

FELCH & COMPANY, LLC
Certified Public Accountants

TOWN OF PORTAGE LAKE, MAINE
as of
DECEMBER 31, 2022

Financial Statements

TOWN OF PORTAGE LAKE, MAINE

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Independent Auditors' Report

To the Board of Selectpersons of the
Town of Portage Lake, Maine

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Portage Lake, Maine as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of the Town of Portage Lake, Maine, as of December 31, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Portage Lake, Maine and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

To the Board of Selectpersons of the
Town of Portage Lake, Maine

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town of Portage Lake, Maine's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Portage Lake, Maine's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages I through IV and Schedules 1 and 2 and related notes be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Selectpersons of the
Town of Portage Lake, Maine

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Portage Lake, Maine's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by the Maine Department of Education and the schedule of capital and noncapital outlays are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2023 on our consideration of the Town of Portage Lake's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Portage Lake, Maine's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Portage Lake's internal control over financial reporting and compliance.

Felch & Company LLC

February 7, 2023

Town of Portage Lake, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2022

UNAUDITED

In accordance with generally accepted accounting principles, the management of the Town of Portage Lake presents the following narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2022. This narrative should be used in conjunction with the accompanying basic financial statements. This discussion and analysis includes comparative data from the current and the prior year.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Portage Lake exceeded its liabilities at the close of the most recent fiscal year by \$3,448,600. Of this amount, \$1,689,881 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the Town's fund designation and fiscal policies.
- The Town's total net position decreased by \$28,713.
- At the close of the current fiscal year, the Town of Portage Lake's governmental funds reported a combined ending fund balance of \$1,734,128. Operations increased the fund balance by \$9,258.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the Town's assets, liabilities, and deferred inflows and outflows of resources with the difference between these classifications reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *Statement of Activities* presents information showing how the Town's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g. uncollected taxes). Both the Statement of Net Position and the Statement of Activities are prepared using the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by state law and by debt covenants. The Town's general fund is reported as a major fund. These statements present the Town's financial position and results of operations using a short-term view and show how money flows into and out of the funds with balances left at year-end available for spending. These funds are reported using the *modified accrual* method of accounting, which measures cash and all other financial assets that can readily be converted to cash.

Town of Portage Lake, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2022

UNAUDITED

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS (Continued)

Fund Financial Statements (Continued)

Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

The Town's net position is \$3,448,600, includes a net position of \$294,337 from the school department. The largest portion of the Town's net position consists of cash and short-term investments, (\$1,435,384 in cash accounts and \$405,860 invested in short-term certificates of deposit) and capital assets (\$1,674,472, net of depreciation). The Town uses these assets to provide service to citizens. The following is a summary of net position of the Town:

	NET POSITION	
	<u>2022</u>	<u>2021</u>
Current assets	\$1,900,489	\$1,765,870
Capital assets, net of depreciation	<u>1,674,472</u>	<u>1,711,443</u>
Total Assets	<u>3,574,961</u>	<u>3,477,313</u>
Current liabilities	<u>126,361</u>	-
Net Position:		
Net investment in capital assets	1,674,472	1,711,443
Restricted	84,247	80,691
Unrestricted	<u>1,689,881</u>	<u>1,685,179</u>
Total Net Position	<u>\$3,448,600</u>	<u>\$3,477,313</u>

Net position increased from the normal operations of the Town.

Governmental Activities

Net position from operations provided by (used in) governmental activities was \$(28,713) in 2022 and \$23,808 in 2021. General revenues increased by approximately \$28,855 from 2021. The majority of this increase was due to stumpage income received in 2022.

Town of Portage Lake, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2022

UNAUDITED

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS (Continued)

The following is a summary of the governmental activity for the years ended December 31, 2022 and December 31, 2021.

