

TOWN OF EDGECOMB
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Town of Edgecomb conform to generally accepted accounting principles as applicable to governmental units.

1. Financial Reporting Entity

The Town of Edgecomb was incorporated in 1794. The Town operates under a town meeting form of government.

In evaluating the Town of Edgecomb as a reporting entity, management has addressed all potential component units. The primary criteria for including a component reporting entity are the exercise of financial accountability by the Town of Edgecomb's municipal officials.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing Generally Accepted Accounting Principles (GAAP) for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP are used by the Town as discussed 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 significant changes in the Statement include the following:

1.) Financial statements now include:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Town's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Town's activities, including infrastructure (roads, bridges, etc.).

2.) 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). The Town has elected to implement the general provisions of the Statement and retroactively reported infrastructure (assets acquired prior to July 1, 1980) in the fiscal year ending 2006.

2. Basic Financial Statements - Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as governmental. The Town's fire protection, recreation, public works, and general administrative services are classified as governmental activities.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

2. Basic Financial Statements - Government-Wide Statements (Cont'd)

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

The government-wide Statements of Activities reports both the gross and net cost of each of the Town's functions (fire, public works, administrative, etc.). The functions are also supported by general government revenues (property, certain intergovernmental revenues, fines, permits and charges, etc.). The Statements of Activities reduces gross expenses (including depreciation) by related program revenues, and operating and capital grants. Program revenues must be directly associated with the function (fire, public works, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, intergovernmental revenues, interest income, etc.).

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

3. Basic Financial Statements - Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise 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:

a. **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:

1. **General Fund:**

The 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.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

3. Basic Financial Statements - Fund Financial Statements (Cont'd)

a. Governmental Funds (cont'd):

2. Fiduciary Funds:

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds.

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

The Town's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

3. Proprietary Fund:

The Proprietary Fund is the fund used to account for all financial resources relating to the Wastewater Department. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

4. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied:

a. Accrual:

Governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

b. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

5. Financial Statement Amounts

a. Cash and Cash Equivalents:

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Statutes authorize the Treasurer of the Town, as directed by the municipal officers, to invest all municipal funds, including reserve and trust funds, to the extent that the terms of the instrument, order, or article creating the fund do not prohibit the investment, in financial institutions as described in Section 5706 MRSA and securities as described in Sections 5711 through 5717 MRSA.

b. Investments:

Investments are stated at fair value (quoted market price or the best available estimate).

c. Capital Assets:

Capital assets purchased or acquired with an original cost of \$1,000.00 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	20-50 Years
Machinery and Equipment	5-10 Years
Improvements	10-20 Years
Other Infrastructure	10-50 Years

GASB No. 34 requires the Town to report and depreciate new infrastructure assets effective in the 2006 fiscal year. Infrastructure assets include roads, bridges, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2006. The Town elected to implement the general provisions of GASB No. 34 in the year ended June 30, 2004 and implemented the infrastructure provisions in the fiscal year ending June 30, 2006.

d. Revenues:

Substantially, all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. In applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

5. Financial Statement Amounts (Cont'd)

e. Expenditures:

Expenditures are recognized when the related fund liability is incurred.

f. Compensated Absences:

The Town accrues accumulated unpaid teachers salaries for the period July 1 to completion of the teachers' contracts.

g. Use of Estimates:

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH:

Cash

The Town's cash is categorized to give an indication of the level of risk assumed by the Town at year end. These Categories are defined as follows:

Category #1 - Insured or collateralized with securities held by the Town or by its agent in the Town's name.

Category #2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.

Category #3 - Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name.)

ACCOUNT TYPE	CARRYING AMOUNT	BANK BALANCE	CATEGORY		
			#1	#2	#3
Interest Bearing Accounts	\$ 777,495.32	\$ 862,318.95	\$ 294,613.34	\$ 567,705.61	\$
Non-Interest Bearing Accounts	32,174.36	34,120.68	34,120.68		
	<u>\$ 809,669.68</u>	<u>\$ 896,439.63</u>	<u>\$ 328,734.02</u>	<u>\$ 567,705.61</u>	<u>\$</u>

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NOTE C - ACCOUNTS RECEIVABLE:

Accounts Receivable at June 30, 2009 consists of the following:

