

Town of Skowhegan, Maine

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended June 30, 2022

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Independent Auditor's Report

Board of Selectmen
Town of Skowhegan, Maine

Report on the Financial Statements

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Skowhegan, Maine, as of June 30, 2022 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Skowhegan, Maine, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Town of Skowhegan, Maine's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Town of Skowhegan, Maine's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Town of Skowhegan, Maine's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and OPEB information on pages 7 through 14 and page 51 through 56 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.

Supplementary Information

The other supplementary information on Schedules 1 and 2 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2023, on our consideration of the Town of Skowhegan, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Skowhegan, Maine's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Skowhegan, Maine's internal control over financial reporting and compliance.

Brantley Shibodan & Associates

May 16, 2023

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2022

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, 2022. 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 207-474-6905.

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 \$33,802,414 for the year ended June 30, 2022. The current year's governmental activities and component unit financial statements are compared with prior year as follows:

| | Governmental Activities | | Component Unit | |
|-------------------------------------|--------------------------------|----------------------|-----------------------|---------------------|
| | 06/30/22 | 06/30/21 | 06/30/22 | 06/30/21 |
| Current and other assets | \$ 27,946,380 | \$ 27,333,097 | \$ 529,746 | \$ 573,580 |
| Capital Assets, net | <u>28,759,597</u> | <u>28,642,090</u> | <u>1,207,068</u> | <u>1,302,542</u> |
| Total Assets | <u>56,705,977</u> | <u>55,981,187</u> | <u>1,736,814</u> | <u>1,876,122</u> |
| Deferred outflows of resources | <u>1,302,961</u> | <u>841,356</u> | <u>-</u> | <u>-</u> |
| Current liabilities | 700,777 | 1,376,152 | 19,206 | 171,614 |
| Noncurrent liabilities | <u>21,073,952</u> | <u>24,485,420</u> | <u>-</u> | <u>52,500</u> |
| Total liabilities | <u>21,774,729</u> | <u>25,861,572</u> | <u>19,206</u> | <u>224,114</u> |
| Deferred inflows of resources | <u>2,431,795</u> | <u>208,654</u> | <u>-</u> | <u>-</u> |
| Net Position: | | | | |
| Net investment in capital assets | 16,935,048 | 16,267,707 | 1,187,862 | 1,250,042 |
| Restricted | 12,259,227 | 12,478,850 | - | - |
| Unrestricted | <u>4,608,139</u> | <u>2,005,760</u> | <u>529,746</u> | <u>401,966</u> |
| Total Net Position | <u>\$ 33,802,414</u> | <u>\$ 30,852,317</u> | <u>\$ 1,717,608</u> | <u>\$ 1,652,008</u> |

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2022 and 2021:

| | Governmental Activities | | Component Unit | |
|---|----------------------------|---------------------|---------------------|---------------------|
| | 06/30/22 | 06/30/21 | 06/30/22 | 06/30/21 |
| REVENUES: | | | | |
| Program revenues: | | | | |
| Charges for services | \$ 427,537 | \$ 306,690 | \$ 104,642 | \$ 137,790 |
| Operating grants and contributions | 432,438 | 583,100 | 40,000 | - |
| Capital grants and contributions | 1,394,130 | 560,363 | - | - |
| General revenues: | | | | |
| Property taxes | 15,907,767 | 15,228,724 | - | - |
| Excise and miscellaneous taxes | 1,749,707 | 1,758,529 | - | - |
| Interest and lien costs | 58,529 | 72,034 | - | - |
| Grants and contributions not restricted to specific programs | 6,685,604 | 6,410,063 | - | - |
| Investment earnings (loss) | (223,358) | 17,668 | 608 | 595 |
| Miscellaneous | 218,090 | 145,813 | - | - |
| Total revenues | <u>26,650,444</u> | <u>25,082,984</u> | <u>145,250</u> | <u>138,385</u> |
| EXPENSES: | | | | |
| General government | \$ 1,896,595 | \$ 1,724,963 | - | - |
| Public safety | 3,347,898 | 3,205,539 | - | - |
| Public works | 2,775,077 | 3,165,635 | - | - |
| Pollution control | 574,532 | 583,514 | - | - |
| Solid waste facility | 1,259,170 | 892,691 | - | - |
| Health and human services | 116,276 | 155,855 | - | - |
| Education | 9,130,562 | 8,892,737 | - | - |
| Culture and recreation | 603,911 | 507,642 | - | - |
| County tax | 2,666,111 | 2,556,947 | - | - |
| Cemetery maintenance | 116,787 | 114,950 | - | - |
| Community services | 320,000 | 309,000 | - | - |
| Grant and other special revenue program expense | 343,295 | 182,707 | - | - |
| Community and economic development | - | - | 198,320 | 155,374 |
| Interest on long-term debt | 382,602 | 351,448 | - | - |
| Capital outlay | 45,250 | 825,621 | - | - |
| Total expenses | <u>23,578,066</u> | <u>23,469,249</u> | <u>198,320</u> | <u>155,374</u> |
| Excess (deficiency) before Contributions and special items | <u>3,072,378</u> | <u>1,613,735</u> | <u>(53,070)</u> | <u>(16,989)</u> |
| Contributions to permanent fund | 15,013 | 14,174 | - | - |
| Special item – Gain(loss) on disposal of assets | 15,650 | (35,939) | - | - |
| Change in net position | <u>3,103,041</u> | <u>1,596,970</u> | <u>(53,070)</u> | <u>38,738</u> |
| Net position – beginning | 30,752,317 | 29,155,343 | 1,652,008 | 1,613,270 |
| Restatement for prior year | (52,944) | - | 118,670 | - |
| Net position – beginning, restated | <u>30,699,373</u> | <u>29,155,343</u> | <u>1,770,678</u> | <u>1,613,270</u> |
| Net position –ending | <u>\$33,802,414</u> | <u>\$30,752,317</u> | <u>\$ 1,717,608</u> | <u>\$ 1,652,008</u> |

GOVERNMENTAL ACTIVITIES

The cost of all Governmental activities this year was \$23,578,066. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through Town property and excise taxes was only \$17,657,474 , because some of the cost was paid by those who directly benefited from the programs, or by other governments and organizations that subsidized certain programs, capital grants and contributions. Overall, the Town's governmental program revenues, including intergovernmental aid and fees for services, were \$2,254,105. 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>2022 Net (Expense)</u> | <u>2021 Net (Expense)</u> |
|--|---------------------------|---------------------------|
| Governmental Activities | | |
| General government | \$ (1,771,161) | \$ (1,606,608) |
| Public safety | (3,048,747) | (2,913,678) |
| Public works | (2,619,622) | (3,020,343) |
| Pollution control | (574,532) | (439,502) |
| Solid waste facility | (1,095,497) | (783,800) |
| Health and human services | (72,305) | (106,350) |
| Education | (9,130,562) | (8,892,737) |
| Culture and recreation | (546,810) | (488,758) |
| County tax | (2,666,111) | (2,556,947) |
| Cemetery maintenance | (101,597) | (101,960) |
| Community services | (320,000) | (309,000) |
| Grant and other special revenue program expense | 783,553 | 36,797 |
| Interest on long-term debt | (382,602) | (351,448) |
| Capital outlay | <u>222,032</u> | <u>(484,762)</u> |
| Total governmental activities | <u>\$ (21,323,961)</u> | <u>\$ (22,019,096)</u> |

Total resources available during the year to finance governmental operations consisted of beginning net position of \$30,752,317, less a restatement of \$(52,944), program revenues of \$2,254,105, general revenues of \$24,396,339, a gain on disposal of capital assets of \$15,650. and contributions to permanent fund principal of \$15,013. Total governmental activities expenses during the year were \$23,578,066; thus net position was increased by \$3,103,041 to \$33,802,414.

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, 2022.

| | 2022 |
|----------------------------|----------------------|
| General government | \$ 1,683,835 |
| Public safety | 3,341,608 |
| Public works | 1,437,976 |
| Pollution control | 555,678 |
| Solid waste facility | 906,376 |
| Health and human services | 120,694 |
| Education | 9,130,562 |
| Culture and recreation | 536,876 |
| County tax | 2,666,111 |
| Cemetery maintenance | 116,787 |
| Community services | 320,000 |
| Grant program expenses | 455,384 |
| Debt Service: | |
| Principal | 1,433,758 |
| Interest and other charges | 406,426 |
| Capital outlay | <u>2,412,561</u> |
| Total Expenditures | <u>\$ 25,524,632</u> |

The Town also maintained Fiduciary Private Purpose Trust funds with a total net position of \$724,752 at June 30, 2022. The net position increased by \$12,551 from June 30, 2021.

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, 2022, net capital assets of the governmental activities increased by \$117,507 to a total of \$28,759,597 and the net capital assets of the component unit decreased by \$95,474 to a total \$1,207,068. Depreciation on capital assets is recognized in the Government-Wide financial statements. Additional information is provided in Note 3 of this report.

DEBT ADMINISTRATION

The governmental activities debt summary for the year ended June 30, 2022 is presented below:

| | <u>2022</u> |
|---------------------------------------|----------------------|
| Wastewater treatment facility upgrade | \$ 480,000 |
| Wastewater lines upgrade | 7,128,000 |
| Clean water revolving loan | 1,996,500 |
| Public safety building construction | 8,900,000 |
| Capital leases | <u>2,075,764</u> |
| Total debt | <u>\$ 20,580,264</u> |

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|------------------------------------|------------------------------|------------------|----------------------|---------------------------|
| Governmental Activities | | | | |
| Bonds payable | \$19,671,250 | \$ - | \$(1,166,750) | \$18,504,500 |
| Capital lease obligations | 2,342,772 | - | (267,008) | 2,075,764 |
| Net Pension liability (asset) | 1,918,525 | - | (2,079,566) | (161,041) |
| Net OPEB liability | <u>552,873</u> | <u>-</u> | <u>(59,185)</u> | <u>493,688</u> |
| Total governmental activities | <u>\$24,485,420</u> | <u>\$ -</u> | <u>\$ 3,572,509)</u> | <u>\$20,912,911</u> |

BUDGETS AND BUDGETARY ACCOUNTING

The following is a discussion of the general fund budgetary activity during the fiscal year ended June 30, 2022:

During the year actual revenues exceeded budgeted revenues by \$572,912. Most of this variance resulted from under budgeted excise tax revenues, intergovernmental revenue, and charges for services.