	<u>2022</u>	<u>2021</u>
<u>REVENUES:</u>		
General Revenues:		
Property taxes	\$1,003,438	\$1,012,629
Federal and state aid not restricted	43,005	37,013
Excise taxes	101,909	101,509
Miscellaneous revenues	<u>65,907</u>	<u>34,253</u>
Total General Revenues	<u>1,214,259</u>	<u>1,185,404</u>
Program Revenues:		
Operating grants and contributions	135,671	310,648
Charges for services	<u>20,345</u>	<u>16,896</u>
Total Program Revenues	<u>156,016</u>	<u>327,544</u>
Total Revenues	<u>1,370,275</u>	<u>1,512,948</u>
<u>EXPENSES:</u>		
General Government	227,361	219,820
Education	566,782	676,348
Highway Department	103,990	107,023
Public Safety	50,376	49,670
Recreation	23,322	21,699
County tax	114,294	130,592
Solid Waste District	45,174	42,592
Ashland Facilities	60,636	54,885
Road Improvement	74,891	82,595
Other	<u>132,162</u>	<u>103,916</u>
Total Expenses	<u>1,398,988</u>	<u>1,489,140</u>
TOTAL CHANGE IN NET POSITION FROM OPERATIONS	(28,713)	23,808
NET POSITION – January 1	<u>3,477,313</u>	<u>3,453,505</u>
NET POSITION – December 31	<u>\$3,448,600</u>	<u>\$3,477,313</u>

GOVERNMENT FUND FINANCIAL ANALYSIS

The focus of the Town of Portage Lake's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Town of Portage Lake, Maine

Management's Discussion and Analysis
For the Year Ended December 31, 2022

UNAUDITED

GOVERNMENT FUND FINANCIAL ANALYSIS (Continued)

At the end of the year, the Town of Portage Lake's governmental funds reported a fund balance of \$1,734,128. Approximately 62% of this fund balance represented selectpersons' assigned fund balance and 5% is restricted for future school expenditures, ARPA funding, tourism, and grants. The remaining fund balance is unassigned and is available for new spending.

CAPITAL ASSETS

The Town of Portage Lake's investment in capital assets for its governmental activities as of December 31, 2022 amounted to \$1,674,472, net of depreciation and related long-term debt. This investment in capital assets includes land, buildings, equipment and infrastructure. All balances are at historical cost or estimated value at time of purchase. Infrastructure assets such as roads, bridges, and networks are capitalized if the cost exceeds \$25,000. The Town of Portage Lake had a decrease in the investment of capital assets for 2022 of \$36,971. The detail of capital assets at the end of 2022 and 2021, net of accumulated depreciation is as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 71,930	\$ 71,930
Buildings and improvements	261,244	272,259
Vehicles	36,000	40,800
Equipment	458,753	503,054
Infrastructure	<u>846,545</u>	<u>823,400</u>
Total capital assets, net of depreciation	<u>\$1,674,472</u>	<u>\$1,711,443</u>

During 2022, the Town spent \$10,780 on conference room technology which was funded through the American Rescue Plan Award as well as \$102,765 for paving the parking lot which was funded through the stumpage reserve.

Additional information on the Town of Portage Lake's capital assets can be found in Note 4 of this report.

GENERAL BUDGETARY ANALYSIS

During 2022, the actual budgetary revenues of \$1,264,319 were higher than budgeted revenues of \$1,155,382. Actual budgetary expenditures from operations of \$1,116,485 were lower than budgeted expenditures of \$1,135,303. Overall, the Town had net revenues over expenditures (including from surplus and reserves) of \$45,069 more than budgeted in the current year.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Manager, at the Town Office in Portage Lake, P.O. Box 255, Portage Lake, Maine 04768.

TOWN OF PORTAGE LAKE, MAINE

Exhibit A

Statement of Net Position
as of December 31, 2022

	<u>Governmental Activities</u>
<u>ASSETS</u>	
CURRENT ASSETS	
Cash and temporary investments (Notes 1 and 2)	\$ 1,435,384
Short-term investments (Note 1)	405,860
Uncollected taxes	52,551
Other receivables	<u>6,694</u>
Total current assets	<u>1,900,489</u>
NONCURRENT ASSETS	
Capital assets (Note 4)	
Nondepreciable - Land	71,930
Depreciable, net of accumulated depreciation	<u>1,602,542</u>
Total noncurrent assets	<u>1,674,472</u>
Total assets	<u>3,574,961</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts Payable	<u>126,361</u>
<u>NET POSITION</u>	
Net investment in capital assets	1,674,472
Restricted	84,247
Unrestricted	<u>1,689,881</u>
Total net position	<u>\$ 3,448,600</u>

