

**TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Mount Desert have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) 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. Financial Reporting Entity

The Town of Mount Desert operates under an elected Board of Selectmen and Town Manager form of government. The Town's major operations include public works, public safety, fire protection, education, and general administrative services.

For financial reporting purposes the Town includes all organizations, functions and activities in its financial statements for which it exercises oversight responsibility. Oversight responsibility as defined by the Governmental Accounting Standards Board (GASB) includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

In June 1999, GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". This statement, known as the "Reporting Model" statement affects the way the Town prepares financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

A. Financial Reporting Entity (continued)

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Government-wide Financial Statements

The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Net Assets

The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net assets of a government will be broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Program Activities

The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for example, through user charges or intergovernmental grants).

Budgetary Comparison Schedules

Demonstrating compliance with the adopted budget is an important component of a government’s accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. The Town and many other governments may revise their original budgets over the course of the year for a variety of reasons. Under GASB No. 34, governments continue to provide budgetary comparison information in their annual reports. GASB Statement No. 34 requires that the Town add the original budget to the current comparison of the final budget and actual results.

B. Fund Accounting

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Funds are classified into the following categories: governmental, proprietary, and fiduciary.

Governmental funds are used to account for all or most of the Town’s general activities, including the collection and disbursement of earmarked monies (special revenue funds) and the servicing of general long-term debt (debt service fund). The General Fund is used to account for all activities of the general government not accounted in some other fund.

Proprietary funds are established to account for activities for which a fee is charged to external or internal users for goods or services. Their reporting focuses on the determination of operating income and changes in net assets. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other agencies primarily within the Town (internal service funds).

Fiduciary funds are used to account for assets held in a trustee or agency capacity for others and therefore cannot be used to support the Town’s own programs.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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. The effect of material interfund activity has been eliminated from these statements. Governmental activities, which normally are supported by taxes and various 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, segment, or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 standard revenues 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 instead 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.

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 reserve funds account for all the Town funds designated for a specified purpose.

The School fund accounts for the activities of the school operations.

The Summit / Ripples / SH Sidewalk Project accounts for capital improvement activities.

The Town reports the following major proprietary funds:

The marina fund accounts for the activities of the harbor operations. The Town operates the harbor collection system and related administrative costs.

Additionally, the Town reports the following fund types:

Permanent funds account for monies held in trust by the Town, the investment earnings from which may only be used for the operation of the program.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting, Measurement Focus, and Financial Statement 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 and additions are recorded when earned and expenses and deductions are recorded when a liability is incurred. Property taxes are recognized as revenues in the year for which they are levied (i.e. intended to finance). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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. The Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the fund liability is incurred. However, debt service expenditures (if any) are recorded only when payment is due.

Property taxes, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and are recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports deferred revenue on its governmental fund financial statements. Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Town before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both the revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and the revenue is recognized.

E. Assets, Liabilities and Equity

1. Deposits and Investments

Governmental Accounting Standards Statement No. 40 requires the disclosure of interest rate risk, credit risk, and custodial risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District invests in short term repurchase obligations and short term investments held by a local banking institution. As a means of limiting its exposure credit risk, the District limits its investments to those authorized by Maine State Statutes, which authorize the District to make deposits/investments in insured commercial banks, insured credit unions, and direct debt securities of the United States Government unless such an investment is expressly prohibited by law. For an investment, custodial risk is the risk that in the event of the failure of the counter party the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As a means of limiting its exposure to custodial risk, the District requires that, at the time funds are invested, collateral for repurchase agreements be held in the District’s name by a custodial agent for the term of the agreement and investments in obligations of the United States or its agencies be held by the Federal Reserve.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Equity (continued)

2. Receivables

Transactions between funds that results in outstanding balances are reported as due to/from other funds.

Property taxes receivable not expected to be collected within 60 days from year's end are classified as deferred revenue. At December 31, \$93,268 had been so classified and reported on the general fund balance sheet. Property taxes were levied on July 27 on property values assessed on April 1. Taxes were due on July 25, with interest at 8% beginning September 1. Tax liens are placed on real property within 12 months following the tax commitment date if taxes remain delinquent. Liens were not placed on the 2006 taxes. The Town has the authority to foreclose on property eighteen months after the filing of the liens if the lien amount and associated costs remain unpaid.

3. Inventories

Inventories are valued at cost. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

4. Capital Assets

Capital assets, which property, plant, equipment, and infrastructure (e.g. roads, bridges, sidewalks, and similar items), 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 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 asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed. Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Infrastructure	10-50
Equipment	3-20

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

5. Compensated Absences

In the fund financial statements, vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave in the government-wide financial statements is recorded as an expense and liability of the fund as the benefits accrue to employees. In accordance with GASB Statement No. 16, no liability is recorded for nonvesting accumulated right to receive sick pay benefits.

