employer reported by the State of Maine Public Employees Retirement System, which provides information used to calculate the amounts recognized in the financial statements of the Town of Skowhegan, Maine as deferred outflows and deferred inflows related to pensions, net pension liability, pension expense, and pension revenue of governmental activities. Those schedules were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Skowhegan, Maine, is based solely on the report of the other auditors and certain other procedures related to the allocation percentage and the amounts allocated to the Town of Skowhegan, Maine based on the allocation percentage. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, 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, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in the year ended June 30, 2016, the Town adopted new accounting guidance, Statement of Governmental Accounting Standards (GASB) No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension information, and post-retirement plan schedule of funding progress on pages 6 through 13 and page 45 through 48 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 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.

Other Information

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 on Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The other supplementary information on Schedules 1 and 2 and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 and 2 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Barbara Whibodan & Associates

March 28, 2017

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2016

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, 2016. 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 Position and the Statement of Activities:

The Statement of Net Position 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 position and changes in them. Net position is 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 position 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 Position 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 position may serve over time as a useful indicator of the government's financial position. In the case of the Town, assets exceeded liabilities by \$23,276,394 for the year ended June 30, 2016. The current year's governmental activities and component unit financial statements are compared with prior year as follows:

	Governmental Activities		Component Unit	
	06/30/16	06/30/15	06/30/16	06/30/15
Current and other assets	\$ 17,878,570	\$ 22,365,772	\$ 386,485	\$ 358,302
Capital Assets, net	<u>24,859,521</u>	<u>22,308,463</u>	<u>1,518,127</u>	<u>1,557,407</u>
Total Assets	<u>42,738,091</u>	<u>44,674,235</u>	<u>1,904,612</u>	<u>1,915,709</u>
Deferred outflows of resources	<u>972,191</u>	<u>352,048</u>	<u>-</u>	<u>-</u>
Current liabilities	597,581	1,373,993	52,944	52,944
Noncurrent liabilities	<u>18,971,304</u>	<u>20,261,568</u>	<u>212,678</u>	<u>239,518</u>
Total liabilities	<u>19,568,885</u>	<u>21,635,561</u>	<u>265,622</u>	<u>292,462</u>
Deferred inflows of resources	<u>865,003</u>	<u>861,920</u>	<u>-</u>	<u>-</u>
Net Position:				
Net investment in capital assets	12,950,245	12,315,369	1,305,449	1,317,889
Restricted	2,642,957	2,419,885	-	-
Unrestricted	<u>7,683,192</u>	<u>7,793,548</u>	<u>333,541</u>	<u>305,358</u>
Total Net Position	<u>\$ 23,276,394</u>	<u>\$ 22,528,002</u>	<u>\$ 1,638,990</u>	<u>\$ 1,623,247</u>

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2016 and 2015:

	Governmental Activities		Component Unit	
	06/30/16	06/30/15	06/30/16	06/30/15
REVENUES:				
Program revenues:				
Charges for services	\$ 354,541	\$ 321,279	\$ 122,902	\$ 113,527
Operating grants and contributions	408,705	262,605	-	-
Capital grants and contributions	612,799	1,179,088	-	-
General revenues:				
Property taxes	17,439,211	16,600,091	-	-
Excise and miscellaneous taxes	1,493,710	1,444,335	-	-
Interest and lien costs	61,999	73,915	-	-
Grants and contributions not restricted to specific programs	2,409,934	1,976,460	-	-
Investment earnings (loss)	106,149	72,342	3,174	2,697
Miscellaneous	<u>23,352</u>	<u>17,712</u>	<u>-</u>	<u>-</u>
Total revenues	<u>22,910,400</u>	<u>21,947,827</u>	<u>126,076</u>	<u>116,224</u>
EXPENSES:				
General government	\$ 1,364,549	\$ 1,287,481	-	-
Public safety	2,641,186	2,349,080	-	-
Public works	1,217,844	1,256,404	-	-
Pollution control	591,018	561,578	-	-
Solid waste facility	816,921	780,706	-	-
Health and human services	246,655	172,815	-	-
Education	9,470,013	9,731,088	-	-
Culture and recreation	563,105	543,881	-	-
County tax	2,549,341	2,373,279	-	-
Cemetery maintenance	90,279	92,663	-	-
Community services	139,367	136,867	-	-
Grant and other special revenue program expense	361,069	538,517	-	-
Community and economic development	-	-	135,472	120,421
Interest on long-term debt	464,935	405,385	-	-
Capital outlay	<u>1,593,105</u>	<u>1,293,320</u>	<u>-</u>	<u>-</u>
Total expenses	<u>22,109,387</u>	<u>21,523,064</u>	<u>135,472</u>	<u>120,421</u>
Excess (deficiency) before Contributions and special items	<u>801,013</u>	<u>424,763</u>	<u>9,396</u>	<u>(4,197)</u>
Contributions to permanent fund	8,375	5,625	-	-
Special item – Gain(loss) on disposal of assets	<u>(61,796)</u>	<u>25,600</u>	<u>-</u>	<u>-</u>
Change in net position	<u>747,592</u>	<u>455,988</u>	<u>9,396</u>	<u>8,862</u>
Net position –beginning	22,528,802	23,317,800	1,623,246	1,627,443
Restatement	-	<u>(1,244,986)</u>	-	-
Net position -beginning, restated	<u>22,528,802</u>	<u>22,072,814</u>	<u>1,623,246</u>	<u>1,627,443</u>
Net position –ending	<u>\$23,276,394</u>	<u>\$22,528,802</u>	<u>\$ 1,638,990</u>	<u>\$ 1,623,247</u>

GOVERNMENTAL ACTIVITIES

The cost of all Governmental activities this year was \$22,109,387. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through Town taxes was only \$17,439,211, 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 \$1,376,045. 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>2016 Net (Expense)</u>	<u>2015 Net (Expense)</u>
Governmental Activities		
General government	\$ (1,185,099)	\$ (1,189,854)
Public safety	(2,504,173)	(2,216,521)
Public works	(1,072,076)	(1,110,118)
Pollution control	(572,830)	(561,578)
Solid waste facility	(741,073)	(717,024)
Health and human services	(107,368)	(103,296)
Education	(9,470,013)	(9,731,088)
Culture and recreation	(497,758)	(474,555)
County tax	(2,549,341)	(2,373,279)
Cemetery maintenance	(87,934)	(87,778)
Community services	(139,367)	(136,867)
Grant and other special revenue program expense	227,102	453,680
Interest on long-term debt	(464,935)	(405,385)
Capital outlay	<u>(1,568,477)</u>	<u>(1,106,429)</u>
Total governmental activities	<u>\$ (20,733,342)</u>	<u>\$ (19,760,092)</u>

Total resources available during the year to finance governmental operations consisted of beginning net position of \$22,528,802, program revenues of \$1,376,045, general revenues of \$21,534,355, contributions to permanent fund principal of \$8,375, less a loss on disposal of capital assets of (\$61,796). Total governmental activities expenses during the year were \$22,109,387; thus net position was increased by \$747,592 to \$23,276,394.

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, 2016.

