

TOWN OF HERMON, MAINE
Annual Financial Report
For the Year Ended June 30, 2010

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Certified Public Accountants and Business Consultants

Independent Auditor's Report

Town Council
Town of Hermon, Maine:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hermon, Maine as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Hermon, Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

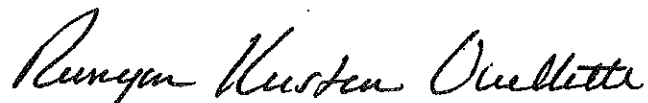
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hermon, Maine, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report December 23, 2010, on our consideration of the Town of Hermon, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



December 23, 2010
South Portland, Maine



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

December 23, 2010

The Management Discussion and Analysis ("MD&A") is a report of the Town of Hermon's fiscal activity for the year ending June 30, 2010. The report is presented in a manner that fairly represents the Town's present financial position in respect to all funds and accounts. Included is all the information to accurately understand the Town's financial position, and the data is correct to the best of our knowledge and belief.

The report includes funds and accounts that the Town of Hermon is required, either by legal or fiduciary duty, to maintain in the operation of all services. The use of the additional financial statements is encouraged to more fully understand the report.

The financial information of the Town includes all Town departments. All Town departments include municipal departments (Public Works, Public Safety, Administration, and others) and the School Department. The School Department and all other municipal departments combined are what comprise the Town.

BIOGRAPHICAL INFORMATION

The Town of Hermon is primarily a residential community with a portion of the Town that has multiple business parks, along the Bangor border on Route 2 and Coldbrook roads. The growth of Hermon's business district has led to the utilization of resources available from Bangor. Specifically Hermon's water and sewer service is Town owned and maintained, but the service for these utilities is provided through Bangor.

The residential portions of Hermon are a suburb to the Bangor Region and strive to maintain a rural character. Hermon is one of the more quickly growing communities in the State, and this growth created a population increase of approximately 25% from 1990 to 2000 and this trend has not changed since 2000. The growth in Hermon has created a continual increase to the Town value and allowed the Town to maintain a mil rate below surrounding communities. However, the council and administration are well aware that the continued growth puts larger demands on services and efforts from the Town are to make sure the community is prepared for long term success.

The goal of the community is to continue the success and growth of our business parks while maintaining separation for our residential community. Hermon's residential area continues its dedication to serve Bangor as a bedroom community that allows for country, family living. Some business is encouraged in the village area to serve the residents while the bulk of services continue to be available by traveling to Bangor.

FINANCIAL INFORMATION

The Town Administration is responsible for the accounting structure of the community. This structure includes the establishment of financial internal controls that protect the Town from loss and misuse. All accounting information is maintained and reported using generally accepted accounting principles (GAAP). Further, the administration performs constant review of all services to promote and assure optimum utilization of resources to provide the services requested by the community. All services are reviewed using a cost benefit analysis that considers the need and demand for the service provided balanced against the cost to the community as a whole.

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The following is a summary of the financial highlights of the Town for the fiscal year:

- The total net assets of the Town of Hermon were \$16,363,599, an increase of \$709,112 when compared to the beginning net asset figure for year ending June 30, 2009 of \$15,654,487.
- The Town's amortized debt decreased by \$75,595 for a total of \$7,721,686. This small decrease is due to the issuance of the Billings Road Bond of \$900,000 while some other debt was retired.
- The undesignated fund balance as reported in the Town's comparative balance sheets increased by \$867,944 to a total of \$3,937,179. \$388,349 of this increase is attributed to the decrease in designated fund balance from \$2,103,267 as June 30, 2009 to \$1,714,918 as of June 30, 2010.
- The Town of Hermon has a fund balance policy that sets 8.33% of yearly appropriations as a minimum, 16.66% as a target, and 25% as a maximum with any funds over that amount being transferred to reserves. General Fund, undesignated fund balance as of June 30, 2010 was \$3,937,179 or 24.49% (as compared to expenses of \$16,074,741). Pursuant to the policy, Hermon's fund balance does exceed the target of 16.66% but is not over the maximum 25%.

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is an introduction to the Town's basic financial statements. The basic financial statements are prepared and are part of the Town's annual audit. The MD&A serves as a subjective explanation by the Town of the data contained in the audit. The three areas that the financial statements are broken into include: 1. Government-wide statements, 2. Fund Financial statements, and 3. Notes to the financial statements. Subjective analysis of the statements are also made and other supplementary information supplied to better explain the statements.

Government-wide Financial Statements

The government-wide statements are a total overview of the Town's financial status. They include all assets, liabilities, and activities in a manner similar to private sector accounting. The purpose is to show Town finance's in a format that is familiar to the common person.