Budgeted expenditures were higher than actual expenditures by \$832,578 with the utilization of designated carryover balances.

The major budget variances for the year ended June 30, 2022 were as follows:

1. General government expenditures \$145,054 under budget due to savings in personnel costs and contracted services.
2. Public Safety expenditures \$217,094 under budget due to savings in personnel costs.
3. Public Works expenditures \$204,316 under budget due to savings in personnel costs and sand, salt, and cold patch.
4. Excise tax revenues \$244,707 over budget due to conservative budgeting of this line item.
5. State Revenue Sharing \$240,881 over budget due to conservative State projections
6. Solid Waste revenues \$110,673 over budget due to conservative budgeting of this line item.
7. Solid Waste expenditures \$10,085 over budget due to increased disposal costs.

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 2023, 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, in 2016 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. The tax rate also increased a few years ago because we started making bond payments from general taxation for the Combined Sewer Overflow construction project. Fortunately, in subsequent years the paper mill made substantial investments, which included a paper machine rebuild, with another rebuild planned.

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. Unexpectedly, real estate and excise tax collection rates increased during the pandemic. This may be due in part to taxpayer access to federal stimulus funds. We cannot be certain that this increase in revenue will continue post-pandemic. 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 in a new Public Safety Building will be a major factor of the increase in the coming years. The current Fire Station was built in 1904 and has major structural issues. The Police Department is housed in the basement of the Municipal Building and is unable to meet our current needs. The new combined facility will allow for efficient use of space with a large portion shared by both departments. The Public Safety Building will meet both our current and future needs.

Other major increases in operational budgets are caused by the increase in the costs of operating. The economy and inflation are driving this. Wages must increase as minimum wage and compensation rates in the labor market have recently changed significantly. 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 2023 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 potential for declining revenues, changes to homestead exemption and the BETR and BETE programs, 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 for reserve accounts in the past, the Town had not replaced some of its older equipment for numerous years or in some cases has had to lease equipment. These reductions helped 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. In the last few years, the Town has started to place more emphasis on setting aside funds every year for infrastructure projects and future equipment replacement in order to reduce repair costs, and we need to continue this trend.

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 Skowhegan River Park. The Skowhegan River Park 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 Skowhegan River Park 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.

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, 2022

| | Governmental Activities | Component Unit Skowhegan Economic Development Corporation |
|---|------------------------------------|--|
| ASSETS | | |
| Cash and cash equivalents | \$ 361,358 | \$ 235,918 |
| Restricted cash | 5,050,194 | 119,967 |
| Investments | 16,788,271 | - |
| Taxes receivable, net | 806,613 | - |
| Accounts receivable | 77,529 | 1,910 |
| Due from other governmental agencies | 263,739 | - |
| Due from Maine Bond Bank | 940,203 | - |
| Prepaid expenses | 3,032,034 | - |
| Notes receivable | - | 171,951 |
| Loans receivable, net of allowance for doubtful accounts of \$33,568 (governmental activities) | 430,656 | - |
| Net pension asset | 161,041 | - |
| Lease fees, net of amortization | 34,742 | - |
| Capital assets not being depreciated | 2,066,202 | 28,693 |
| Capital assets being depreciated, net | 26,693,395 | 1,178,375 |
| Total assets | 56,705,977 | 1,736,814 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows related to pensions | 1,175,971 | - |
| Deferred outflows related to OPEB | 126,990 | - |
| Total deferred outflows of resources | 1,302,961 | - |
| LIABILITIES | | |
| Accounts payable and accrued expenses | 393,574 | - |
| Due to other governmental agencies | 521 | - |
| Due to pension plan | 69,904 | - |
| Unearned revenue | 751 | - |
| Accrued compensated absences | 151,151 | - |
| Accrued interest | 84,876 | - |
| Long-term liabilities | | |
| Due within one year | | |
| Capital lease obligations | 184,965 | - |
| Bonds and notes payable | 1,611,750 | 19,206 |
| Due in more than one year | | |
| Capital lease obligations | 1,890,799 | - |
| Bonds and notes payable | 16,892,750 | - |
| Net other postemployment benefit obligation | 493,688 | - |
| Total liabilities | 21,774,729 | 19,206 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows related to pensions | 2,235,156 | - |
| Deferred inflows related to OPEB | 174,162 | - |
| Prepaid taxes | 22,477 | - |
| Total deferred inflows of resources | 2,431,795 | - |
| NET POSITION | | |
| Net investment in capital assets | 16,935,048 | 1,187,862 |
| Restricted, non-expendable for | | |
| Permanent funds principal | 682,573 | - |
| Restricted, expendable for | | |
| Permanent funds income | 326,569 | - |
| Capital projects | 8,920,370 | - |
| Special revenue funds | 2,329,715 | - |
| Unrestricted | 4,608,139 | 529,746 |
| Total net position | \$ 33,802,414 | \$ 1,717,608 |

See accompanying notes to the basic financial statements.

Town of Skowhegan, Maine
Balance Sheet
Governmental Funds
June 30, 2022

| | General Fund | Special Revenue Fund | Capital Projects Fund | Permanent Fund | Total Governmental Funds |
|---|---------------------|-------------------------------------|--------------------------------------|---------------------------|---|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,832 | \$ 359,526 | \$ - | \$ - | \$ 361,358 |
| Restricted cash | | | 5,050,194 | | 5,050,194 |
| Investments | 6,988,842 | - | 8,790,137 | 1,009,292 | 16,788,271 |
| Taxes receivable, net | 806,613 | - | - | - | 806,613 |
| Accounts receivable | 62,677 | 14,852 | - | - | 77,529 |
| Due from other governmental agencies | 257,462 | 6,277 | - | - | 263,739 |
| Due from Maine Bond Bank | - | - | 940,203 | - | 940,203 |
| Interfund receivables | - | 1,519,155 | - | - | 1,519,155 |
| Prepaid expenses | - | - | 3,032,034 | - | 3,032,034 |
| Loans receivable, net of allowance for doubtful accounts of \$33,568 | - | 430,656 | - | - | 430,656 |
| Total assets | <u>\$ 8,117,426</u> | <u>\$ 2,330,466</u> | <u>\$ 17,812,568</u> | <u>\$ 1,009,292</u> | <u>\$ 29,269,752</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 325,012 | \$ - | \$ 44,943 | \$ - | \$ 369,955 |
| Interfund payables | 985,241 | - | 533,764 | 150 | 1,519,155 |
| Payable to other governments | 521 | - | - | - | 521 |
| Due to pension plan | 69,904 | - | - | - | 69,904 |
| Unearned revenue | - | 751 | - | - | 751 |
| Other accrued expenses | 23,618 | - | - | - | 23,618 |
| Total liabilities | <u>1,404,296</u> | <u>751</u> | <u>578,707</u> | <u>150</u> | <u>1,983,904</u> |
| Deferred inflows of resources | | | | | |
| Prepaid taxes | 22,477 | - | - | - | 22,477 |
| Unavailable property taxes | 531,197 | - | - | - | 531,197 |
| Total deferred inflows of resources | <u>553,674</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>553,674</u> |
| Fund balances | | | | | |
| Nonspendable for | | | | | |
| Trust fund principal | - | - | - | 682,573 | 682,573 |
| Loans receivable | - | 430,656 | - | - | 430,656 |
| Prepaid expenses | - | - | 3,032,034 | - | 3,032,034 |
| Restricted for | | | | | |
| Trust fund income | - | - | - | 326,569 | 326,569 |
| Capital projects | - | - | 5,888,336 | - | 5,888,336 |
| Special revenue funds | - | 1,899,059 | - | - | 1,899,059 |
| Committed for | | | | | |
| Capital projects | - | - | 8,313,491 | - | 8,313,491 |
| Health reimbursement account | 132,957 | - | - | - | 132,957 |
| Assigned for | | | | | |
| Other purposes | 2,980 | - | - | - | 2,980 |
| Unassigned | 6,023,519 | - | - | - | 6,023,519 |
| Total fund balances | <u>6,159,456</u> | <u>2,329,715</u> | <u>17,233,861</u> | <u>1,009,142</u> | <u>26,732,174</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 8,117,426</u> | <u>\$ 2,330,466</u> | <u>\$ 17,812,568</u> | <u>\$ 1,009,292</u> | <u>\$ 29,269,752</u> |

Town of Skowhegan, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2022

| | | |
|---|----|--------------|
| Total fund balance, governmental funds | \$ | 26,732,174 |
| 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. | | |
| | | 28,794,339 |
| 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 | | 531,197 |
| Certain deferred outflows of resources and deferred inflows of resources related to pensions, OPEB and lease obligations 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 | \$ | 1,175,971 |
| Deferred inflows related to pensions | | (2,235,156) |
| Deferred outflows related to OPEB | | 126,990 |
| Deferred inflows related to OPEB | | (174,162) |
| | | (1,106,357) |
| Some liabilities, (such as Accrued interest, Capital Lease Contract Payable, Accrued Compensated Absences, 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. | | |
| | | (21,148,938) |
| Net Position of Governmental Activities in the Statement of Net Position | \$ | 33,802,415 |