	<u>2016</u>
General government	\$ 1,227,936
Public safety	2,421,600
Public works	1,036,802
Pollution control	519,773
Solid waste facility	792,026
Health and human services	244,761
Education	9,470,013
Culture and recreation	421,456
County tax	2,549,341
Cemetery maintenance	90,636
Community services	139,367
Grant program expenses	402,722
Debt Service:	
Principal	2,139,208
Interest and other charges	472,937
Capital outlay	<u>4,706,900</u>
Total Expenditures	<u>\$ 26,633,478</u>

DEBT ADMINISTRATION

The governmental activities debt summary for the year ended June 30, 2016 is presented below:

	<u>2016</u>
Wastewater treatment facility upgrade	\$ 1,920,000
Wastewater treatment facility upgrade	10,692,000
Clean water revolving loan	3,993,000
Road project	359,916
Capital leases	<u>285,921</u>
Total debt	<u>\$ 17,250,837</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, 2016, net capital assets of the governmental activities increased by \$2,551,058 to a total of \$24,859,521 and the net capital assets of the component unit decreased by \$39,279 to a total \$1,518,127. 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

The following is a discussion of the general fund budgetary activity during the fiscal year ended June 30, 2016:

During the year actual revenues exceeded budgeted revenues by \$546,261. Most of this variance resulted from under budgeted excise tax, fees and fines, and intergovernmental revenues.

Budgeted expenditures were higher than actual expenditures by \$648,226 with the utilization of designated carryover balances.

The major budget variances for the year ended June 30, 2016 were as follows:

1. General government expenditures \$98,487 under budget due to savings in personnel costs, legal services, and contracted services.
2. Public Safety expenditures \$198,003 under budget due to savings in personnel costs, fuel costs, and utilities costs.
3. Public Works expenditures \$229,991 under budget due to savings in fuel, sand and salt, and personnel costs.
4. Excise tax revenues \$388,710 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 2017, 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.

Up to this point the Town has been able to stabilize the tax rate with consistent increases in property valuations and strong revenues. However recently the tax rate had increased because of a substantial reduction in the valuation of the paper mill due to the decline in the demand for paper products, and last year the tax rate increased because we started making bond payments from general taxation for the substantial Combined Sewer Overflow construction project.

Revenues/Surplus

During this period of time actual revenues exceeded the budgeted revenues resulting in a surplus at the end of the year. This trend appears to be continuing within the Town of Skowhegan. However, as we move forward revenue estimates will start to inch closer to the actual revenues. Again, as revenues fall there will be less and less money put back into surplus. Surplus was also increased by the departments' cost saving methods, with left over appropriation monies being returned.

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 town's investment upgrading our infrastructure has been the major factor of the increase in the coming years. We have begun improving our over 100 year old sewer system that will result in the reduction of overflows into our streams and river. The added benefit will result in the improvement of several of our residential streets and help keep our river clean, as mandated by DEP.

Other major increases in operational budgets are caused by the increase in the costs of operating. The economy is driving this. Utilities and replacement costs have increased, along with more repairs due to wear and tear on equipment because equipment is kept longer. 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.

The fiscal year 2017 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 approval.

The Future

In terms of the future, we need to be more proactive at attracting other revenue streams and diversifying our tax base. With declining revenues, changes to homestead exemption and the BETR and BETE programs, continuous 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 cost 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 budgets 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 or in some cases has had to lease equipment. 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 infrastructure projects and future equipment replacement in order to reduce repair costs.

In an effort to diversify the town's tax base, we have been working on various economic development projects. One of these projects is the Run of River. The Run of River Project encompasses the construction of a new whitewater park in the Skowhegan Gorge area of the Kennebec River. Along with enhancements and improvements to existing recreation sites, this project would serve existing recreation facility users, visitors to and residents of the downtown area, and visitors to and residents of the state of Maine. The Run of River project, in addition to potential increased recreation opportunities, would also complement the Town's broader community, tourism, and economic revitalization activities.

Summary

The Town government needs to continue to work harder and smarter; doing as much as possible to provide the best possible service 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. 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 Position
June 30, 2016

	<u>Governmental Activities</u>	<u>Component Unit Skowhegan Economic Development Corporation</u>
ASSETS		
Cash and cash equivalents	\$ 477,537	\$ 337,135
Investments	10,274,727	-
Taxes receivable, net	705,058	-
Due from other governmental agencies	250,012	-
Due from Maine Bond Bank	5,341,561	-
Due from fiduciary funds	35	-
Prepaid expenses	267,505	-
Due from component units	52,944	-
Loans receivable, net of allowance for doubtful accounts of \$30,798 (governmental activities)	509,191	49,350
Capital assets not being depreciated	622,753	83,547
Capital assets being depreciated, net	24,236,768	1,434,580
	<u>42,738,091</u>	<u>1,904,612</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	972,191	-
LIABILITIES		
Accounts payable and accrued expenses	340,116	-
Due to other governmental agencies	42,104	-
Unearned revenue	2,879	-
Due to primary government	-	52,944
Accrued compensated absences	117,925	-
Accrued interest	94,557	-
Long-term liabilities		
Due within one year		
Capital lease obligations	65,483	-
Bonds and notes payable	1,286,750	23,873
Due in more than one year		
Capital lease obligations	220,438	-
Bonds and notes payable	15,678,166	188,805
Net pension liability	1,603,714	-
Other postemployment benefit obligation	116,753	-
	<u>19,568,885</u>	<u>265,622</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	842,227	-
Prepaid taxes	22,776	-
	<u>865,003</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	12,950,245	1,305,449
Restricted, non-expendable for		
Permanent funds principal	659,706	-
Restricted, expendable for		
Permanent funds income	374,719	-
Special revenue funds	1,608,532	-
Unrestricted	7,683,192	333,541
	<u>\$ 23,276,394</u>	<u>\$ 1,638,990</u>

See accompanying notes to the basic financial statements.

Town of Skowhegan, Maine
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,582	\$ 322,507	\$ 150,163	\$ 3,285	\$ 477,537
Investments	4,289,673	-	4,940,567	1,044,487	10,274,727
Taxes receivable, net	705,058	-	-	-	705,058
Due from other governmental agencies	180,804	69,208	-	-	250,012
Due from Maine Bond Bank	-	-	5,341,561	-	5,341,561
Due from other funds	-	492,648	-	-	492,648
Prepaid expenses	-	217,857	49,648	-	267,505
Due from Skowhegan Economic Development	52,944	-	-	-	52,944
Loans receivable, net of allowance for doubtful accounts of \$30,798	-	509,191	-	-	509,191
Total assets	<u>\$ 5,230,061</u>	<u>\$ 1,611,411</u>	<u>\$ 10,481,939</u>	<u>\$ 1,047,772</u>	<u>\$ 18,371,183</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 289,951	\$ -	\$ 33,406	\$ -	\$ 323,357
Due to other funds	31,781	-	447,485	13,347	492,613
Payable to other governments	42,104	-	-	-	42,104
Unearned revenue	-	2,879	-	-	2,879
Other accrued expenses	16,759	-	-	-	16,759
Total liabilities	<u>380,595</u>	<u>2,879</u>	<u>480,891</u>	<u>13,347</u>	<u>877,712</u>
Deferred inflows of resources					
Prepaid taxes	22,776	-	-	-	22,776
Unavailable property taxes	489,750	-	-	-	489,750
Total deferred inflows of resources	<u>512,526</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>512,526</u>
Fund balances					
Nonspendable for					
Trust fund principal	-	-	-	659,706	659,706
Loans receivable	-	509,191	-	-	509,191
Prepaid expenses	-	217,857	49,648	-	267,505
Restricted for					
Trust fund income	-	-	-	374,719	374,719
Capital projects	-	-	5,224,227	-	5,224,227
Special revenue funds	-	881,484	-	-	881,484
Committed for					
Capital projects	-	-	4,727,173	-	4,727,173
Assigned for					
Other purposes	96,714	-	-	-	96,714
Next year's budget	750,000	-	-	-	750,000
Unassigned	3,490,226	-	-	-	3,490,226
Total fund balances	<u>4,336,940</u>	<u>1,608,532</u>	<u>10,001,048</u>	<u>1,034,425</u>	<u>16,980,945</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,230,061</u>	<u>\$ 1,611,411</u>	<u>\$ 10,481,939</u>	<u>\$ 1,047,772</u>	<u>\$ 18,371,183</u>

Town of Skowhegan, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016

Total fund balance, governmental funds	\$	16,980,945
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Amounts reported for governmental activities in the Statement of Net Position 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 Position.		24,859,521
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the funds.