TOWN OF PORTAGE LAKE, MAINE

Exhibit B

Statement of Activities
For the Year Ended December 31, 2022

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
				<u>Governmental Activities</u>
Primary Government				
Governmental Activities:				
Education	\$ 566,782	\$ -	\$ 28,699	\$ (538,083)
General Government	227,361	12,790	19,690	(194,881)
Protection	50,376	1,504	-	(48,872)
Highway Department	103,990	-	10,284	(93,706)
Recreation	23,322	5,732	-	(17,590)
County Tax	114,294	-	-	(114,294)
Solid Waste District	45,174	-	-	(45,174)
Ashland Facilities	60,636	-	-	(60,636)
Street Lights	8,031	-	-	(8,031)
Road Improvements	74,891	-	-	(74,891)
Grants	76,520	-	76,998	478
Code Enforcement	12,936	-	-	(12,936)
Other	34,675	319	-	(34,356)
Total governmental activities	<u>\$ 1,398,988</u>	<u>\$ 20,345</u>	<u>\$ 135,671</u>	<u>(1,242,972)</u>
General revenues:				
Taxes				
Property taxes, levied for general purposes				932,405
Discounts and abatements				(13,862)
Homestead, veterans and BETE reimbursements				84,895
Excise				101,909
Federal and state aid not restricted to specific purposes				43,005
Interest, lien and lease income				5,010
Stumpage				33,543
Miscellaneous revenues				27,354
Subtotal, general revenues				<u>1,214,259</u>
CHANGE IN NET POSITION				(28,713)
NET POSITION - JANUARY 1				<u>3,477,313</u>
NET POSITION - DECEMBER 31				<u>\$ 3,448,600</u>

TOWN OF PORTAGE LAKE, MAINE

Exhibit C

Balance Sheet
Governmental Funds
as of December 31, 2022

	<u>General Fund</u>		<u>Non-Major</u>	<u>Total</u>
	<u>Town</u>	<u>School</u>	<u>Funds</u>	
<u>ASSETS</u>				
Cash and temporary investments (Notes 1 and 2)	\$ 1,322,217	\$ 108,600	\$ 4,567	\$ 1,435,384
Investments (Note 1)	220,123	185,737	-	405,860
Uncollected taxes	52,551	-	-	52,551
Other receivables	<u>6,694</u>	<u>-</u>	<u>-</u>	<u>6,694</u>
 Total assets	 <u>\$ 1,601,585</u>	 <u>\$ 294,337</u>	 <u>\$ 4,567</u>	 <u>\$ 1,900,489</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	<u>\$ 2,328</u>	<u>\$ 124,033</u>	<u>\$ -</u>	<u>126,361</u>
 Deferred Inflows of Resources (Note 1)	 <u>40,000</u>	 <u>-</u>	 <u>-</u>	 <u>40,000</u>
Fund balances:				
Restricted:				
School expenditures	56,355	-	-	56,355
Tourism	4,196	-	-	4,196
ARPA funds	19,129	-	-	19,129
Passthrough Grants	-	-	4,567	4,567
Unrestricted:				
Assigned	906,950	170,304	-	1,077,254
Unassigned	<u>572,627</u>	<u>-</u>	<u>-</u>	<u>572,627</u>
Total fund balances	<u>1,559,257</u>	<u>170,304</u>	<u>4,567</u>	<u>1,734,128</u>
 Total liabilities and fund balances	 <u>\$ 1,601,585</u>	 <u>\$ 294,337</u>	 <u>\$ 4,567</u>	 <u>\$ 1,900,489</u>

TOWN OF PORTAGE LAKE, MAINE

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 For the Year Ended December 31, 2022

