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Old Orchard Beach (Me.)

Jill M. Eastman

Old Orchard Beach (Me.). Finance Director/Treasurer

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TOWN OF OLD ORCHARD BEACH, MAINE

Annual Financial Report

For the year ended June 30, 2007

**Prepared by:
Jill M. Eastman
Finance Director/Treasurer**

TOWN OF OLD ORCHARD BEACH, MAINE
Annual Financial Report
For the year ended June 30, 2007

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Annual Financial Report
For the year ended June 30, 2007

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Independent Auditor's Report

Town Council
Town of Old Orchard Beach, Maine

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Old Orchard Beach, Maine as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Old Orchard Beach, 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 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Old Orchard Beach, Maine, as of June 30, 2007, and respective changes in financial position and cash flows, where applicable, thereof and the respective 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 a report dated October 25, 2007, on our consideration of the Town of Old Orchard Beach, Maine's internal control over financial reporting and 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.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Old Orchard Beach, Maine's basic financial statements. The combining and individual fund schedules and statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The information in Tables 1 through 7 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

October 25, 2007
South Portland, Maine

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements

THE REPORTING ENTITY AND ITS SERVICES

The Town of Old Orchard Beach, Maine was incorporated in 1883 and is located in southeastern Maine, 12 miles south of Portland. A popular summer resort with 7 miles of sandy beaches, the Town encompasses 7.8 square miles. Its year round population of approximately 8,800 expands to 100,000 during the summer. The Town has operated under a Council-Manager form of government since 1950.

The Town provides the full range of municipal services contemplated by State statutes. These include public safety, public works, sanitation, health and welfare services, parks and recreation, education, 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 decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by accounting principles generally accepted in the United States of America. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise financial accountability. 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, the following is a brief review of each potential component unit addressed in defining the government's reporting entity.

Libby Memorial Library - The Library provides library services and is not considered to be a component unit because it is a separate legal organization whose board is not controlled by officials of the Town. The only activity that flows through the Town's financial records is the Town's yearly appropriation to the Library. All other financial activity of the Libby Memorial Library has not been reported in the Town's financial statements.

Biddeford-Saco-Old Orchard Beach Transit Committee - The Town is a member of the Biddeford-Saco-Old Orchard Beach Transit Committee, which is a jointly governed organization. The Committee operates a public mass transit passenger bus service within and between the three municipalities under a voluntary interlocal agreement. The Town of Old Orchard Beach's contribution to the committee for the year ended June 30, 2007 was \$48,000. The Transit Committee does not meet the definition of a component unit or a joint venture because there is no ongoing financial interest or responsibility by the participating governments.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

B. 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 all 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.

The School Special Revenue Fund is used to account for grants for educational purposes, the School Lunch program and the Adult Education program, all of which require separate accounting because of legal or regulatory provisions or administrative action.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Rescue Call Fees Fund is established to account for revenues derived from the billings of fees for rescue calls, which are earmarked by Council action to provide for the purchase of Public Safety vehicles.

The Town reports the following major proprietary fund:

The Ballpark Fund accounts for the ownership and expenses of a leased sports facility.

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 private-purpose trust funds.

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.

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 revenue of the Town's proprietary fund is lease payments by the lessee of the facility; operating expenses consist solely of depreciation on capital assets at this time. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Investments

Investments are stated at fair value, unless otherwise indicated.

D. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of three years or more. 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 repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Property, plant, and equipment of the primary government is depreciated using the straight-line method over the assets' estimated useful lives ranging from 3 to 60 years.

For the business-type fund, an estimated useful life of 40 years is used to compute depreciation.

The Town performed an inventory of all other capital assets and conducted a survey of all infrastructure assets for fiscal year 2003 and completes an internal update annually. This process determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: 1) historical records; 2) standard unit costs appropriate for the construction/acquisition date; or 3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each capital asset. The book value was then computed by deducting the accumulated depreciation from the original cost.

E. Vacation and Sick Leave

Under the terms of personnel policies and a union contract, vacation and sick leave are granted in varying amounts according to length of service. In some cases, employees are entitled to payment for unused vacation and a percentage of sick leave upon termination or retirement. The Town and the School Department accrue accumulated vacation leave and vested sick leave. In the fund financial statements, no amount is recorded unless the amount is to be paid out shortly after year-end. The full liability is recorded in the government-wide statements.

F. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as bond 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.