The statement of net assets is used to express the financial data required for the government-wide financials. This shows the total assets which now include land, buildings, inventory, and other capital assets. These are then reduced by the liabilities which now include total bonds and leases due over their entire lives. The result is the net assets of the Town.

Government-wide statements distinguish business type activities from governmental activities. Business type activities are those that are funded through use fees or user based revenue, no tax dollars being the key separation from governmental activities. It then follows that governmental activities are those that are primarily funded through taxes and governmental fees. The only business type activity in Hermon is the recreation enterprise.

Fund Financial Statements

The Town segregates accounts into three basic funds. Each fund is determined to separate information in order to accurately report specific account activities. The determination of various funds is based upon accounting standards and legal requirements. The three funds for the Town are General Fund (Primary Fund), Capital Projects Fund (Reserves), and Other Governmental Funds (Trusts and Special Revenue).

General Fund

The general fund covers essentially the same data as included in the government wide statements. The difference is that fund financials focus on yearly inflows and outflows to determine a specific year's accessible resources. Capital Assets and depreciation are not included because they do not exemplify a specific year's transactions.

A budgetary comparison exhibit is provided to show budgeted amounts as compared to the actual activity. This information is useful to determine future budgets and community planning.

Capital Projects Fund

Capital Projects represent investment of reserve funds that are designated for different purposes. They represent long term planning and projects that are not feasible to budget within a single year. The purpose is to spread the cost out over a specified time to reduce the overall financial burden on the Town.

Other Governmental Funds

Other Governmental Funds are comprised of specific trusts, School lunch, and special revenues. These funds were each individually determined to be non-major and are required to be categorized and grouped into other governmental funds. A separate schedule is provided in the other supplemental information.

Notes to Financial Statements

The notes to the financial statements are included in the audit to give specific comment to certain areas. These are a crucial part of the audit and are closely monitored by Town administration. The reason they are monitored is that they provide additional insight into activities of the Town. These can show areas of strength and weakness for continued success and improvement. The notes to the financial statements are included on pages 26-39.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning financial performance.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information.

GOVERNMENT-WIDE ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Town, assets exceeded liabilities by \$16,234,179 as of June 30, 2010.

Net Assets for the Period Ending June 30, 2010

The current year’s financial statements show a change in asset classes, with a decrease of liabilities that net a 4.5% increase to total net assets. The overall reason for these changes are the completion of the Town Office renovation, other added equipment assets added, debt being paid down even with the Billings Road Bond being added to the debt service, and having more cash on hand/investments at 6/30/10.

The following is a summary of the Statement of Net Assets.

	<u>Governmental Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>% Change</u>
ASSETS				
Cash & cash equivalents	\$ 519,924	\$ 828,348	(308,424)	-37.2%
Investments	8,625,430	7,176,671	1,448,759	20.2%
Other assets	567,498	1,003,286	(435,788)	-43.4%
Capital assets, net	15,361,292	15,483,544	(122,252)	-0.8%
Total Assets	25,074,144	24,491,849	582,295	2.3%
LIABILITIES				
Long-term debt due w/in 1 year	1,128,788	1,032,122	96,666	9.4%
Long-term debt due in more than 1 year	6,759,229	6,866,239	(107,010)	-1.6%
Other liabilities	951,948	1,082,724	(130,776)	-12.1%
Total Liabilities	8,839,965	8,981,085	(141,120)	-1.6%
NET ASSETS				
Invested In:				
Invested in capital assets, net of related debt	7,473,275	7,585,183	(111,908)	-1.5%
Restricted for:				
Nonexpendable trust principal	7,839	7,932	(93)	-1.2%
Unrestricted	8,753,065	7,917,649	835,416	10.6%
Total Net Assets	\$ 16,234,179	15,510,764	723,415	4.7%

The following table presents a summary of the Statement of Net Activities for the fiscal year ended June 30, 2010.

