

TOWN OF POWNAL

POWNAL, MAINE

FINANCIAL AUDIT REPORT

JUNE 30, 2011

**TOWN OF POWNAL
POWNAL, MAINE
JUNE 30, 2011**

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A Professional Association

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REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Selectmen
TOWN OF POWNAL
Pownal, Maine

We have audited the accompanying financial statements of the governmental activities, major funds, and remaining fund information, which collectively comprise the basic financial statements, of the Town of Pownal, Maine as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Town's Management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient evidential source documentation to support the permanent funds because the relevant legal indentures could not be located.

As discussed in the notes to the financial statements, management has not recorded certain general capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general capital assets, be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the significance of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Statement of Net Assets of the Town of Pownal, Maine, as of June 30, 2011, or the Statement of Activities position thereof for the year then ended.

In addition, except for the permanent funds, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and remaining fund information of the Town of Pownal and the respective changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Town of Pownal, Maine has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Smith & Associates

SMITH & ASSOCIATES, CPAs
A Professional Association

Yarmouth, Maine
December 15, 2011

Smith & Associates, CPAs
A Professional Association

Yarmouth, Maine 04096

EXHIBIT I**TOWN OF POWNAL
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Primary Government Governmental Activities</u>
Assets	
Cash	\$1,862,924
Investments	73,752
Accounts Receivable	10,484
Taxes Receivable	100,535
Tax Liens Receivable	12,063
Capital Assets, Net of Accumulated Depreciation	<u>1,798,811</u>
Total Assets	<u>\$3,858,569</u>
Liabilities	
Accounts Payable	\$ 83,159
Accrued Expenses	25,738
Non-Current Liabilities	
Due Within One Year	69,416
Due in More than One Year	<u>2,530,836</u>
Total Liabilities	<u>\$2,709,149</u>
Net Assets	
<i>Invested in Capital Assets, Net of Related Debt</i>	\$(801,441)
<i>Restricted for:</i>	
Permanent Funds, Non Expendable	51,895
Road Reconstruction	1,317,193
Provision for Future Expenses	240,115
<i>Unrestricted</i>	<u>341,658</u>
Total Net Assets	<u>\$1,149,420</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

EXHIBIT II

**TOWN OF POWNAL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Governmental Activities</u>
Primary Government				
Governmental Activities				
General Government	\$ 213,580	\$ 23,817	\$ 0	\$ (189,763)
Public Works	90,687	11,901	50,440	(28,346)
Public Safety	80,644	0	642	(80,002)
Health & Sanitation	108,509	45,968	0	(62,541)
Human Services & Welfare	11,436	0	2,958	(8,478)
Education	1,663,915	0	0	(1,663,915)
Interest on Long-Term Debt	69,113	0	0	(69,113)
Depreciation - Unallocated	<u>268,649</u>	<u>0</u>	<u>0</u>	<u>(268,649)</u>
Total Primary Government	<u>\$ 2,506,533</u>	<u>\$ 81,686</u>	<u>\$ 54,040</u>	<u>\$(2,370,807)</u>
General Revenues				
Property & Other Taxes				\$2,593,468
Grants & Contributions not Restricted to Special Programs				119,057
Unrestricted Investment Earnings				8,654
Miscellaneous				<u>11,046</u>
Total General Revenues				<u>\$2,732,225</u>
Changes in Net Assets				\$ 361,418
Net Assets – July 1, 2010				<u>788,002</u>
Net Assets – June 30, 2011				<u>\$1,149,420</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