	<u>General Fund</u>		<u>Non-Major</u>	<u>Total</u>
	<u>Town</u>	<u>School</u>	<u>Funds</u>	
REVENUES				
Property taxes	\$ 432,999	\$ 500,406	\$ -	\$ 933,405
Homestead, veterans and BETE reimbursements	84,895	-	-	84,895
Discounts and abatements	(13,862)	-	-	(13,862)
Federal assistance	19,690	10,116	-	29,806
State assistance				
Education subsidy	-	18,582	-	18,582
Revenue sharing	43,005	-	-	43,005
Tree growth reimbursement	13,345	-	-	13,345
LRAP grant	10,284	-	-	10,284
State grants	-	-	76,998	76,998
Stumpage	33,543	-	-	33,543
Excise taxes	101,909	-	-	101,909
Other revenues	39,105	259	-	39,364
TOTAL REVENUES	<u>764,913</u>	<u>529,363</u>	<u>76,998</u>	<u>1,371,274</u>
EXPENDITURES				
Education	-	566,652	-	566,652
General government	222,616	-	-	222,616
Protection	26,708	-	-	26,708
Highway department	73,266	-	-	73,266
Recreation	17,614	-	-	17,614
Street lights	8,031	-	-	8,031
County tax	114,294	-	-	114,294
Solid waste district	45,174	-	-	45,174
Ashland facilities	60,636	-	-	60,636
Grants	-	-	76,520	76,520
Code Enforcement	12,936	-	-	12,936
Capital Outlays	102,765	-	-	102,765
Other	34,804	-	-	34,804
TOTAL EXPENDITURES	<u>718,844</u>	<u>566,652</u>	<u>76,520</u>	<u>1,362,016</u>
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	46,069	(37,289)	478	9,258
FUND BALANCE - JANUARY 1	<u>1,513,188</u>	<u>207,593</u>	<u>4,089</u>	<u>1,724,870</u>
FUND BALANCE - DECEMBER 31	<u>\$ 1,559,257</u>	<u>\$ 170,304</u>	<u>\$ 4,567</u>	<u>\$ 1,734,128</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF PORTAGE LAKE, MAINE

Exhibit E

Reconciliation of the Governmental Funds Balance Sheet
with the Statement of Net Position
December 31, 2022

Total fund balance - governmental funds (Exhibit C)		\$1,734,128
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds:		
The cost of capital assets are	\$ 2,894,061	
Accumulated depreciation is	<u>(1,219,589)</u>	
		1,674,472
Deferred inflows in governmental funds are not expected to be available to be used as current financial resources but are available for governmental activities:		
Deferred inflows of resources - Property taxes		<u>40,000</u>
Total net position - governmental activities (Exhibit A)		<u>\$3,448,600</u>

TOWN OF PORTAGE LAKE, MAINE

Exhibit F

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances with the
Government-Wide Statement of Activities
For the Year Ended December 31, 2022

Total net change in fund balances - governmental funds (Exhibit D) \$ 9,258

Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays to purchase or build capital assets are reported in governmental
funds as expenditures. However, for governmental activities those costs are
shown in the statement of net position and allocated over their estimated useful
lives as annual depreciation expenses in the statement of activities. This is the
amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	\$ (150,516)	
Capital outlays	<u>113,545</u>	
		(36,971)

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures in
governmental funds:

Change in deferred inflows - deferred property taxes	<u>(1,000)</u>
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Change in net position of governmental activities (Exhibit B) \$ (28,713)

TOWN OF PORTAGE LAKE, MAINE

Notes to the Financial Statements
December 31, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Portage Lake, Maine was incorporated in 1909 under the laws of the State of Maine. The Town operates under a selectperson-town meeting form of government and provides the following services: Public safety, public works, health/social services, education, improvements, planning/zoning and general administrative services.

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The criteria for including a potential component unit within the reporting entity is that of manifestation of oversight responsibility and financial interdependency. There are no entities that are controlled by or dependent on the Town.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The authority establishing the standards for governmental accounting principles is the Governmental Accounting Standards Board.

The Town of Portage Lake's basic financial statements include government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities. The Town currently has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the Town at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each department or function of the Town's governmental activities. Direct expenses are those that are specifically associated with a service or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the department, grants and contributions that are restricted to meeting the operational or capital requirements of a particular department and interest earned on grants that is required to be used to support a particular department. Revenues that are not classified as program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenue of the Town.

Fund Financial Statements – During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The General Fund is reported as a major fund by the Town.

Fund Accounting

The accounts of the Town are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. Each fund is accounted for by a separate set of self-balancing accounts that comprise its assets and account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations or other restrictions. The various funds are summarized by type in the financial statements.

TOWN OF PORTAGE LAKE, MAINE

Notes to the Financial Statements
December 31, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed.

General Fund – The general fund accounts for financial resources in use for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services, and interest income.

Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Town are included in the statement of net position.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements, together with fiduciary funds, are prepared using the accrual basis of accounting.