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.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

G. Inventory

Inventory consists of vehicle fuel, trash bags and the School Lunch Program food, supplies and donated commodities and is recorded at the lower of cost or market on the first-in, first-out basis.

H. Interfund Transactions

During the course of normal operations, the Town has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets and service debt. These transactions are reported as transfers.

I. Fund Balances

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.

J. 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.

K. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances do not constitute expenditures or liabilities, except that they are included as expenditures for budgetary purposes (Statement 6).

L. 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.

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

A budget is formally adopted for the General Fund each year through the passage of the Town budget and is prepared on a basis consistent with generally accepted accounting principles with the exception of on-behalf payments and that encumbrances are treated as expenditures for budgetary purposes. The Town's other funds do not have legally adopted budgets but have adopted budgets through formal authorizations by the Town Council or School Committee and through grant agreements.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, CONTINUED

In the General Fund, the level of control (level at which expenditures may not exceed budget) is the Department. The gross appropriation for each department shall not be exceeded except by consent of the Town Council. The Town Council may, by resolution, transfer an unencumbered appropriation balance or portion thereof including surplus between the general accounts.

For the School Department, the level of control is also the Department. Generally, all unexpended School budgetary accounts lapse to the School Department's fund balance at the close of the fiscal year. Once adopted, the budget can be amended by the School Committee, but only through transfers between expenditure accounts.

B. Budgetary vs. GAAP Basis of Accounting

As required by generally accepted accounting principles (GAAP), the Town has recorded a revenue and expenditure for Maine State Retirement contributions made by the State of Maine on behalf of the Old Orchard Beach 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 \$1,047,838. These amounts have been included as an intergovernmental revenue and an education expenditure on both Statements 2 and 4 (GAAP basis). There is no effect on the fund balance at the end of the year.

Additionally, the School Department compensates its teachers under a contract for services rendered between the months of September and June. However, compensation is remitted over a twelve-month period, September through August. At June 30, 2007, the balance on such contracts amounted to approximately \$613,196 and is fully accrued and reflected in the financial statements.

C. Excess of Expenditures Over Appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations in the following departments:

Town Council	\$ 1,762
Finance Director/Treasurer	2,710
Planning	4,055
Building Maintenance	2,685
Public Works	51,682
Treatment Plant	68,469
Animal Control	751
Public Safety Complex	30,773
Fire/Rescue Department	45,402
Street Lights	5,727
Historical Society	2,965
General Assistance	7,235

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, CONTINUED

D. Deficit Fund Balance

The Recreation Fund deficit of \$71,549 is due to the timing of purchases for the Summer Playground Program and will be repaid from program revenues collected next year. The Gateway Grant has a deficit of \$784 that will be repaid with future grant funds from the State. The Playground Grant Fund has a deficit of \$6,013 that will be repaid with future grant funds from the State. The Conservation Tree Grant Fund has a deficit of \$3,517 will be repaid with future grant funds. The CDBG Grant Fund has a deficit of \$38,244 due to the timing of the drawdown of CDBG funds. The FEMA Fund has a deficit of \$304,622 that will be repaid with future grant funds. These obligations are accounted for as an interfund liability in the Recreation Fund, Playground Grant Fund, Gateway Grant Fund, Conservation Tree Grant Fund, CDBG Grant Fund and the FEMA Fund and an interfund asset in the General Fund.

E. Ballpark Update

On April 15, 2001, the Town entered into a lease with Seacoast Sports, LLC for the Ballpark. The lease was renewed in 2002 and 2003. In 2006, a master plan was developed for the development of the ballpark. The citizens of Old Orchard Beach have to vote on the master plan before it can be implemented. At this time, this has not been scheduled to go to referendum.

DEPOSITS AND INVESTMENTS

The Town's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines, while avoiding unreasonable risk. The funds are invested in liquid investments with maturities planned to coincide with the Town's cash needs during the year.

A. Deposits

Custodial Credit Risk-Town Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Town policy is that deposits can only be made in financial institutions insured by the FDIC and that funds over the \$100,000 insurance limit be collateralized or placed in other financial institutions.

At year end, the carrying amount of the Town's deposits was \$218,498 and the bank balance was \$385,470, all of which was covered by Federal Depository Insurance or collateral securities.

