

# **TOWN OF MECHANIC FALLS**

**MECHANIC FALLS, MAINE**

**FINANCIAL AUDIT REPORT**

**JUNE 30, 2021**

**TOWN OF MECHANIC FALLS  
MECHANIC FALLS, MAINE  
JUNE 30, 2021**

**TABLE OF CONTENTS**

**FINANCIAL SECTION**

**EXHIBITS**

Independent Auditors' Report

**Financial Statements**

**Government-Wide Financial Statements**

Statement of Net Position

Exhibit I

Statement of Activities

Exhibit II

**Fund Financial Statements**

**Governmental Funds**

Balance Sheet

Exhibit III

Reconciliation of the Governmental Funds Balance Sheet  
to Statement of Net Position

Exhibit IV

Statement of Revenues, Expenditures, and Changes in Fund Balance

Exhibit V

Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance of Governmental Funds to the Statement of Activities

Exhibit VI

Statement of Revenues, Expenditures and Changes in Fund Balance –  
Budget to Actual – General Fund

Exhibit VII

**Fiduciary Funds**

Statement of Fiduciary Net Position

Exhibit VIII

Statement of Changes in Fiduciary Net Position

Exhibit IX

**Notes to Financial Statements**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE**

Schedule of Town's Proportionate Share of Net Pension Liability

I

Schedule of Town Pension Contributions

II

# Smith & Associates, CPAs

## *A Professional Association*

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### **REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

#### **Independent Auditors' Report**

Town Council and Manager  
TOWN OF MECHANIC FALLS  
Mechanic Falls, Maine

We have audited the accompanying financial statements of the governmental activities, each major fund (except as described below), and the aggregate remaining fund information of the Town of Mechanic Falls, Maine as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditors' Responsibility**

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

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

### **Basis for Adverse Opinion on Enterprise Funds and Adverse Opinion on Business-Type Activities**

Management has not included the Town of Mechanic Falls Water Department in the Town's financial statements. Accounting principles generally accepted in the United States of America require the Water Department to be presented as a major enterprise fund and financial information about the Water Department to be part of the business-type activities. In order to comply with state regulatory requirements, the Water Department's financial statements are issued and audited using a fiscal year ending December 31 of each year which is a reporting period different than that used by the Town for the remainder of its funds and activities. The amount by which this departure would impact the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the business-type activities and the omitted major fund as of and for the year ended June 30, 2021, has not been determined.

HMV, LLC, Certified Public Accountants has audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Mechanic Falls Water Department as of and for the years ended December 31, 2020 and 2019 and their report thereon, dated March 4, 2021, expressed an unmodified opinion on those financial statements.

### **Adverse Opinions**

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Enterprise Funds and Adverse Opinion on Business-Type Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the business-type activities and enterprise fund of the Town of Mechanic Falls, Maine as of June 30, 2021, or the changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund other than the Water Department, and the aggregate remaining fund information of the Town of Mechanic Falls, Maine as of June 30, 2021, and the respective changes in financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Schedule of the Town's Proportionate Share of Net Pension Liability and Schedule of Town Pension Contributions be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who

considers it to be an essential part of financial reporting for placing the 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 response to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Management has omitted Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.



SMITH & ASSOCIATES, CPAs  
*A Professional Association*

Yarmouth, Maine  
July 28, 2022

**EXHIBIT I**

**TOWN OF MECHANIC FALLS  
STATEMENT OF NET POSITION  
JUNE 30, 2021**

	<u>Primary Government Governmental Activities</u>
<b>Assets</b>	
Cash and Cash Equivalents	\$ 2,765,070
Taxes Receivable	109,766
Tax Lien Receivable	53,393
Accounts Receivable	131,109
Inventories	4,911
Capital Assets, Net of Accumulated Depreciation	<u>3,163,898</u>
<b>Total Assets</b>	<u>\$ 6,228,147</u>
<b>Deferred Outflows of Resources</b>	
Related to Pensions	<u>\$ 84,838</u>
<b>Liabilities</b>	
Accounts Payable	\$ 103,513
Accrued Expenses	66,899
Taxes Paid in Advance	6,948
Non Current Liabilities	
Due Within One Year	168,863
Due in More Than One Year	788,886
Compensated Absences	32,610
Net Pension Liability	<u>197,258</u>
<b>Total Liabilities</b>	<u>\$ 1,364,977</u>
<b>Deferred Inflows of Resources</b>	
Related to Pensions	<u>\$ 2,166</u>
<b>Net Position</b>	
<i>Net Investment in Capital Assets</i>	\$ 2,206,149
<i>Restricted</i>	
Permanent Funds, Non-Expendable	1,755
Special Revenue Funds	146,290
<i>Unrestricted</i>	<u>2,591,648</u>
<b>Total Net Position</b>	<u><u>\$ 4,945,842</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

**EXHIBIT II**

**TOWN OF MECHANIC FALLS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u> <u>Governmental Activities</u>
<b>Primary Government</b>				
<b>Governmental Activities</b>				
General Government	\$ 396,597	\$ 123,169	\$ 0	\$ (273,428)
Protection	551,198	1,661	0	(549,537)
Public Works	939,362	29,648	21,692	(888,022)
Fiscal Services	661,584	0	0	(661,584)
Education	1,772,155	0	0	(1,772,155)
Community Services	103,495	24,967	18,349	(60,179)
Fixed Charges	229,048	0	0	(229,048)
Interest on Long - Term Debt	24,335	0	0	(24,335)
Depreciation - Unallocated	<u>272,947</u>	<u>0</u>	<u>0</u>	<u>(272,947)</u>
<b>Total Primary Government</b>	<b><u>\$ 4,950,721</u></b>	<b><u>179,445</u></b>	<b><u>\$ 40,041</u></b>	<b><u>\$ (4,731,235)</u></b>
<b>General Revenues</b>				
Property and Other Taxes				\$ 3,708,160
Grants and Contributions Not Restricted to				
Special Revenues				654,840
Gain (Loss) on Capital Assets				51,733
Unrestricted Investment Earnings				<u>12,470</u>
<b>Total General Revenues</b>				<b><u>\$ 4,427,203</u></b>
<b>Changes in Net Position</b>				<b><u>\$ (304,032)</u></b>
<b>Net Position – July 1, 2020 - Previously Stated</b>				<b>\$ 5,234,447</b>
Prior Period Reclassification				<u>15,427</u>
<b>Net Position – July 1, 2020 - Restated</b>				<b><u>\$ 5,249,874</u></b>
<b>Net Position – June 30, 2021</b>				<b><u>\$ 4,945,842</u></b>

The Notes to the Financial Statements are an integral part of this Statement.