Due from the State of Maine	\$ 6,273.44
Individuals	<u>1,055.06</u>
	<u>\$ 7,328.50</u>

NOTE D - NOTES AND BONDS PAYABLE:

Long-Term Debt activity for the year ended June 30, 2009 is as follows:

	BALANCE 7/1/08	ADDITIONS	REDUCTIONS	BALANCE 6/30/09
Maine Municipal				
Bond Bank	\$ 3,279,713.50	\$	\$ 234,265.25	\$ 3,045,448.25
The First	412,500.00		137,500.00	275,000.00
The First	5,017.38		5,017.38	
The First	<u>26,831.58</u>		<u>13,156.22</u>	<u>13,675.36</u>
	<u>\$ 3,724,062.46</u>	<u>\$</u>	<u>\$ 389,938.85</u>	<u>\$ 3,334,123.61</u>

Maine Municipal Bond Bank - School Loan

The proceeds of the note funded construction of a new K-6 school. The note carries an interest rate of 3.25% to 5.125% and matures on November 1, 2021. The principal payment due each November 1st is \$234,265.25, with the initial payment being due on November 1, 2002. Interest on the note is payable each May 1st and November 1st for the life of the loan.

The First - School Bus Loan

The proceeds of the note funded the purchase of a new school bus. The note carries an interest rate of 2.65% and matures on November 6, 2008. The principal and interest payment on the note is \$1,016.37 and is due monthly.

The First - School Bus Loan

The proceeds of the note funded the purchase of a new school bus. The note carries an interest rate of 4.11% and matures on October 27, 2010. The principal and interest payment on the note is \$1,009.93.

The First - Cross Point Road Improvements

The proceeds of the note funded improvements to the Cross Point Road. The note carries an interest rate of 4.85% and matures on September 29, 2009. Fixed principal payments totaled \$37,500.00 are due annually with interest computed on the outstanding balance at 4.85%.

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NOTE D - NOTES AND BONDS PAYABLE (CONT'D):

The annual requirements to amortize the bonds and notes are as follows:

FISCAL YEAR ENDING	PRINCIPAL	INTEREST	TOTAL
2010	\$ 383,884.41	\$ 154,689.29	\$ 538,573.70
2011	373,321.45	138,140.52	511,461.97
2012	234,265.25	121,642.28	355,907.53
2013	234,265.25	111,622.44	345,887.69
2014	234,265.25	101,319.77	335,585.02
2015-2019	1,171,326.25	330,167.75	1,501,494.00
2020-2021	702,795.75	54,027.45	756,823.20
Total	<u>\$ 3,334,123.61</u>	<u>\$ 1,011,609.50</u>	<u>\$ 4,345,733.11</u>

NOTE E - GENERAL FUND BUDGET:

The Town operates on a net budget as compared with a gross budget. All revenues are not estimated, but are credited to the particular operating account. Certain revenues are dedicated for particular purposes by vote of the townspeople at the annual town meeting or at special town meetings.

NOTE F - DESIGNATED FOR SUBSEQUENT YEARS' EXPENDITURES:

Historically, the townspeople vote to carry certain departmental unexpended balances forward to the following year for expenditure. This is usually in lieu of additional appropriations in any particular account.

General Government	\$ 16,197.50
Public Safety	34,797.05
Highways and Bridges	52,903.85
Education	196,813.40
Special Assessments	18,292.05
General Assistance	4,438.72
Unclassified	144,120.08
	<u>\$ 467,562.65</u>

NOTE G - DEFERRED REVENUE:

Deferred Revenue consists of the following:

Excess of State Revenue Sharing Receipts Over the Amounts Used to Reduce the 2008-2009 Tax Commitment	<u>\$ 14,652.07</u>
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NOTE H - REVENUE RECOGNITION - PROPERTY TAXES:

The Town's property tax for the current year was levied August 8, 2008 on the assessed value listed as of April 1, 2008 for all taxable real and personal property located in the Town. Taxes were due November 30, 2008. Interest accrued at 11.00% on December 1, 2008.

Tax liens are filed against delinquent real estate taxpayers after eight months but within one year of the original tax commitment. If the tax, interest, and costs have not been paid eighteen months after the filing of a lien certificate then the lien is automatically foreclosed.