Deferred inflows related to property taxes		489,750
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Certain deferred outflows of resources and deferred inflows of resources related to pensions are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Deferred outflows related to pensions		972,191
Deferred inflows related to pensions		(842,227)

Some liabilities, (such as Accrued interest, Capital Lease Contract Payable, Accrued Compensated Absences, Other Postemployment Benefit Obligation, Bonds and Notes Payable, and Net Pension Liability), 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 Position.

		<u>(19,183,786)</u>
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Net Position of Governmental Activities in the Statement of Net Position	\$	<u>23,276,394</u>
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Town of Skowhegan, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Governmental Funds
REVENUES					
Property taxes	\$ 17,424,113	\$ -	\$ -	\$ -	\$ 17,424,113
Excise and miscellaneous taxes	1,493,710	-	-	-	1,493,710
Fees and fines	76,001	-	-	-	76,001
Licenses and permits	38,450	-	-	-	38,450
Intergovernmental	2,691,205	584,631	24,629	-	3,300,465
Charges for services	310,493	3,540	-	5,625	319,658
Investment and interest earnings	6,483	32,344	54,967	12,714	106,508
Contributions and reimbursements	51,875	-	-	8,205	60,080
Miscellaneous	85,050	-	-	-	85,050
	<u>22,177,380</u>	<u>620,515</u>	<u>79,596</u>	<u>26,544</u>	<u>22,904,035</u>
Total revenues					
EXPENDITURES					
Current					
General government	1,227,936	-	-	-	1,227,936
Protection	2,421,600	-	-	-	2,421,600
Public works	1,036,802	-	-	-	1,036,802
Waste water and pollution control	519,773	-	-	-	519,773
Solid waste management	792,026	-	-	-	792,026
Health and human services	244,761	-	-	-	244,761
Education	9,470,013	-	-	-	9,470,013
Parks and recreation	421,456	-	-	-	421,456
County tax	2,549,341	-	-	-	2,549,341
Cemeteries	82,733	-	-	7,903	90,636
Community services	139,367	-	-	-	139,367
Grant program expenses	-	402,722	-	-	402,722
Debt service					
Principal	1,352,208	-	785,000	-	2,137,208
Interest and loan fees	433,687	-	39,250	-	472,937
Capital outlay	-	-	4,706,900	-	4,706,900
	<u>20,691,703</u>	<u>402,722</u>	<u>5,531,150</u>	<u>7,903</u>	<u>26,633,478</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>1,485,677</u>	<u>217,793</u>	<u>(5,451,554)</u>	<u>18,641</u>	<u>(3,729,443)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	13,362	-	1,244,013	-	1,257,375
Transfers out	(1,244,013)	-	-	(13,362)	(1,257,375)
	<u>(1,230,651)</u>	<u>-</u>	<u>1,244,013</u>	<u>(13,362)</u>	<u>-</u>
Total other financing sources and uses					
Net change in fund balances	255,026	217,793	(4,207,541)	5,279	(3,729,443)
FUND BALANCES - BEGINNING	<u>4,081,914</u>	<u>1,390,739</u>	<u>14,208,589</u>	<u>1,029,146</u>	<u>20,710,388</u>
FUND BALANCES - ENDING	<u>\$ 4,336,940</u>	<u>\$ 1,608,532</u>	<u>\$ 10,001,048</u>	<u>\$ 1,034,425</u>	<u>\$ 16,980,945</u>

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, 2016

Net change in fund balances - total governmental funds: \$ (3,729,443)

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	\$ 4,514,041	
Depreciation	(1,901,187)	2,612,854

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 position differs from the change in fund balance by the cost of the asset sold.

(61,796)

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.

15,097

Some deferred outflows of resources and deferred inflows of resources related to pensions reported in the statement of activities do not require the use of current financial resources and these are not reported in governmental funds:

Deferred outflows related to pensions		239,365
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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.

Debt payments		2,137,208
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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		(2,087)
Accrued interest		8,565
Net pension expense		(441,585)
Other postemployment benefit obligation		(30,586)

Change in net position of governmental activities	\$	747,592
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Town of Skowhegan, Maine
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Private Purpose Trust Funds
ASSETS	
Cash and cash equivalents	\$ 376,013
Loans receivable, net of allowance of \$25,647	266,510
Total assets	642,523
LIABILITIES AND NET POSITION	
Due to other funds	35
NET POSITION	
Held in trust for benefits and other purposes	\$ 642,488

Town of Skowhegan, Maine
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2016

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Income	
Interest	\$ 351
Dividends	<u>9,301</u>
Total additions	<u>9,652</u>
DEDUCTIONS	
Bad debts write off	<u>4,310</u>
Change in net position	5,342
NET POSITION - BEGINNING	<u>637,146</u>
NET POSITION - ENDING	<u><u>\$ 642,488</u></u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

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, 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

In evaluating the Town as a reporting entity, management has addressed all potential component units for which the Town may be financially accountable and, as such, should be included within the Town's financial statements. In accordance with GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits or to impose specific financial burdens on the Town. Additionally, the Town is required to consider other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on the application of these criteria, since the relationship with the Town is such that exclusion would cause the reporting entity's financial statements to be misleading, 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.

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.

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 governmental funds:

General Fund

The general fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund

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

Capital Projects Fund

The capital projects fund is used to account for all resources for the acquisition or construction of capital facilities or items by the Town.

Permanent Fund

The permanent fund accounts for assets held by the Town pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund. This fund accounts for the activities of the cemetery trust, and various scholarship and other assistance programs.

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

The Town has presented the following fiduciary fund:

Private Purpose Trust Funds

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 position and the operating statements present increases, revenues, and decreases, expenses, in net total position. 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 and compensated absence expenditures 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.

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.

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 position, cash and cash equivalents includes all demand and savings accounts, and certificates of deposit of the Town.

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

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

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 statement of net position. Any residual balances between the governmental activities and fiduciary funds are reported in the statement of net position as "due to/from fiduciary funds".

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.

Assets capitalized have an original cost of \$5,000 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

The Town elected to utilize the infrastructure transition option in the implementation of GASB Statement #34 which does not require the Town to retroactively capitalize certain infrastructure assets.

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 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 and bonds payable, capital leases, net pension liability, and other post-employment benefits liability.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

5. Long-term Debt (Continued)

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.

The Town's policies regarding vacation time permit employees to accumulate earned but unused vacation up to five weeks. Compensated absences liability is reported in the government-wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

6. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Participating Local Districts (PLD) Plan and additions to/deductions from the PLD Plan's fiduciary net position have been determined on the same basis as they are reported by the PLD Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

7. Use of Estimates

Preparation of the Town's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates

8. Government-wide Net Position

Net position represents the difference between assets and liabilities in the government-wide financial statements.

Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its 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.

The remaining net position is reported as unrestricted. For expenditures that qualify for either classification, amounts will be first spent from restricted net position then from unrestricted net position.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

9. Governmental Fund Balances

Fund balance represents the difference between assets and liabilities in the fund financial statements. Fund balance must 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.

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. In the event that the balance drops below the established minimum level, the Town's Board of Selectmen will develop a plan to replenish the fund balance to the established minimum level within two years.

10. Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2015 and were due on October 13, 2015 and March 15, 2016. 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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

11. Revenue Recognition - Property Taxes (Continued)

For purposes of the fund financial statements, property taxes assessed and collected during the year ended June 30, 2016, and during the first sixty days of the next fiscal year are recognized as revenue in 2016. Receivables estimated to be collectible after the sixty day period are recorded as deferred inflows of resources in the general fund.

Assessed value	
Real estate	\$ 575,266,500
Personal property	<u>377,908,400</u>
	953,174,900
Tax rate (per \$1,000)	<u>18.30</u>
Commitment	17,443,101
Less: collections and abatements	<u>(16,942,655)</u>
Receivable at June 30, 2016	<u>\$ 500,446</u>
Collection rate	97.1%

12. New Governmental Accounting Standards

During the year ended June 30, 2016, the Town implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This statement improves accounting and financial reporting by state and local governments by enhancing comparability of financial statements among governments and providing information to financial statement users about the impact of fair value measurements on a government's financial position.

13. Recent Accounting Pronouncements

In August 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 77, *Tax Abatement Disclosures*. This statement improves financial reporting by increasing disclosure of information about the nature and magnitude of tax abatements, increasing transparency of the transactions, and providing more information about how tax abatements affect a government's future ability to raise resources and meet its financial obligations, and the impact those abatements have on a government's financial position and economic condition. The statement is effective for periods beginning after December 15, 2015. The effect of this Statement on the Town's financial statements is not known at this time.

In January 2016, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. This statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units and enhancing the comparability of financial statements among governments, by requiring blending of a component unit incorporated as a not-for profit corporation in which the primary government is the sole corporate member. The statement is effective for periods beginning after June 15, 2016. The effect of this Statement on the Town's financial statements is not known at this time.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

13. Recent Accounting Pronouncements (Continued)

In January 2016, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The statement is effective for periods beginning after June 15, 2016 or in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The effect of this Statement on the Town's financial statements is not known at this time.

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits

Primary Government

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, 2016, the Town reported deposits of \$853,550 with bank balances of \$862,599. Of the Town's total bank balance of \$862,599, \$209,152 was exposed to custodial credit risk. The entire amount of \$209,152 was uncollateralized.

Deposits in the primary government have been reported as follows:

Reported in governmental funds	\$ 477,537
Reported in fiduciary funds	<u>376,013</u>
Total deposits	<u>\$ 853,550</u>

Component unit

Custodial Credit Risk: The Town's component unit reported deposits of \$337,135 with bank balances of \$337,144. Of the Town's component units total bank balance of \$337,144, \$78,539 was exposed to custodial credit risk. The entire amount of \$78,539 was uncollateralized.

Investments – Primary Government

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.

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Investments of the Town reported in the governmental funds as of June 30, 2016 are as follows:

Repurchase agreements	\$ 4,289,672
Money market mutual funds	2,454,469
Negotiable CDs	894,890
U.S. Agency debt securities	<u>2,635,695</u>
Total investments	<u>\$ 10,274,727</u>

All of the Town's investments at June 30, 2016 are valued using quoted market prices (Level 1 inputs).

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 \$10,274,727 invested in repurchase agreements, money market mutual funds, negotiable CDs, and U.S. Agency debt securities, \$7,820,257 is 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:

	<u>Due in less than one year</u>	<u>Due in 1-5 years</u>	<u>Due in more than five years</u>
Repurchase agreements	\$ 4,289,672	\$ -	\$ -
Negotiable CDs	640,405	254,485	-
U.S. Agency debt securities	<u>501,968</u>	<u>2,133,727</u>	-
Total debt investments	<u>\$ 5,432,045</u>	<u>\$ 2,388,212</u>	<u>\$ -</u>

NOTE 3. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2016, was as follows:

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2016</u>
Governmental activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 208,610	\$ 800	\$ -	\$ 209,410
Construction in progress	<u>3,613,363</u>	<u>3,423,777</u>	<u>(6,623,797)</u>	<u>413,343</u>
Total	<u>3,821,973</u>	<u>3,424,577</u>	<u>(6,623,797)</u>	<u>622,753</u>
<i>Capital assets being depreciated</i>				
Buildings and improvements	3,348,583	18,390	-	3,366,973
Vehicles	3,351,553	638,792	(222,400)	3,767,945
Roads and bridge network	18,711,042	1,269,667	(395,284)	19,585,425
Distributions and collections	10,975,799	5,661,719	-	16,637,518
Machinery and equipment	<u>3,350,530</u>	<u>136,268</u>	<u>(67,385)</u>	<u>3,419,413</u>
Total	<u>39,737,507</u>	<u>7,724,836</u>	<u>(685,069)</u>	<u>46,777,274</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 3. CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(2,312,793)	(182,562)	-	(2,495,355)
Vehicles	(2,332,959)	(216,360)	222,400	(2,326,919)
Roads and bridge network	(10,398,599)	(946,577)	334,127	(11,011,049)
Distributions and collections	(3,688,665)	(350,829)	-	(4,039,494)
Machinery and equipment	<u>(2,518,001)</u>	<u>(204,859)</u>	55,171	<u>(2,667,689)</u>
Total accumulated depreciation	<u>(21,251,017)</u>	<u>(1,901,187)</u>	<u>611,698</u>	<u>(22,540,506)</u>
Total capital assets being depreciated, net	<u>18,486,490</u>	<u>5,823,649</u>	<u>(73,371)</u>	<u>24,236,768</u>
Total governmental activities, net	<u>\$ 22,308,463</u>	<u>\$ 9,248,226</u>	<u>\$ (6,697,168)</u>	<u>\$ 24,859,521</u>

Capital asset activity for the component unit for the year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016
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	<u>9,025</u>	<u>-</u>	<u>-</u>	<u>9,025</u>
Total	<u>1,968,307</u>	<u>-</u>	<u>-</u>	<u>1,968,307</u>
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(485,517)	(39,185)	-	(524,702)
Equipment and fixtures	<u>(8,931)</u>	<u>(94)</u>	<u>-</u>	<u>(9,025)</u>
Total accumulated depreciation	<u>(494,448)</u>	<u>(39,279)</u>	<u>-</u>	<u>(533,727)</u>
Total capital assets being depreciated, net	<u>1,473,859</u>	<u>(39,279)</u>	<u>-</u>	<u>1,434,581</u>
Total component unit, net	<u>\$ 1,557,406</u>	<u>\$ (39,279)</u>	<u>\$ -</u>	<u>\$ 1,518,127</u>

Depreciation was charged to the following activities as follows:

Governmental activities:	
General government	\$ 75,840
Public safety	101,102
Public works	159,232
Pollution control	54,803
Solid waste facility	16,183
Culture and recreation	134,871
Capital outlay	<u>1,359,156</u>
Total	<u>\$1,901,187</u>

Component unit:	
Skowhegan Economic Development Corporation	<u>\$ 39,279</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

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, 2016. 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 reported 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 reported in a capital committed fund.