**EXHIBIT III**

**TOWN OF MECHANIC FALLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2021**

	<u>General Fund</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 1,736,450	\$ 1,028,620	\$ 2,765,070
Taxes Receivable	109,766	0	109,766
Tax Liens Receivable	53,393	0	53,393
Accounts Receivable	131,109	0	131,109
Inventories	4,911	0	4,911
Due from Other Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Assets</b>	<u>\$ 2,035,629</u>	<u>\$ 1,028,620</u>	<u>\$ 3,064,249</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balance</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 103,513	\$ 0	\$ 103,513
Accrued Expenses	59,320	0	59,320
Due to Other Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Liabilities</b>	<u>\$ 162,833</u>	<u>\$ 0</u>	<u>\$ 162,833</u>
<b>Deferred Inflows of Resources</b>	<u>\$ 144,748</u>	<u>\$ 0</u>	<u>\$ 144,748</u>
<b>Fund Balance</b>			
<i>Nonspendable</i>			
Permanent Funds – Nonspendable	\$ 0	\$ 1,755	\$ 1,755
<i>Restricted</i>			
Special Revenue Funds	0	146,290	146,290
Permanent Funds, Spendable	0	10,478	10,478
<i>Committed</i>			
Capital Projects	0	826,657	826,657
Special Revenue Funds	0	43,440	43,440
Appropriated Surplus for 2021/22	245,000	0	245,000
<i>Assigned</i>			
Special Revenue Funds	0	0	0
General Fund	32,188	0	32,188
<i>Unassigned</i>			
General Fund	<u>1,450,860</u>	<u>0</u>	<u>1,450,860</u>
<b>Total Fund Balance</b>	<u>\$ 1,728,048</u>	<u>\$ 1,028,620</u>	<u>\$ 2,756,668</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<u>\$ 2,035,629</u>	<u>\$ 1,028,620</u>	<u>\$ 3,064,249</u>

The Notes to the Financial Statements are an integral part of this Statement.



**EXHIBIT IV**

**TOWN OF MECHANIC FALLS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
STATEMENT OF NET POSITION  
JUNE 30, 2021**

<b>Total Fund Balance – Total Governmental Funds</b>	\$ 2,756,668
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**Amounts Reported for Governmental Activities in the Statement of Net  
Position are Different Because**

Capital Assets Used in Governmental Activities are Not Current Financial Resources and Therefore are Not Reported in the Governmental Funds Balance Sheet.	3,163,898
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Interest Payable on Long-Term Debt Does Not Require Current Financial Resources and Therefore, Interest Payable is Not Reported as a Liability in the Governmental Funds Balance Sheet.	(7,579)
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Unavailable Property Tax Revenues are Not Available to Pay for Current Period Expenditures and Therefore, are Deferred Inflows of Resources.	137,800
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Long-term Liabilities are Not Due and Payable in The Current Period and Therefore They are Not Reported in The Governmental Funds Balance Sheet:

Long-term Debt		
Due in One Year	\$ (168,863)	
Due in More than One Year	(788,886)	
Net Pension Liability	(197,258)	
Accrued Compensated Absence Pay	<u>(32,609)</u>	(1,187,616)

Pension Liabilities Result in Deferred Outflows and Deferred Inflows of Resources Associated with the Actuarial Value of Contributions, Assets, and Liabilities.

Deferred Outflows	\$ 84,838	
Deferred Inflows	<u>(2,167)</u>	<u>82,671</u>

<b>Net Position of Governmental Activities</b>	<b><u>\$ 4,945,842</u></b>
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The Notes to the Financial Statements are an integral part of this Statement.

**EXHIBIT V**

**TOWN OF MECHANIC FALLS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>General Fund</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues</b>			
Property and Other Taxes	\$ 3,788,360	\$ 0	\$ 3,788,360
Intergovernmental	680,014	0	680,014
Licenses, Permits and Fees	77,578	0	77,578
Charges for Services	39,980	24,967	64,947
Investment Income	6,306	6,164	12,470
Miscellaneous	<u>57,384</u>	<u>46,867</u>	<u>104,251</u>
<b>Total Revenues</b>	<u>\$ 4,649,622</u>	<u>\$ 77,998</u>	<u>\$ 4,727,620</u>
<b>Expenditures</b>			
<i>Current</i>			
General Government	\$ 371,416	\$ 11,777	\$ 383,193
Protection	554,433	1,097	555,530
Public Works	461,703	0	461,703
Fiscal Services	644,630	0	644,630
Education	1,772,155	0	1,772,155
Community Services	41,140	62,355	103,495
Debt Service	90,837	397,668	488,505
Fixed Charges	229,048	0	229,048
<i>Capital Outlay</i>	<u>469,241</u>	<u>166,048</u>	<u>635,289</u>
<b>Total Expenditures</b>	<u>\$ 4,634,603</u>	<u>\$ 638,945</u>	<u>\$ 5,273,548</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>\$ 15,019</u>	<u>\$ (560,947)</u>	<u>\$ (545,928)</u>
<b>Other Financing Sources (Uses)</b>			
Long-term Debt Proceeds	\$ 500,000	0	500,000
Transfers In (Out)	<u>(273,994)</u>	<u>273,994</u>	<u>0</u>
<b>Total Other Financing Sources</b>	<u>\$ 226,006</u>	<u>\$ 273,994</u>	<u>\$ 500,000</u>
<b>Net Change in Fund Balance</b>	<u>\$ 241,025</u>	<u>\$ (286,953)</u>	<u>\$ (45,928)</u>
<b>Fund Balance – July 1, 2020 – Previously Stated</b>	\$ 1,487,023	\$ 1,300,146	\$ 2,787,169
Prior Period Reclassification	<u>0</u>	<u>15,427</u>	<u>15,427</u>
<b>Fund Balance – July 1, 2020 - Restated</b>	<u>\$ 1,487,023</u>	<u>\$ 1,315,573</u>	<u>\$ 2,802,596</u>
<b>Fund Balance – June 30, 2021</b>	<u>\$ 1,728,048</u>	<u>\$ 1,028,620</u>	<u>\$ 2,756,668</u>

The Notes to the Financial Statements are an integral part of this Statement.