The National Council on Governmental Accounting (N.C.G.A.) Interpretation No. 3 requires that property tax revenue be recognized only to the extent it will be collected within sixty days following the year end. The deferred tax revenue shown on the balance sheet represents property taxes not expected to be collected within sixty days after the year end.

Property taxes are recognized when they become available. Available includes those taxes expected to be collected within sixty days after year end as stated above.

NOTE I - RETIREMENT PLAN:

Public school teachers contribute to the Maine State Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for public school teachers, state employees, and political subdivisions. All public school teachers participate in the Maine State Retirement System and, if vested with ten years of service prior to July 1993, are eligible for normal retirement upon attaining the age of sixty and after completing twenty-five or more years of creditable service. Vested participants are entitled to a retirement benefit equal to a fraction of the average final compensation multiplied by the years of membership service (discounted for early retirement). The System also provides death, disability, and health insurance benefits. These benefit provisions and all other requirements are established by state statute.

Teachers are required to contribute a portion of their annual salary to the System. The State of Maine contributes the remaining amounts necessary to fund the System, using the actuarial basis specified by statute. The covered payroll for teachers is approximately \$855,985.12. As required by accounting standards, the amount paid on behalf of the school department by the State of Maine has been recorded as revenue and an expenditure which amounts to \$123,726.00. The only exception is the contribution required for federally funded teachers for which the Town contributes 18.71% of their compensation. The cost amounted to \$10,451.36 for the year. Information concerning the pension benefit obligation for public teachers is available from the Maine State Retirement System.

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NOTE J - EXPENDITURES IN EXCESS OF APPROPRIATIONS:

During the year expenditures exceeded total appropriations in the following general fund categories:

FUNCTION	APPROPRIATION AND REVENUE	EXPENDITURES	VARIANCE
Town Expenses	\$ 59,914.48	\$ 63,579.92	\$ (3,665.44)
Comprehensive Plan	\$ 4,000.00	\$ 4,332.41	\$ (332.41)
Snow and Ice Removal	\$ 160,000.00	\$ 164,513.94	\$ (4,513.94)
Cross Point Road Work	\$ (302.58)	\$	\$ (302.58)
Education - Federal Funds	\$ 52,838.11	\$ 59,527.00	\$ (6,688.89)
Abatements	\$	\$ 9,426.77	\$ (9,426.77)
Homestead Reimbursement	\$ 21,447.00	\$ 25,225.20	\$ (3,778.20)
Waldo Dodge Fund	\$ 1,130.57	\$ 1,688.24	\$ (557.67)

Historically, the Town has not appropriated funds for abatements, but rather funds these expenditures through other unappropriated revenues or unappropriated surplus. In all other accounts, expenditures exceeded budgeted amounts.

NOTE K - PROPERTY, PLANT, AND EQUIPMENT:

The following is a summary of changes in fixed assets at June 30, 2009:

	BALANCE JULY 1, 2008	ADDITIONS	BALANCE JUNE 30, 2009
Land and Improvements	\$ 3,900.00	\$	\$ 3,900.00
Buildings	643,816.00	31,190.00	675,006.00
Equipment	5,101,040.51		5,101,040.51
Infrastructure	582,090.98		582,090.98
Sewer	1,540,674.00		1,540,674.00
	<u>\$ 7,871,521.49</u>	<u>\$ 31,190.00</u>	<u>\$ 7,902,711.49</u>
Accumulated Depreciation	(2,105,995.00)	(172,529.00)	(2,278,524.00)
Net Property, Plant, and Equipment	<u>\$ 5,765,526.49</u>	<u>\$ (141,339.00)</u>	<u>\$ 5,624,187.49</u>

Depreciation expense for the period totaled \$172,529.00. Of that amount \$5,297.00 was for Administration; \$29,768.00 was for Highways and Bridges; \$11,759.00 was for Public Safety; \$125,414.00 was for Education; \$193.00 was Unclassified, and \$98.00 was for Sewer.

NOTE L - 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; injuries to employees; and natural disasters. All significant losses are covered by commercial insurance. There has been no significant reduction in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. The Town self insures for unemployment compensation.