NOTE 5. LONG-TERM LIABILITIES

The following is a summary of long-term liabilities for the year ended June 30, 2016:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	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%	\$ 2,160,000	\$ -	\$ (240,000)	\$ 1,920,000	\$ 240,000
Maine Municipal Bond Bank, Wastewater Facility, dated December 30, 2006, due 2020, interest varies from 4.75-5.0%	785,000	-	(785,000)	-	-
Maine Municipal Bond Bank, Clean Water Revolving, dated December 30, 2006, due 2020, interest varies from 4.75-5.0%	4,325,750	-	(332,750)	3,993,000	332,750
Maine Municipal Bond Bank, Clean Water Revolving, dated October 30, 2013, due 2033, interest rate at 1.44%	11,286,000	-	(594,000)	10,692,000	594,000
Skowhegan Savings Bank, Road Project Bond, dated October 4, 2011, due 2018, interest rate at 2.95%	<u>479,917</u>	<u>-</u>	<u>(120,001)</u>	<u>359,916</u>	<u>120,000</u>
Total general obligation bonds	19,036,667	-	(2,071,750)	16,964,916	1,286,750
Capital Leases Payable	351,378	-	(65,457)	285,921	65,483
Net Pension Liability	787,356	1,022,462	(206,104)	1,603,714	N/A
OPEB Liability	<u>86,167</u>	<u>30,586</u>	<u>-</u>	<u>116,753</u>	<u>N/A</u>
Total primary government	<u>\$ 20,261,568</u>	<u>\$ 1,053,048</u>	<u>\$(2,343,311)</u>	<u>\$ 18,971,304</u>	<u>\$ 1,352,233</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Portion due within one year
Component Unit – Skowhegan Economic Development Corporation					
<i>General Obligation Note Payable Skowhegan Savings Bank, Industrial Park dated September 7, 1999, due 2025, interest rate at 5.11%</i>	\$ 239,518	-	\$ (26,840)	\$ 212,678	\$ 23,873

General obligation bonds payable

Future maturities of long-term debt are as follows:

Governmental Activities			
Fiscal year ended	Principal	Interest	Total
2017	\$ 1,286,750	\$ 309,733	\$ 1,596,483
2018	1,286,750	288,616	1,575,366
2019	1,286,666	267,530	1,554,196
2020	1,166,750	248,224	1,414,974
2021	1,166,750	230,675	1,397,425
2022-2026	5,353,750	876,081	6,229,831
2027-2031	3,635,500	440,430	4,075,930
2032-2034	<u>1,782,000</u>	<u>129,516</u>	<u>1,911,516</u>
	<u>\$ 16,964,916</u>	<u>\$ 2,790,805</u>	<u>\$ 19,755,721</u>
Component Unit			
Year ended	Principal	Interest	Total
2017	\$ 23,873	\$ 11,603	\$ 35,476
2018	25,122	10,354	35,476
2019	26,436	9,040	35,476
2020	27,819	7,657	35,476
2021	29,275	6,201	35,476
2022-2024	<u>80,153</u>	<u>5,485</u>	<u>85,638</u>
	<u>\$ 212,678</u>	<u>\$ 50,340</u>	<u>\$ 263,018</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, 2016

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

Capital leases payable

The Town is the lessee of photocopiers under a capital leases expiring in 2017, as well as public works vehicles under capital leases expiring in 2019, 2020, and 2023. 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, 2016, the Town had recorded \$5,700 in equipment and \$603,385 in vehicles related to outstanding capital leases. Amortization of these assets is included with depreciation expense. Accumulated depreciation for these assets at June 30, 2016 is \$196,307.

Minimum future lease payments under capital leases as of June 30, 2016 are:

2017		\$ 73,655
2018		72,574
2019		72,574
2020		49,300
2021		20,737
2022-2023		<u>20,737</u>
		309,577
Less amount representing interest		<u>(23,656)</u>
Present value of minimum lease payments		<u>\$ 285,921</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, 2016, the County had debt outstanding of \$17,490,000 of which the Town share was 21.18% for a total of \$3,704,382.

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*. 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.

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.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

Other Postemployment Benefits (Continued)

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

Normal cost	\$ 16,804
Amortization of unfunded liability	22,307
Interest	<u>775</u>
Annual required contribution (ARC)	<u>\$ 39,886</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, 2016 were as follows:

Annual required contribution (annual OPEB cost)	\$ 38,350
Town contributions paid (ARC offset – implicit subsidy)	<u>(7,764)</u>
OPEB liability expense	\$ 30,586
Beginning OPEB obligation balance	<u>86,167</u>
Net OPEB obligation	<u>\$ 116,753</u>
Percentage of annual OPEB contributed	<u>20.2%</u>

The unfunded actuarial accrued liability as a percentage of covered payroll for the year ended June 30, 2016 is as follows:

Actuarial valuation date	Jan 1, 2014
Actuarial accrued liability (AAL)	\$ 401,171
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 401,171</u>
Covered payroll	<u>\$2,475,876</u>
UAAL as a percentage of covered payroll	<u>16.2%</u>

Funding Status and Funding Progress (Continued)

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

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 5. LONG-TERM LIABILITIES (CONTINUED)

Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions

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

Actuarial valuation date	January 1, 2014
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level dollar open
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4%
Rate of salary increases	3%
Participation	7.45% of eligible employees
Increase in future medical costs	6.38% for pre-Medicare and 6.75% 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, 2016 arising from these transactions were as follows:

	<u>Receivable</u>	<u>Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 31,781	\$ 13,362	\$ 1,244,013
Special revenue fund	492,648	-	-	-
Capital projects fund	-	447,485	1,244,013	-
Permanent fund	-	13,347	-	13,362
Private purpose trust fund	-	35	-	-
	<u>\$ 492,648</u>	<u>\$ 492,648</u>	<u>\$ 1,257,375</u>	<u>\$ 1,257,375</u>

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

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 7. NET INVESTMENT IN CAPITAL ASSETS

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and leases payable, adding back any unspent proceeds. The Town's net investment in capital assets was calculated as follows at June 30, 2016:

Capital assets	\$ 47,400,027
Accumulated depreciation	(22,540,506)
Related capital leases	(285,921)
Related bonds payable	(16,964,916)
Unspent bond proceeds	<u>5,341,561</u>
Total balance	<u>\$ 12,950,245</u>

NOTE 8. RESTRICTED FOR GRANTS EXPENDITURES – SPECIAL REVENUE FUND

Special revenue – restricted for grants expenditures consisted of the following at June 30, 2016:

Community development	\$ 322,507
Revolving heating loans program	13,588
Micro revolving loans program	10,536
Revolving loan fund	366,645
Wellness program	341
Ballfield	27,680
Community center donations	14,069
Buckle up education	254
Lakes Environmental Association	737
Artists Plein Air Event	536
Dudley Corner School House	25
Records search	448
Run of River	515
Universal waste	17,325
Employee fundraising	1,484
Franchise fees	56,264
Opera House maintenance	14,531
Fuel assistance donations	2,413
Rescue Alive Sled donations	250
Law enforcement training and outfitting	1,403
Police Department child safety donations	14
USDA summer food grant	8,009
Byrne Justice Assistance grant	7,841
Move More Kids grant	10,898
Assistance to firefighters grant	355
Bulletproof vest grant	1,590
Underage drinking grant	966
Communities for Maine's Future grant	<u>260</u>
 Total	 <u>\$ 881,484</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 9. COMMITTED FOR CAPITAL EXPENDITURES - CAPITAL PROJECTS FUND

Capital projects – committed for capital expenditures consisted of the following at June 30, 2016:

Administration	\$ 30,329
Capacity	169,613
Catastrophic wages	10,381
Cemetery	30,124
Community & economic development	1,543
Creative playground maintenance	3,763
Dare program	6,477
Downtown TIF	186,613
Economic development Sappi TIF	2,184,547
Emergency management	22,657
Fire department	253,583
Legal fees	71,437
Municipal building renovation	84,646
Opera House renovations	1,606
Parks & recreation	20,676
Planning, ordinance administration	8,157
Police equipment repair/replace	11,462
Pollution control	408,949
Public works building	19,387
Public works equipment maintenance	19,870
Revaluation	509,256
Road project	251,292
Sale of town property	144,057
Second industrial park project	190,695
Solid waste disposal	20,738
Subdivisions	<u>65,315</u>
Total	<u>\$ 4,727,173</u>

NOTE 10. ASSIGNED FUND BALANCES FOR OTHER PURPOSES

General fund - assigned for other purposes consisted of the following at June 30, 2016:

IUUAL funds	\$ 35,536
General assistance donations	2,178
Economic development	<u>59,000</u>
Total	<u>\$ 96,714</u>

NOTE 11. SIGNIFICANT TAXPAYER

For the year ending June 30, 2016, the Town of Skowhegan received \$8,208,732 in property tax revenue from S.D. Warren, Inc. This amount represents 47.06% of total property taxes assessed.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 12. DEFINED BENEFIT PENSION PLAN

Maine Public Employees Retirement System

Eligible employees participate in the Maine Public Employees Retirement System's Participating Local District (PLD) Plan. The PLD plan is a multiple-employer cost sharing defined benefit plan. Eligible employers (districts) are defined in Maine statute.