Deposits have been reported as follows:

Reported in governmental funds	\$ 218,498
Total deposits	\$ 218,498

B. Investments

Credit Risk: Maine statutes authorize the Town to invest in obligations of the U. S. Treasury and U. S. agencies, repurchase agreements and certain corporate stocks and bonds. Generally, the Town invests such excess funds in a government money market mutual fund accounts and the School Department invests the excess funds of its trust funds and certain special revenue funds in stocks and money market accounts through an investment company.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

At June 30, 2007, the Town reported investments with the following maturities:

	<u>Fair</u> <u>value</u>	<u>Less than</u> <u>1 year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>More than</u> <u>10 years</u>
Money funds/sweep options	\$ 2,670,538	2,670,538	-	-	-
Repurchase agreements	96	96	-	-	-
Certificate of deposits	4,595,738	4,595,738	-	-	-
Equities/stocks	291,439	-	Not applicable		
Mutual funds (1)	220,426	-	Not applicable		
Total investments	\$7,778,237	7,266,372	-	-	-

(1) Mutual funds are not considered securities and are exempt from risk disclosure noted above.

Investments have been reported as follows:

Reported in the general fund	\$ 7,209,086
Reported in fiduciary funds	569,151
Total deposits	\$ 7,778,237

Custodial credit risk- investments – For investments, this is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Town currently does not have an investment policy for custodial credit risk. Of the Town's \$2,670,538 investment in money funds/sweep options, \$57,387 was exposed to custodial credit risk because they were uninsured and uncollateralized, the rest was collateralized by underlying securities held by the related bank, which were not in the Town's name. Of the Town's \$96 in repurchase agreements, \$0 was exposed to custodial credit risk because they were insured by the FDIC. Of the Town's \$4,595,738 in certificates of deposits, 100% was insured by the FDIC.

Interest rate risk – The Town does not have a deposit policy for interest rate risk.

PROPERTY TAX

Property taxes for the current year were committed on August 2, 2006 on the assessed value listed as of April 1, 2006 for all real and personal property located in the Town. All real property taxes were due in two installments, 50% on September 8, 2006 and 50% on March 16, 2007. All personal property taxes were due in full on September 8, 2006. Interest at the rate of 11% per annum was charged on any amounts remaining unpaid after these respective due dates. Assessed values are periodically established by the Town's Assessor at 100% of assumed market value. The assessed value was 100% of the estimated market value and 96% of the 2007 state valuation of \$1,368,350,000.

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$561,677 for the year ended June 30, 2007.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

PROPERTY TAX, CONTINUED

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

Property taxes levied during the year were recorded as receivables at the time the levy was made. The receivables collected during the year and in the first sixty days following the end of the fiscal year have been recorded as revenues. The remaining receivables have been recorded as deferred revenues.

The following summarizes the 2007 and 2006 levies:

	<u>2007</u>	<u>2006</u>
Valuation:		
Land	\$ 488,231,200	489,670,400
Buildings	859,629,300	772,040,800
Personal property	23,392,100	21,605,000
Less - Exemptions and tax-exempt property	(57,991,100)	(55,530,000)
Total assessed valuation	\$ 1,313,261,500	1,227,786,200
Total assessed valuation	1,313,261,500	1,227,786,200
Tax rate (per \$1,000)	13.32	13.50
Commitment	17,492,643	16,575,114
Supplemental taxes assessed	10,392	30,958
	17,503,035	16,606,072
Less - collections and abatements	16,997,147	16,183,713
Receivable at end of year	\$ 455,328	422,359
Consisting of:		
Taxes	455,328	39,101
Liens	-	383,258
Receivable at end of year	\$ 455,328	422,359
Collection rate	97.11%	97.45%

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance June 30, <u>2006</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2007</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,800,728	-	-	1,800,728
Capital assets, being depreciated:				
Buildings and improvements	9,771,824	-	-	9,771,824
Equipment, furniture and fixtures	3,601,499	55,321	-	3,656,820
Vehicles	4,330,795	229,434	14,000	4,546,229
Infrastructure	17,084,212	271,817	-	17,356,029
Total capital assets being depreciated	34,788,330	556,572	14,000	35,330,902
Less accumulated depreciation for:				
Buildings and improvements	5,360,774	194,138	-	5,554,912
Equipment, furniture and fixtures	2,560,894	164,529	-	2,725,423
Vehicles	2,210,986	292,933	(4,123)	2,499,796
Infrastructure	10,291,382	448,876	-	10,740,258
Total accumulated depreciation	20,424,036	1,100,476	(4,123)	21,520,389
Total capital assets being depreciated, net	14,364,294	(543,904)	9,877	13,810,513
Governmental activities capital assets, net	\$16,165,022	(543,904)	9,877	15,611,241