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NOTE M - OVERLAPPING DEBT:

The Town of Edgcomb is situated in Lincoln County and is therefore subject to annual assessment of its proportional share of County expenses. Long-term debt outstanding in Lincoln County, for which the Town of Edgcomb would be proportionally responsible in the event the County defaulted, amounted to \$10,948,079.50 at December 31, 2008. The Town of Edgcomb's share would be 2.93% of the debt, or \$320,993.69.

NOTE N - CONTRACTS:

On October 19, 2009 the Town of Edgcomb entered into an agreement with Griffin Construction to plow town roads. Total cost of the agreement for year one is \$148,720.00 with increases limited to a minimum of 3% thereafter. The term of the contract ends on April 30, 2010 with an option for extension at the Board of Selectmen's discretion.

NOTE O - INVESTMENTS:

Investments at June 30, 2009 consist of the following:

	COST	UNREALIZED APPRECIATION	FAIR MARKET VALUE
Mutual Funds	\$ 146,838.53	\$ (22,761.32)	\$ 124,077.21
Stocks	9,746.48	(9,152.48)	594.00
Corporate Bonds	73,000.00	1,900.45	74,900.45
Government Bonds	19,811.38	939.62	20,751.00
	<u>\$ 249,396.39</u>	<u>\$ (29,073.73)</u>	<u>\$ 220,322.66</u>

NOTE P - HAMMOND TRUST:

In February of 2000, the Town was named as the beneficiary of the Maro Hammond Trust. The Trust named two trustees for the first five years. After the initial five year period, the assets reverted to the Town and the Board of Selectmen became the trustees. In April of 2005, the assets were transferred to the Town. The transfer totaled \$122,865.00 of which \$96,250.00 is restricted principal. Funds are available under the terms of the trust for beautification of the Town.

NOTE Q - TAX INCREMENT FINANCING DISTRICT:

Under Title 30, Subchapter II-B of the Maine State Statutes, the Town of Edgcomb formed a Tax Increment Finance (TIF) District to finance certain public improvements to the Davis Island Environmental Protection Development District and Tax Increment Financing District. The expenditures from this development project will be recouped in future years via an incremental tax levied upon the Districts' "captured assessed value" over a thirty year period to expire June 30, 2037. The tax increment will be held in the form of a sinking fund. The short-term financing mechanism for the public improvements project is a reimbursement agreement between the Town and the developer.

TOWN OF EDGECOMB
NOTES TO FINANCIAL STATEMENTS
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NOTE Q - TAX INCREMENT FINANCING DISTRICT (CONT'D):

The Town established the Davis Island Environmental Protection Development District and Tax Increment Financing District at a special town meeting held on November 4, 2004. This agreement was for the improvement of facilities within the district by Edgecomb Development, LLC. During the following thirty years of the development program, the Town will capture one hundred percent (100%) of the increase in the assessed value due to real and personal property improvements, allocating fifty five percent (55%) of the incremental municipal tax increment revenues to the Company pursuant to a credit enhancement agreement. No part of the incremental revenues from the additional personal property will be returned to the Company pursuant to the Development Program.

The Real Property Captured Tax Increment Revenues shall be calculated based on real property values in excess of the Town's valuation of the District as of April 1, 2006. The Company increment portion will be used by the Company either to pay costs of the project directly or to pay debt service used to finance the project. The project costs financed by the Real Property Captured Tax Increment Revenues will represent only a portion of the total costs of the project. All additional costs of the Company in respect of the project will be the responsibility of the Company. After thirty years, the Company will have no further right to the Company Increment Portion, and it will form part of the Town's general revenues.

All remaining municipal tax increment revenues on retained captured asset value from the District will be used to pay costs of road and related improvements, and other project costs described in 30-A M.R.S.A. §5252(8) and has to be approved by the board of selectmen.

NOTE R - WASTEWATER INTERLOCAL AGREEMENT:

The Town of Edgecomb contracted with the Town of Wiscasset to receive waste from the sewage line on Davis Island. The Town of Edgecomb was responsible for paying an impact fee of \$129,200.00 to the Town of Wiscasset. The agreement allows for up to 51,000 gallons of waste to be processed for the Town of Edgecomb. The agreement is effective for 40 years from the date of inception of the agreement.