**EXHIBIT VI**

**TOWN OF MECHANIC FALLS  
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, 2021**

**Net Change In Fund Balance – Total Governmental Funds** \$ (45,928)

**Amounts Reported for Governmental Activities in the Statement of Net Position 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. 146,266

Depreciation Expense on Capital Assets is Reported in the Government-Wide Statement of Activities and Changes in Net Position, But They Do Not Require the Use of Current Financial Resources. Therefore, Depreciation Expense is Not Reported as Expenditure in Governmental Funds. (272,947)

In the Statement of Activities Only the Gain or Loss on the Disposal of Capital Assets is reported. However, in the Governmental Funds, the Proceeds From the Sale Increase Financial Resources. (730)

The Issuance of Long-term Debt (e.g. Notes Payable and Accrued Compensated Absence Pay) Provides Current Financial Resources to Governmental Funds, While the Repayment of Long-term Debt Consumes the Current Financial Resources of Governmental Funds. Neither Transaction, However, has Any Effect on Net Position. This Amount is the Net Effect of These Differences in the Treatment of Long-Term Debt and Related Items. (35,895)

Accrued Interest Expense on Long-Term Debt is Reported in the Government-Wide Statement of Activities and Changes in Net Position, But Does Not Require the Use of Current Financial Resources. Therefore, Accrued Interest Expense is Not Reported as Expenditures in Governmental Funds. 2,358

Some Property Tax will not be Collected for Several Months After the Town's Fiscal Year End; They are not Considered Current Financial Resources in the Governmental Funds. This Amount is the Net Effect of the Differences. (80,200)

Long-term Net Pension Liabilities and Related Deferred Resources are Reported in the Government-Wide Statement of Activities, But Do Not Require the Use of Current Financial Resources and are not Available to Pay for Current Year Expenditures. Therefore, These Amounts are Not Reported as Expenditures/Revenues in Governmental Funds Financial Statements. This is the Net Change Related to Pension Liability and Deferred Outflows and Deferred Inflows of Resources. (16,956)

**Change in Net Position of Governmental Activities** \$ (304,032)

The Notes to the Financial Statements are an integral part of this Statement.

**EXHIBIT VII**

**TOWN OF MECHANIC FALLS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
<b>Revenues</b>				
Property and Other Taxes	\$ 3,613,332	\$ 3,613,332	\$ 3,788,360	\$ 175,028
Intergovernmental	604,598	604,598	680,014	75,416
Licenses, Permits and Fees	59,885	59,885	77,578	17,693
Charges for Services	29,727	29,727	39,980	10,253
Investment Income	8,000	8,000	6,306	(1,694)
Miscellaneous	<u>35,000</u>	<u>35,000</u>	<u>57,384</u>	<u>22,384</u>
<b>Total Revenues</b>	<u>\$ 4,350,542</u>	<u>\$ 4,350,542</u>	<u>\$ 4,649,622</u>	<u>\$ 299,080</u>
<b>Expenditures</b>				
<i>Current</i>				
General Government	\$ 387,537	\$ 387,537	\$ 371,416	\$ 16,121
Protection	544,922	544,922	554,433	(9,511)
Public Works	499,800	499,800	461,703	38,097
Fiscal Services	691,429	691,429	644,630	46,799
Education	1,772,155	1,772,155	1,772,155	0
Community Services	43,939	43,939	41,140	2,799
Debt Service	94,947	94,947	90,837	4,110
Fixed Charges	236,798	236,798	229,048	7,750
<i>Capital Outlay</i>	<u>500,000</u>	<u>500,000</u>	<u>469,241</u>	<u>30,759</u>
<b>Total Expenditures</b>	<u>\$ 4,771,527</u>	<u>\$ 4,771,527</u>	<u>\$ 4,634,603</u>	<u>\$ 136,924</u>
<b>Excess (Deficiency) of Revenue Over (Under) Expenditures</b>	<u>\$ (420,985)</u>	<u>\$ (420,985)</u>	<u>\$ 15,019</u>	<u>\$ 436,004</u>
<b>Other Financing Sources (Uses)</b>				
Long-term Debt Proceeds	\$ 500,000	\$ 500,000	500,000	0
Transfers In (Out)	<u>(274,015)</u>	<u>(274,015)</u>	<u>(273,994)</u>	<u>21</u>
<b>Total Other Financing Sources</b>	<u>\$ 225,985</u>	<u>\$ 225,985</u>	<u>\$ 226,006</u>	<u>\$ 21</u>
<b>Net Change in Fund Balance</b>	<u>\$ (195,000)</u>	<u>\$ (195,000)</u>	<u>\$ 241,025</u>	<u>\$ 436,025</u>
<b>Fund Balance – July 1, 2020</b>	<u>1,487,023</u>	<u>1,487,023</u>	<u>1,487,023</u>	<u>0</u>
<b>Fund Balance – June 30, 2021</b>	<u>\$ 1,292,023</u>	<u>\$ 1,292,023</u>	<u>\$ 1,728,048</u>	<u>\$ 436,025</u>

The Notes to the Financial Statements are an integral part of this Statement.