EXHIBIT III

**TOWN OF POWNAL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund	Road Re- Construction	Provision for Future Expenses	Other Governmental Funds	Total
Assets					
Cash	\$1,862,924	\$ 0	\$ 0	\$ 0	\$1,862,924
Investments	0	0	0	73,752	73,752
Accounts Receivable	10,484	0	0	0	10,484
Taxes Receivable	100,535	0	0	0	100,535
Liens Receivable	12,063	0	0	0	12,063
Due From Other Funds	<u>1,869</u>	<u>1,317,193</u>	<u>240,115</u>	<u>82,615</u>	<u>1,641,792</u>
Total Assets	<u>\$1,987,875</u>	<u>\$1,317,193</u>	<u>\$ 240,115</u>	<u>\$ 156,367</u>	<u>\$3,701,550</u>
Liabilities & Fund Balance					
Liabilities					
Accounts Payable	\$ 83,159	\$ 0	\$ 0	\$ 0	\$ 83,159
Accrued Expenses	5,230	0	0	0	5,230
Deferred Revenues	53,175	0	0	0	53,175
Due to Other Funds	<u>1,641,792</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,641,792</u>
Total Liabilities	<u>\$1,783,356</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$1,783,356</u>
Fund Balance					
<i>Reserved, Reported In:</i>					
<i>Nonspendable</i>					
Permanent Funds – Nonexpendable	\$ 0	\$ 0	\$ 0	\$ 51,895	\$ 51,895
<i>Restricted</i>	0	0	0	0	0
<i>Committed</i>					
Reserved for Property Taxes	114,651	0	0	0	114,651
<i>Unreserved, Reported In:</i>					
<i>Assigned</i>					
Special Revenue Funds	0	0	0	60,936	60,936
Capital Projects	0	1,317,193	240,115	15,073	1,572,381
Permanent Funds, Expendable	0	0	0	28,463	28,463
<i>Unassigned</i>					
General Fund	<u>89,868</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>89,868</u>
Total Fund Balance	<u>\$ 204,519</u>	<u>\$1,317,193</u>	<u>\$ 240,115</u>	<u>\$ 156,367</u>	<u>\$1,918,194</u>
Total Liabilities & Fund Balance	<u>\$1,987,875</u>	<u>\$1,317,193</u>	<u>\$ 240,115</u>	<u>\$ 156,367</u>	<u>\$3,701,550</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

**TOWN OF POWNAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balance – Total Governmental Funds \$ 1,918,194

**Amounts Reported for Governmental Activities in the
Statement of Net Assets are different because:**

Capital Assets Used in Governmental Activities are Not
Current Financial Resources and Therefore are Not
Reported in the Governmental Funds Balance Sheet. 1,798,811

Property Tax Revenues are Reported in the Governmental Funds
Balance Sheet Under NCGA Interpretation-3, Revenue Recognition-
Property Taxes and Intergovernmental Revenues were Deferred. 53,175

Deferred Intergovernmental Revenues Reported in the Governmental
Funds Meet the Criteria for Revenues Under Accrual Accounting. (17,527)

Long Term Debt Liabilities are not due and payable in the Current Period and
therefore are not reported in the Governmental Funds Balance Sheet:

Due in One Year	\$ 69,416	
Due in More than One Year	2,530,836	
Accrued Compensated Absence Pay	<u>2,981</u>	<u>(2,603,233)</u>