	<u>Governmental Activities</u>			
	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percent Change</u>
Revenues				
Program Revenues				
Charges for services	\$ 2,651,580	\$ 2,537,226	114,354	4.5%
Operating grants & contributions	7,993,886	7,590,079	403,807	5.3%
Capital grants & contributions	16,699	22,140	(5,441)	-24.6%
General revenues				
Property taxes	4,642,503	4,626,528	15,975	0.3%
Excise taxes	2,011,907	2,016,327	(4,420)	-0.2%
Interest and costs on taxes	32,353	19,463	12,890	66.2%
Grants and contributions not restricted				
State Revenue Sharing	243,916	366,288	(122,372)	-33.4%
Homestead exemption	117,029	109,756	7,273	6.6%
Other intergovernmental revenues	162,352	66,314	96,038	144.8%
Investment earnings	43,595	146,376	(102,781)	-70.2%
Disposal of property	-	(6,785)	6,785	-100.0%
Miscellaneous	120,562	78,204	42,358	54.2%
Total revenues:	18,036,382	17,571,916	464,466	2.6%
Expenses				
General government	690,198	690,266	(68)	0.0%
Public safety	690,497	648,209	42,288	6.5%
Public works	1,695,954	1,075,489	620,465	57.7%
Solid waste	470,727	474,930	(4,203)	-0.9%
Recreational and social services	175,487	182,461	(6,974)	-3.8%
Education	11,252,731	11,717,581	(464,850)	-4.0%
Unclassified	847,766	776,605	71,161	9.2%
Grants and other special uses	1,262,042	979,505	282,537	28.8%
Special projects	1,943	33,309	(31,366)	-94.2%
Other	51,552	102,417	(50,865)	-49.7%
Interest on debt	57,865	38,147	19,718	51.7%
Capital maintenance expenses	116,205	60,639	55,566	91.6%
Total expenses:	17,312,967	16,779,558	533,409	3.2%
Increase (decrease) in net assets:	\$ 723,415	\$ 792,358	\$ (68,943)	-8.7%

Comparatives of revenues identify a few key changes. First, State Revenue Sharing has dropped significantly. Second is loss of interest on investment revenue. Both are connected to the economy. As shown above, since there are certain revenues in decline special projects and other expenses are also decreasing. There was also a slight drop of excise revenue which is starting to level off. Public works expenses were up considerably due to the Billings Road improvement project. Internally the goal is to recognize efficiencies that mitigate the loss without increasing property taxes.

Financial Analysis of the Town's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

Governmental funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. As the Town completed the year, its total governmental funds reported a combined fund balance of \$8,399,779, \$821,789 higher than the previous year. As analysis of transactions affecting the change in the combined fund balance of the Town's governmental funds is as follows:

Expenditures exceeded revenues of all governmental funds by \$329,164. Expenditures exceeded revenues in the general fund by \$292,398. The deficiency is related to a decrease in excise taxes, State revenue sharing, interest on investments, and the cost of the Billings Road improvement project.

Other financing sources resulted in gain of \$250,953 plus a bond issuance of \$900,000. The net gain is attributed to the lease of a School bus, lease of copiers, and the lease of a backhoe. One of the other larger expenses showing up is the Billings Road improvement project but this partly covered financially with an issuance of the bond.

The deficiency of \$329,164 is only off set by the gain of \$250,953 and \$900,000 results in the overall net change to all governmental funds of a gain of \$821,789.

General Fund

The following is a summary of General Fund expenditures and revenues by function, with comparison to 2009. The information is gathered from Exhibit A-2.

	<i>Actual Activity</i>			Percent Change
	2010	2009	Change	
Revenues				
Property taxes	\$ 4,605,304	\$ 4,626,528	\$ (21,224)	-0.5%
Excise taxes	2,011,907	2,016,327	(4,420)	-0.2%
Interest on taxes	32,353	19,463	12,890	66.2%
State Revenue Sharing	243,916	366,288	(122,372)	-33.4%
Homestead exemption	117,029	109,756	7,273	6.6%
State education subsidy	4,670,616	4,545,714	124,902	2.7%
Other intergovernmental revenues	956,687	933,813	22,874	2.4%
Licenses and permits	49,270	42,113	7,157	17.0%
Charges for services	2,358,251	2,229,197	129,054	5.8%
Interest earned	19,292	39,484	(20,192)	-51.1%
Miscellaneous	593,850	518,832	75,018	14.5%
Total revenues:	15,658,475	15,447,515	210,960	1.4%
Expenditures				
General government	666,629	659,671	6,958	1.0%
Public safety	621,112	602,188	18,924	3.0%
Public works	1,692,008	1,054,381	637,627	37.7%
Solid waste	470,147	474,930	(4,783)	-1.0%
Recreational and social services	175,487	182,461	(6,974)	-4.0%
Unclassified	834,051	762,877	71,174	8.5%
Education	10,987,940	10,996,230	(8,290)	-0.1%
Special projects	113,187	33,309	79,878	70.6%
Debt service	128,878	132,678	(3,800)	-2.9%
Total expenditures:	15,689,439	14,898,725	790,714	5.0%
Excess (deficiency) of revenues over (under) expenditures	\$ (30,964)	\$ 548,790	\$ (579,754)	-105.6%

Overall, in 2010 expenses exceeded revenues by \$30,964. This is down by \$579,754, which continues a good trend of having expenditures closer to revenues; however, losses to excise, revenue sharing, and interest income revenues show a bad trend. The loss of these revenues with no gains will result in very tough budgets in the future since the Town of Hermon heavily depends on excise taxes. There was a projected decrease of education funding, but this year actually exceeded the prior year. Without significant savings to expenses an increase in property tax will be the only remaining revenue source.