**EXHIBIT VIII**

**TOWN OF MECHANIC FALLS  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2021**

	Custodial Funds
<b>Assets</b>	
Cash and Cash Equivalents	\$ 12,771
<b>Total Assets</b>	<u>\$ 12,771</u>
<b>Total Liabilities</b>	<u>\$ 0</u>
<b>Fiduciary Net Position</b>	
Restricted for Riverside Drive Association	\$ 3,191
Restricted for Library Trustees	<u>9,580</u>
<b>Total Fiduciary Net Position</b>	<u>\$ 12,771</u>

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

**EXHIBIT IX**

**TOWN OF MECHANIC FALLS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2021**

	Custodial Funds
<b>Additions</b>	
Association Dues	\$ 2,000
Donations	255
Interest Income	<u>5</u>
<b>Total Additions</b>	<u>\$ 2,260</u>
<b>Deductions</b>	
Plowing Riverside Drive	\$ 1,210
Library Supplies	<u>366</u>
<b>Total Deductions</b>	<u>\$ 1,576</u>
<b>Change in Net Position</b>	<u>\$ 684</u>
<b>Fiduciary Net Position – July 1, 2020 – As Previously Stated</b>	\$ 27,514
Prior Period Reclassification	<u>(15,427)</u>
<b>Fiduciary Net Position – July 1, 2020 – Restated</b>	<u>\$ 12,087</u>
<b>Fiduciary Net Position – June 30, 2021</b>	<u><u>\$ 12,771</u></u>

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

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. – General Statement**

The Town of Mechanic Falls, Maine was incorporated in 1893 under the laws of the State of Maine and currently operates under a Town Manager-Council Form of Government.

The accounting and reporting policies of the Town relating to the funds and account groups included in the accompanying 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 criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in 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.

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. – Financial Reporting Entity (Continued)**

Based on the aforementioned criteria, the Town of Mechanic Falls has no component units that are not included in this report.

*Water Department*

The Town of Mechanic Falls Water Department is an enterprise fund within the Town. The Water Department is not included in these financial statements because this department has adopted a statutory calendar year. The Water Department is not a separate legal entity from the Town, and debt issued for the Water Department is backed by the full faith and credit of the Town. The Water Department issues separate financial statements which are examined by other auditors.

**C. – Financial Statements – Government-Wide Statements**

The Town's 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 Position, 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 position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. 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. – 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. The following fund types are used by the Town.



**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**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.

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

*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).

*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.

**Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and custodial funds. The Town's only fiduciary funds are custodial funds used to account for the administering and collection of revenues related to the Riverside Drive Association and Library Trustees.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major 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.

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. 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 Mechanic Falls. The Town of Mechanic Falls’ 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 following procedures are followed in establishing budgetary data reflected in the financial statements:

1. Early in the second half of the last fiscal year, the Town prepared a budget for this fiscal year beginning July 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the inhabitants of the Town of Mechanic Falls was then called for the purpose of adopting the proposed budget after public notice of the meeting was given.
3. The budget was adopted subsequent to passage by the inhabitants of the Town.

The Town does not adopt budgets for the Special Revenue Funds.

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. – Cash and Cash Equivalents, and 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 a fiscal agent.

Investments are recorded at fair market value.

**H. – Inventories**

Inventories are stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method for the Town.

**I. – Capital Assets**

Capital assets purchased or acquired with an original cost of \$5,000 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:

Buildings and Improvements	15 - 40 Years
Machinery and Equipment	5 - 12 Years
Vehicles	10 Years
Infrastructure	12 Years

The Town of Mechanic Falls has elected not to retroactively report their major general infrastructure assets.

**J. – Compensated Absences**

The Town of Mechanic Falls recognizes accumulated sick leave compensation during the period in which the related liability is incurred. In compliance with Town personnel policies the liability for accrued compensated absence pay was \$32,610 at June 30, 2021.

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. – 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. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**L. – Deferred Outflows and Inflows of Resources**

*Deferred Outflows of Resources* - a consumption of net position by the government that is applicable to a future reporting period. It has a positive effect on net position, similar to assets.

*Deferred Inflows of Resources* - an acquisition of net position by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

The GASB emphasizes in GASB 63 that deferred inflows and deferred outflows are not assets or liabilities and therefore should be separately categorized in the financial statements.

The deferred outflows of resources listed at June 30, 2021 in Exhibit I amounted to \$784,838 and \$2,166 of deferred inflows of resources related to pension for the Town of Mechanic Falls. Per Exhibit III, deferred outflows of resources amounted to \$0 and \$144,748 of deferred inflows of resources related to deferred property taxes.

**M. – Equity Classifications**

**Government-Wide Statements**

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

- Net investment in capital assets – 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 position – consists of net position 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 position – all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. – Equity Classifications (Continued)**

**Fund Financial Statements**

Governmental fund equity is classified as fund balance. The Town's fund balances represent: **(1) Nonspendable Fund Balance**, resources that cannot be spent because of legal or contractual provisions that require they be 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.

**N. – 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.

**O. – Accounts Receivable**

Accounts Receivable at June 30, 2021, primarily consist of miscellaneous intergovernmental receivables. There is no allowance for doubtful accounts as the Town believes they are 100% collectible.

**P. – New Pronouncements**

For the fiscal year ended June 30, 2021, The Town has implemented Government Accounting Standards Board (GASB) Statement No. 84 – Fiduciary Activities. As a result of implementing GASB Statement No. 84, the Town has restated beginning net position in the government-wide statement of net position as well as the beginning fund balance in the statement of revenues, expenditures, and changes in fund balances nonmajor funds. The restatement increases beginning net position and beginning fund balance by \$15,427.

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

The Town's deposits may be subject to the following risks:

*Custodial Credit Risk – Deposits* – 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's policy is to invest in only financial institutions that are insured by the F.D.I.C. or additional insurance. The Town's bank balances were all covered by the F.D.I.C. or by additional insurance purchased on behalf of the Town by the respective banking institutions.

*Interest Rate Risk* – The Town does not currently have a deposit policy for interest rate risk.

*Credit Risk* – The Town does not have a formal policy regarding credit risk. Maine statutes authorized the Town to invest in obligations of the U.S. Treasury and U.S. agencies and certain bonds.