Net Assets of Governmental Activities **\$ 1,149,420**

TOWN OF POWNAL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Road Re- Construction	Provision for Future Expenses	Other Governmental Funds	Total
Revenues					
Taxes	\$ 2,589,108	\$ 0	\$ 0	\$ 0	\$ 2,589,108
Intergovernmental	172,455	0	0	642	173,097
Licenses, Permits & Fees	13,836	0	0	0	13,836
Charges for Services	52,469	0	0	12,680	65,149
Investment Income	4,826	32	0	3,796	8,654
Miscellaneous	<u>11,020</u>	<u>600</u>	<u>0</u>	<u>2,125</u>	<u>13,745</u>
Total Revenues	<u>\$ 2,843,714</u>	<u>\$ 632</u>	<u>\$ 0</u>	<u>\$ 19,243</u>	<u>\$ 2,863,589</u>
Expenditures					
<i>Current</i>					
General Government	\$ 211,978	\$ 0	\$ 0	\$ 1,558	\$ 213,536
Public Works	567,483	9,439	0	5,644	582,566
Public Safety	80,644	0	0	0	80,644
Health & Sanitation	108,509	0	0	0	108,509
Human Services & Welfare	11,436	0	0	0	11,436
Education	1,663,915	0	0	0	1,663,915
Debt Service	127,945	0	0	0	127,945
Fixed Charges	101,474	0	0	0	101,474
<i>Capital Outlay</i>	<u>26,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>26,000</u>
Total Expenditures	<u>\$ 2,899,384</u>	<u>\$ 9,439</u>	<u>\$ 0</u>	<u>\$ 7,202</u>	<u>\$ 2,916,025</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (55,670)</u>	<u>\$ (8,807)</u>	<u>\$ 0</u>	<u>\$ 12,041</u>	<u>\$ (52,436)</u>
Other Financing Resources (Uses)					
Transfers In (Out)	\$ (52,000)	\$ 0	\$ 35,000	\$ 17,000	\$ 0
Proceeds from Long-Term Debt	<u>0</u>	<u>1,326,000</u>	<u>0</u>	<u>0</u>	<u>1,326,000</u>
Total Other Financing Resources (Uses)	<u>\$ (52,000)</u>	<u>\$ 1,326,000</u>	<u>\$ 35,000</u>	<u>\$ 17,000</u>	<u>\$ 1,326,000</u>
Net Change in Fund Balance	\$ (107,670)	\$ 1,317,193	\$ 35,000	\$ 29,041	\$ 1,273,564
Fund Balance – July 1, 2010	<u>312,189</u>	<u>0</u>	<u>205,115</u>	<u>127,326</u>	<u>644,630</u>
Fund Balance – June 30, 2011	<u>\$ 204,519</u>	<u>\$ 1,317,193</u>	<u>\$ 240,115</u>	<u>\$ 156,367</u>	<u>\$ 1,918,194</u>

The Notes to the Financial Statements are an Integral Part of This Statement

**TOWN OF POWNAL
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Net Change In Fund Balance – Total Governmental Funds \$ 1,273,564

**Amounts Reported for Governmental Activities in the
Statement of Net Assets are different because:**

Governmental Funds Report Capital Outlays as Expenditures. However, In the Statement of Activities the Cost of Those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense. This is the Amount of Capital Assets Recorded in the Current Period. 622,290

Depreciation Expense on Capital Assets is Reported in the Government-Wide Statement of Activities and Changes in Net Assets, But They Do Not Require the Use of Current Financial Resources. Therefore, Depreciation Expense is Not Reported as Expenditure in Governmental Funds. (268,649)

Some Property Tax will not be Collected for Several Months After the Town’s Fiscal Year End; They are not Considered “Available” Revenues in the Governmental Funds. This Amount is the Net Effect of the Differences. 4,360

The Issuance of Long-Term Debt (e.g. Bonds and Accrued Compensated Absence Pay) Provides Current Financial Resources to Governmental Funds, While the Repayment of the Principal of Long-Term Debt Consumes the Current Financial Resources of Governmental Funds. Neither Transaction, However, has Any Effect on Net Assets. Also, Governmental Funds Report the Effect of Issuance Cost, Premiums, Discounts, and Similar Items When Debt is First Issued, Whereas the Amounts are Deferred and Amortized in the Statement of Activities. This Amount is the Net Effect of These Differences in the Treatment of Long-Term Debt and Related Items. (1,259,565)

Accrued Interest Expense on Long-Term Debt is Reported in the Government-Wide Statement of Activities and Changes in Net Assets, But Does Not Require the Use of Current Financial Resources; Therefore, Accrued Interest Expense is not Reported as Expenditures in Governmental Funds. (10,582)

Change in Net Assets of Governmental Activities \$ 361,418

The Notes to the Financial Statements are an Integral Part of This Statement.

TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. – General Statement

The Town of Pownal, Maine was incorporated in 1808 under the laws of the State of Maine and currently operates under a Selectmen-Town Meeting Form of Government.

The accounting and reporting policies of the Town relating to the funds and account groups included in the accompanying basic financial statements conform to generally accepted accounting principles as applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the Town are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

The financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Town’s overall financial position and results of operations. Management of the Town has elected to omit the MD&A as indicated in the Independent Auditors’ Report.
- Financial statements prepared using full accrual accounting for all of the Town’s activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements including notes to financial statements.

B. – Financial Reporting Entity

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

TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. – Financial Reporting Entity (Continued)

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

Based on the aforementioned criteria, the Town of Pownal has no component units.

C. – Basic Financial Statements – Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, charges for services, etc). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (whether operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc).