6. Long-term Obligations

The government reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

Under State Law, no municipality can incur debt which would cause its total outstanding debt, exclusive of debt incurred for school, storm or sanitary sewer, energy facilities, or municipal airports, to exceed 7.50% of its last full state valuation. A municipality may incur debt for schools not exceeding 10%, storm or sanitary sewers 7.50%, and municipal airports, water districts and special purpose districts 3% of its last full state valuation. In no event can the total debt exceed 15% of its last full valuation. Full state valuation is the valuation of taxable property as certified by the State Tax Assessor, adjusted to 100%.

At December 31, the Town of Mount Desert is in compliance with the above requirements.

7. Fund Equity/Net Assets

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. Designations of fund balance represent tentative management plans that are subject to change. In the government-wide financial statements, restricted net assets are legally restricted by outside parties for a specific purpose.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. At its annual meeting, the Town adopts a budget for the current year for the General Fund. Budgets are adopted on a basis consistent with generally accepted accounting principles. State statutes require balanced budgets, but provide for the use of beginning unreserved fund balance to achieve that end.

Management may transfer appropriations between operating categories as they deem necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at fiscal year end to the extent that they have not been encumbered.

**TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Information (continued)

Reserve funds, once established by the Town Meeting, may be expended with approval of the Board of Selectmen for the purpose for which the reserve was established.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments are carried forward to supplement appropriations of the subsequent year. The General Fund reserve for encumbrances totals \$322,393 at December 31 and is detailed in Exhibit A-2.

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Cash and Equivalents

At year-end, the government's carrying amount of deposits was \$5,331,167 and the bank balance was \$6,790,817. The bank balance is categorized according to credit risk as follows:

- Category 1 – Insured by Federal depository or credit union insurance.
- Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
- Category 3 – Uninsured and uncollateralized.

	<i>Bank Balance</i>	<i>1</i>	<i>Category 2</i>	<i>3</i>
Cash and Equivalents	<u>6,790,817</u>	<u>227,085</u>	<u>5,671,288</u>	<u>892,444</u>

Included in the Town's cash equivalents at December 31, 2007, were short-term investments in repurchase agreements issued by a local banking institution. Under these agreements, the Town will be repaid principal plus interest on a specified date which is subsequent to year end. The agreement is guaranteed/collateralized with securities held by the banking institution which exceed the amount of the agreement. To the extent that the banking institution may default on its commitment to these obligations, the Town is at risk of economic loss. Management considers this exposure to be minimal. At December 31, 2007, the Town held investments in repurchase agreements as follows:

<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Collateral Pledged Underlying Securities</u>	<u>Fair Value</u>
1,180,256	6.00%	1/1/08	FHLMC	1,171,567
270,688	7.00%	1/1/08	FNMA	259,513
966,056	6.00%	1/1/08	FNMA	955,043
472,128	4.00%	1/1/08	FNMA	490,420
839,440	4.00%	1/1/08	FNMA	899,491
289,090	3.50%	1/1/08	FNMA	311,663
1,056,099	5.00%	1/1/08	FNMA	1,117,954
597,427	5.00%	1/1/08	FNMA	866,413
104	5.00%	1/1/08	FHLC	104

**TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

B. Investments

Investments made by the Town are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk into three categories as follows:

- Category 1 - Insured or registered, or securities held by the government or its agent in the government's name.
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

	<i>Category</i>	<i>Fair</i>	
	<i>2</i>	<i>Value</i>	<i>Cost</i>
U.S. Government Obligations	1,371,992	1,371,992	1,347,969
Common Stock	1,208,722	1,208,722	1,037,061
Preferred Stock	250,175	250,175	268,750
Foreign Equities	468,185	468,185	418,350
	<u>3,299,074</u>	3,299,074	3,072,130
Mutual Funds		<u>21,759</u>	<u>21,603</u>
Total Investments		<u>3,320,833</u>	<u>3,093,733</u>

C. Property Taxes

Property taxes were levied for the fiscal year as follows:

Assessed Value	1,981,551,045
Tax Rate (per \$1,000)	<u>5.35</u>
Commitment	<u>10,601,298</u>
Appropriations	10,697,309
Less:	
State Municipal Revenue Sharing	70,594
Homestead Reimbursement	20,584
Other Revenue	<u>4,833</u>
	<u>96,011</u>
Net Assessment for Commitment	<u>10,601,298</u>

Uncollected taxes at December 31 for the current year commitment totaled \$256,861. Unpaid liens at December 31 totaled \$5,071.

**TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

D. Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at December 31, 2007 were as follows:

	<u><i>Interfund Receivable</i></u>	<u><i>Interfund Payable</i></u>
General Fund	1,401	4,611,279
Special Revenue Funds		
Municipal Revenue Sharing	2,281	
Elementary School	1,561,885	
Town Reserves	2,362,095	
Shellfish Fund	8,214	
Capital Project Funds	307,715	
Permanent Funds		100
Fiduciary Funds		1,104
Enterprise Funds	<u>368,892</u>	
Totals	<u><u>4,612,483</u></u>	<u><u>4,612,483</u></u>

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. On the Governmental and Fiduciary Fund financial statements, the payables are classified as Due to Other Funds with offsetting receivables on the Governmental and Proprietary Fund financial statements. Of the balances above, the general fund receivable is expected to be repaid over the next year. The general fund payable is expected to be funded through future appropriations with a majority of the balance being paid through the next year's appropriations and funding.

***TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007***

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

E. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
<i>Governmental Activities;</i>				
<i>Capital assets not being depreciated</i>				
Land	2,597,086			2,597,086
 <i>Capital assets being depreciated</i>				
Buildings	9,813,903	215,009		10,028,912
Equipment	2,288,337	111,489		2,399,826
Infrastructure	20,466,038	1,571,986		22,038,024
<i>Total capital assets being depreciated</i>	32,568,278	1,898,484	-	34,466,762
 <i>Less accumulated depreciation for</i>				
Buildings	3,081,090	242,244		3,323,334
Equipment	1,244,924	123,368		1,368,292
Infrastructure	8,074,587	463,992		8,538,579
<i>Total accumulated depreciation</i>	12,400,601	829,604	-	13,230,205
<i>Net capital assets being depreciated</i>	20,167,677	1,068,880	-	21,236,557
<i>Governmental Activities Capital Assets, net</i>	<u>22,764,763</u>	<u>1,068,880</u>	<u>-</u>	<u>23,833,643</u>

**TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

E. Capital Assets

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
<i>Business-type Activities;</i>				
<i>Capital asset not being depreciated</i>				
Land	103,201			103,201
<i>Capital assets being depreciated</i>				
Marina	725,699	124,197		849,896
<i>Total capital assets being depreciated</i>	<u>725,699</u>	<u>124,197</u>	-	<u>849,896</u>
<i>Less accumulated depreciation for</i>				
Marina	143,826	21,034		164,860
<i>Total accumulated depreciation</i>	<u>143,826</u>	<u>21,034</u>	-	<u>164,860</u>
<i>Net capital assets being depreciated</i>	<u>581,873</u>	<u>103,163</u>	-	<u>685,036</u>
<i>Business-type Activities Capital Assets, net</i>	<u><u>685,074</u></u>	<u><u>103,163</u></u>	-	<u><u>788,237</u></u>

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

Governmental Activities

General Government	6,545
Public Safety	71,819
Public Works	424,189
Recreation	4,500
Wastewater Treatment Plants	<u>322,551</u>
 Total Depreciation Expense - Governmental Activities	<u><u>829,604</u></u>

**TOWN OF MOUNT DESERT
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NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

F. Capital Leases

The Town is obligated under certain leases accounted for as capital leases. The related obligations are accounted for in Statement of Net Assets. The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at December 31:

<i>Year-ended December 31,</i>	<i>Minimum Lease Payment</i>
2008	21,093
2009	20,611
2010	20,102
2011	19,565
2012	<u>11,269</u>
Total Minimum Lease Payments	92,640
Less: Amount Representing Interest	<u>(9,606)</u>
Present Value of Future Minimum Lease Payments	<u><u>83,034</u></u>

G. Long-Term Debt

1. General Obligation Debt

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes are direct obligations and pledge the full faith and credit of the government. Bonds and notes currently outstanding are as follows:

<i>Purpose</i>	<i>Interest Rate</i>	<i>Amount</i>
General Government		
1996 Sewer Bond, maturing 2012	3.13%	367,497
2002 School Construction Bond, maturing 2022	3.05 – 5.25%	4,462,500
2003 Sewer Bond, Maturing 2010	1.00%	642,857
2004 Sewer Bond, Maturing 2024	1.03%	3,740,000
2007 General Obligation Bond, Maturing 2016	6.5%	<u>1,125,000</u>
		<u>10,337,854</u>

The 1996 Sewer Bond is comprised of a capitalization loan and a Department of Environment Protection grant passed through the Maine Municipal Bond Bank. Interest on the loan is at 5.30% with no interest on the grant portion, resulting in a blended rate of 3.13%.