*Concentration of Credit Risk* – The Town does not have a policy for concentration of credit risk.

**NOTE 3 – PROPERTY TAXES**

The Town is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state legislation. The Town of Mechanic Falls' property tax is levied on the assessed value listed as of the prior April 1<sup>st</sup> 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. Each property must be reviewed no less than once every four years. The assessed value for the list of April 1, 2020, upon which the levy for the year ended June 30, 2021, was based, amounted to \$156,521,481. The assessed value was 82.36% of the 2021 State valuation of \$190,050,000.

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 \$13,798 for the year ended June 30, 2021.

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.

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.

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 3 – PROPERTY TAXES (CONTINUED)**

The following summarizes the 2020-2021 levy:

Assessed Value	\$ 156,521,481
Less: Homestead Exemption	(10,198,826)
Less: BETE	<u>(1,994,810)</u>
Total	\$ 144,327,842
Tax Rate (Per \$1,000)	<u>21.45</u>
Commitment	\$ 3,095,832
Supplementals	<u>3,501</u>
Sub-Total	\$ 3,099,333
Less: Abatements	(6,691)
Less: Collections	<u>(3,001,677)</u>
<b>Receivable at Year End</b>	<b><u>\$ 90,965</u></b>
<b>Collection Rate</b>	<b><u>96.8%</u></b>

Property taxes were due on October 15, 2020, and May 15, 2021, with interest charged at a rate of 8% on delinquent accounts.

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance <u>July 1</u>	Additions/ <u>Completions</u>	Retirements/ <u>Adjustments</u>	Ending Balance <u>June 30</u>
<b>Governmental Activities</b>				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 627,486	\$ 0	\$ 0	\$ 627,486
Building in Progress	<u>275,225</u>	<u>0</u>	<u>0</u>	<u>275,225</u>
Total Capital Assets Not Being Depreciated	<u>\$ 902,711</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 902,711</u>
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	\$ 2,098,614	\$ 0	\$ 0	\$ 2,098,614
Machinery and Equipment	880,311	94,384	21,930	952,765
Vehicles	1,689,322	51,882	20,605	1,720,599
Infrastructure	<u>1,530,178</u>	<u>0</u>	<u>0</u>	<u>1,530,178</u>
Total Capital Assets, Being Depreciated	<u>\$ 6,198,425</u>	<u>\$ 146,266</u>	<u>\$ 42,535</u>	<u>\$ 6,302,156</u>

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

	Beginning Balance <u>July 1</u>	Additions/ <u>Completions</u>	Retirements/ <u>Adjustments</u>	Ending Balance <u>June 30</u>
<i>Less Accumulated Depreciation for</i>				
Buildings and Improvements	\$ 1,137,045	\$ 36,797	\$ 0	\$ 1,173,842
Machinery and Equipment	557,928	52,703	21,200	589,431
Vehicles	1,137,300	94,935	20,605	1,211,630
Infrastructure	977,554	88,512	0	1,066,066
Total Accumulated Depreciation	<u>\$ 3,809,827</u>	<u>\$ 272,947</u>	<u>\$ 41,805</u>	<u>\$ 4,040,969</u>
 Total Capital Assets, Being Depreciated, Net	 <u>\$ 2,388,598</u>	 <u>\$ (126,681)</u>	 <u>\$ 730</u>	 <u>\$ 2,261,187</u>
 <b>Governmental Activities Capital Assets, Net</b>	 <u><u>\$ 3,291,309</u></u>	 <u><u>\$ (126,681)</u></u>	 <u><u>\$ 730</u></u>	 <u><u>\$ 3,163,898</u></u>

Depreciation expense has not been charged as a direct expense.

**NOTE 5 – LONG-TERM DEBT**

At June 30, 2021, bonds payable consisted of the following individual issues:

	<u>Governmental Activities</u>
<b>Maine Municipal Bond Bank</b>	
Town Office Renovations of 2003, Interest Rates 2.078% - 5.078%, Annual Principal Payment of \$32,070, Maturity 2023	\$ 96,213
<b>Androscoggin Bank</b>	
2021 General Obligation Bond for paving, Interest Rate of 2.07%, Annual Principal and Interest Payment of \$106,298, Maturity in 2026	500,000
<b>USDA</b>	
General Obligation Bond – Interest Rate 3.5%, First Year Interest Only Payment of \$25,358; Thereafter, Annual Principal and Interest of \$41,014, Maturity in 2048	304,873
<b>John Deere Financial</b>	
Lease Purchase Agreement of 2018; Interest Rate of 3.75%; Annual Principal and Interest of \$12,662; Maturity in 2025	<u>56,663</u>
<b>Total</b>	<u><u>\$ 957,749</u></u>



**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**Changes in Outstanding Debt**

Transactions for the year ended June 30, 2021, are summarized as follows:

	<u>Balance</u> <u>July 1</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>June 30</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities</b>					
General Obligation Bonds and Notes Payable	\$ 852,784	\$ 500,000	\$ 451,698	\$ 901,086	\$ 158,363
Capital Lease	66,777	0	10,114	56,663	10,500
Net Pension Obligation	140,049	57,209	0	197,258	0
Compensated Absences	<u>34,903</u>	<u>0</u>	<u>2,293</u>	<u>32,610</u>	<u>0</u>
 Total Governmental Activities	 <u>\$1,094,513</u>	 <u>\$ 557,209</u>	 <u>\$ 464,105</u>	 <u>\$1,187,617</u>	 <u>\$ 168,863</u>

**Annual Requirements to Retire Debt Obligations**

The annual aggregate maturities for each debt type for the years subsequent to June 30, 2021, are as follows:

	<u>Governmental Activities</u>		
Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020/21	158,363	25,092	183,455
2021/22	161,411	20,415	181,826
2022/23	164,520	15,677	180,197
2023/24	135,673	11,639	147,312
2024/25	138,962	8,350	147,312
2026/30	36,038	4,976	41,014
2031/35	37,300	3,714	41,014
2036/40	38,605	2,409	41,014
2041/45	<u>30,214</u>	<u>1,057</u>	<u>31,271</u>
 <b>Total</b>	 <u>\$ 901,086</u>	 <u>\$ 93,329</u>	 <u>\$ 994,415</u>

The amount of debt that can be incurred by a municipality is limited by state statute. Total outstanding term obligations during a year can be no greater than 15% of the assessed value of taxable property as of the beginning of the fiscal year. As of June 30, 2021, the amount of outstanding term debt was equal to 0.61% of property valuation for the year then ended.