D. – Basic Financial Statements – Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. – Basic Financial Statements – Fund Financial Statements (Continued)

The following fund types are used by the Town:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). The Road Reconstruction and the Provision for Future Expenses are major funds.

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry. A permanent fund would be used, for example, to account for the perpetual care endowment of a municipal cemetery.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements

E. – 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 are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. – Measurement Focus/Basis of Accounting (Continued)

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. A one-year availability period is used for recognition of all other Governmental fund revenues. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

F. – Budgetary Control

Formal budgetary accounting is employed as a management control for the general fund of the Town of Pownal.

The Town of Pownal's policy is to adopt an annual budget for operations. The budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

The Town is currently preparing budgets under a net budgeting concept, which does not estimate total revenues of the Town. Budgets are not prepared annually for the special revenue funds.

During the fiscal year, the Town over-expended certain budget amounts, which will be raised through taxation in the next fiscal year.

G. – Cash & Investments

Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certain corporate stocks and bonds. Generally, the Town invests certain funds in checking, savings accounts, or certificates of deposit.

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent. Investments are recorded at fair market value.

H. - Capital Assets

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, requires that governmental entities report all infrastructure assets on a prospective basis starting at the appropriate effective date of the standard. It does not require governmental entities with annual revenues of less than \$10 million to retroactively report infrastructure assets.

**TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. – Capital Assets (Continued)

Accounting principles generally accepted in the United States of America require capital assets, which include land, buildings, vehicles, machinery and equipment, and infrastructure assets be reported in the applicable governmental activities in the government-wide financial statements.

Capital assets purchased or acquired with an original cost of \$10,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land Improvements	20	Years
Buildings & Improvements	40	Years
Machinery & Equipment	10-20	Years
Vehicles	10-20	Years
Infrastructure	40	Years

Management believes it is not cost effective to report general capital assets acquired before January 1, 2008, but may report them in the future.

I. – Compensated Absences

- A.** The Town of Pownal recognizes accumulated sick and annual leave compensation during the period in which the related liability is incurred.

Level I – An employee who works (or is expected to work) on average at least thirty-six (36) hours per week for the town is eligible for “Level I” benefits. The term “work” means time spent on town business for which the individual receives monetary compensation. The hours worked will be based on the records of the town’s payroll system. The “average” will be based on a rolling full three (3) months average as determined at the end of each month. For this calculation, any Employee Benefit Time taken within these guidelines will be considered as “work” time.

Paid Time Off – Only Level I employees are eligible for paid time off based on the schedule below. The time off is to be used for Vacation, Illness, Bereavement, Doctor Visits, etc. If an employee terminates having taken time off prior to the accumulated accrual time, such employee will owe any such wages back to the Town.

<u>Time Worked for Town</u>	<u># of Annual Paid Days Off</u>	<u>Monthly Accrual Rate</u>
30 Days – 4 Years	15	1.25 Days
5 – 9 Years	20	1.66 Days
10+ Years	25	2.08 Days

- B.** To comply with the Town’s personnel policies, a liability for accrued compensated absence pay of \$2,981 at June 30, 2011 is recorded.

TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. – Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

K. – Equity Classifications

Government-Wide Statements

Net assets represent the differences between assets and liabilities. Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Selectmen, such as an appropriation. Assigned fund balance is constrained by the Board’s intent to be used for specific purposes by directive. See Note 10 for additional information about fund balances.

L. – Use of Estimates

Preparation of financial statements in conformity with GAAP requires the use of management’s estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – CASH AND CASH EQUIVALENTS

Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and certain corporate stocks and bonds. Generally, the Town invests such excess funds in checking accounts, savings accounts or certificates of deposit.

Deposits

The Town's deposits are categorized as follows to give an indication of the level of risk assumed by the Town at year end: Category 1 includes deposits covered by federal depository insurance or by collateral held by the Town or by the Town's agent in the Town's name; Category 2 includes uninsured deposits covered by collateral held by the pledging financial institution's trust department or agent in the Town's name; Category 3 includes uninsured and uncollateralized deposits.

At June 30, 2011 cash and cash equivalents were all considered Category 1.