Business-type activities:

Capital assets, being depreciated:				
Buildings and improvements	\$ 993,250	-	-	993,250
Less accumulated depreciation for:				
Buildings and improvements	582,030	17,134	-	599,164
Total capital assets being depreciated, net	411,220	(17,134)	-	394,086
Business-type activities capital assets, net	\$ 411,220	(17,134)	-	394,086

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 61,932
Public safety	158,489
Public works, including depreciation of general infrastructure assets	382,155
Sanitation	394,153
Education	103,747
Total depreciation expense – governmental activities	\$ 1,100,476

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL ASSETS, CONTINUED

Business-type activities:

Ballpark Fund	\$ 17,134
Total depreciation expense - business activities	\$ 17,134

PENSION PLANS

Maine State Retirement System - Consolidated Plan

Description of the Plan - The Town contributes to the Maine State Retirement System Consolidated Plan, a cost sharing multiple-employer retirement system established by the Maine State legislature. The Maine State Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits rests with the State Legislature. The Maine State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained by writing to Maine State Retirement, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800. The Town Council has authorized the Town to rejoin the Maine State Retirement System as a full member effective July 1, 2003.

Funding Policy - All plan members except those included in the Teacher Group are required to contribute 6.5% of their annual covered salary and the Town is required to contribute an actuarially determined rate. The rate for the year ended June 30, 2007 and 2006 was 2.8% of covered payroll for the regular plan and 4% of covered payroll for the special plan which covers police and fire employees. The contribution rates of plan members and the Town are established and may be amended by the Maine State Retirement System Board of Trustees. The Town's contributions to the Maine State Retirement System Consolidated Plan for the year ended June 30, 2007 and 2006 were \$92,233 and \$137,134, respectively.

Maine State Retirement System - School Employees

All School teachers, plus other qualified educators, participate in the Maine State Retirement System's teacher group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State Legislature. All plan members are required to contribute 7.65% of their annual covered salary to the retirement system. The School Department's payroll for employees covered by this group, for the fiscal year ended June 30, 2007, was \$5,474,597. The State of Maine Department of Education is required, by state statute, to contribute the employer contribution, which amounts to 19.14% of compensation. Contributions paid by the State totaled approximately \$1,047,838 for the year ended June 30, 2007. There is no contribution required by the School Department except for federally funded teachers for which the School Department contributes 19.14% of their compensation. This cost is charged to the applicable grant.

Deferred Compensation Plan

The Town offers all its employees a deferred compensation plan created in accordance with Internal Revenue (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets are not included in the Town's financial statements.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

LONG-TERM DEBT

The Town is in compliance with all significant limitations and restrictions contained in the various bond indentures.

The following is a summary of long-term debt transactions of the Town for the year ended June 30, 2007:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 10,565,000	-	1,135,000	9,430,000	1,150,000
Landfill closure	138,000	-	6,000	132,000	6,000
Accrued vacation and sick	701,874	81,432	9,000	774,306	-
Governmental activity long-term liabilities	\$ 11,404,874	81,432	1,150,000	10,336,306	1,156,000

Long-term debt payable at June 30, 2007 is comprised of the following:

	<u>Original amount issued</u>	<u>Interest rate</u>	<u>Final maturity date</u>	<u>Balance end of year</u>
Governmental activities:				
1989 Capital improvement bond	1,840,000	7.45 – 7.75%	2009	\$ 120,000
1998 General obligation refunding bond	5,975,000	4.15 – 5.20%	2018	3,420,000
2003 General obligation refunding bond	7,520,000	2.00 – 4.50%	2023	5,890,000
Total governmental activities				\$ 9,430,000

The annual requirements to amortize all debt outstanding as of June 30, 2007 are as follows. Such amounts exclude overlapping debt requirements but include school debt requirements to be reimbursed by the State of Maine (currently there are none).