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**Capital Leases**

As of June 30, 2021, the Town had capitalized an excavator with a cost of \$106,500 and accumulated depreciation of \$31,950. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2021, were as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2022	\$ 12,662
2023	12,662
2024	12,662
2025	12,662
2026	<u>12,662</u>
<b>Total Minimum Lease Payments</b>	<b>\$ 63,310</b>
Less: Amount Representing Interest	<u>(6,647)</u>
<b>Present Value of Future Minimum Lease Payments</b>	<b><u>\$ 56,663</u></b>

**NOTE 6 – RETIREMENT PLANS**

The Town of Mechanic Falls provides retirement pension plans for its employees through a deferred compensation plan and a defined benefit pension plan.

**I. Deferred Compensation Plan – ICMA-RC**

*A. Description of the Plan*

The government offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all government employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. Currently, nine employees participate in the International City/County Management Association Retirement Corporation (ICMA-RC) plan.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the government subject only to the claims of the government's general creditors. Participants' rights under the plan are equal to those of a general creditor of the government in an amount equal to the fair market value of the deferred account for each participant.

**TOWN OF MECHANIC FALLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**I. Deferred Compensation Plan – ICMA-RC (continued)**

It is the opinion of the government's legal counsel that the government has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The government believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

*B. Funding Policy*

Under this plan, the Town matches employee deferrals on a dollar-for-dollar basis, up to a maximum of 6.5% of compensation. Investments are managed by the plan's trustee under one of four investment options, or a combination thereof. The choice of the investment options is made by the participants. Total contributions on behalf of the Town were \$24,726 for the year ended June 30, 2021.

**II. Deferred Compensation Plan - Hartford Insurance**

*A. Description of the Plan*

For the fiscal year ended June 30, 2021, one employee participates in the Hartford Insurance Pension Plan. The pension plan is set up as a 457(b) Plan with a calendar year ending December 31<sup>st</sup>. Participants direct the investment of all contributions and age 50 catch-up deferrals and pre-retirement catch-up deferrals are allowed.

Distributions are permitted on account of: a) severance from employment, b) death, c) attainment of age 70 ½ years, d) unforeseeable emergency, e) withdrawal of rollover contributions excluding ROTH rollovers, or f) employed participants may take a withdrawal if their account is \$5,000 or less, have not made or received an allocation of any elective deferral contributions under the plan during the two-year period ending on the date of distribution and have not received a prior distribution under this provision.

*B. Funding Policy*

Under this plan, the Town matches employee deferrals on a dollar-for-dollar basis, up to a maximum of 6.5% of compensation. Investments are managed by the plan's trustee under one of four investment options, or a combination thereof. The choice of the investment options is made by the participants. Total contributions on behalf of the Town were \$1,396 for the year ended June 30, 2021.

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**III. Defined Benefit Pension Plan - Maine Public Employees Retirement System (MEPERS)**

*A. Description of the Plan*

Qualifying personnel of the Town participate in the Maine Public Employees Retirement System. The plan is a multiple employer, cost-sharing pension plan. The Town has been enrolled in the MEPERS system since July 1, 1994. It is part of the COLA program within the MEPERS system plan. The Town participates in the Special Plan options. MEPERS is established under Maine law found in 5 MRSA Part 20. The authority to establish and amend benefit provisions rests with the State legislature.

*B. Funding Policy*

The Town makes available to all full-time employees the option to make a one-time irrevocable election to participate in the Maine Public Employees Retirement System (MEPERS), Participating Local District ("PLD") Plan 2C and 3C. The employee shall pay, through payroll deduction(s), his/her required contribution determined by MEPERS. The Town shall pay its required contribution determined by MEPERS. This benefit shall be offered to eligible employees on the date of hire.

*C. Pension Benefits*

Benefit terms are established in Maine Statute. The System's retirement programs provide defined retirement benefits based on member's average final compensation and service credit earned as of retirement. Vesting (i.e. eligibility of benefits upon reaching qualification) occurs upon the earning of 5 years of service credit for Town employees.

Normal retirement age of PLD members is age 60 to 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute.

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.

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 interest credited to member's accounts is set by the System's Board of Trustees.

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**III. Defined Benefit Pension Plan - Maine Public Employees Retirement System (MEPERS)**

*D. Member and Employer Contributions*

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. Member and employer contribution rates are each a percentage of applicable member compensation. Member contribution rates are defined by law or Board rule and depend on the terms of the plan under which a member is covered. Employer contributions rates are determined through actuarial valuations. For the year ended June 30, 2021, the member contribution rate was 7.35% to 8.10%, while the Town's contribution rate was 10.1%.

*E. Revenue Recognition*

Employer contributions to the System are recognized as additions in the period when they become due pursuant to formal commitments or statutory requirements. Investment income is recognized when earned and investment expenses are recorded when incurred.

*F. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2021, the Town reported a net pension liability of \$197,258. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by actuarial valuation as of that date. The Town proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At the June 30, 2020, measurement date, the Town proportion was 0.049648%, while at the June 30, 2019, measurement date it was 0.045819%. For the fiscal year ended June 30, 2021, the Town recognized pension expense of \$53,917.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>For the Year Ended June 30,</b>	<b><u>Amount</u></b>
2022	\$ 41,983
2023	18,856
2024	10,903
2025	<u>10,927</u>
<b>Total</b>	<b><u>\$ 82,669</u></b>

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**III. Defined Benefit Pension Plan - Maine Public Employees Retirement System (MEPERS)  
(Continued)**

At June 30, 2021, the reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 11,837	\$ 2,169
Changes in Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	12,836	0
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions.	23,199	0
Town Contributions Subsequent to the Measurement Date	<u>36,966</u>	<u>0</u>
<b>Total</b>	<u>\$ 84,838</u>	<u>\$ 2,169</u>

*G. Actuarial Assumptions*

The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions applied to all period included in the measurement:

- **Inflation** 2.75%
- **Salary Increases** 2.75% Plus merit component
- **Investment Rate of Return** 6.75%
- **Cost of Living Benefit Increases** 1.91%

For the Town employees, the mortality rate is based on the RP2014 Total Dataset Healthy Annuitant Mortality Table for males and females.