Town of Skowhegan, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2022

| | General Fund | Special Revenue Fund | Capital Projects Fund | Permanent Fund | Total Governmental Funds |
|---|---------------------|----------------------------|-----------------------------|---------------------|--------------------------------|
| REVENUES | | | | | |
| Property taxes | \$ 15,796,577 | \$ - | \$ - | \$ - | \$ 15,796,577 |
| Excise and miscellaneous taxes | 1,749,707 | - | - | - | 1,749,707 |
| Fees and fines | 64,131 | - | - | - | 64,131 |
| Licenses and permits | 52,434 | - | - | - | 52,434 |
| Intergovernmental | 6,879,967 | 1,126,848 | 250,701 | - | 8,257,516 |
| Charges for services | 564,242 | - | - | - | 564,242 |
| Investment and interest earnings (losses) | 6,319 | 10,990 | (195,979) | (28,107) | (206,777) |
| Contributions and reimbursements | 30,304 | - | - | 15,013 | 45,317 |
| Miscellaneous | 231,119 | - | - | - | 231,119 |
| Total revenues | 25,374,800 | 1,137,838 | 54,722 | (13,094) | 26,554,266 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| General government | 1,683,835 | - | - | - | 1,683,835 |
| Protection | 3,341,608 | - | - | - | 3,341,608 |
| Public works | 1,437,976 | - | - | - | 1,437,976 |
| Waste water and pollution control | 555,678 | - | - | - | 555,678 |
| Solid waste management | 906,376 | - | - | - | 906,376 |
| Health and human services | 120,694 | - | - | - | 120,694 |
| Education | 9,130,562 | - | - | - | 9,130,562 |
| Parks and recreation | 536,876 | - | - | - | 536,876 |
| County tax | 2,666,111 | - | - | - | 2,666,111 |
| Cemeteries | 111,666 | - | - | 5,121 | 116,787 |
| Community services | 320,000 | - | - | - | 320,000 |
| Grant and other program expenses | - | 455,384 | - | - | 455,384 |
| Debt service | | | | | |
| Principal | 1,433,758 | - | - | - | 1,433,758 |
| Interest and loan fees | 406,426 | - | - | - | 406,426 |
| Capital outlay | - | - | 2,412,561 | - | 2,412,561 |
| Total expenditures | 22,651,566 | 455,384 | 2,412,561 | 5,121 | 25,524,632 |
| Excess (deficiency) of revenues over expenditures | 2,723,234 | 682,454 | (2,357,839) | (18,215) | 1,029,634 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Gain (loss) on disposal of assets | - | - | 15,650 | - | 15,650 |
| Transfers in | 131,102 | - | 2,688,188 | - | 2,819,290 |
| Transfers out | (2,688,188) | - | (111,526) | (19,576) | (2,819,290) |
| Total other financing sources (uses) | (2,557,086) | - | 2,592,312 | (19,576) | 15,650 |
| Net change in fund balances | 166,148 | 682,454 | 234,473 | (37,791) | 1,045,284 |
| FUND BALANCES - BEGINNING | 6,046,252 | 1,647,261 | 16,999,388 | 1,046,933 | 25,739,834 |
| Restatement of prior year receivable (Note 18) | (52,944) | - | - | - | (52,944) |
| FUND BALANCES - BEGINNING, RESTATED | 5,993,308 | 1,647,261 | 16,999,388 | 1,046,933 | 25,686,890 |
| FUND BALANCES - ENDING | \$ 6,159,456 | \$ 2,329,715 | \$ 17,233,861 | \$ 1,009,142 | \$ 26,732,174 |

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, 2022

Net change in fund balances - total governmental funds: \$ 1,045,284

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 | \$ 2,479,400 | |
| Depreciation | <u>(2,364,565)</u> | 114,835 |

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.

111,191

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 | \$ 477,450 | |
| Deferred inflows related to pensions | (2,155,728) | |
| Deferred outflows related to OPEB | (15,845) | |
| Deferred inflows related to OPEB | <u>(72,885)</u> | (1,767,008) |

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 | \$ <u>1,433,758</u> | 1,433,758 |
|---------------|---------------------|-----------|

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 | \$ 2,407 | |
| Accrued interest | 23,824 | |
| Net pension expense | 1,918,524 | |
| Net OPEB expense | <u>59,185</u> | <u>2,003,940</u> |

| | | |
|---|----------------------------|--|
| Change in net position of governmental activities | \$ <u><u>2,942,000</u></u> | |
|---|----------------------------|--|

Town of Skowhegan, Maine
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2022

| | Private Purpose Trust Funds |
|--|--|
| ASSETS | |
| Cash and cash equivalents | \$ 457,136 |
| Loans receivable, net of allowance of \$21,337 | 267,616 |
| Total assets | 724,752 |
| NET POSITION | |
| Held in trust for benefits and other purposes | \$ 724,752 |

Town of Skowhegan, Maine
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2022

| | <u>Private Purpose Trust Funds</u> |
|---------------------------------|--|
| ADDITIONS | |
| Income | |
| Interest | \$ 898 |
| Dividend contributions | 16,302 |
| | <u>17,200</u> |
| Total additions | 17,200 |
| DEDUCTIONS | |
| Bad debts write off | <u>4,649</u> |
| Change in net position | 12,551 |
| NET POSITION - BEGINNING | <u>712,201</u> |
| NET POSITION - ENDING | <u><u>\$ 724,752</u></u> |

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

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, 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 Towns* 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 (207) 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, 2022

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, 2022

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. Cash, Cash Equivalents and Investments

For purposes of the statement of net position, cash and cash equivalents includes all demand and savings accounts, and bank 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, 2022

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 net OPEB liability.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

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.

The Town has a small number of employees participating in a discontinued post-retirement 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.

6. Pensions and Other Post Retirement Benefits Obligations (OPEB)

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

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, 2022

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, 2021 and were due on October 22, 2021, and March 15, 2022. Interest was charged at 6% 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, 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

10. Revenue Recognition - Property Taxes (Continued)

For purposes of the fund financial statements, property taxes assessed and collected during the year ended June 30, 2022, and during the first sixty days of the next fiscal year are recognized as revenue in 2022. 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 | \$ 588,442,300 |
| Personal property | <u>278,560,300</u> |
| | 867,002,600 |
| Tax rate (per \$1,000) | <u>18.35</u> |
| Commitment | 15,909,498 |
| Less: collections and abatements | <u>(15,322,162)</u> |
| Receivable at June 30, 2022 | <u>\$ 587,336</u> |
| Collection rate | 96.3% |

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

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, 2022, the Town reported deposits of \$5,868,688 with bank balances of \$8,971,884. Of the Town's total bank balance of \$8,971,884, \$109,525 was exposed to custodial credit risk. The entire amount of \$109,525 was uncollateralized.

Deposits in the primary government have been reported as follows:

| | |
|--------------------------------|--------------------|
| Reported in governmental funds | \$5,411,552 |
| Reported in fiduciary funds | <u>457,136</u> |
| Total deposits | <u>\$5,868,688</u> |

Restricted cash totaled \$5,050,194 for capital projects funds.

Component unit

Custodial Credit Risk: The Town's component unit reported deposits of \$355,885 with bank balances of \$355,885. Of the Town's component unit's total bank balance of \$355,885, \$96,658 was exposed to custodial credit risk. The entire amount of \$96,658 was uncollateralized.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

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 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.

Investments of the Town reported in the governmental funds and their level in the fair value hierarchy as of June 30, 2022 are as follows:

| | | |
|-------------------------------|----------------------|---------|
| Repurchase agreements | \$ 6,988,842 | Level 1 |
| Money market mutual funds | 1,218,671 | Level 1 |
| U.S. Treasury notes and bonds | 3,206,660 | Level 1 |
| U.S. Agency debt securities | <u>5,374,098</u> | Level 2 |
| Total investments | <u>\$ 16,788,271</u> | |

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 \$16,788,271 invested in repurchase agreements, money market mutual funds, U.S. Treasury notes, and U.S. Agency debt securities, \$15,569,600 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.

Investments – Primary Government (Continued)

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

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

| | <u>Due in less than one year</u> | <u>Due in 1-5 years</u> | <u>Due in more than five years</u> |
|-----------------------------|--------------------------------------|-----------------------------|--|
| Repurchase agreements | \$ 6,988,842 | \$ - | \$ - |
| U.S. Treasury notes | 496,705 | 2,709,955 | - |
| U.S. Agency debt securities | <u>1,993,840</u> | <u>3,380,258</u> | - |
| Total debt investments | <u>\$ 9,479,387</u> | <u>\$ 6,090,213</u> | <u>\$ -</u> |

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 3. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2022, was as follows:

| | Balance June 30, 2021 | Additions | Disposals | Balance June 30, 2022 |
|---|--------------------------------------|--------------------|------------------|--------------------------------------|
| Primary Government | | | | |
| Governmental activities | | | | |
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 311,910 | \$ - | \$ - | \$ 311,910 |
| Construction in progress | <u>702,789</u> | <u>1,051,503</u> | <u>-</u> | <u>1,754,292</u> |
| Total | <u>1,014,699</u> | <u>1,051,503</u> | <u>-</u> | <u>2,066,202</u> |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings and improvements | 6,132,936 | 34,200 | (15,000) | 6,152,136 |
| Land improvements | 161,033 | - | - | 161,033 |
| Vehicles | 5,171,652 | 794,462 | (18,000) | 5,948,114 |
| Roads and bridge network | 24,283,406 | 498,794 | - | 24,782,200 |
| Distributions and collections | 19,710,409 | - | - | 19,710,409 |
| Machinery and equipment | <u>3,383,706</u> | <u>100,440</u> | <u>(269,088)</u> | <u>3,215,058</u> |
| Total | <u>58,843,142</u> | <u>1,427,896</u> | <u>(302,088)</u> | <u>59,968,950</u> |
| <i>Less accumulated depreciation for</i> | | | | |
| Buildings and improvements | (3,235,452) | (348,320) | 15,000 | (3,568,772) |
| Land improvements | (8,052) | (8,052) | - | (16,104) |
| Vehicles | (2,918,881) | (435,538) | 18,000 | (3,336,419) |
| Roads and bridge network | (16,521,349) | (890,763) | - | (17,412,112) |
| Distributions and collections | (5,690,701) | (599,524) | - | (6,290,225) |
| Machinery and equipment | <u>(2,841,316)</u> | <u>(79,695)</u> | <u>269,088</u> | <u>(2,651,923)</u> |
| Total accumulated depreciation | <u>(31,215,751)</u> | <u>(2,361,892)</u> | <u>302,088</u> | <u>(33,275,555)</u> |
| Total capital assets being depreciated, net | <u>27,627,391</u> | <u>(933,996)</u> | <u>-</u> | <u>26,693,395</u> |
| Total governmental activities, net | <u>\$ 28,642,090</u> | <u>\$ 117,507</u> | <u>\$ -</u> | <u>\$ 28,759,597</u> |