Pension Benefits

Benefit terms are established in Maine statute; in the case of the PLD Consolidated Plan, an advisory group, also established by statute, reviews the terms of the plan and periodically makes recommendations to the Legislature to amend them. The System's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting occurs upon the earning of five years of service credit. In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62, or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. For PLD members, normal retirement age is 60 or 65. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below his/her normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 5.0%.

Contributions

Member and employer contribution rates are each a percentage of applicable member compensation. Member contribution rates are defined by law or Board rule and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined through actuarial valuations.

Contributions - PLD Plan

PLD plan members are required to contribute 7.5% or 9.0% of their annual salary to the plan. The Town is required to pay 8.9% or 11.4% of members' compensation. The Town had covered payroll of \$2,348,582 for the year ended June 30, 2016. Town contributions were as follows.

	Year ended 6/30/16		Year ended 6/30/15		Year ended 6/30/14	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Employer	\$ 239,365	10.2%	\$ 173,080	7.9%	\$ 145,300	6.9%
Employee	194,348	8.3%	170,300	7.7%	152,258	7.2%

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 12. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Net Pension Liability

The collective net pension liability measured as of June 30, 2015 was as follows:

	PLD Plan
Plan collective total pension liability	\$ 2,720,936,009
Less plan net position	<u>(2,401,889,308)</u>
Plan collective net pension liability	<u>\$ 319,046,701</u>

At June 30, 2016, the Town reported a liability for its proportionate share of the net pension liability. The amount recognized by the Town as its proportionate share of the net pension liability was \$1,603,714.

The net pension liability for the Town was measured as of June 30, 2015, and the total collective pension liability used to calculate the net pension liability was determined by actuarial valuations as of that date. The Town's proportionate share percentage of the collective net pension liability for the PLD Plan was 0.502658%, allocated based on adjusted contributions to the plan for the year ended June 30, 2015. This percentage was 0.511665% at the prior measurement date of June 30, 2014.

Pension Expense and Revenue

For the year ended June 30, 2016, the Town recognized pension expense of \$441,585 related to the PLD Plan, made up of the Town's proportionate share of plan pension expense \$433,257, and net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions \$8,328.

Deferred Outflows and Inflows of Resources

For the year ended June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PLD Plan	
	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 64,752	\$ 205,970
Changes of assumptions	141,725	-
Net difference between projected and actual investment earnings on pension plan investments	494,965	616,127
Changes in proportion and differences between employer contributions and proportionate share of contributions	31,384	20,130
Employer's contributions to plan subsequent to measurement date of collective net pension liability	<u>239,365</u>	<u>-</u>
Total	<u>\$ 972,191</u>	<u>\$ 842,227</u>

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 12. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred Outflows and Inflows of Resources (Continued)

\$239,365 reported as deferred outflows related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows and outflows will be recognized as pension expense as follows:

Year ended June 30	PLD Plan Amount
2017	\$ (61,691)
2018	(61,691)
2019	(109,759)
2020	<u>123,740</u>
	<u>\$ (109,401)</u>

Actuarial Assumptions

Actuarial Cost Method

The Entry Age Normal actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of two elements, the normal cost rate and the unfunded actuarial liability (UAL) rate.

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his expected future salary. The normal cost for each employee is the product of his pay and his normal cost rate. The normal cost for the group is the sum of the normal costs for all members.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial accrued liability.

Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swing in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

Amortization

The net pension liability of the PLD Consolidated Plan is amortized on a level percentage of payroll using a method where a separate twenty-year closed period is established for the gain or loss for that year.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2015 and June 30, 2014 are as follows:

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 12. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Investment Rate of Return – For the PLD Plan, 7.125% per annum for the year ended June 30, 2015, and 7.25% for the year ended June 30, 2014, compounded annually.

Salary Increases, Merit and Inflation – Members of the consolidated plan for PLDs, 3.5% to 9.5% per year.

Mortality Rates – For active members and non-disabled retirees of the PLD plan, the RP2000 Tables projected forward to 2015 using Scale AA are used; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

Cost of Living Benefit Increases – 2.55% for the year ended June 30, 2015, and 3.12% for the year ended June 30, 2014 for participating local districts.

Expected Rate of Return on Plan Assets

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S Equities	20%	5.2%
Non-U.S. Equities	20%	5.5%
Private Equity	10%	7.6%
Real Assets:		
Real Estate	10%	3.7%
Infrastructure	10%	4.0%
Hard Assets	5%	4.8%
Fixed Income	25%	0.7%

Changes in Assumptions

Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For the PLD Plan, the discount rate changed from 7.25% to 7.125% and the cost of living benefit increase assumption was changed from 3.12% to 2.55%.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 12. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the collective total pension liability was 7.125% for 2015 and 7.25% for 2014 for the PLD Plan. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity

The following table shows how the collective net pension liability/(asset) as of June 30, 2015 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.125% for the PLD Consolidated Plan.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
PLD Plan	\$635,635,545	\$319,046,701	\$18,900,921

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued MainePERS financial report that includes financial statements and required supplementary information for the PLD plan. That report may be obtained by calling 1-800-451-9800.

Payables to Pension Plan

At June 30, 2016, the Town had \$41,855 of outstanding payables to MainePERS, arising from legally required contributions to the pension plan for the fiscal year which had not been paid as of the end of the reporting period. The amount is due to be paid in July 2016, and the liability is reflected on both the fund financial statements and on the government-wide financial statements.

NOTE 13. INSURANCES AND 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 maintains various commercial insurance policies to mitigate these risks to an acceptable level and to limit the Town's exposure to losses.

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

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2016

NOTE 14. 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, 2016, the Town had established a reserve for uncollectible loans of \$30,798.

NOTE 15. COMMITMENTS

At June 30, 2016, the Town was committed to remaining construction contracts totaling approximately \$5,144,754.