Investments

Government Accounting Standards Board Statement No. 3 requires the investments to be classified into three categories. Category 1 includes investments which are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments, investments held by the financial institution's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent, but not in the Town's name.

At June 30, 2011, all investments were considered either Category 1 (\$24,716) or Category 3 (\$49,037).

NOTE 3 – PROPERTY TAXES

The Town is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state legislation. The Town of Pownal's property tax is levied on the assessed value listed as of the prior April 1st for all taxable real and personal property located in the Town. Assessed values are periodically established by the Assessor at 100% of assumed market value. The assessed value for the list of April 1, 2010, upon which the levy for the year ended June 30, 2011, was based, amounted to \$74,702,860. This assessed value was 100.0% of the estimated market value and 39.54% of the 2011 State valuation of \$188,950,000.

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay and amounted to \$39,951 for the year ended June 30, 2011.

In the fund financial statements, property taxes are recognized in compliance with NCGA Interpretation – 3, *Revenue Recognition – Property Taxes* which states that such revenue is recorded when it becomes measurable and available. Available means due, or past due and receivable within the current period and collected no longer than 60 days after the close of the current period. In the government-wide financial statements, property taxes are recognized under the accrual method.

TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – PROPERTY TAXES (CONTINUED)

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid. The following summarizes the tax levy:

Assessed Value	\$	76,648,160
Less Homestead Exemption		<u>(1,945,300)</u>
Net Assessed Value	\$	74,702,860
Tax Rate		<u>31.65</u>
Commitment	\$	2,364,346
Supplemental Taxes Assessed		<u>0</u>
Sub Total	\$	2,364,346
Less:		
Abatements		0
Collections		<u>(2,263,811)</u>
Receivable at Year End	\$	<u><u>100,535</u></u>
 Collection Rate		 <u>95.7%</u>

Property taxes on personal and real property accounts were due quarterly on September 16, 2010, December 16, 2010, March 16, 2011, and June 16, 2011. Interest was charged at a rate of 7% on delinquent accounts after those dates.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance <u>7/1/10</u>	Additions/ Completions	Retirement/ Adjustments	Ending Balance <u>06/30/11</u>
Governmental Activities				
Capital Assets, Depreciated				
Vehicles	\$ 409,385	\$ 543,303	\$ 0	\$ 952,688
Infrastructure	<u>1,142,935</u>	<u>78,987</u>	<u>0</u>	<u>1,221,922</u>
Total Depreciated Capital Assets	\$ <u>1,552,320</u>	\$ <u>622,290</u>	\$ <u>0</u>	\$ <u>2,174,610</u>
Less: Accumulated Depreciation for:				
Vehicles	\$ 74,099	\$ 232,441	\$ 0	\$ 306,540
Infrastructure	<u>33,051</u>	<u>36,208</u>	<u>0</u>	<u>69,259</u>
Total Accumulated Depreciation	\$ <u>107,150</u>	\$ <u>268,649</u>	\$ <u>0</u>	\$ <u>375,799</u>
Governmental Activities Capital Assets, Net	\$ <u>1,445,170</u>	\$ <u>353,641</u>	\$ <u>0</u>	\$ <u>1,798,811</u>

Depreciation expense has not been charged as a direct expense.

**TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 – INTERFUND ACTIVITY

Interfund balances at June 30, 2011 consisted of the following:

Due To	
General Fund	\$ 1,869
Major Governmental Funds:	
Road Reconstruction	1,317,193
Capital Project Funds – Provision for Future Expenses	240,115
Non-Major Governmental Funds:	
Special Revenues	60,936
Capital Project Funds	15,073
Permanent Funds - Expendable	<u>6,606</u>
Total	<u>\$ 1,641,792</u>
 Due From	
General Fund	<u>\$ 1,641,792</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2011 consisted of the following:

Transfer To	
Major Governmental Funds:	
Capital Project Funds – Provision for Future Expenses	\$ 75,000
Minor Governmental Funds:	
Capital Project Fund	14,000
Special Revenues	<u>3,000</u>
Total	<u>\$ 92,000</u>
 Transfer From	
General Fund	\$ 52,000
Major Governmental Fund:	
Capital Project Funds – Provision for Future Expenses	<u>40,000</u>
Total	<u>\$ 92,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

There have been no significant reductions in insurance coverages during the fiscal year and no significant settlements that exceeded insurance coverage.