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 3. CAPITAL ASSETS (CONTINUED)

Capital asset activity for the component unit for the year ended June 30, 2022, was as follows:

| <i>Component Unit</i> | Balance June 30, 2021 | Additions | Disposals | Balance June 30, 2022 |
|---|--------------------------------------|--------------------|--------------------|--------------------------------------|
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 83,547 | \$ - | \$ (54,854) | \$ 28,693 |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings and improvements | 1,916,782 | - | - | 1,916,782 |
| Equipment and fixtures | <u>23,595</u> | - | - | <u>23,595</u> |
| Total | <u>1,940,377</u> | - | - | <u>1,940,377</u> |
| <i>Less accumulated depreciation for</i> | | | | |
| Buildings and improvements | (709,152) | (38,335) | - | (747,487) |
| Equipment and fixtures | <u>(12,230)</u> | <u>(2,285)</u> | - | <u>(14,515)</u> |
| Total accumulated depreciation | <u>(721,382)</u> | <u>(40,620)</u> | - | <u>(762,002)</u> |
| Total capital assets being depreciated, net | <u>1,218,995</u> | <u>(40,620)</u> | - | <u>1,178,375</u> |
| Total component unit, net | <u>\$ 1,302,542</u> | <u>\$ (40,620)</u> | <u>\$ (54,854)</u> | <u>\$ 1,207,068</u> |

Depreciation was charged to the following activities as follows:

Governmental activities:

| | |
|------------------------|--------------------|
| General government | \$ 268,984 |
| Public safety | 210,694 |
| Public works | 1,386,473 |
| Pollution control | 41,248 |
| Solid waste facility | 375,969 |
| Culture and recreation | <u>78,524</u> |
| Total | <u>\$2,361,892</u> |

Component unit:

| | |
|--|------------------|
| Skowhegan Economic Development Corporation | <u>\$ 40,620</u> |
|--|------------------|

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 4. LONG-TERM LIABILITIES

The following is a summary of long-term liabilities for the year ended June 30, 2022:

| | Balance June 30, 2021 | Increases | Decreases | Balance June 30, 2022 | 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% | \$ 720,000 | \$ - | \$ (240,000) | \$ 480,000 | \$ 240,000 |
| Maine Municipal Bond Bank, Clean Water Revolving, dated October 29, 2007, due 2027, interest rate at 1.67% | 2,329,250 | - | (332,750) | 1,996,500 | 332,750 |
| Maine Municipal Bond Bank, Clean Water Revolving, dated October 30, 2013, due 2033, interest rate at 1.44% | 7,722,000 | - | (594,000) | 7,128,000 | 594,000 |
| Maine Municipal Bond Bank, Public Safety Building, dated May 20, 2021, due 2042, Interest rate at 2.08% | <u>8,900,000</u> | <u>-</u> | <u>-</u> | <u>8,900,000</u> | <u>445,000</u> |
| Total general obligation bonds | 19,671,250 | - | (1,166,750) | 18,504,500 | 1,611,750 |
| Capital Leases Payable | 2,342,772 | - | (267,008) | 2,075,764 | 184,965 |
| Net Pension Liability (Asset) | 1,918,525 | - | (2,079,566) | (161,041) | N/A |
| OPEB Liability | <u>552,873</u> | <u>-</u> | <u>(59,185)</u> | <u>493,688</u> | <u>N/A</u> |
| Total primary government | <u>\$ 24,485,420</u> | <u>\$ -</u> | <u>\$(3,572,509)</u> | <u>\$ 20,912,911</u> | <u>\$ 1,796,715</u> |
| | | | | | |
| | Balance June 30, 2021 | Increases | Decreases | Balance June 30, 2022 | Portion due within one year |
| Component unit – Skowhegan | | | | | |
| Economic Development Corporation | | | | | |
| General Obligation Note Payable Skowhegan Savings Bank, Industrial Park dated September 7, 1999, due 2025, interest rate at 5.11% | <u>\$ 52,500</u> | <u>\$ -</u> | <u>\$ (33,294)</u> | <u>\$ 19,206</u> | <u>\$ 19,206</u> |

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

General obligation bonds payable

Future maturities of long-term debt are as follows:

| Governmental Activities | | | |
|--------------------------------|----------------------|---------------------|----------------------|
| Fiscal year ended | Principal | Interest | Total |
| 2023 | \$ 1,166,750 | \$ 342,375 | \$ 1,954,125 |
| 2024 | 1,611,750 | 322,779 | 1,934,529 |
| 2025 | 1,371,750 | 294,428 | 1,666,178 |
| 2026 | 1,371,750 | 276,719 | 1,648,469 |
| 2027 | 1,371,750 | 258,477 | 1,630,227 |
| 2028-2032 | 5,527,750 | 977,848 | 6,505,598 |
| 2033-2037 | 3,413,000 | 499,134 | 3,912,134 |
| 2038-2042 | <u>2,225,000</u> | <u>149,536</u> | <u>2,374,536</u> |
| | <u>\$ 18,504,500</u> | <u>\$ 3,121,296</u> | <u>\$ 21,625,796</u> |

| Component unit | | | |
|--------------------------|------------------|-----------------|------------------|
| Fiscal year ended | Principal | Interest | Total |
| 2023 | <u>\$ 19,206</u> | <u>\$ 814</u> | <u>\$ 20,200</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.

Capital leases payable

The Town is the lessee of public works vehicles and energy efficiency upgrades under capital leases expiring in 2023, 2025, and 2035. 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, 2022, the Town had recorded \$834,600 in vehicles and \$2,451,559 in energy efficiency upgrades related to outstanding capital leases. Depreciation of these assets is included with depreciation expense. Accumulated depreciation for these assets at June 30, 2022 is \$799,915.

Minimum future lease payments under capital leases as of June 30, 2022 are:

| | |
|---|--------------------|
| 2023 | \$ 243,526 |
| 2024 | 243,525 |
| 2025 | 243,525 |
| 2026 | 173,494 |
| 2027 | 173,494 |
| 2028-2032 | 867,471 |
| 2033-2036 | <u>520,482</u> |
| | 2,465,517 |
| Less amount representing interest | <u>(389,753)</u> |
| Present value of minimum lease payments | <u>\$2,075,764</u> |

Amortization of loan fee expense associated with a certain capital lease was \$2,672 in the year ended June 30, 2022.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 4. LONG-TERM LIABILITIES (CONTINUED)

Obligation under operating lease

The Town currently committed to a 10-year annual cancellable operating lease for the right to continue to operate a sludge storage facility on private land. The operating lease payments began in September of 2019 at a base annual amount of \$10,694 and are adjusted each year by an index equal to the percentage rate of change in the effective tax rate of the Town of Skowhegan for that same year for those lots identified as Town of Skowhegan Tax Map 2, Lots 8, 9, 10, and 11, Map 6 Lot 21, and Map 10 Lot 52, not to include any new construction since September 14, 1999. The total cost of this lease is projected to be at least \$74,860, not including adjustments as above. Total payments in the year ended June 30, 2022 for this lease were \$10,694.

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, 2022, the County had debt outstanding of \$10,040,000 of which the Town share was 20.72% for a total of \$2,080,295.

NOTE 5. 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, 2022 arising from these transactions were as follows:

| | <u>Receivable</u> | <u>Payable</u> | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------|--------------------|--------------------|---------------------|----------------------|
| General fund | \$ - | \$ 985,241 | \$ 131,102 | \$ 2,688,188 |
| Special revenue fund | 1,519,155 | - | - | - |
| Capital projects fund | - | 533,764 | 2,688,188 | 111,526 |
| Permanent fund | - | 150 | - | 19,576 |
| | <u>\$1,519,155</u> | <u>\$1,519,155</u> | <u>\$ 2,819,290</u> | <u>\$ 2,819,290</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. Additional transfers of \$111,526 from capital projects fund to the general fund to cover prior year expenditures.