Governmental funds use the modified accrual basis of accounting. On the accrual basis of accounting, expenses are recognized at the time they are incurred. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue and in the presentation of expenses versus expenditures.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Town, available means expected to be received within 60 days of fiscal year-end. Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues are recorded as revenues when received in cash. General property taxes, self-assessed taxes and investment earnings are recorded when they become both measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for expenditures for debt service, prepaid expenses and other long-term obligations, which are recognized when paid.

Nonexchange transactions, in that the Town receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

TOWN OF PORTAGE LAKE, MAINE

Notes to the Financial Statements
December 31, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization are not recognized in governmental funds.

Budgetary Data

Formal budgetary accounting is employed as a management control for all funds of the Town. Annual operating budgets are adopted each year through the passage of an annual budget ordinance and amended as required for the General Fund. In accordance with generally accepted accounting principles, these budgets use the same accounting basis to reflect actual revenues and expenditures. Budgets for the Special Revenue Funds, if applicable, are made on a project basis, sometimes spanning over more than one fiscal year. Budgetary control is exercised at the departmental level or by project. All unencumbered budget appropriations, except reserve budgets, lapse at the end of each fiscal year.

The general operating fund is legally required to be budgeted and appropriated. The major document prepared is the tax budget, which separates these funds by function and estimated appropriation needed to fund each function. The tax budget demonstrates a need for existing or increased tax rates. This budget is approved by an annual town meeting and may be amended during the year if projected increases or decreases in revenues or expenditures are identified by the Town. The amounts reported as the original budget amounts in the budgetary statements (Schedule 1) reflect the amounts in the legally adopted budget. Changes, if any, are reflected in the final budget column.

Cash and Temporary Investments

Available cash is deposited in interest-bearing accounts to as great a degree as possible. These residual investments are classified for reporting purposes as cash. Earnings from these investments are reported by the applicable funds. The Town's policy is to invest in regional banks and federal securities and to insure the funds to as great a degree as possible. Deposits with a maturity of three months or less are included in cash and temporary investments for financial reporting purposes.

Monies for all funds are pooled and individual funds are maintained through the Town's accounting records to allow proper segregation of cash for each fund.

Investments

The Town invested some of their cash in Certificates of Deposit. These deposits are scheduled to mature within a year but more than the three months, thereby excluding them from cash and temporary investments.

Compensated Absences

The Town employees are granted paid time off, vacation and sick leave in varying amounts. Paid time off is maximized at 40 hours. Earned vacation time is intended to be used within the year earned. Unused vacation is subject to approval of the selectpersons as to whether it is paid or transferred to the next year. Accumulated sick leave is not payable to employees upon termination or retirement.

Property Taxes

Property taxes are levied as of April 1, committed for collection in July, and are due and payable on or before September. It is the Town's policy to allow a 2% discount on any property taxes paid within 30 days of mailing. The Town charges interest of 4% on unpaid taxes 60 days after the date of tax commitment. Property taxes levied on April 1 are used to finance the operations of the Town for the calendar budget year beginning January 1. In accordance with Maine law, taxes not collected within eight months following the date of the commitment are secured by liens. Property tax revenues are recognized in the fiscal year for which the items have been levied, in conformity with the policy of other local governments in Maine.

TOWN OF PORTAGE LAKE, MAINE

Notes to the Financial Statements
December 31, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

The Town has adopted the standard established by Generally Accepted Accounting Principles regarding the recognition of property taxes. The criterion for this standard is to recognize property tax revenue as it becomes both "measurable and available". Measurable is defined as the amount that the Town can reasonably expect to receive of the property taxes assessed for the current year. Available is defined as the amount that will be collected of current and past due taxes during the current period or expected to be collected shortly thereafter to pay current liabilities. For the purposes of this report, 60 days is used as the collection period after year-end. Accordingly, an account for deferred inflow of resources has been established on the balance sheet for the taxes considered collectible but not available for current liabilities.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by any proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. The Town maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Infrastructure assets have a separate threshold for capitalization of \$25,000.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20-50 years
Furniture and Equipment	5-20 years
Vehicles	5-10 years
Infrastructure	15-100 years

Accounts Payable, Accrued Expenses and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

Net Position

Net position represents the difference between assets, liabilities and deferred inflows and outflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net position is available, restricted net position is applied first.