Capital Asset and Debt Administration

	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Governmental Activities				
Land	\$ 33,600	-	-	33,600
Total assets not being depreciated	33,600	-	-	33,600
Buildings and improvements	19,155,625	120,577	-	19,276,202
Equipment, furniture, and fixtures	1,440,881	359,340	-	1,800,221
Vehicles	1,801,146	150,761	-	1,951,907
Total assets being depreciated	22,397,652	630,678	-	23,028,330
Total depreciation	(6,947,708)	(752,930)	-	(7,700,638)
Total capital assets, net	\$ 15,483,544	\$ (122,252)	\$ -	\$ 15,361,292

Additional information on the Town's capital assets can be found in the notes to the financial statements on page 33.

Debt Administration

The Town's debt consists of seven bonds and several capital leases. A summary of the Town's debt activity for the year ended June 30, 2010 is as follows:

Long-term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Governmental Activities					
Bonds payable	\$ 7,797,281	900,000	975,595	7,721,686	1,054,675
Capital leases payable	101,080	250,953	185,702	166,331	74,113
Accrued compensated absences	52,940	4,778	-	57,718	-
Governmental activities long-term liabilities	\$ 7,951,301	1,155,731	1,161,297	7,945,735	1,128,788

Additional information on the Town's long-term debt can be found in the notes to the basic financial statements.

ECONOMIC FACTORS, TAX RATES, AND NEXT YEAR'S BUDGET

The following is an excerpt from the Budget Summary and Analysis which is prepared every spring at the end of the budget process. Please view the full document for a more detailed report.

COMMITMENT:

Commitment is the most important number to analyze because no matter what the change is in any other category this is the one that determines if property taxes are going up. It is the amount of money Hermon needs to raise to stay on budget and it comes from two sources - real estate and personal property taxes. This year we need \$5,226,657 compared to last year's \$4,835,747. Last year overlay was \$105,000 and this year it is \$60,000. This is an increase of \$390,910 or 8% compared to last year. The numbers you need to be reminded of is that the State required the School to raise \$454,412 more for Schools which means the budget was able to lessen the impact of this requirement. The projected mill rate of 11.95 is estimated until the Town value is set based upon assessing information. In the declining economy many people feel that house values are dropping. However, local assessing information and sales analysis indicates fewer sales but no decline in price. It may be that Hermon is not lowering prices as fast or that our real estate is more stable than the state as a whole. But for budget purposes the assessment of homes in Hermon remains stable.

BUDGET HIGHLIGHTS

The budget highlights identify changes in the 2010-11 budget from the 2009-10. These points are only the highlights and serve to summarize changes to the overall budget rather than provide an explanation to every adjustment to the budget.

- General Government is facing an increase of \$26,117 or 3.9%. The largest issue in this department was health insurance. This line by itself is up almost \$30,000 even though the Town is funding a less costly plan three eligible employees have opted for coverage, without the savings the increase would have been even greater. In fact, the lesser plan saved the Town \$25,000 before new enrollments. Besides this change the department is basically flat funded with adjustments to costs for wages, insurance, and licenses.
- The Economic Development budget is up only 2.0%. The promotional budget for development is up \$4,168 to become more aggressive in business attraction. A reminder is that last year the Council adopted a plan to fund Economic Development with the use of TIF proceeds, so \$71,582 of the \$85,020 development budget comes from a reserve created by captured revenue from new development. The technology side remains at \$187,000, a 0% change.
- Public Safety, which encompasses Police, Fire, Animal Control, and traffic lights, is increasing by 3.3% or \$21,665. The Police and Fire Divisions are flat funded. Fire appears to be down 2.5% but that is due to moving the building costs in separate part of the Public Safety budget that recognizes the shared cost of these expenses. Fire does have a \$12,000 increase to the Chief's wages in anticipation of the cost to replace Larry Willis upon retirement in November.
- The Public Works Department is decreasing by 10.5% or about \$99,370. This makes a two year reduction of \$194,251. During these tough economic times the one area that most easily lends itself to reduction is paving. The foreman built a plan around increasing the sealing of cracks in pavement that justified the approach. However, long-term, this budget will need to be increased or the community must tolerate worse pavement conditions.