NOTE 6. 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, 2022:

| | |
|---|----------------------|
| Capital assets | \$ 62,040,497 |
| Accumulated depreciation | (33,280,900) |
| Refinance lease fees, net of amortization | 34,742 |
| Related capital leases | (2,075,764) |
| Related bonds payable | (18,504,500) |
| Unspent bond proceeds | <u>8,720,973</u> |
| Total balance | <u>\$ 16,935,048</u> |

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 7. RESTRICTED FOR GRANTS EXPENDITURES – SPECIAL REVENUE FUND

Special revenue – restricted for grants expenditures consisted of the following at June 30, 2022:

| | |
|---|---------------------|
| Community development | \$ 359,525 |
| Revolving heating loans program | 14,189 |
| Micro revolving loans program | 27,198 |
| Revolving loan fund | 539,274 |
| Wellness program | 2,140 |
| Ballfield | 32,638 |
| Community center donations | 17,958 |
| Lakes Environmental Association | 737 |
| Artists Plein Air Event | 536 |
| Dudley Corner School House | 125 |
| Records search | 485 |
| Run of River | 65 |
| Universal waste | 10,739 |
| Employee fundraising | 576 |
| Franchise fees | 28,324 |
| Opera House maintenance | 11,657 |
| Fuel assistance donations | 86 |
| Rescue Alive Sled donations | 250 |
| Law enforcement training and outfitting | 18,667 |
| Police department donations | 48,420 |
| Quinn ballfields donations | 145 |
| Fire call reimbursement | 47,818 |
| Energy efficiency rebates | 100,170 |
| USDA Summer foods grant | 11,008 |
| Move More Kids grant | 10,268 |
| State pass-through Byrne JAG | 1,576 |
| Bulletproof vest | 376 |
| Public safety building | 2,380 |
| Brookfield | 145 |
| Age friendly grant | 1,000 |
| American Rescue Plan Act | <u>610,584</u> |
| Total | <u>\$ 1,899,059</u> |

NOTE 8. RESTRICTED FOR CAPITAL PROJECTS EXPENDITURES – CAPITAL PROJECTS FUND

Restricted for capital projects consisted of the following at June 30, 2022:

| | |
|-------------------------------------|--------------------|
| Public safety building | \$4,756,080 |
| Industrial park roads | 193,732 |
| Combined Sewer Overflow (CSO) grant | <u>938,524</u> |
| Total | <u>\$5,888,336</u> |

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 9. COMMITTED FOR CAPITAL EXPENDITURES - CAPITAL PROJECTS FUND

Capital projects – committed for capital expenditures consisted of the following at June 30, 2022:

| | |
|--------------------------------------|---------------------|
| Administration | \$ 64,190 |
| Capacity | 247,976 |
| Catastrophic wages | 10,865 |
| Cemetery | 36,235 |
| Community & economic development | 24,715 |
| Creative playground maintenance | 911 |
| Dare program | 3,559 |
| Downtown TIF | 354,166 |
| Economic development Sappi TIF | 1,968,420 |
| Emergency management | 54,102 |
| Fire department | 641,579 |
| Legal fees | 56,666 |
| Municipal building renovation | 76,487 |
| Opera House renovations | 3,710 |
| Parks & recreation | 1,336,419 |
| Planning, ordinance administration | 18,140 |
| Police equipment repair/replace | 60,288 |
| Pollution control | 858,581 |
| Public safety building | 1,076,748 |
| Public works building | 52,949 |
| Public works equipment maintenance | 396,674 |
| Public works roads and bridges | 410,322 |
| Revaluation | 155,922 |
| Run of River | 74,158 |
| Sale of town property | 228,074 |
| Second industrial park project | 1,015 |
| Solid waste management and recycling | 87,486 |
| Street lights | 13,134 |
| Total | <u>\$ 8,313,491</u> |

NOTE 10. ASSIGNED FUND BALANCES FOR OTHER PURPOSES – GENERAL FUND

General fund - assigned for other purposes consisted of the following at June 30, 2022:

| | |
|------------------------------|-----------------|
| General assistance donations | <u>\$ 2,980</u> |
|------------------------------|-----------------|

NOTE 11. SIGNIFICANT TAXPAYER

For the year ending June 30, 2022, the Town of Skowhegan billed \$6,210,589 in property tax revenue from Sappi North America (formerly S.D. Warren, Inc.). This amount represents 39.04% of total property taxes assessed

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

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 employees (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 (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten-year requirement was reduced by legislative action to five years for State employees and teachers; separate legislation enacted the same reduced requirement for judges, legislators, and employees of PLDs). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. 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 her/his 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 0.93%.

Contributions

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

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 12. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Contributions - PLD Plan

PLD plan members are required to contribute 7.49% or 9.70% of their annual salary to the plan. The Town is required to pay 10.30% or 13.40% of members' compensation. The Town had covered payroll of \$3,601,463 for the year ended June 30, 2022. Town contributions were as follows.

| | Year ended 6/30/22 | | Year ended 6/30/21 | | Year ended 6/30/20 | |
|----------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Amount | Average Percentage | Amount | Average Percentage | Amount | Average Percentage |
| Employer | \$ 430,373 | 11.95% | \$ 342,847 | 11.5% | \$ 311,912 | 11.4% |
| Employee | 312,129 | 8.67% | 258,313 | 8.7% | 237,592 | 8.7% |

Net Pension Liability (Asset)

The collective net pension liability (asset) measured as of June 30, 2021 was as follows:

| | PLD Plan |
|---|------------------------|
| Plan collective total pension liability | \$ 3,719,016,414 |
| Less plan net position | <u>(3,751,152,623)</u> |
| Plan collective net pension liability (asset) | <u>\$ (32,136,209)</u> |

At June 30, 2022, the Town reported an asset for its proportionate share of the net pension liability (asset). The amount recognized by the Town as its proportionate share of the net pension liability (asset) was \$(161,041).

The net pension liability (asset) for the Town was measured as of June 30, 2021, and the total collective pension liability used to calculate the net pension liability (asset) 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 0.501120%, allocated based on adjusted contributions to the plan for the year ended June 30, 2021. This percentage was 0.482875% at the prior measurement date of June 30, 2020.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 12. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions

The collective total pension liability (asset) for the Plan was determined by an actuarial valuation as of June 30, 2020, using the following methods and assumptions, applied to all periods included in the measurement:

Actuarial Cost Method

The Entry Age Normal cost method is used to determine costs. Under this cost method, the total employer contribution rate consists of two elements, the normal cost rate and the unfunded actuarial liability 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 member is the product of a member's pay and 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 reduces the impact of short-term volatility 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 annually for the gain or loss for that year.

Significant Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2021 are as follows:

| | |
|--|---|
| Investment Rate of Return | 6.50 per annum, compounded annually |
| Inflation Rate | 2.75% |
| Annual Salary Increases, Including Inflation | 2.75% - 11.48% |
| Cost of Living Benefit Increases | 1.91% |
| Mortality Rates | Based on the 2010 Public Plan General Benefits – Weighted Healthy Retiree Mortality Table, for males and females, projected generationally using the RPEC_2020 model. |

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 12. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using the 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 geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2021 are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|---|
| Public Equities | 6.0% |
| US Government | 2.3 |
| Private Equity | 7.6 |
| Real Assets: | |
| Real Estate | 5.2 |
| Infrastructure | 5.3 |
| Natural Resources | 5.0 |
| Traditional Credit | 3.0 |
| Alternative Credit | 7.2 |
| Diversifiers | 5.9 |

Discount Rate

The discount rate used to measure the collective total pension liability was 6.50% for 2021 for the PLD Consolidated 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 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.

The following table shows how the collective net pension liability (asset) as of June 30, 2022 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate:

| | 1% Decrease (5.50%) | Current Discount Rate (6.50%) | 1% Increase (7.50%) |
|-----------------------|------------------------|----------------------------------|------------------------|
| PLD Consolidated Plan | \$ 457,316,812 | \$ (32,136,209) | \$(436,978,368) |

Pension Expense

For the year ended June 30, 2022, the Town recognized pension expense of \$29,084 related to the PLD Plan, made up of the Town's proportionate share of plan pension expense \$(20,555), pension expense related to specific liabilities of individual employers (\$452) and net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions \$50,091.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 12. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred Outflows and Inflows of Resources

For the year ended June 30, 2022, 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 | \$ 104,174 | \$ 10,946 |
| Changes of assumptions | 540,761 | - |
| Net difference between projected and actual investment earnings on pension plan investments | - | 2,195,044 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 100,663 | 29,166 |
| Employer's contributions to plan subsequent to measurement date of collective net pension liability | <u>430,373</u> | <u>-</u> |
| Total | <u>\$ 1,175,971</u> | <u>\$ 2,235,156</u> |

\$430,373 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, 2023. Other amounts reported as deferred inflows and outflows will be recognized as pension expense as follows:

| Year ended June 30 | PLD Plan Amount |
|-----------------------|-----------------------|
| 2023 | \$ (194,019) |
| 2024 | (185,910) |
| 2025 | (499,670) |
| 2026 | <u>(609,959)</u> |
| | <u>\$ (1,489,558)</u> |

Payables to Pension Plan

At June 30, 2022, the Town had \$69,904 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 2022, and the liability is reflected on both the fund financial statements and on the government-wide financial statements.

Further Information Available

Further information, schedules, as well as the actuarial valuation reports for each of the Maine Public Employee Retirement System's plans may be obtained by calling 1-800-451-9800, and are available on the System's website at [www.maineopers.org/Publications/Publications.htm#Annual Reports](http://www.maineopers.org/Publications/Publications.htm#Annual%20Reports).

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 13. DEFINED BENEFIT - OTHER POST EMPLOYMENT BENEFIT PLAN (OPEB)

A. MAINE PUBLIC EMPLOYEE RETIREMENT SYSTEM – GROUP LIFE INSURANCE

The Group Life Insurance Plan for Retired Participating Local District (PLD) (the PLD Consolidated Plan) employees is a multiple-employer cost sharing plan.

Other Post-Employment Benefits (OPEB)

The Group Life Insurance Plans (the Plans) provide basic group life insurance benefits, during retirement, to retirees who participated in the Plans prior to retirement for a minimum of 10 years (the 10-year participation requirement does not apply to recipients of disability retirement benefits). The level of coverage in retirement is initially set to an amount equal to the retiree’s average final compensation. The initial amount of basic life is then subsequently reduced at the rate of 15% per year to the greater of 40% of the initial amount or \$2,500.

Contributions

Premium rates are those determined by the System’s Board of Trustees to be actuarially sufficient to pay anticipated claims. PLD employers are required to remit a premium of \$0.46 per \$1,000 of coverage for covered active employees, a portion of which is to provide a level of coverage in retirement. PLD employers with retired PLD employees continue to remit a premium of \$0.46 per \$1,000 of coverage per month during the post-employment retired period.

Net OPEB Liability

The collective net OPEB liability measured as of June 30, 2021 was as follows:

| | PLD Plan |
|--------------------------------------|----------------------|
| Plan collective total OPEB liability | \$ 31,531,361 |
| Less plan net fiduciary position | <u>(21,207,382)</u> |
| Plan collective net OPEB liability | <u>\$ 10,323,979</u> |

At June 30, 2022, the Town reported a liability for its proportionate share of the net OPEB liability. The amount recognized by the Town as its proportionate share of the net OPEB liability was \$36,712.