Fund Balance Classifications

Generally accepted accounting principles require fund balance to be classified as Nonspendable, Restricted or Unrestricted. Unrestricted is then determined to be Committed, Assigned, or Unassigned by the Town's management. The Town considers expenditures that are incurred for purposes where restricted and unrestricted fund balances are available, to be expended in the following order – Restricted, Committed, Assigned and Unassigned. In the 2022 fiscal year there were no nonspendable funds.

TOWN OF PORTAGE LAKE, MAINE

Notes to the Financial Statements
December 31, 2022

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classifications (Continued)

Restricted Fund Balance

Restricted fund balances are restricted due to external contributors that have donated the funds to the Town. These contributors have placed restrictions on how or when the Town can use the funds.

Committed Fund Balance

Funds that have been set aside for specific purposes which require formal action (such as a town vote) in order for these funds to be released.

Assigned Fund Balance

Funds assigned by the authority of the Town Selectpersons for which they intend to use them for specific purposes. These assignments are recommended in the proposed budget which then gets voted on by the Town's people. If the budget is approved, the funds are then assigned for a specific purpose. The Selectpersons do not need a Town vote to release these funds.

Unassigned Fund Balance

The remaining fund balance that is not restricted, committed or assigned is considered unassigned. These funds are spendable funds in the ordinary course of government operations.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) CASH AND TEMPORARY INVESTMENTS

Deposits with financial institutions are subject to custodial risk, which 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 regional banks and to insure the funds to as great a degree as possible. As of December 31, 2022, the Town's carrying amount of deposits was \$1,841,244 and the bank balance was \$1,850,962, of which \$1,681,271 was insured or collateralized while \$169,691 was uninsured. In the opinion of management, there is no significant risk of loss as a result of these deposits.

(3) JOINT VENTURES

Northwestern Aroostook County Septage Board

The Northwestern Aroostook County Septage Board is owned jointly by the Towns of Portage Lake, Ashland, Masardis, the Plantations of Oxbow, Garfield, Nashville and the Unorganized Territories of Aroostook County, Township 11 Range 4, and Township 10 Range 4. As of December 31, 2022, the Town of Portage Lake owned 32.2% of this facility. A summary of the facility's most recent unaudited activity for 2022 and the most recent audited activity for 2020 is as follows:

	2022 (unaudited) <u>Amount</u>	2020 (audited) <u>Amount</u>
Total Assets	\$12,704	\$47,472
Total Liabilities	_____	_____
Total Net Position	<u>\$12,704</u>	<u>\$47,472</u>
Total Revenues	\$ 3,750	\$ 4,478
Less Total Expenditures	<u>(2,350)</u>	<u>(2,813)</u>
Increase in Net Position	<u>\$ 1,400</u>	<u>\$ 1,665</u>

TOWN OF PORTAGE LAKE, MAINE

Notes to the Financial Statements
December 31, 2022

(4) CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022, was as follows:

	Balance January 1, <u>2022</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, 2022
<u>Governmental Activities</u>				
Land	\$ 71,930	\$ -	\$ -	\$ 71,930
Buildings and improvements	458,656	-	-	458,656
Vehicles	53,000	-	-	53,000
Equipment	838,810	10,780	-	849,590
Infrastructure	<u>1,358,120</u>	<u>102,765</u>	-	<u>1,460,885</u>
Totals at historical cost	<u>2,780,516</u>	<u>113,545</u>	-	<u>2,894,061</u>
Less accumulated depreciation for:				
Buildings and improvements	186,397	11,015	-	197,412
Vehicles	12,200	4,800	-	17,000
Equipment	335,756	55,081	-	390,837
Infrastructure	<u>534,720</u>	<u>79,620</u>	-	<u>614,340</u>
	<u>1,069,073</u>	<u>150,516</u>	-	<u>1,219,589</u>
Governmental activities capital assets, net	<u>\$1,711,443</u>	<u>\$ (36,971)</u>	<u>\$ -</u>	<u>\$1,674,472</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 15,525
Highway Department	30,724
Protection	23,668
Roads	74,891
Recreation	<u>5,708</u>
	<u>\$150,516</u>

(5) SCHOOL DEPARTMENT

As a department of the Town, the Portage Lake School Department has been included in these financial statements. For comparative purposes, the school activity has been reported separately on the governmental funds balance sheet and the statement of revenues, expenditures and changes in fund balance.