- The Solid Waste budget is decreasing by 1.7% or \$8,673. Tougher economies lead to less spending which reduces trash in the waste stream. Unfortunately this is matched with changes in revenues. Overall, the fixed costs in this department are up as a result of the new curbside trash contract. The contract will cost the Town \$7,000 more than last year.
- Recreation and Social Services is decreasing by 26.3% or \$47,524. Recreation is only down 1%. The reduction is based upon a policy change by the Council to reduce funding to social services. This reduction saves \$46,515.
- Debt Service is up 54.1% or \$126,600. This is a result of a more aggressive repayment plan on Billings Road bonds to retire the debt within 5 years. The short term "pain" of higher payment will save Hermon almost \$100,000 over the life of the loan, which will help in 4 years when the debt is retired.
- Reserves are down \$89,088 or 24.9%. Last years cut of \$100,009 was expected to be a one year reduction but budget constraints required a second year of cuts. As a result the department is down \$189,097 from just 2 years ago.
- Special Assessments includes only County Taxes and TIFs. The Town office project was a one year improvement plan for \$118,000 and that cost has been removed from the budget. County taxes are up 4.1%.
- The School budget can be summarized with the fact that the local contribution is from \$2,680,014 to \$3,134,426, an increase of almost 17% or \$454,412. This increase alone explains the increase to property taxes. The School should be commended for lowering its General Fund budget by \$920,422 to \$11,591,262. However, the increased State share could not be mitigated.
- The Town's revenue is \$3,976,411 for this year. Last year it was \$3,105,016, resulting in a decrease of \$128,605. One concern is that \$176,879 of the revenue is a transfer out of reserves to reduce the operating budget. Neither of these revenue sources will be available next year which puts the 2011-12 budget in a \$176,000 hole before we even begin.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the Town's finances. If you have questions about this report or need any additional information, contact the Town Manager, at P.O. Box 6300 Hermon, Maine 04402-6300 or call (207) 848-3485 or www.hermon.net.

BASIC FINANCIAL STATEMENTS



TOWN OF HERMON, MAINE
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 519,924	-	519,924
Investments	8,625,430	-	8,625,430
Receivables:			
Taxes receivable - current year	306,874	-	306,874
Taxes receivable - prior year	136,752	-	136,752
Tax liens - prior years	88,337	-	88,337
Tax acquired property	18,498	-	18,498
Accounts receivable	141,428	-	141,428
Internal balances	(129,420)	129,420	-
Inventory	5,029	-	5,029
Nondepreciable capital assets	33,600	-	33,600
Depreciable capital assets, net	15,327,692	-	15,327,692
Total assets	25,074,144	129,420	25,203,564
LIABILITIES			
Accounts payable	74,211	-	74,211
Accrued payroll	679,188	-	679,188
Accrued compensated absences	57,718	-	57,718
Prepaid taxes	2,860	-	2,860
Accrued interest	68,157	-	68,157
Other liabilities	69,814	-	69,814
Noncurrent liabilities:			
Due within one year	1,128,788	-	1,128,788
Due in more than one year	6,759,229	-	6,759,229
Total liabilities	8,839,965	-	8,839,965
NET ASSETS			
Invested in capital assets, net of related debt	7,473,275	-	7,473,275
Restricted for:			
Permanent Funds - Nonexpendable principal	7,839	-	7,839
Unrestricted	8,753,065	129,420	8,882,485
Total net assets	\$ 16,234,179	129,420	16,363,599

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Activities
For the year ended June 30, 2010

Functions/programs	Net (expense) revenue and changes					
	Program revenues			in net assets		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities
Primary government:						
Governmental activities:						
General government	\$ 690,198	49,270	-	-	(640,928)	-
Public safety	690,497	4,440	-	-	(686,057)	-
Public works	1,695,954	2,805	-	-	(1,693,149)	-
Solid waste	470,727	206,630	-	-	(264,097)	-
Recreational and social services	175,487	-	-	-	(175,487)	-
Education	11,252,731	2,114,869	6,947,847	-	(2,190,015)	-
Unclassified	847,766	9,344	33,292	16,699	(788,431)	-
Grants and other special uses	1,262,042	264,222	1,012,747	-	14,927	-
Special projects	1,943	-	-	-	(1,943)	-
Other	51,552	-	-	-	(51,552)	-
Interest on debt	57,865	-	-	-	(57,865)	-
Capital maintenance expenses	116,205	-	-	-	(116,205)	-
Total governmental activities	17,312,967	2,651,580	7,993,886	16,699	(6,650,802)	-
Business-type activities:						
Recreation department	158,663	144,360	-	-	-	(14,303)
Total business-type activities	158,663	144,360	-	-	-	(14,303)
Total primary government	\$ 17,471,630	2,795,940	7,993,886	16,699	(6,650,802)	(14,303)
General revenues:						
Property taxes					4,642,503	4,642,503
Excise taxes					2,011,907	2,011,907
Interest and costs on taxes					32,353	32,353
Grants and contributions not restricted to specific programs:						
State Revenue Sharing					243,916	243,916
Homestead exemption					117,029	117,029
Other intergovernmental revenues					162,352	162,352
Unrestricted investment earnings					43,595	43,595
Miscellaneous revenues					120,562	120,562
Total general revenues					7,374,217	7,374,217
Change in net assets					723,415	(14,303)
Net assets - beginning					15,510,764	143,723
Net assets - ending					\$ 16,234,179	129,420