The net OPEB liability for the Town was measured as of June 30, 2021, and the total collective OPEB liability used to calculate the net OPEB liability was determined by actuarial valuations as of that date. The Town’s proportionate share percentage of the collective net OPEB liability for the PLD Plan was 0.355599%, allocated based on adjusted contributions to the plan for the year ended June 30, 2021. This percentage was 0.374805% at the prior measurement date of June 30, 2020.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 13. DEFINED BENEFIT - OTHER POST EMPLOYMENT BENEFIT PLAN (OPEB) (CONTINUED)

OPEB Expense

For the year ended June 30, 2022, the Town recognized OPEB expense of (\$7,227) related to the PLD Plan, made up of the Town's proportionate share of plan OPEB expense (\$4,226) and net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions (\$3,001).

Deferred Outflows and Inflows of Resources

For the year ended June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | PLD Plan | |
|---|----------------------|---------------------|
| | Deferred Outflows | Deferred Inflows |
| Differences between expected and actual experience | \$ 4,149 | \$ - |
| Changes of assumptions | 6,193 | 24,757 |
| Net difference between projected and actual investment earnings on pension plan investments | - | 11,267 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 3,971 | 13,106 |
| Employer's contributions to plan subsequent to measurement date of collective net pension liability | 2,156 | - |
| Total | \$ 16,469 | \$ 49,130 |

\$2,156 reported as deferred outflows related to OPEB 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, 2023. Amounts reported as deferred inflows and outflows will be recognized as OPEB expense as follows:

| Year ended June 30 | PLD Plan Amount |
|-----------------------|--------------------|
| 2023 | \$ (11,281) |
| 2024 | (6,206) |
| 2025 | (7,537) |
| 2026 | (9,621) |
| 2027 | (86) |
| Thereafter | (86) |
| | \$ (34,817) |

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 13. DEFINED BENEFIT - OTHER POST EMPLOYMENT BENEFIT PLAN (OPEB) (CONTINUED)

Actuarial Assumptions, Discount Rate, and OPEB Plan Fiduciary Net Position

Information on the OPEB plan's fiduciary net position, as well as the actuarial assumptions and discount rate used by the Maine Public Employees Retirement System in calculating the net OPEB liability and related amounts are disclosed in the Notes to the Audited Schedules of Employer Allocations and OPEB Amounts by Employer. Those schedules, as well as the actuarial valuation reports for each of the System's plans may be obtained by calling 1-800-451-9800, and are available on the System's website at www.maineopers.org/Publications/Publications.htm#Annual Reports.

B. EMPLOYEE HEALTH PLAN

The Town sponsors a post-retirement benefit plan providing health insurance to retiring employees (hereafter referred to as the Health Plan). The plan is a single-employer defined benefit OPEB plan administered by the Maine Municipal Employees Health Trust (MMEHT). The Town Selectmen have the authority to establish and amend the benefit terms and financing requirements.

No assets are accumulated in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Changes in the discount rate affect the measurement of the Total OPEB Liability (TOL). Lower discount rates produce higher TOL and higher discount rates produce a lower TOL.

Benefits Provided

Under the Health Plan, MMEHT provides healthcare and life insurance benefits for retirees and their dependents. Town employees over the age of 55 with 5 years of continuous service are allowed to participate in the plan. Retirees that are designated in a plan pay 100% of the single coverage premium and 100% of the family coverage premium. For those Town employees eligible for Medicare (post-65 Retiree Plan), the plan is offered in conjunction with Medicare Parts A and B and the Companion Plan B.

Employees Covered by Benefit Terms – At January 1, 2022, the following employees were covered by the Health Plan benefit terms:

| | |
|-------------------|-----------|
| Active Employees | 56 |
| Retirees under 65 | - |
| Retirees over 65 | <u>2</u> |
| Total | <u>58</u> |

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 13. DEFINED BENEFIT - OTHER POST EMPLOYMENT BENEFIT PLAN (OPEB) (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The Town's total Health Plan OPEB liability of \$456,976 was measured as of January 1, 2022, and was determined by an actuarial valuation as of that date.

Changes in the Total Health Plan OPEB Liability

| | <u>Total OPEB Liability</u> |
|--|-------------------------------------|
| Balance at June 30, 2021 | \$ 503,428 |
| Changes for the year: | |
| Service Cost | 30,057 |
| Interest | 11,253 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | (90,871) |
| Changes in assumptions or other inputs | 8,472 |
| Benefit payments | <u>(5,363)</u> |
| Net changes | <u>(46,452)</u> |
| Balance at June 30, 2022 | <u>\$ 456,976</u> |

Change in assumptions reflects a change in the discount rate from 2.12% to 2.06%. Also, medical and prescription drug projected trends were updated reflecting the Society of Actuaries' Getzen Model of Long-Run Medical Cost Trends.

For the year ended June 30, 2022, The Town recognized OPEB expense of \$43,761 related to the Health Plan. At June 30, 2022, The Town reported deferred outflows of resources and deferred inflows of resources related to the Health Plan from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 6,185 | \$ 102,669 |
| Changes in assumptions or other inputs | 102,110 | 22,363 |
| Employer contributions after the measurement date | <u>2,226</u> | <u>-</u> |
| Total | <u>\$110,521</u> | <u>\$ 125,032</u> |

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 13. DEFINED BENEFIT - OTHER POST EMPLOYMENT BENEFIT PLAN (OPEB) (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

\$2,226 reported as deferred outflows related to OPEB resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2023. Deferred outflows of resources and deferred inflows of resources related to the Health Plan will be recognized in OPEB expense as follows:

| | |
|---------------------|--------------------------|
| Year ended June 30: | |
| 2023 | \$ 2,451 |
| 2024 | 2,451 |
| 2025 | 2,451 |
| 2026 | 2,450 |
| 2027 | (4,929) |
| Thereafter | <u>(21,611)</u> |
| Total | <u><u>\$(16,737)</u></u> |

Actuarial Assumptions - Health Plan - The total OPEB liability in the January 1, 2022 actuarial valuation for the Health Plan was determined using the following assumptions and other inputs, based on the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model. The SOA model was released in December 2007, and version 2022_f4 , applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|--------|
| Rate of Inflation | 2.40% |
| Rate of Growth in Real Income/GDP per capital 2029+ | 1.10% |
| Extra Trend due to Taste/Technology 2029+ | 1.00% |
| Expected Health Share of GDP 2029 | 19.00% |
| Health Share of GDP Resistance Point | 20.00% |
| Year for Limiting Cost Growth to GDP Growth | 2042 |

Rates of mortality are based on 112.1% and 118.5% of the 2010 Public Plan General Benefits-Weighted Mortality Table, respectively for males and females. The proposed rates are projected generationally using the RPEC_2020 model, with an ultimate rate of 1.00% for ages under 80 and under, grading down to 0.05% at age 95, and further grading down to 0.00% at age 115, along with convergence to the ultimate rates in the year 2027. All other parameters used in the RPEC_2020 model are those included in the published MP-2020 scale.

As prescribed by the Trust, mortality rates were taken from the assumptions for the Maine State Retirement Consolidated Plan for Participating Local Districts at June 30, 2021.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 13. DEFINED BENEFIT - OTHER POST EMPLOYMENT BENEFIT PLAN (OPEB) (CONTINUED)

Discount Rate - Health Plan - The rate used to measure the total OPEB liability for the Health plan was 2.06% per annum. The discount rate determination is based upon high quality AA/Aa or higher bond yields in effect for 20-year, tax exempt general obligation municipal bonds using the Bond Buyer index.

Sensitivity of the Total Health Plan OPEB Liability to Changes in the Discount Rate - The following presents the Town's total OPEB liability related to the Health Plan calculated using the discount rate of 2.06%, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.06%) or 1 percentage-point higher (3.06%) than the current rate:

| | 1% Decrease 1.06% | Discount Rate 2.06% | 1% Increase 3.06% |
|--|----------------------|------------------------|----------------------|
| Total OPEB Liability | \$ 543,044 | \$ 456,976 | \$ 387,149 |
| Plan Fiduciary Net Position | - | - | - |
| Net OPEB Liability | <u>\$ 543,044</u> | <u>\$ 456,976</u> | <u>\$ 387,149</u> |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 0.00% | 0.00% | 0.00% |

A one percent decrease in the discount rate increases the Net OPEB Liability (NOL) by approximately 18.8%. A one percent increase in the discount rate decreases the NOL by approximately 15.3%.

Sensitivity of Net OPEB Liability to Changes in Healthcare Cost Trend Rates - The table below Presents the Town's total OPEB liability related to the Health Plan calculated using the healthcare cost trend rates, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates:

| | 1% Decrease | Healthcare Trend | 1% Increase |
|--|-------------------|---------------------|-------------------|
| Total OPEB Liability | \$ 378,220 | \$ 456,976 | \$ 559,644 |
| Plan Fiduciary Net Position | - | - | - |
| Net OPEB Liability | <u>\$ 378,220</u> | <u>\$ 456,976</u> | <u>\$ 559,644</u> |
| Plan Fiduciary Net Position as a Percentage of the total OPEB Liability | 0.00% | 0.00% | 0.00% |

A one percent decrease in the healthcare trend rate decreases the NOL by approximately 17.2%. A one percent increase in the healthcare trend rate increases the NOL by approximately 22.5%.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 14. 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.

NOTE 15. LOANS RECEIVABLE

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

The Town annually determines the collectability of these loans and adjusts its reserve for uncollectible loans to the calculated amounts. At June 30, 2022, the Town had established a reserve for uncollectible loans of \$33,568.

NOTE 16. RELATED PARTY TRANSACTIONS

The Town has a ten-year operating lease for land on which they operate a sludge storage facility. The land is owned by Jeffrey Hewitt, an employee of the Town. The contract specifies an indexed annual lease amount which totals at least \$74,860 over the remaining life of the lease, not including increases due to the index. The Town represents that this lease was established through an arms-length agreement.