(6) RISK MANAGEMENT

The Town is exposed to various risks of loss related to town officials, town council liability, torts, theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The Town purchases insurance for all risks of loss. There have been no significant reductions in insurance coverage during the year.

TOWN OF PORTAGE LAKE, MAINE

Notes to the Financial Statements
December 31, 2022

(7) RISKS AND UNCERTAINTIES

The Town's operations may be affected by the ongoing outbreak of the coronavirus disease 2019 (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Town's financial position, operations and cash flows. More recent risks include, but are not limited to military conflicts in Europe, the oil and gas market, supply chain issues, and inflation. Possible effects may include, but are not limited to, disruption to the Town's revenue, absenteeism in the Town's labor workforce, unavailability of products and supplies used in operations, and a decline in value of assets held by the Town, including property, equipment, and investments.

(8) SUBSEQUENT EVENTS

Management has reviewed subsequent events through February 7, 2023, the date that these financial statements were available to be issued and determined that no additional adjustments or disclosures are required in order for these financial statements to be fairly stated.

TOWN OF PORTAGE LAKE, MAINE

Schedule I

Budgetary Comparison Schedule for the General Fund
For the Year Ended December 31, 2022

	General Fund		
	Budgeted Amounts		Actual (Budgetary) Basis
	Original	Final	
REVENUES			
Property taxes	\$ 932,405	\$ 932,405	\$ 932,405
Homestead exemption	32,911	32,911	32,911
BETE reimbursement	51,551	51,551	51,567
Discounts and abatements	(16,185)	(16,185)	(13,862)
State assistance			
Revenue sharing	32,200	32,200	43,005
Other revenues	122,500	122,500	218,293
TOTAL REVENUES	<u>1,155,382</u>	<u>1,155,382</u>	<u>1,264,319</u>
EXPENDITURES			
Education	500,406	500,406	500,406
General government	205,930	205,930	222,616
Protection	33,656	33,656	26,708
Highway department	81,000	81,000	73,266
Recreation	25,906	25,906	17,614
Street lights	8,560	8,560	8,031
County tax	114,294	114,294	114,294
Solid waste district	45,783	45,783	45,174
Ashland facilities	60,637	60,637	60,636
Code enforcement	10,500	10,500	12,936
Other	48,631	48,631	34,804
TOTAL EXPENDITURES	<u>1,135,303</u>	<u>1,135,303</u>	<u>1,116,485</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES FROM OPERATIONS	<u>20,079</u>	<u>20,079</u>	<u>147,834</u>
OTHER SOURCES (USES)			
From surplus	109,301	109,301	-
Transfer to reserves	(97,000)	(97,000)	-
Transfer from reserves	130,000	130,000	-
Capital outlays from reserves and surplus	(130,000)	(130,000)	(102,765)
Overlay	(32,380)	(32,380)	-
TOTAL OTHER SOURCES (USES)	<u>(20,079)</u>	<u>(20,079)</u>	<u>(102,765)</u>
NET INCREASE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>45,069</u>
FUND BALANCE - JANUARY 1			<u>1,554,188</u>
FUND BALANCE - DECEMBER 31			<u>\$ 1,599,257</u>

TOWN OF PORTAGE LAKE, MAINE

Schedule 2

Reconciliation of the Governmental Funds Statements with the
Budgetary Comparison Schedule for the General Fund
For the Year Ended December 31, 2022

Budgetary comparison - fund balance (Schedule 1)	\$ 1,599,257
Amounts reported for the governmental funds - fund balance (Exhibit C) differed from the budgetary basis - fund balance (Schedule 1) as follows:	
Deferred taxes reported on the modified accrual basis are expected to be unavailable within the 60 days after year end	<u>(40,000)</u>
Governmental funds - fund balance (Exhibit C)	<u>\$ 1,559,257</u>
Amounts reported for the governmental funds statement of revenues, expenditures and changes in fund balance (Exhibit D) differed with the budgetary basis of accounting as presented on Schedule 1 as follows:	
Total net change in fund balance - budgetary basis (Schedule 1)	\$ 45,069
Adjustments to reconcile net change in fund balance budgetary basis to net change in fund balance - governmental funds (Exhibit D):	
Change in deferred inflows of resources from unavailable revenue	<u>1,000</u>
Total net change in fund balance - governmental funds (Exhibit D)	<u>\$ 46,069</u>