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Balance Sheet
Governmental Funds
June 30, 2010

	General	Highway Capital Reserve	Fire Station Reserve	School Capital Reserve	Middle School Improvement	Billings Road	All Nonmajor Funds	Total Governmental Funds
ASSETS								
Cash	\$ 479,743	-	-	-	-	-	40,181	519,924
Investments	6,139,058	146,163	17,043	263,674	-	-	2,059,492	8,625,430
Receivables:								
Taxes receivable - current year	306,874	-	-	-	-	-	-	306,874
Taxes receivable - prior year	136,752	-	-	-	-	-	-	136,752
Tax liens - prior years	88,337	-	-	-	-	-	-	88,337
Tax acquired property	18,498	-	-	-	-	-	-	18,498
Accounts receivable	109,368	-	-	-	-	-	32,060	141,428
Inventory	-	-	-	-	-	-	5,029	5,029
Interfund loans receivable	645,569	-	-	-	154,918	-	87,674	858,161
Total assets	\$ 7,894,199	146,163	17,043	263,674	154,918	-	2,224,436	10,700,433
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	58,954	-	-	-	-	-	15,257	74,211
Accrued payroll	679,188	-	-	-	-	-	-	679,188
Prepaid taxes	2,860	-	-	-	-	-	-	2,860
Interfund loans payable	944,286	-	-	-	-	-	43,295	987,581
Deferred tax revenue	487,000	-	-	-	-	-	-	487,000
Other liabilities	69,814	-	-	-	-	-	-	69,814
Total liabilities	2,242,102	-	-	-	-	-	58,552	2,300,654
Fund balances:								
Reserved for:								
Inventory	-	-	-	-	-	-	5,029	5,029
Nonexpendable principal	-	-	-	-	-	-	7,839	7,839
Unreserved, reported in:								
General fund - designated	1,714,918	-	-	-	-	-	-	1,714,918
General fund - undesignated	3,937,179	-	-	-	-	-	-	3,937,179
Special revenue funds - undesignated	-	-	-	-	-	-	1,219,664	1,219,664
Capital projects - undesignated	-	146,163	17,043	263,674	154,918	-	885,346	1,467,144
Permanent funds - undesignated	-	-	-	-	-	-	48,006	48,006
Total fund balances	5,652,097	146,163	17,043	263,674	154,918	-	2,165,884	8,399,779
Total liabilities and fund balances	\$ 7,894,199	146,163	17,043	263,674	154,918	-	2,224,436	-

Amounts reported for governmental activities in the statement of net assets are different because Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.
Bonds payable
Capital leases
Accrued interest
Accrued compensated absences

Net assets of governmental activities	\$ 16,234,179
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See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010

	General	Highway Capital Reserve	Fire Station Reserve	School Capital Reserve	Middle School Improvement	Billings Road	All Nonmajor Funds	Total Governmental Funds
Revenues:								
Taxes	\$ 6,649,564	-	-	-	-	-	-	6,649,564
Intergovernmental	5,988,248	-	-	-	-	-	1,005,297	6,993,545
Maine PERS on-behalf payments	945,993	-	-	-	-	-	-	945,993
Licenses and permits	49,270	-	-	-	-	-	-	49,270
Charges for services	2,358,251	-	-	-	-	-	-	2,358,251
Investment income	19,292	2,790	120	2,288	-	-	19,105	43,595
Other	593,850	-	-	-	-	-	365,115	958,965
Total revenues	16,604,468	2,790	120	2,288	-	-	1,389,517	17,999,183
Expenditures:								
Current:								
General government	666,629	-	-	-	-	-	-	666,629
Public safety	621,112	-	-	-	-	-	-	621,112
Public works	1,692,008	-	-	-	-	-	-	1,692,008
Solid waste	470,147	-	-	-	-	-	-	470,147
Recreational and social services	175,487	-	-	-	-	-	-	175,487
Education	10,998,421	-	-	-	-	-	-	10,998,421
Unclassified	834,051	-	-	-	-	-	-	834,051
Grants and other special uses	-	-	-	-	-	-	1,262,042	1,262,042
Special projects	113,187	-	-	-	-	-	-	113,187
Other	-	-	-	-	-	-	51,552	51,552
Maine PERS on-behalf payments	945,993	-	-	-	-	-	-	945,993
Debt service	128,878	-	-	-	-	-	-	128,878
Capital outlay	250,953	-	165	-	-	-	117,722	368,840
Total expenditures	16,896,866	-	165	-	-	-	1,431,316	18,328,347
Excess (deficiency) of revenues over (under) expenditures	(292,398)	2,790	(45)	2,288	-	-	(41,799)	(329,164)
Other financing sources (uses):								
Proceeds from capital lease	250,953	-	-	-	-	-	-	250,953
Proceeds from bond issuance	900,000	-	-	-	-	-	-	900,000
Transfers from other funds	6,342	115,000	25,871	-	-	-	244,431	391,644
Transfers to other funds	(385,302)	-	-	-	-	(6,190)	(152)	(391,644)
Total other financing sources (uses)	771,993	115,000	25,871	-	-	(6,190)	244,279	1,150,953
Net change in fund balances	479,595	117,790	25,826	2,288	-	(6,190)	202,480	821,789
Fund balances (deficit), beginning of year	5,172,502	28,373	(8,783)	261,386	154,918	6,190	1,963,404	7,577,990
Fund balances, end of year	\$ 5,652,097	146,163	17,043	263,674	154,918	-	2,165,884	8,399,779