NOTE 17. COMMITMENTS

At June 30, 2022, the Town was committed to remaining construction-related contracts totaling approximately \$5,836,235.

NOTE 18. RESTATEMENT OF BEGINNING BALANCE

The Town restated its beginning net position on the government-wide financial statements and beginning fund balance of general funds on the fund financial statements by \$52,944, to restate a prior year receivable.

The component unit restated its beginning net position by \$118,670 to recognize the effect of misclassified prior year restricted funds for capital project activity.

Town of Skowhegan, Maine
Notes to Basic Financial Statements
June 30, 2022

NOTE 19. 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.

NOTE 20. TAX ABATEMENTS

The Town enters into property tax abatement agreements with local businesses under Title 30-A Chapter 206 Development Districts, Subchapter 1, Development Districts for Municipalities and Plantations and Subchapter 3, Municipal Affordable Housing Development Districts. Under this law, municipalities may grant property tax abatements of up to 100 percent of a business' property tax bill for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to the Town. For the fiscal year ended June 30, 2022, the Town abated property taxes totaling \$0 under this program, including the following tax abatement agreements.

The Town currently has two approved tax increment financing (TIF) districts, both of which were active during the year ended June 30, 2022. 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 amended in 2008 to extend to 2031. The amount set aside for S.D. Warren is 100% of the captured assessed value in the District.

Downtown District – This TIF was established in 2005 and amended in 2016 to expire in 2035. and at June 30, 2022 is in effect for 15 more years. The District will capture any new valuation. 100% of this TIF or \$83,408 in current year, is reported in a capital committed fund.

NOTE 21. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 16, 2023, the date on which the financial statements were available to be issued.

Town of Skowhegan, Maine
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2022

| | Budgeted Amounts | | | Actual Amounts, GAAP Basis | Variance with Final Budget - Positive (Negative) |
|--|--------------------|-------------|--------------------|----------------------------------|---|
| | Original | Changes** | Final* | | |
| REVENUES | | | | | |
| Property taxes | \$ 15,909,972 | \$ - | \$ 15,909,972 | \$ 15,796,577 | \$ (113,395) |
| Excise and miscellaneous taxes | 1,505,000 | - | 1,505,000 | 1,749,707 | 244,707 |
| Fees and fines | 58,530 | - | 58,530 | 64,131 | 5,601 |
| Licenses and permits | 35,500 | - | 35,500 | 52,434 | 16,934 |
| Intergovernmental | 6,671,353 | - | 6,671,353 | 6,879,967 | 208,614 |
| Charges for services | 432,400 | - | 432,400 | 564,242 | 131,842 |
| Investment and interest earnings | 5,000 | - | 5,000 | 6,319 | 1,319 |
| Contributions and reimbursements | 37,872 | - | 37,872 | 30,304 | (7,568) |
| Miscellaneous | 146,261 | - | 146,261 | 231,119 | 84,858 |
| Total revenues | <u>24,801,888</u> | <u>-</u> | <u>24,801,888</u> | <u>25,374,800</u> | <u>572,912</u> |
| EXPENDITURES | | | | | |
| Current | | | | | |
| General government | 1,828,889 | - | 1,828,889 | 1,683,835 | 145,054 |
| Protection | 3,558,702 | - | 3,558,702 | 3,341,608 | 217,094 |
| Public works | 1,642,292 | - | 1,642,292 | 1,437,976 | 204,316 |
| Waste water and pollution control | 638,970 | - | 638,970 | 555,678 | 83,292 |
| Solid waste management | 896,281 | - | 896,281 | 906,376 | (10,095) |
| Health and human services | 216,779 | - | 216,779 | 120,694 | 96,085 |
| Education | 9,130,562 | - | 9,130,562 | 9,130,562 | - |
| Parks and recreation | 613,440 | - | 613,440 | 536,876 | 76,564 |
| County tax | 2,666,111 | - | 2,666,111 | 2,666,111 | - |
| Cemeteries | 111,905 | - | 111,905 | 111,666 | 239 |
| Community services | 320,000 | - | 320,000 | 320,000 | - |
| Debt service | | | | | |
| Principal | 1,453,758 | - | 1,453,758 | 1,433,758 | 20,000 |
| Interest and other charges | 406,455 | - | 406,455 | 406,426 | 29 |
| Total expenditures | <u>23,484,144</u> | <u>-</u> | <u>23,484,144</u> | <u>22,651,566</u> | <u>832,578</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,317,744</u> | <u>-</u> | <u>1,317,744</u> | <u>2,723,234</u> | <u>1,405,490</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Use of carryover fund balances | 1,399,526 | - | 1,399,526 | - | (1,399,526) |
| Overlay | (57,138) | - | (57,138) | - | 57,138 |
| Transfers in | 17,500 | - | 17,500 | 131,102 | 113,602 |
| Transfers out | (2,677,632) | - | (2,677,632) | (2,688,188) | (10,556) |
| Total other financing sources (uses) | <u>(1,317,744)</u> | <u>-</u> | <u>(1,317,744)</u> | <u>(2,557,086)</u> | <u>(1,239,342)</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | 166,148 | <u>\$ 166,148</u> |
| FUND BALANCES - BEGINNING | | | | 6,046,252 | |
| Restatement of prior year receivable | | | | <u>(52,944)</u> | |
| FUND BALANCES - BEGINNING, RESTATED | | | | <u>5,993,308</u> | |
| FUND BALANCES - ENDING | | | | <u>\$ 6,159,456</u> | |

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

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Town's proportion of the net pension liability (asset) | 0.501120% | 0.482875% | 0.430370% | 0.469490% | 0.473674% | 0.510160% | 0.502658% | 0.511665% | 0.491303% | |
| Town's proportionate share of the net pension liability (asset) | \$ (161,041) | \$ 1,918,525 | \$ 1,315,484 | \$ 1,284,888 | \$ 1,939,397 | \$ 2,710,350 | \$ 1,603,714 | \$ 787,356 | \$ 1,514,487 | |
| Town's covered-employee payroll *** | \$ 2,976,264 | \$ 2,736,253 | \$ 2,320,385 | \$ 2,378,588 | \$ 2,321,721 | \$ 2,348,582 | \$ 2,203,770 | \$ 2,110,567 | \$ 1,937,850 | |
| Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -5.41% | 70.12% | 56.69% | 54.02% | 83.53% | 115.40% | 72.77% | 37.31% | 78.15% | |
| Plan fiduciary net position as a percentage of the total pension liability (asset) ** | 100.86% | 88.35% | 90.62% | 91.14% | 86.43% | 81.61% | 88.27% | 94.10% | 87.50% | |

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

** Plan net position and collective net pension liability reflect only the employees' group portion of the SET plan

***Contributions in relation to statutorily required pension contributions are the contributions an employer actually made to the System, as distinct from the statutorily required contributions.

*** The Town's covered payroll is defined by GASB 82, Pension Issues—an amendment to GASB Statements No. 67, No. 68, and No. 73, as payroll on which contributions to a pension plan are based; and by GASB 85, Omnibus 2017, as payroll on which contributions to the OPEB plan are based. For System employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

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

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------|
| Contractually required contribution | \$ 342,847 | \$ 311,912 | \$ 263,266 | \$ 260,625 | \$ 242,779 | \$ 239,365 | \$ 206,104 | \$ 177,376 | \$ 144,781 | |
| Contributions in relation to the contractually required contribution ** | <u>(342,847)</u> | <u>(311,912)</u> | <u>(263,266)</u> | <u>(260,625)</u> | <u>(242,779)</u> | <u>(239,365)</u> | <u>(206,104)</u> | <u>(177,376)</u> | <u>(144,781)</u> | |
| Contribution deficiency (excess) | <u>\$ -</u> | |
| Town's covered-employee payroll *** | \$ 2,976,264 | \$ 2,736,253 | \$ 2,320,385 | \$ 2,378,588 | \$ 2,321,721 | \$ 2,348,582 | \$ 2,203,770 | \$ 2,110,567 | \$ 1,937,850 | |
| Contributions as a percentage of covered-employee payroll | 11.52% | 11.40% | 11.35% | 10.96% | 10.46% | 10.19% | 9.35% | 8.40% | 7.47% | |

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

**Contributions in relation to statutorily required pension contributions are the contributions an employer actually made to the System, as distinct from the statutorily required contributions.