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period of June 30, 2012 to June 30, 2015.

The long-term expected rate of return on pension plan investments were determined using a building-block method in which best-estimate ranges of expected future real rates or 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**III. Defined Benefit Pension Plan - Maine Public Employees Retirement System (MEPERS)**  
**(Continued)**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equities	30.0%	6.0%
US Government	7.5%	2.3%
Private Equity	15.0%	7.6%
Real Assets:		
Real Estate	10.0%	5.2%
Infrastructure	10.0%	5.3%
Natural Resources	5.0%	5.0%
Traditional Credit	7.5%	3.0%
Alternative Credit	5.0%	7.2%
Diversifiers	10.0%	5.9%
	<u>100.0%</u>	

*H. Discount Rate*

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that plan member contribution will be made the current contribution rate and that employer and non-employer entity contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 6.75%, as well as what the Town proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Proportionate Share of the Net Pension Liability	\$414,557	\$197,258	\$19,383

*I. Pension Plan Financial and Actuarial Information*

Additional financial information and actuarial information can be found in the Maine PERS 2020 Comprehensive Annual Financial Report available online at [www.mainebers.org](http://www.mainebers.org) or by contacting the System at (207) 512-3100.

**TOWN OF MECHANIC FALLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 7 – INTERFUND ACTIVITY**

Interfund transfers for the year ended June 30, 2021, consisted of the following:

<b>Transfer To</b>	
Capital Project Funds	\$ 222,258
Special Revenue Funds	51,715
General Fund	<u>21</u>
<b>Total</b>	<b><u>\$ 273,994</u></b>
 <b>Transfer From</b>	
General Fund	\$ 273,973
Capital Project Funds	<u>21</u>
<b>Total</b>	<b><u>\$ 273,994</u></b>

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. Interfund balances result 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. There were no interfund balances at June 30, 2021.

**NOTE 8 – 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 9 – OVERLAPPING DEBT**

The Town's proportionate share of RSU #16's debt is not recorded in the financial statements of the Town of Mechanic Falls. At June 30, 2021, the Town's share was 16.72% (or \$540,563) of the School Union's outstanding debt of \$3,233,033.

The Town's proportionate share of Androscoggin County's debt is not recorded in the financial statements of the Town of Mechanic Falls, as the county has no outstanding debt at December 31, 2020, the date of Androscoggin County's most recently audited financial statements.



**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 10 – FUND BALANCE APPROPRIATIONS**

At the Referendum Ballot held on July 14, 2021, the Townspeople voted \$195,000 of appropriations of general fund, which is reflected as the excess of budgeted expenditures over budgeted revenues as per Exhibit VII for the following:

Capital Reserves	\$ 195,000
<b>Total</b>	<b>\$ 195,000</b>

**NOTE 11 – GOVERNMENTAL FUND BALANCES**

The Town of Mechanic Falls has the responsibility for committing fund balance amounts and likewise would be required to modify or rescind those commitments. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, and unassigned resources are available for use, it is the Town's policy to use committed or assigned resources first, then unassigned resources as they are needed.

The General Fund unassigned fund balance total of \$1,450,860 represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

The Town has adopted a fund balance policy to provide sound financial management of the Town unassigned funds. The Town's management objective is to carry a total fund balance of three months worth of the anticipated fiscal year's total spending. On or about January 1<sup>st</sup> of each year, the Town Manager with the advice of the Finance Director, shall present to the Town Council the amount of net excess fund balance as compared to three month's worth of the anticipated total spending for the coming year. The Council will give preliminary guidance to the staff for use of said surplus if any in preparation of the upcoming budget.

Fund Balance per Exhibit III at year end consisted of amounts which the Town of Mechanic Falls intends to use for the following purposes:

***Nonspendable and Assigned***

<b>Permanent Funds</b>	<u>Non-Spendable</u>	<u>Spendable</u>	<u>Total</u>
Cemetery Perpetual Care	\$ 500	\$ 2,951	\$ 3,451
Library Funds	500	1,395	1,895
Needy Children	499	1,468	1,967
Parks and Management	<u>256</u>	<u>4,664</u>	<u>4,920</u>
<b>Total</b>	<b>\$ 1,755</b>	<b>\$ 10,478</b>	<b>\$ 12,233</b>

**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 11 – GOVERNMENTAL FUND BALANCES (CONTINUED)**

**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

***Restricted***

**Special Revenues**

Unemployment Fund	\$ 65,136
Insurance Reimbursements	63,620
Santa Program	6,292
Homecoming	3,929
Historical Society	4,317
Recreation Ken Grant Fund	<u>2,996</u>

<b>Total Restricted</b>	<b><u>\$ 146,290</u></b>
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**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

***Committed***

***Capital Reserves***

Municipal Complex	\$ 31,499
Fire Rescue Funds	197,986
Highway Equipment	243,992
Solid Waste	41,423
Assessing/Revaluation	116,604
Library Computer	1,831
Police Cruiser	25,761
Voting Machines	8,714
Fire Department Air Bottles	40,220
Municipal Computers	2,016
Sidewalks	83,729
Debt Service	15,191
Roads	<u>17,691</u>

<b><i>Total Capital Reserves</i></b>	<b><u>\$ 826,657</u></b>
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***Special Revenues***

Police Training	\$ 20,645
Recreation Funds	22,529
Summer Recreation	<u>266</u>
	<b><u>\$ 43,440</u></b>