NOTE 7 – OVERLAPPING DEBT

The Town's proportionate share of RSU #5 debt is not reported in the Town of Pownal's financial statements. At June 30, 2011, the Town's share was approximately 12.6% (or \$397,771 of the District's outstanding debt of \$3,156,910).

The Town's proportionate share of Cumberland County's debt is not reported in the financial statements of the Town of Pownal. At June 30, 2011, the Town's share was 0.46% (or \$6,703) of the County's outstanding debt of \$1,445,000.

NOTE 8 – FUND BALANCE APPROPRIATIONS

At the annual Town meeting on June 8, and 14, 2010, the Townspeople voted appropriations of general fund balance totaling \$157,161, which are reflected as the excess of budgeted expenditures over budgeted revenues on Exhibit VII. These appropriations were for the following purposes:

To Reduce Commitment	\$83,404
Debt Service	28,000
Public Works Operations	27,757
Public Works Compensation	<u>18,000</u>
Total Approved Appropriations	<u>\$157,161</u>

NOTE 9 – LONG-TERM DEBT

At June 30, 2011, bonds payable consisted of the following individual issues:

	<u>Governmental Activities</u>
Maine Bond Bank	
Fire Truck Bond of 2007, Principal Payments of \$30,000, 10 Years, 2% - 6% Interest, Maturity on November 1, 2017	\$ 210,000
Road Reconstruction Bond of 2007, Principal Payments of \$39,416, 25 Years, 2% - 6% Interest, Maturity on November 1, 2033.	1,064,252
Road Reconstruction Bond of 2011, Principal Payments of \$45,725, 30 Years, 2.02% - 5.52% Interest, Maturity on November 1, 2033.	<u>1,326,000</u>
Total Long-Term Debt	<u>\$2,600,252</u>

**TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 9 – LONG-TERM DEBT (CONTINUED)

Changes in Outstanding Debt

Transactions for the year ended June 30, 2011 are summarized as follows:

	Balance <u>July 1</u>	Issues or <u>Additions</u>	Payments or <u>Expenditures</u>	Balance <u>June 30</u>	Due Within <u>One Year</u>
Governmental Activities					
Note Payable	\$ 1,343,668	\$ 1,326,000	\$ 69,416	\$ 2,600,252	\$ 69,416
Accrued Compensated Absences	<u>0</u>	<u>2,981</u>	<u>0</u>	<u>2,981</u>	<u>0</u>
	<u>\$ 1,343,668</u>	<u>\$ 1,328,981</u>	<u>\$ 69,416</u>	<u>\$ 2,603,233</u>	<u>\$ 69,416</u>

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each debt type for the years subsequent to June 30, 2011, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011/2012	\$ 69,416	\$ 106,838	\$ 176,254
2012/2013	115,141	106,396	221,537
2013/2014	115,141	101,877	217,018
2014/2015	115,141	97,668	212,809
2015/2016	115,141	93,577	208,718
2016/2021	485,703	404,552	890,255
2021/2026	425,705	301,324	727,029
2026/2031	425,705	217,135	642,840
2031/2036	425,705	132,517	558,222
2036/2041	<u>307,454</u>	<u>24,444</u>	<u>331,898</u>
Total	<u>\$ 2,600,252</u>	<u>\$ 1,586,328</u>	<u>\$ 4,186,580</u>

In accordance with 30-A MRSA, Section 5702, as amended, the amount of long-term debt that can be incurred by the Municipality is limited by state statute. Total outstanding long-term obligations during a year can be no greater than 7.5%, with certain exceptions, of the state valuation of taxable property as of the beginning of the fiscal year. As of June 30, 2011, the amount of outstanding long-term debt was equal to 3.4% of property valuation for the year then ended.

NOTE 10 – GOVERNMENTAL FUND BALANCES

For the fiscal year ended June 30, 2011, the Town implemented the following new accounting standard issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions.

TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 10 – GOVERNMENTAL FUND BALANCES (CONTINUED)

GASB Statement 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications. The new hierarchical fund balance classification is based primarily upon the extent to which a government is bound to follow constraints on resources in governmental funds and includes the terms: nonspendable, committed, restricted, assigned, and unassigned.

The Town's fund balances represent: **(1) Nonspendable Fund Balance**, resources that cannot be spent because of legal or contractual provisions that require they maintained intact. (e.g. the principal of an endowment). **(2) Restricted Purposes**, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; **(3) Committed Purposes**, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Selectmen; **(4) Assigned Purposes**, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. **(5) Unassigned Fund Balance**, net resources in excess of what is properly categorized in one of the four categories already described. A positive amount of unassigned fund balance will never be reported in a governmental fund other than the general fund, because GASB Statement 54 prohibits reporting resources in another fund unless they are at least assigned to the purpose of that fund. However, funds other than the general fund could report a negative amount of unassigned fund balance should the total of nonspendable, restricted and committed fund balance exceeds the total net resources of the fund.

As per Exhibit III, a summary of the nature and purpose of these reserves by fund type at June 30, 2011 follows.

Nonspendable

Permanent Funds – Non Expendable

Cemetery – Non Expendable	\$ <u>51,895</u>
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Committed

Reserved for Property Taxes	\$ <u>114,651</u>
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Assigned

Special Revenue Funds

Impact Fees	\$ 32,090
Fire Station	6,850
Snowmobile	6,064
Veteran's Memorial	4,630
Stewardship Fund for Town Owned Land	4,442
Mallet Hall Improvements	3,860
Formatted Ordinances	<u>3,000</u>

Total	\$ <u>60,936</u>
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Capital Project – Major Funds

Road Reconstruction	1,317,193
Reserve for Future Expenses	<u>240,115</u>

Total	\$ <u>1,557,308</u>
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**TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 – GOVERNMENTAL FUND BALANCES (CONTINUED)

Capital Projects – Minor Funds	
Communication Upgrades	14,000
Fire Truck	<u>1,073</u>
Total	<u>\$ 15,073</u>
Permanent Funds – Expendable	
Cemetery – Expendable	27,500
Scholarship Fund	<u>963</u>
Total	<u>\$ 28,463</u>
Unassigned	
General Fund	<u>\$ 89,868</u>

NOTE 11 – PENSION PLAN

The Town provides a defined contribution plan for eligible employees through ICMA. The Town contributes 6% of the annual basic gross pay (including overtime pay) of employees who work an average of 36 hours per week (Level I employee). Employees are eligible to participate after 90 days of services as a Level I employee. Employee's interest in Town contribution vests 20% for each year of service. Employee is 100% vested after five (5) years of service. This applies to employees hired after 5/1/08. Any employees hired before 5/1/08 are grandfathered under earlier vesting schedule, which allows the employee's interest in the Town's contribution to vest at 1/3 each year of full-time employment service. If the employee terminates, non-vested portion reverts to the Town. The Town contributes at the end of the year based on the Town's payroll records.

Employees who work on average fewer than 36 hours, but more than 20 hours per week (Level II employee) are eligible to defer pay into the plan, but the Town does not contribute. An employee is eligible to participate after ninety (90) days of service as a Level II employee. Employees are fully vested in their deferred contribution.

The pension expense of the Town of Pownal:

<u>Year-Ended</u>	<u>Eligible Wages</u>	<u>Pension Expense</u>
6/30/2011	\$ 170,690	\$ 10,241
6/30/2010	\$ 198,141	\$ 11,888
6/30/2009	\$ 212,600	\$ 12,756

NOTE 12 – JOINT VENTURE

In 1985, the Town entered into a joint venture known as Ecomaine. Ecomaine provides solid waste disposal services to the twenty-one participating communities. The governing bodies of the participating communities appoint the Board of Directors who establishes the budget and charges the communities and commercial enterprises that use the facility.

**TOWN OF POWNAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 12 – JOINT VENTURE (CONTINUED)

The annual assessment to the Town for the period July 1, 2010 to June 30, 2011, (the Ecomaine fiscal year) is \$28,289. In addition to the annual assessment, tipping fees are being charged at a rate of \$88 per ton of waste. Total charges to the Town for the year ended June 30, 2011, were \$14,751.