*** The Town's covered payroll is defined by GASB 82, Pension Issues—an amendment to GASB Statements No. 67, No. 68, and No. 73, as payroll on which contributions to a pension plan are based; and by GASB 85, Omnibus 2017, as payroll on which contributions to the OPEB plan are based. For System employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

Notes to Schedule:

Changes of Benefit Terms: There were no changes of benefit terms in FY 2022

Changes in Benefit Assumptions: There were no changes of benefit assumptions in FY2022

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

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|
| Town's proportion of the net OPEB liability | 0.355599% | 0.374805% | 0.424190% | 0.388075% | 0.404671% | | | | | |
| Town's proportionate share of the net OPEB liability | \$ 36,712 | \$ 49,445 | \$ 90,766 | \$ 78,395 | \$ 67,667 | | | | | |
| Town's covered-employee payroll | \$ 1,236,535 | \$ 1,256,990 | \$ 1,255,185 | \$ 1,176,260 | \$ 1,267,665 | | | | | |
| Town's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 2.97% | 3.93% | 7.23% | 6.66% | 5.34% | | | | | |
| Plan fiduciary net position as a percentage of the total OPEB liability | 67.26% | 55.40% | 43.18% | 43.92% | 47.42% | | | | | |

* 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's OPEB Contributions
 Participating Local Districts Plan
 Last 10 Fiscal Years*
 For the years ended June 30,**

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|----------------|----------------|----------------|----------------|----------------|-------------|-------------|-------------|-------------|-------------|
| Contractually required contribution | \$ 1,818 | \$ 1,750 | \$ 2,070 | \$ 1,599 | \$ 1,413 | | | | | |
| Contributions in relation to the contractually required contribution | <u>(1,818)</u> | <u>(1,750)</u> | <u>(2,070)</u> | <u>(1,599)</u> | <u>(1,413)</u> | | | | | |
| Contribution deficiency (excess) | <u>\$ -</u> | | | | | |
| Town's covered-employee payroll | \$ 1,236,535 | \$ 1,256,990 | \$ 1,255,185 | \$ 1,176,260 | \$ 1,267,665 | | | | | |
| Contributions as a percentage of covered-employee payroll | 0.15% | 0.14% | 0.16% | 0.14% | 0.11% | | | | | |

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

Town of Skowhegan, Maine
Schedule of Changes in Net OPEB Liability and Related Ratios
Postretirement Employee Healthcare Plan -
Last 10 Fiscal Years*
For the years ended June 30,

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|---------------------|---------------------|
| <u>Total OPEB Liability</u> | | | | |
| Service cost (BOY) | \$ 30,057 | \$ 25,752 | \$ 16,494 | \$ 18,872 |
| Interest (includes interest on service cost) | 11,253 | 12,639 | 16,242 | 14,158 |
| Changes of benefit terms | - | - | (9,221) | - |
| Differences between expected and actual experience | (90,871) | - | (31,328) | - |
| Changes in assumptions | 8,472 | 32,105 | 69,260 | (40,255) |
| Benefit payments, including refunds of member contributions | <u>(5,363)</u> | <u>(5,157)</u> | <u>(5,952)</u> | <u>(5,723)</u> |
| Net change in total OPEB liability | \$ (46,452) | \$ 65,339 | \$ 55,495 | \$ (12,948) |
| Total OPEB liability - beginning | \$ 503,428 | \$ 438,089 | \$ 382,594 | \$ 395,542 |
| Total OPEB liability - ending | \$ 456,976 | \$ 503,428 | \$ 438,089 | \$ 382,594 |
| <u>Plan fiduciary net position</u> | | | | |
| Contributions - employer | 5,463 | 5,157 | 5,952 | 5,723 |
| Benefit payments, including refunds of member contributions | <u>(5,463)</u> | <u>(5,157)</u> | <u>(5,952)</u> | <u>(5,723)</u> |
| Net change in plan fiduciary net position | - | - | - | - |
| Plan fiduciary net position - beginning | - | - | - | - |
| Plan fiduciary net position - ending | - | - | - | - |
| Net OPEB liability - ending | \$ 456,976 | \$ 503,428 | \$ 438,089 | \$ 382,594 |
| Covered employee payroll | <u>\$ 2,405,686</u> | <u>\$ 2,549,449</u> | <u>\$ 2,549,449</u> | <u>\$ 2,245,320</u> |
| Net OPEB liability as a percentage of covered employee payroll | <u>19.0%</u> | <u>19.7%</u> | <u>17.2%</u> | <u>17.0%</u> |

* The amounts presented for each fiscal year were determined as of January 1 of the calendar year.

Notes to schedule:

Changes in Benefit Terms - None

Changes of Assumptions - Under the Health Plan, changes of assumptions and other inputs reflect the changes in the discount rate each period. The following are the discount rates used in each period:

| Fiscal Year | Rate |
|-------------|-------|
| 2022 | 2.06% |
| 2021 | 2.12% |
| 2020 | 2.74% |
| 2019 | 4.10% |
| 2018 | 3.44% |

Town of Skowhegan, Maine
Combining Schedule of Revenues, Expenses and
Changes in Fund Balances - Permanent Fund
For the Year Ended June 30, 2022

| | 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 | \$ 7,888 | \$ - | \$ 7,125 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 15,013 |
| Unrealized gain (losses) | - | - | (26,209) | (206) | (670) | (427) | (732) | (434) | (37) | (7,397) | (497) | (65) | (36,674) |
| Expenses | (3,141) | - | - | - | - | - | - | - | - | (1,100) | - | - | (4,241) |
| Net revenues | 4,748 | - | (19,084) | (206) | (670) | (427) | (732) | (434) | (37) | (8,497) | (497) | (65) | (25,901) |
| Fund balance, beginning | <u>20,663</u> | <u>4</u> | <u>426,936</u> | <u>5,343</u> | <u>12,178</u> | <u>10,900</u> | <u>19,088</u> | <u>10,333</u> | <u>968</u> | <u>191,351</u> | <u>9,695</u> | <u>1,015</u> | <u>708,474</u> |
| Fund balance, ending | <u>\$ 25,411</u> | <u>\$ 4</u> | <u>\$ 407,852</u> | <u>\$ 5,137</u> | <u>\$ 11,508</u> | <u>\$ 10,473</u> | <u>\$ 18,356</u> | <u>\$ 9,899</u> | <u>\$ 931</u> | <u>\$ 182,854</u> | <u>\$ 9,198</u> | <u>\$ 950</u> | <u>\$ 682,573</u> |
| UNASSIGNED | | | | | | | | | | | | | |
| Revenues | | | | | | | | | | | | | |
| Investment income and other | \$ 389 | \$ 39 | \$ 7,114 | \$ 55 | \$ 179 | \$ 114 | \$ 195 | \$ 116 | \$ 10 | \$ 1,972 | \$ 132 | \$ 18 | \$ 10,333 |
| Unrealized gain (loss) | (1,470) | (148) | - | - | - | - | - | - | - | - | - | - | (1,618) |
| Expenses | (305) | - | (19,744) | (80) | - | (166) | (285) | - | (25) | - | - | - | (20,605) |
| Excess (deficiency) of revenues over expenditures | (1,386) | (109) | (12,630) | (25) | 179 | (52) | (90) | 116 | (15) | 1,972 | 132 | 18 | (11,890) |
| Fund balance, beginning | <u>15,261</u> | <u>3,973</u> | <u>298,176</u> | <u>257</u> | <u>5,770</u> | <u>683</u> | <u>748</u> | <u>1,281</u> | <u>23</u> | <u>7,941</u> | <u>3,632</u> | <u>714</u> | <u>338,459</u> |
| Fund balance, ending | <u>\$ 13,875</u> | <u>\$ 3,864</u> | <u>\$ 285,546</u> | <u>\$ 232</u> | <u>\$ 5,949</u> | <u>\$ 631</u> | <u>\$ 658</u> | <u>\$ 1,397</u> | <u>\$ 8</u> | <u>\$ 9,913</u> | <u>\$ 3,764</u> | <u>\$ 732</u> | <u>\$ 326,569</u> |
| TOTAL PRINCIPAL AND UNASSIGNED FUND BALANCE, ENDING | <u>\$ 39,286</u> | <u>\$ 3,868</u> | <u>\$ 693,398</u> | <u>\$ 5,369</u> | <u>\$ 17,457</u> | <u>\$ 11,104</u> | <u>\$ 19,014</u> | <u>\$ 11,296</u> | <u>\$ 939</u> | <u>\$ 192,767</u> | <u>\$ 12,962</u> | <u>\$ 1,682</u> | <u>\$ 1,009,142</u> |

**Town of Skowhegan, Maine
Taxes Receivable and Tax Liens
General Fund
June 30, 2022**

| | |
|--------------------------------------|--------------------------|
| Taxes receivable | |
| 2022 | \$ 587,336 |
| 2021 | 15,893 |
| 2020 and prior | <u>55,162</u> |
| Total taxes receivable | <u>658,391</u> |
| | |
| Tax liens | |
| 2021 | <u>148,222</u> |
| | |
| Total taxes receivable and tax liens | <u><u>\$ 806,613</u></u> |



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Email: bta@btacpa.com

**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, 2022, 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 May 16, 2023.

Report on 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) as a basis for designing 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, 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 as #2022-001 in the accompanying schedule of findings to be a material weakness.

Report on 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 financial statements. 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*.

Town of Skowhegan's Response to Findings

The Town of Skowhegan's response to the finding identified in our audit is described in the accompanying letter to management. The Town of Skowhegan'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.

Barbara Whibodan & Associates

May 16, 2023

**Town of Skowhegan
Schedule of Findings
For the Year Ended June 30, 2022**

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? - X yes no

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

Noncompliance material to financial statements noted? - yes X no

**Town of Skowhegan
Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Section II — Financial Statement Findings

| | #2022-001 |
|---|---|
| <i>Criteria or specific requirement</i> | Internal control over year-end cutoff |
| <i>Condition</i> | Material invoices were not charged to the proper fiscal year and not following proper accounting. |
| <i>Questioned costs</i> | None |
| <i>Context</i> | Management posted material invoices to the fiscal year in which the payments were made, instead of to the fiscal year in which the expenses actually occurred. |
| <i>Effect</i> | The Town's financial statements would have been materially misstated without recording the adjustments. |
| <i>Cause</i> | The Town lacks knowledge and experience in certain GAAP accounting rules and procedures regarding prepayment of invoices. |
| <i>Recommendation</i> | Management should review its procedures for year-end cutoff to ensure that expenditures are posted to the fiscal year in which they were incurred and/or when a capital asset was placed in service. |
| <i>Management's response</i> | <p><i>There should have been a recording of a prepaid expense for the construction cost deposit payments for the new public safety building in fiscal year 2022. There was an expense for these costs prior to year-end June 30, 2022, however, the recording of the prepaid expense was missed. There should have been a journal entry completed for this.</i></p> <p><i>There was a recording of a prepaid expense for compactors for the Solid Waste Management facility. The expense date of the invoice was in May of 2022 and paid for through fiscal year 2022. In following the accrual method for the financial transactions, the payment should have been processed through fiscal year 2023, not 2022. Therefore the prepaid expense was done incorrectly.</i></p> <p><i>This was also a clear error on our end and I am aware of the procedure. We will do our best to assure this type of error will not happen again.</i></p> |