TOWN OF PORTAGE LAKE, MAINE

Schedule 3

Schedule of Capital and Noncapital Outlays - General Fund
For the Year Ended December 31, 2022

	<u>Balances</u> <u>January 1</u>	<u>Transfers</u>	<u>Receipts</u>	<u>Total</u> <u>Available</u>	<u>Expendi-</u> <u>tures</u>	<u>Balances</u> <u>December 31</u>
Assigned for subsequent years' expenditures:						
Scholarships	\$ 6,000	\$ -	\$ -	\$ 6,000	\$ 3,000	\$ 3,000
Road Project	147,128	-	82,453	229,581	-	229,581
Equipment Reserve	42,113	10,000	70	52,183	-	52,183
Fire Truck	43,049	10,000	111	53,160	-	53,160
Stumpage	371,222	-	30,049	401,271	102,765	298,506
Cemetery Perpetual Care	12,946	-	15	12,961	-	12,961
Silviculture	201,550	-	4,848	206,398	9,598	196,800
Town Revaluation	40,002	5,000	38	45,040	-	45,040
Other	16,096	-	5,793	21,889	6,170	15,719
TOTAL	\$ 880,106	\$ 25,000	\$ 123,377	\$ 1,028,483	\$ 121,533	\$ 906,950

TOWN OF PORTAGE LAKE, MAINE

Schedule 4

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

<u>Federal Grantor/ Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>			
Passed through State Department of Education:			
** American Rescue Plan - IDEA School-Age	84.027X	025-05A-7170-53	\$ 1,808
Special Education - Grants to States, Individuals with Disabilities Act - Part B - Local Entitlement	84.027		<u>8,308</u>
			<u>10,116</u>
<u>U.S. Department of Treasury</u>			
Passed through State Department of Administrative and Financial Services:			
** American Rescue Plan Act	21.027	N/A	<u>20,230</u>
Total			<u>\$ 30,346</u>
** COVID related funding			

TOWN OF PORTAGE LAKE, MAINE

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Portage Lake (the Town) and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation, of the basic financial statements.

NOTE B – BASIS OF PRESENTATION

Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal financial assistance programs administered by the Town, an entity as defined in the notes to the financial statements.

Pass-through Programs

Where the Town receives funds from a government entity other than the federal government (pass-through), the funds are accumulated based upon the Federal Assistance Listing Number advised by the pass-through grantor.

NOTE C – INDIRECT COSTS

The Town has elected not to use the 10% *de minimis* indirect cost rate allowed under the Uniform Guidance.

NOTE D – MATCHING COSTS

Matching costs that represent the Town's share of certain program costs, if any, are not included in the Schedule of Expenditures of Federal Awards.

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

To the Board of Selectpersons of the
Town of Portage Lake, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Portage Lake, Maine, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Town of Portage Lake, Maine's basic financial statements and have issued our report thereon dated February 7, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Portage Lake, Maine's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Portage Lake, Maine's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

The size of the Town imposes practical limitations on the establishment of those internal control structure policies and procedures that depend on segregation of duties (i.e., one person handles almost all accounting functions relating to receipts and disbursements). Failure to segregate duties such as the preparation of checks, check signing, posting transactions, preparing deposits, and reconciling the bank statements, could lead to the misuse of cash as well as the misuse of cash not being detected.

To the Board of Selectpersons of the
Town of Portage Lake, Maine

Report on Compliance and Other Matters

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

Town of Portage Lake, Maine's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Town of Portage Lake, Maine's response to the findings identified in our audit and described below. The Town's response was not subjected to the other auditing procedures applied in the audit for the financial statements and, accordingly, we express no opinion on the response.

Management has responded that budget constraints will prohibit the Town from hiring additional accounting staff. The Town's selectpersons and manager have additional procedures to help counteract the lack of segregation of duties such as reviewing the bank statements and reconciliations as well as reviewing all invoices before the checks are mailed.

Purpose of this Report

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

Felch & Company LLC

February 7, 2023