Ecomaine has issued bonds to fund the design, construction, and start-up of a resource recovery system. The bonds are special revenue obligations of Ecomaine revenues. The bonds do not constitute a debt or liability within the meaning of any constitutional or statutory provision of the State of Maine, or a pledge of the full faith and credit of any political subdivision of the State of Maine. Ecomaine has no taxing power. However, pursuant to the Waste Handling Agreements, the participating municipalities are obligated severally to deliver certain solid waste produced within each such participating municipality to Ecomaine for processing and to make service payments and pay tipping fees for such processing in amounts which, when added to other available monies, will at least equal required debt service of the bonds.

The obligations of the participating municipalities under the Waste Handling Agreements are secured by the full faith and credit of the participating municipalities subject to certain limitations. At June 30, 2011, outstanding bonds of Ecomaine totaled \$2,660,000 of which the Pownal share, based on tonnage delivered in the past nineteen years, amounted to \$14,665.

Additionally, the Town of Pownal and twenty-six other municipalities have entered into an agreement with Ecomaine for a material recycling facility. At June 30, 2011, outstanding material recycling facility bonds of Ecomaine totaled \$1,900,000 of which Pownal's share, based on estimated tonnage to be delivered, amounts to \$9,310.

The Ecomaine landfill is in the process of being closed. The landfill is at 100% capacity to date. Therefore, the estimated remaining landfill life is zero years. The landfill closure and post closure costs have been estimated per Ecomaine's June 30, 2010, (the date of the most recent information available) audit at \$15,138,502 of which the Pownal share, based on tonnage delivered in the past seventeen years, amounts to \$84,504.

NOTE 13 – OVERDRAFTS OF APPROPRIATIONS

Certain overdrafts of appropriations will be ratified at the next Annual Town Meeting as a reduction of general fund balance.

NOTE 14 – DATE OF MANAGEMENT REVIEW

Management has evaluated subsequent events through December 15, 2011 the date on which the financial statements were available to be issued.

**TOWN OF POWNAL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,594,346	\$ 2,594,346	\$ 2,589,108	\$ (5,238)
Intergovernmental	167,862	167,862	172,455	4,593
Licenses, Permits & Fees	16,110	16,110	13,836	(2,274)
Charges for Services	60,065	60,065	52,469	(7,596)
Investment Income	0	0	4,826	4,826
Miscellaneous	<u>15,900</u>	<u>15,900</u>	<u>11,020</u>	<u>(4,880)</u>
Total Revenues	<u>\$ 2,854,283</u>	<u>\$ 2,854,283</u>	<u>\$ 2,843,714</u>	<u>\$ (10,569)</u>
Expenditures				
<i>Current</i>				
General Government	\$ 237,033	\$ 237,033	\$ 211,978	\$ 25,055
Public Works	562,450	562,450	567,483	(5,033)
Public Safety	81,010	81,010	80,644	366
Health & Sanitation	113,165	113,165	108,509	4,656
Human Services & Welfare	6,500	6,500	11,436	(4,936)
Education	1,663,915	1,663,915	1,663,915	0
Debt Service	127,945	127,945	127,945	0
Fixed Charges	141,426	141,426	101,474	39,952
<i>Capital Outlay</i>	<u>26,000</u>	<u>26,000</u>	<u>26,000</u>	<u>0</u>
Total Expenditures	<u>\$ 2,959,444</u>	<u>\$ 2,959,444</u>	<u>\$ 2,899,384</u>	<u>\$ 60,060</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	\$ (105,161)	\$ (105,161)	\$ (55,670)	\$ 49,491
Other Financing Sources (Uses)				
Transfers Out	<u>(52,000)</u>	<u>(52,000)</u>	<u>(52,000)</u>	<u>0</u>
Net Change in Fund Balances	\$ (157,161)	\$ (157,161)	\$ (107,670)	\$ 49,491
Fund Balance – July 1, 2010	<u>312,189</u>	<u>312,189</u>	<u>312,189</u>	<u>0</u>
Fund Balance – June 30, 2011	<u>\$ 155,028</u>	<u>\$ 155,028</u>	<u>\$ 204,519</u>	<u>\$ 49,491</u>