The general fund pays all governmental activities long-term debt service requirements.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

LONG-TERM DEBT, CONTINUED

Year ended <u>June 30,</u>	Governmental activities		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2008	\$ 1,150,000	362,594	1,512,594
2009	1,290,000	320,568	1,610,568
2010	1,325,000	272,564	1,597,564
2011	1,330,000	217,293	1,547,293
2012	1,375,000	159,498	1,534,498
2013-2017	1,535,000	442,289	1,977,289
2018-2022	1,015,000	199,627	1,214,627
<u>2023-2024</u>	<u>410,000</u>	<u>18,675</u>	<u>428,675</u>
<u>Totals</u>	<u>\$ 9,430,000</u>	<u>1,993,108</u>	<u>11,423,108</u>

STATUTORY DEBT LIMIT

In accordance with Maine law, no municipality shall incur debt for specified purposes in excess of certain percentages of State valuation of such municipality. At June 30, 2007, the Town was in compliance with these limitations.

OVERLAPPING DEBT

The Town is subject to an annual assessment of its proportional share of York County expenses, including debt repayment, as determined by the percentage of the Town's State valuation to the County's State valuation. At June 30, 2007, the Town's State valuation of \$1,368,350,000 was 4.74% of the County's State valuation of \$28,845,750,000. The Town's share is 4.74% or \$701,520 of York County's \$14,800,000 long-term debt outstanding as of June 30, 2007.

RESERVED/DESIGNATED FUND BALANCES

At June 30, 2007, portions of fund balance were reserved and designated for future periods as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Reserved:		
Education:		
Special education tuition	\$150,000	-
MSMA unemployment fund	10,000	-
System support recertification	10,000	-
Encumbrances	34,490	4,314
School lunch inventory	-	4,213
Town inventory	20,245	-
<u>Totals</u>	<u>\$224,735</u>	<u>8,527</u>

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

RESERVED/DESIGNATED FUND BALANCES, CONTINUED

	<u>General Fund</u>
Unreserved – designated:	
Memorial Park	\$ (13,632)
Milliken Street parking	(26,324)
Stormwater outfall project	(9,556)
Milliken/Walnut flood mitigation	20,036
Public Safety building improvements	43,748
Public Safety radios	34,610
East Grand Avenue - Harrisburg to Walnut	37,775
Smithwheel outlet project	47,611
Sidewalk maintenance and improvements	1,813
Temple Ave./Manor St. improvements	62,000
CDBG grant - local match	50,000
Libby Library capital improvements	(6,669)
Bradbury Street drainage	40,574
Summit Street drainage	24,069
Ross Rd. culvert design	(13,587)
PWD Vac All	134,500
Little River/Jones Creek Watershed	41,990
Fuel tank replacement	(2,287)
Waste water treatment plant capital improvements	325,000
Total	\$ 791,671

NET ASSETS

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and capital leases payable and adding back any unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Town's net assets invested in capital assets, net of related debt was calculated as follows at June 30, 2007:

Capital assets	\$ 37,131,630
Accumulated depreciation	(21,520,389)
Bonds payable	(9,430,000)
Capital leases	-
Add back unspent bond proceeds	-
Total invested in capital assets net of related debt	\$ 6,181,241

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

INTERFUND RECEIVABLES AND PAYABLES

Individual interfund receivables and payables (due from/to other funds) at June 30, 2007, were as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Net Transfers In (Out)</u>
General Fund	\$ -	264,803	368,654
Special revenue funds:			
Rescue call fees fund	122,040	-	(225,000)
Sewer special revenue fund	305,798	-	-
Police grants fund	14,246	-	-
Recreation fund	-	67,922	-
Playground grant fund	-	6,013	-
Gateway grant	-	784	-
Park bench program	1,800	-	-
CDBG Business façade grant	-	13,244	-
School special revenues fund	141,326	-	65,680
Special dog fund	2,539	-	(3,000)
Smithwheel impact fees fund	68,800	-	-
Total special revenue funds	656,549	87,963	(162,320)
Capital project funds:			
Downtown TIF District	-	-	(206,334)
East Grand Ave. improvements	-	-	-
FEMA fund	-	285,372	-
Landfill closure fund	2,526	-	-
Total capital project funds	2,526	285,372	(206,334)
Enterprise funds:			
Ballpark facility	-	20,937	-
Totals	\$ 659,075	659,075	-

The purpose of interfund loans is to charge revenues and expenditures to the appropriate fund when the activity is accounted for through the centralized checking account.

Transfers were budgeted transfers to and from the General Fund and in the case of the \$206,334 transfer to the General Fund from the Downtown TIF to reimburse for debt service paid by the General Fund each year.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the Town either carries commercial insurance or participates in a public entity risk pool. Currently, the Town participates in a public entity risk pool sponsored by the Maine Municipal Association and the School Department participates in a public entity risk pool sponsored by the Maine School Management Association for workers' compensation coverage.