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2010

Net change in fund balances - total governmental funds (from Statement 4)	\$	821,789
<p>Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:</p>		
<p>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 as depreciation expense. This is the amount by which capital outlay (\$630,679) exceeded depreciation expense (\$752,931) in the current period.</p>		
		(122,252)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		37,199
<p>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 the governmental funds. This is the change in accrued compensated absences (\$4,778) and accrued interest (\$18,887).</p>		
		(23,665)
<p>Bond and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
<p>This is the amount by which bond proceeds (\$900,000) exceeded repayments (\$975,595).</p>		
		75,595
<p>This is the amount by which lease proceeds (\$250,953) exceeded repayments (\$185,702).</p>		
		(65,251)
<hr/>		
Change in net assets of governmental activities (see Statement 2)	\$	723,415

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the year ended June 30, 2010

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 6,713,201	6,713,201	6,649,564	(63,637)
Intergovernmental	6,054,171	6,054,171	5,988,248	(65,923)
Licenses and permits	43,500	43,500	49,270	5,770
Charges for services	2,098,875	2,098,875	2,358,251	259,376
Interest earned	60,000	60,000	19,292	(40,708)
Other revenues	355,882	355,882	593,850	237,968
Total revenues	15,325,629	15,325,629	15,658,475	332,846
Expenditures:				
Current:				
General government	667,305	667,305	666,629	676
Public safety	649,824	649,824	621,112	28,712
Public works	947,841	1,847,841	1,692,008	155,833
Solid waste	508,819	508,819	470,147	38,672
Recreation and social services	180,667	180,667	175,487	5,180
Unclassified	1,012,431	1,012,431	834,051	178,380
Education	12,344,584	12,344,584	10,987,940	1,356,644
Special projects	118,000	118,000	113,187	4,813
Debt service:				
Principal	194,901	194,901	89,900	105,001
Interest	38,978	38,978	38,978	-
Total expenditures	16,663,350	17,563,350	15,689,439	1,873,911
Deficiency of revenues under expenditures	(1,337,721)	(2,237,721)	(30,964)	2,206,757
Other financing sources (uses):				
Transfers out	(377,891)	(377,891)	(385,302)	(7,411)
Transfers in	-	-	6,342	6,342
Utilization of prior year surplus - School	1,582,612	1,582,612	-	(1,582,612)
Utilization of prior year surplus - Town	133,000	133,000	-	(133,000)
Proceeds from bond issuance	-	900,000	900,000	-
Total other financing sources	1,337,721	2,237,721	521,040	(1,716,681)
Net change in fund balance, budgetary basis	-	-	490,076	490,076
Reconciliation to GAAP:				
Change in accrued summer salaries			(10,481)	
Net change in fund balance, GAAP basis			479,595	
Fund balance, beginning of year			5,172,502	
Fund balance, end of year	\$		5,652,097	

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Net Assets
Proprietary Funds
June 30, 2010

Business-type Activities - Enterprise Funds	
	Recreation Department
ASSETS	
Current assets:	
Interfund loans receivable	\$ 129,420
Total assets	129,420
LIABILITIES	
Current liabilities:	
Accounts payable	-
Total liabilities	-
NET ASSETS	
Unrestricted	129,420
Total net assets	\$ 129,420

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2010

Business-type Activities - Enterprise Funds		Recreation Department
Operating revenues:		
Charges for services	\$	144,360
Total operating revenues		144,360
Operating expenses:		
Current:		
Payroll		74,361
Recreation programs		84,302
Total operating expenses		158,663
Operating loss		(14,303)
Total net assets, beginning of year		143,723
Total net assets, end of year	\$	129,420

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Cash Flows - Proprietary Funds
For the year ended June 30, 2010