NOTE 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
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts			Actual	Variance with Final Budget - Positive (Negative)
	Original	Changes**	Final*		
REVENUES					
Property taxes	\$ 17,443,101	\$ -	\$ 17,443,101	\$ 17,424,113	\$ (18,988)
Excise and miscellaneous taxes	1,105,000	-	1,105,000	1,493,710	388,710
Fees and fines	50,800	-	50,800	76,001	25,201
Licenses and permits	28,275	-	28,275	38,450	10,175
Intergovernmental	2,556,827	84,563	2,641,390	2,691,205	49,815
Charges for services	272,609	-	272,609	310,493	37,884
Investment and interest earnings	1,000	-	1,000	6,483	5,483
Contributions and reimbursements	44,207	-	44,207	51,875	7,668
Miscellaneous	11,713	33,024	44,737	85,050	40,313
Total revenues	21,513,532	117,587	21,631,119	22,177,380	546,261
EXPENDITURES					
Current					
General government	1,324,271	2,152	1,326,423	1,227,936	98,487
Protection	2,607,199	12,404	2,619,603	2,421,600	198,003
Public works	1,262,932	3,861	1,266,793	1,036,802	229,991
Waste water and pollution control	551,270	319	551,589	519,773	31,816
Solid waste management	816,065	1,196	817,261	792,026	25,235
Health and human services	160,198	91,259	251,457	244,761	6,696
Education	9,470,013	-	9,470,013	9,470,013	-
Parks and recreation	454,971	3,485	458,456	421,456	37,000
County tax	2,549,341	-	2,549,341	2,549,341	-
Cemeteries	83,716	-	83,716	82,733	983
Community services	139,367	-	139,367	139,367	-
Tax increment financing	74,029	(74,029)	-	-	-
Debt service					
Principal	1,349,450	2,758	1,352,208	1,352,208	-
Interest and other charges	453,549	153	453,702	433,687	20,015
Total expenditures	21,296,371	43,558	21,339,929	20,691,703	648,226
Excess of revenues over expenditures	217,161	74,029	291,190	1,485,677	1,194,487
OTHER FINANCING SOURCES (USES)					
Use of carryover fund balances	1,000,000	-	1,000,000	-	(1,000,000)
Overlay	(62,425)	-	(62,425)	-	62,425
Transfers in	13,500	-	13,500	13,362	(138)
Transfers out	(1,168,236)	(74,029)	(1,242,265)	(1,244,013)	(1,748)
Total other financing sources and (uses)	(217,161)	(74,029)	(291,190)	(1,230,651)	(939,461)
Net change in fund balances	\$ -	\$ -	\$ -	255,026	\$ 255,026
FUND BALANCES - BEGINNING				4,081,914	
FUND BALANCES - ENDING				\$ 4,336,940	

* includes assigned carryover accounts

** reclassification of budget and use of additional revenues

Town of Skowhegan, Maine
Schedule of the Town's Proportionate Share of the Net Pension Liability
Participating Local Districts Plan
Last 10 Fiscal Years*
For the years ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Town's proportion of the net pension liability	0.502658%	0.511665%	0.491303%							
Town's proportionate share of the net pension liability	\$ 1,603,714	\$ 787,356	\$ 1,514,487							
Town's covered-employee payroll	\$ 2,203,770	\$ 2,110,567	\$ 1,937,850							
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72.77%	37.31%	78.15%							
Plan fiduciary net position as a percentage of the total pension liability	88.27%	94.10%	87.50%							

* The amounts presented for each fiscal year available were determined as of June 30 of the previous year

**Town of Skowhegan, Maine
 Schedule of Town Contributions
 Participating Local Districts Plan
 Last 10 Fiscal Years*
 For the years ended June 30,**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 206,104	\$ 177,376	\$ 144,781							
Contributions in relation to the contractually required contribution	<u>(206,104)</u>	<u>(177,376)</u>	<u>(144,781)</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
Town's covered-employee payroll	\$ 2,203,770	\$ 2,110,567	\$ 1,937,850							
Contributions as a percentage of covered-employee payroll	9.35%	8.40%	7.47%							

* The amounts presented for each fiscal year available were determined as of June 30 of the previous year

**Town of Skowhegan, Maine
 Postretirement Employee Healthcare Plan -
 Schedule of Funding Progress
 For the Year Ended June 30, 2016**

	Year Ended June 30, 2016 Actuarial Valuation Date <u>January 1, 2014</u>	Year Ended June 30, 2015 Actuarial Valuation Date <u>January 1, 2014</u>	Year Ended June 30, 2014 Actuarial Valuation Date <u>January 1, 2014</u>	Year Ended June 30, 2013 Actuarial Valuation Date <u>January 1, 2011</u>	Year Ended June 30, 2012 Actuarial Valuation Date <u>January 1, 2011</u>
Actuarial value of assets	\$ -	\$ -	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	<u>401,171</u>	<u>401,171</u>	<u>401,171</u>	<u>316,310</u>	<u>316,310</u>
Unfunded actuarial accrued liability	<u>\$ 401,171</u>	<u>\$ 401,171</u>	<u>\$ 401,171</u>	<u>\$ 316,310</u>	<u>\$ 316,310</u>
Funded ratio	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Covered payroll	<u>\$ 2,475,876</u>	<u>\$ 1,991,954</u>	<u>\$ 2,256,750</u>	<u>\$ 2,290,756</u>	<u>\$ 2,209,374</u>
UAAL as a percentage of covered payroll	<u>16.20%</u>	<u>20.14%</u>	<u>17.78%</u>	<u>13.81%</u>	<u>14.32%</u>

Town of Skowhegan, Maine
Combining Schedule of Revenues, Expenses and
Changes in Fund Balances - Permanent Fund
For the Year Ended June 30, 2016

	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	\$ -	\$ -	\$ 8,375	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,375
Capital gains (losses)	-	-	850	7	19	13	22	12	1	227	14	2	1,167
Unrealized gain (losses)	-	-	2,154	16	50	35	59	33	3	601	37	5	2,993
Transfers	-	-	-	(57)	-	(117)	(200)	-	-	-	-	-	(374)
Net revenues	-	-	11,379	(34)	69	(69)	(119)	45	4	828	51	7	12,161
Fund balance, beginning	-	-	384,629	5,345	12,007	11,167	19,093	10,222	959	193,558	9,567	998	647,545
Fund balance, ending	\$ -	\$ -	\$ 396,008	\$ 5,311	\$ 12,076	\$ 11,098	\$ 18,974	\$ 10,267	\$ 963	\$ 194,386	\$ 9,618	\$ 1,005	\$ 659,706
UNDESIGNATED													
Revenues													
Investment income and other	\$ 200	\$ 63	\$ 6,056	\$ 43	\$ 128	\$ 89	\$ 153	\$ 82	\$ 8	\$ 1,538	\$ 95	\$ 13	\$ 8,468
Contributions	5,455	-	-	-	-	-	-	-	-	-	-	-	5,455
Unrealized gain (loss)	64	22	-	-	-	-	-	-	-	-	-	-	86
Transfers	-	-	(13,362)	57	-	117	200	-	-	-	-	-	(12,988)
Expenses	(4,903)	-	(116)	(57)	-	(117)	(200)	-	(10)	(2,500)	-	-	(7,903)
Excess (deficiency) of revenues over expenditures	816	85	(7,422)	43	128	89	153	82	(2)	(962)	95	13	(6,882)
Fund balance, beginning	21,210	7,119	337,973	251	4,477	413	736	444	22	5,695	2,672	589	381,601
Fund balance, ending	\$ 22,026	\$ 7,204	\$ 330,551	\$ 294	\$ 4,605	\$ 502	\$ 889	\$ 526	\$ 20	\$ 4,733	\$ 2,767	\$ 602	\$ 374,719
TOTAL PRINCIPAL AND UNDESIGNATED FUND BALANCE, ENDING	\$ 22,026	\$ 7,204	\$ 726,559	\$ 5,605	\$ 16,681	\$ 11,600	\$ 19,863	\$ 10,793	\$ 983	\$ 199,119	\$ 12,385	\$ 1,607	\$ 1,034,425

Town of Skowhegan, Maine
Taxes Receivable, Tax Liens and Tax Acquired Property
General Fund
June 30, 2016

Taxes receivable	
2016	\$ 500,446
2015	6,324
2014 and prior	<u>27,354</u>
Total taxes receivable	<u>534,124</u>
Tax liens and tax acquired property	
2015	151,740
2014	7,216
2013 and prior	<u>11,978</u>
Total tax liens and tax acquired property	<u>170,934</u>
Total taxes receivable, tax liens and tax acquired property	<u><u>\$ 705,058</u></u>



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Independent Auditor's 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

To the Board of Selectmen
Town of Skowhegan, Maine

We have audited, in accordance with the 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, 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, 2016, and the related notes to the financial statements, which collectively comprise the Town of Skowhegan, Maine's basic financial statements and have issued our report thereon dated March 28, 2017. Our report includes a reference to other auditors who audited the Schedules of Pension Amounts by Employer reported by the State of Maine Public Employees Retirement System, as described in our report on the Town of Skowhegan, Maine's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Skowhegan, Maine's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town of Skowhegan, Maine's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questions costs, we identified a certain deficiency in internal control 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 described in the accompanying schedule of findings and questioned costs as item #2016-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Skowhegan, Maine's financial statements are free from 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 March 28, 2017.