Based on the coverage provided by the pools, as well as coverage provided by commercial insurance purchased, the Town is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2007.

LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

Under existing state law, Maine communities are required to close existing landfills under a state approved plan and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The Town presently has two landfills that have been closed under an approved plan and one additional landfill whose closure was completed during fiscal year 1998. The only additional costs that remain are postclosure care costs on all three of the landfills. The estimated remaining postclosure care costs at June 30, 2007 are \$132,000, which would include two mowings of each site during the year and well monitoring. This amount has been accrued in the entity-wide financial statements and is being amortized over 30 years at \$6,000 per year, as it is not expected that any of these costs will be funded with current financial resources. The actual cost of postclosure care may be higher due to inflation, changes in technology, engineering estimates, or changes in landfill laws and regulations.

SCHOOL ADMINISTRATIVE REORGANIZATION

On June 6, 2007 the Maine House and Senate enacted the two-year state budget including the school administrative reorganization legislation "School Administrative Reorganization" ("SAR") as Public Law 2007, Chapter 240. The law sets forth state policy to ensure that schools are organized as units in order to provide equitable educational opportunities, rigorous academic programs, uniformity in delivering programs, a greater uniformity in tax rates, more efficient and effective use of limited resources, preservation of school choice and maximum opportunity to deliver services in an efficient manner. All school units and municipal school units (collectively School Administrative Units or "SAU") are directed to work with other units to reorganize into larger, more efficient units; or where expansion of the unit would be impractical or inconsistent with state policy, reorganize their own administrative structures to reduce costs. The legislative intent of the law is to create a maximum of 80 school units or the number of units appropriate to achieve administrative efficiencies.

The law requires existing SAUs to file a "Notice of Intent" with the Commissioner by August 31, 2007. The Notice of Intent must elect either to engage in planning and negotiating with other SAUs for the purpose of developing a reorganization plan to form a regional school unit ("RSU"), or the intent to submit an alternative plan to achieve efficiencies. The Notice of Intent is subject to approval by the Commissioner of Education (the "Commissioner"), including approval of the election to file an alternative plan. SAUs are then required to submit a reorganization plan, or, if a SAU is exempted by the members of the general public, develop the reorganization plans. Reorganization plans approved by the Department of Education ("DOE") are submitted to the voters in the proposed RSU.

TOWN OF OLD ORCHARD BEACH, MAINE
Notes to Basic Financial Statements, Continued

SCHOOL ADMINISTRATIVE REORGANIZATION, CONTINUED

If the reorganization plan is approved by the voters, elections will then be held for seats on the RSU school board.

All reorganization plans are subject to voter approval. A SAU whose plan is approved by the Commissioner in December 2007 must hold a referendum on the plan on or before January 15, 2008. A SAU whose plan is received or revised after December 15, 2007 and approved by the Commissioner in December 2007 but has exercised due diligence and acted in good faith in developing a reorganization plan, must hold a referendum of the plan on June 10, 2008. The DOE will fund the cost of a referendum held on or before January 15, 2008.

SAU's, not otherwise exempt, that fail to approve a reorganization plan by November 4, 2008 and to implement that plan by July 1, 2009 will face financial penalties, starting on July 1, 2009. Penalties for SAUs that do not form appropriate RSUs by the beginning of FY 2010 include:

- A 50% reduction in minimum subsidy (the special education minimum);
- A 50% reduction in system administration costs includable for purposes of the funding model;
- Less favorable consideration in approval and funding for school construction;
- Loss of eligibility for transition adjustments; and
- The percentage of state subsidy will not increase to the highest level as called for in the four-year "ramp-up" of state funding for education (i.e., GPA will be consistent with a statewide average contribution of 53.86% instead of the 55% overall state share).

The School Department has submitted a plan to the State which includes consolidating with the Saco School Department which currently provides K-12 education to students from Saco, Arundel and Dayton. Because the Department's plan will be subject to review by the State Department of Education and voter approval the outcome of any reorganization affecting the Department is unknown.

GENERAL FUND

ALL OTHER GOVERNMENTAL FUNDS

NONMAJOR SPECIAL REVENUE FUNDS

NONMAJOR CAPITAL PROJECT FUNDS

PRIVATE-PURPOSE TRUST FUNDS

LONG-TERM DEBT

**CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS**

TABLES