Business-type Activities - Enterprise Funds		Recreation Department
Cash flows from operating activities:		
Receipts from customers and users	\$	144,360
Payments to suppliers		(84,302)
Payments to employees		(74,361)
Interfund activity		14,303
Net cash provided by operating activities		-
Increase (decrease) in cash		-
Cash, beginning of year		-
Cash, end of year		\$ -
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$	(14,303)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Decrease in interfund receivables		14,303
Net cash provided by operating activities		-

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	<u>Agency Funds</u>	<u>Private-purpose Trusts</u>
	Student Activity Funds	School Department Scholarships
ASSETS		
Cash and cash equivalents	\$ 120,434	186,197
Total assets	120,434	186,197
LIABILITIES		
Due to student groups	120,434	-
Total liabilities	120,434	-
NET ASSETS		
Held in trust	\$ -	186,197

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2010

	Private-purpose Trusts
	School Department Scholarships
Additions	\$ 150,812
Deductions	-
Change in net assets	150,812
Net assets, beginning of year	35,385
Net assets, end of year	\$ 186,197

See accompanying notes to financial statements.

TOWN OF HERMON, MAINE
Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Hermon have been prepared in conformity with U.S. generally accepted accounting standards (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The Town of Hermon operates under an elected Town Council and Town Manager form of government. The Town's School Department operates under an elected School Board. The Town's major operations include public works, public safety, public services, education, and general administrative services.

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit was made based on criterion set forth in GAAP. The criterion used defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. Based on the application of these criteria, there were no potential component units required to be included in this report.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Town has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period for property taxes and one year for other revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as certain compensated absences and claims and judgments, are recorded only when the payment is due.

Those revenues susceptible to accrual are property taxes, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the Town and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The Town reports the following major governmental funds:

The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Highway Capital Reserve Fund is used to account for road building and repairs.

Fire Station Reserve Fund is used to account for the building a new fire station.

School Capital Reserve Fund is used to account for major purchases by the school (school bus, telephone system), and building of schools.

Middle School Improvement Fund is used to account for expenses relating to administration, engineering, and construction of an addition and full renovation of Hermon Middle School.

Billings Road Fund is used to account expenses relating to administration, engineering, and construction of a Rural Road Initiative repairing and reconstructing Billings Road from the intersection of Clark and Lewis roads to the intersection of Fuller Road.

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Town reports the following major proprietary fund:

Recreation Department Fund is used to account for revenues generated from the variety of services provided by Hermon Recreation on a user basis. The expenses related to these programs are to be covered with revenues generated. Costs covered are program related expenses, food costs, payroll, facilities improvements, clothing/uniforms, and equipment purchases.

Additionally, the Town reports the following fund type:

Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. The Town's fiduciary funds include the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. The funds are used to account for assets that the Town holds for others in an agency capacity.

Private-purpose trust funds are used to account for resources legally held in trust for the benefit of others.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's Recreation Department fund and the General Fund. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's proprietary fund is charges to customers for sales and services; operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Cash and Investments

Cash includes amounts in demand deposits as well as time deposits and certificates of deposit owned by the Town. Investments are stated at fair value. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

E. Interfund Loans Receivable/Payable

Transactions between funds that are representative of lending/ borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans or as interfund advances (i.e. the noncurrent portion of interfund loans).

F. Inventory

Inventory in the School Lunch Program consists of food and supplies and is valued at the lower of cost (first-in, first-out basis) and is offset with a reserved fund balance for inventories. Inventories of the School Lunch Fund include the value of the U. S. Department of Agriculture commodities donated to the Fund.

G. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the assets' estimated useful lives ranging from 3 to 50 years.

H. Compensated Absences

Under the terms of personnel policies and union contracts, vacation and sick leave are granted in varying amounts according to length of service. All vacation and sick time is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs if material to basic financial statements, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TOWN OF HERMON, MAINE
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures if material to the financial statements.

J. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative plans for future use of financial resources.

K. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations is used in governmental funds. All encumbrances, if any, are reserved at year end.

L. Use of Estimates

Preparation of the Town's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

M. Comparative Data/Reclassifications

Comparative data for the prior year have been presented only for certain funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

A budget is adopted for the General Fund only, and is adopted on a basis consistent with generally accepted accounting principles (GAAP), except for encumbrances and Maine Public Employees Retirement on-behalf payments. Maine Public Employees Retirement contributions are made by the State of Maine on behalf of the School Department. These amounts have not been budgeted in the General Fund and result in a difference in reporting on a budgetary basis of accounting vs. reporting under accounting principles generally accepted in the United States of America of \$945,993. These amounts have been included as revenue and expenditures in the General Fund on Statement 4 (GAAP basis) and on the Statement of Activities. There is no effect on the fund balance or net assets at the end of the year.

Through June 30, 2010, the Town did not budget for revenues and expenditures related to summer salaries for teachers on an accrual basis.