Town of Skowhegan, Maine's Response to Findings

Town of Skowhegan, Maine's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Skowhegan, Maine's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brantner Shibodan & Associates

March 28, 2017

**Independent Auditor's Report on Compliance For Each Major Program
and on Internal Control over Compliance Required by the Uniform Guidance**

Board of Selectmen
Town of Skowhegan, Maine

Report on Compliance for Each Major Federal Program

We have audited the Town of Skowhegan, Maine's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the Town of Skowhegan, Maine's major federal programs for the year ended June 30, 2016. Town of Skowhegan, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Skowhegan, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Skowhegan, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Skowhegan, Maine's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Skowhegan, Maine, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Town of Skowhegan, Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Skowhegan, Maine's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Skowhegan, Maine's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brantley Whibodan & Associates

March 28, 2017

Town of Skowhegan, Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number/ Grant Number	Disburse- ments/ Expenditures
<i>U.S. Department of Agriculture</i> <i>Food and Nutrition Service</i> Summer Food Service for Children	10.559	013-05A-3018-05	\$ <u>29,942</u>
<i>U.S. Department of Justice</i> <i>Passed through State of Maine Department of Public Safety</i> Edward Byrne Memorial Justice Assistance Grant	16.738	VC1000084876	<u>25,653</u>
<i>U.S. Department of Transportation</i> <i>Passed through State of Maine Bureau of Highway Safety</i> State and Community Highway Safety	20.600	SCE-10-11	13,000
Alcohol traffic safety and drunk driving prevention	20.601	SCE-10-11	442
Occupant protection	20.602	SCE-10-11	3,703
<i>Total U.S. Department of Transportation</i>			<u>17,145</u>
<i>Department Housing & Urban Development</i> <i>Passed through Office of Community Planning & Development</i> Community Dev. Block Grant - 2015 Micro Enterprise Façade Program Grant	14.228	015-19A0587-012-6331	<u>92,094</u>
<i>Department of Homeland Security</i> Assistance to Firefighters Grant	97.044	2008-GS-T8-0037	<u>190,675</u>
<i>U.S. Environmental Protection Agency</i> <i>Passed through State Department of Environmental Protection</i> Capitalization Grants for Clean Water State Revolving Funds - Recovery	66.458	C 230065-05	<u>3,405,123</u>
Total expenditures of federal awards			<u>\$ 3,760,632</u>
Supplemental disclosure:			
Clean Water State Revolving Loan Fund			
Loan beginning balance			\$ 11,286,000
Loan payments			<u>(594,000)</u>
Loan ending balance			<u>\$ 10,692,000</u>

Town of Skowhegan, Maine
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

PURPOSE OF THE SCHEDULE

The Uniform Guidance requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal award program as identified in the catalog of Federal Domestic Assistance (CFDA).

SIGNIFICANT ACCOUNTING POLICIES

1. REPORTING ENTITY

The accompanying schedule includes all federal award programs of the Town for the fiscal year ended June 30, 2016. The reporting entity is defined in the Notes to the Basic Financial Statements of Town of Skowhegan, Maine.

2. BASIS OF PRESENTATION

The information in this schedule is presented in accordance with the requirements of requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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

3. BASIS OF ACCOUNTING

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

LOAN BALANCES

4. CSO BOND PAYABLE

The Town had \$10,692,000 in outstanding clean water revolving funds bonds payable which were funded by federal awards at June 30, 2016. Of this total, \$5,341,561 is unspent bond proceeds held by the Maine Municipal Bond Bank to be drawn down as the funds are expended.

**Town of Skowhegan, Maine
Schedule of Findings and Questioned Costs
Year ended June 30, 2016**

Section I — Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP - *Unmodified opinion*

Internal control over financial reporting

- Material weakness(es) identified? - yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? - yes none reported
- Noncompliance material to financial statements noted? - yes no

Federal Awards

Internal control over major programs

- Material weakness(es) identified? - yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? - yes none reported

Type of auditor’s report issued on compliance for major programs - *Unmodified opinion*

Any audit findings disclosed that are required to be reported in accordance with the 2 CFR 200.516(a)? - yes no

Identification of major programs

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

Dollar threshold used to distinguish between Type A and Type B programs - \$750,000

Auditee qualified as low-risk auditee? - yes no

Town of Skowhegan, Maine
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2016

Section II — Financial Statement Findings

	#2016-001
<i>Criteria or specific requirement</i>	Prevent or detect misstatements as part of the Town's internal control process.
<i>Condition</i>	During the performance of our audit procedures, we noted that the Town had not adjusted several account balances to reflect appropriate year-end balances in conformance with generally accepted accounting principles. This is a necessary step to ensure the financial statements are fairly stated. The unadjusted and unrecorded amounts were, in our judgment, material to the financial statements. The Town subsequently recorded the amounts.
<i>Context</i>	The Town had materially inaccurate ending balances in some accounts that were not adjusted to correct year end balances including capitalizing and depreciating assets accurately.
<i>Effect</i>	The Town may not be able to identify an error or misstatement in the financial statements.
<i>Cause</i>	The Town's control policies and procedures did not prevent or detect the material misstatements of the financial statements, particularly in the areas of financial closing and adjusting entries, capital assets schedule maintenance for infrastructure and ongoing construction in progress and proper recording and classification of prepaid expenses and accounts payable.
<i>Recommendation</i>	We recommend that management review its accounting procedures for financial closing, for capital assets tracking for infrastructure and ongoing construction in progress, and for accurately summarizing and reconciling activity of the various funds of the Town, and implement procedures to ensure that balances are complete and are reported using generally accepted accounting principles and misstatements are minimized.
<i>Management's response</i>	<i>The Town has already implemented changes to our year-end and monthly reconciliation and closing process as well as our capital assets procedures as recommended.</i>

Section III — Federal Award Findings and Questioned Costs

<i>Criteria or specific requirement (including statutory, regulatory, or other citation)</i>	None
<i>Condition</i>	
<i>Questioned costs</i>	
<i>Context</i>	
<i>Effect</i>	
<i>Cause</i>	
<i>Recommendation</i>	
<i>Management's response</i>	

Town of Skowhegan, Maine
Summary Schedule of Prior Findings and Questioned Costs
Year ended June 30, 2016

#2015-001

Condition

During the performance of our audit procedures, we noted that management had not adjusted all account balances to reflect appropriate year-end balances in conformance with generally accepted accounting principles. This is a necessary step to ensure the financial statements are fairly stated. The unadjusted and unrecorded amounts were, in our judgment, significant to the financial statements. Management subsequently recorded the amounts. The Town had an ineffective system of internal controls over financial reporting, particularly in the areas of financial closing and adjusting entries, capital assets schedule maintenance, reconciliations of special revenues and capital projects funds activity, and proper recording and classification of interfund activity, accounts receivable, and accounts payable.

Current Status

Management has not implemented corrections to effectively address all areas of the deficiency, so the condition remains an issue in the year ended June 30, 2016.