***General Fund***

Appropriated From Surplus for FY 2021/22	<u>\$ 245,000</u>
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<b>Total Committed</b>	<b><u>\$ 1,065,097</u></b>
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**TOWN OF MECHANIC FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 11 – GOVERNMENTAL FUND BALANCES (CONTINUED)**

**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.

<i>Assigned</i>	
<b>General Fund</b>	
AVCOG Fee Escrow	\$ 1,429
Paving Bond	<u>30,759</u>
<b>Total Assigned</b>	<u><u>\$ 32,188</u></u>

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

The Town of Mechanic Falls participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Town has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2021, may be impaired. In the opinion of the Town, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

*Town Offices*

On November 7, 2017, the residents of the Town of Mechanic Falls voted to authorize the Town to buy a building, renovate it, and relocate the police department, town office, and library there. The vote authorized the Town to obtain a bond for \$724,500. \$500,000 was authorized to pay for the purchase and relocation effort and \$224,500 was for the payment on the existing town office renovation bond. Subsequently at a Special Town meeting, it was voted that the \$224,500 would be used for renovation of the new building. As of the date of these financial statements, the Council has ceased renovations of the new building and authorized the sale of the property at 22 Pleasant Street. Proceeds from the sale along with amounts held in escrow will be used to pay the outstanding balance on the bond.

*Pending Litigation*

The Town is party to a legal claim. In the opinion of management, the ultimate disposition of this claim will not have a material effect on the financial position of the Town.

**NOTE 13 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. - Budgetary Accounting**

The Town of Mechanic Falls utilizes a formal budgetary accounting system to control revenues and expenditures accounted for in the General Fund. This budget is established by the Town Council and must be approved by referendum ballot.

**TOWN OF MECHANIC FALLS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 13 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

**B. - Excess of Expenditures over Appropriations**

For the year ended June 30, 2021, expenditures exceeded appropriations in protection per Exhibit VII.

**C. - Deficit Balances**

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year-end. At June 30, 2021, no individual funds carry a deficit balance.

**NOTE 14 – RELATED ORGANIZATION**

Council has the ability to appoint Directors of the Board of Mechanic Falls Development Commission, a non-profit organization exempt from income tax under Internal Revenue Code Section 501(c)(6). The Development Commission's mission is to stimulate industrial and commercial development and expansion in the Town of Mechanic Falls by implementing policies, projects and programs that will result in increased employment and living standards in the area. As the Commission does not satisfy the requirements established under generally accepted accounting principles for treatment as a joint venture, no equity interest in the Commission is carried on the Town's books.

**NOTE 15 – DATE OF MANAGEMENT'S REVIEW**

Management has evaluated subsequent events through July 28, 2022, the date on which the financial statements were available to be issued.

As of the date of this report, the COVID-19 pandemic continues to spread through all parts of the world, including Maine. The ultimate impact of this global health crisis on the Town's financial condition is not knowable at this time.

**SCHEDULE I**

**TOWN OF MECHANIC FALLS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE  
OF NET PENSION LIABILITY  
JUNE 30, 2021**

	<u>6/30/21</u>	<u>6/30/20</u>	<u>06/30/19</u>	<u>6/30/18</u>	<u>06/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>
Town's Proportion of Net Pension Liability	0.049648%	0.045819%	0.035921%	0.036210%	0.030251%	0.033968%	0.032221%
Town's Proportionate Share of the Net Pension Liability	<u>\$ 197,258</u>	<u>\$ 140,049</u>	<u>\$ 98,305</u>	<u>\$ 148,257</u>	<u>\$ 160,733</u>	<u>\$ 108,374</u>	<u>\$ 49,582</u>
Town's Covered Employee Payroll	<u>\$ 366,004</u>	<u>\$ 278,188</u>	<u>\$ 209,897</u>	<u>\$ 195,359</u>	<u>\$ 159,489</u>	<u>\$ 178,019</u>	<u>\$ 171,850</u>
Town's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Employee Payroll	<u>53.90%</u>	<u>50.34%</u>	<u>46.83%</u>	<u>75.89%</u>	<u>100.78%</u>	<u>60.88%</u>	<u>28.85%</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>88.35%</u>	<u>90.62%</u>	<u>91.14%</u>	<u>86.43</u>	<u>81.61%</u>	<u>88.27%</u>	<u>94.10%</u>

Amounts presented for each fiscal year were determined as of June 30. The data above was determined by the actuarial valuation date which was one year prior to the audit report date. Retroactive information is not required to be presented. A full 10-year schedule will be displayed as it becomes available.

**SCHEDULE II**

**TOWN OF MECHANIC FALLS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE TOWN PENSION CONTRIBUTIONS  
JUNE 30, 2021**

	<u>6/30/21</u>	<u>6/30/20</u>	<u>06/30/19</u>	<u>6/30/18</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>
Contractually Required Contribution	\$ 36,966	\$ 32,070	\$ 27,819	\$ 20,150	\$ 18,559	\$ 14,195	\$ 13,885
Actual Contribution	<u>(36,966)</u>	<u>(32,070)</u>	<u>(27,819)</u>	<u>(20,150)</u>	<u>(18,559)</u>	<u>(14,195)</u>	<u>(13,885)</u>
Contribution Deficiency (Excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Covered Employee Payroll	\$ <u>366,004</u>	\$ <u>320,702</u>	\$ <u>278,188</u>	\$ <u>209,897</u>	\$ <u>195,359</u>	\$ <u>159,489</u>	\$ <u>178,019</u>
Contributions as a Percentage of Covered Employee Payroll	<u>10.10%</u>	<u>10.00%</u>	<u>10.00%</u>	<u>9.60%</u>	<u>9.5%</u>	<u>8.9%</u>	<u>7.8%</u>

Amounts presented for each fiscal year were determined as of June 30. The data above was determined for the Town's fiscal years indicated, which differs from the reporting timeframes used in Schedule I. Retroactive information is not required to be presented. A full 10-year schedule will be displayed as it becomes available.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Changes of Benefit Terms** – None

**Changes to Assumptions** - None