**TOWN OF MOUNT DESERT
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NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

G. Long-Term Debt (continued)

1. General Obligation Debt (continued)

Annual debt service requirements to maturity for general obligation bonds and notes, including interest of \$2,490,327 are as follows:

<i>Year Ended December 31,</i>	<i>General Obligation Debt</i>
2008	1,261,776
2009	1,237,812
2010	1,211,846
2011	973,360
2012	908,484
2013-2017	3,891,417
2018-2022	2,894,709
2023-2024	448,777
Total	<u><u>12,828,181</u></u>

2. Changes in Long-Term Liabilities

During the year ended December 31, the following changes occurred in liabilities reported in the general long-term debt account group:

	<i>General Obligation Debt</i>
Balance - January 1	11,351,306
Additions	
Reductions	<u>(1,013,452)</u>
Balance - December 31	<u>10,337,854</u>

3. Overlapping Debt

The Town's proportionate share of debt of all local government units which provide services within the Town's boundaries, and which must be borne by properties in the Town is summarized as follows:

<i>Units</i>	<i>Net debt outstanding December 31, 2007</i>	<i>Percentage applicable to the Town</i>	<i>Town's proportionate share of debt</i>
MDICSD	9,261,558	34.69%	3,212,834
Hancock County	3,000,000	14.55%	436,500
Totals	<u><u>12,261,558</u></u>		<u><u>3,649,334</u></u>

The Town's proportionate share of the above debt is paid through annual assessments by the respective units.

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NOTE 3 - DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

H. Reserve Funds

The Town has authorized various reserve funds primarily for future acquisitions. At December 31, these funds total \$5,657,270 and are detailed in Exhibit B-3.

NOTE 4 - OTHER INFORMATION

A. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the government expects such amount, if any to be immaterial.

There are various claims and suits filed against the Town which arise in the normal course of activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the Town.

B. Permanent Funds and Fiduciary Funds

The principal amount of all Non-expendable Permanent and Fiduciary Funds is restricted either by law or by terms of individual bequests in that only income earned may be expended. The government's Non-expendable and Expendable Permanent and Fiduciary funds at December 31 are detailed as follows:

<i>Purpose</i>	<i>Principal</i>	<i>Income</i>	<i>Total</i>
Cemetery Care	3,972		3,972
Scholarships	<u>16,028</u>	<u>3,916</u>	<u>19,944</u>
Total	<u>20,000</u>	<u>3,916</u>	<u>23,916</u>

C. Pension Plans

Plan Description

The Town's employees are covered under the ICMA or Maine State Retirement System.

The ICMA is a qualified pension plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees, permits them 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.

The plan is administered by an independent company, and the Town remits all compensation deferred to this administrator for investment as requested by the participant employees. All assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries.

The Town participates in the Maine State Retirement System Consolidated Plan for Participating Districts (Consolidated Plan), and the Maine State Retirement System's Teacher Plan, both which are cost sharing multiple-employer defined benefit pension plans.

**TOWN OF MOUNT DESERT
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NOTE 4 - OTHER INFORMATION (Continued)

C. Pension Plans (Continued)

Plan Description

The Maine State Retirement System (System) is a body corporate and politic and an incorporated public instrumentality of the State. Under Title 5 M.R.S.A. the System is the administrator of retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The System issues a financial report that includes the financial statements and required supplementary information for the plans. That report may be obtained by writing to Maine State Retirement System, Two Central Plaza, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

Funding Policy

Under the ICMA plan, covered employees contribute 6.5% of their salary to the plan with the Town contributing 6.2%. The Town's cost for the fiscal year ended December 31, 2007 amounted to \$20,103.

Consolidated Plan members are required to contribute 6.5% of their annual covered salary and the Town is required to contribute an actuarially determined rate. The current rate is 2.8% of annual covered payroll. The contribution requirements of plan members and the Town are established by the Maine State Retirement System Board of Trustees. The Town's contributions to the Consolidated Plan for the years ended December 31, 2005, 2006 and 2007, were \$14,631, \$15,878 and \$17,166 respectively, which were paid in full each year.

Teachers and other qualified employees are required to contribute 7.65% of their compensation to the Teacher Plan. The State Department of Education is required to contribute the employer contribution, which amounted to 19.14% of the annual covered salary for fiscal year 2007. The State's cost for 2007 was approximately \$212,187. There is no contribution required by the Town except for federally funded teachers for which the Town contributed 19.14% of their compensation. This cost amounted to \$6,141 for 2007 and is chargeable to the applicable grants.

D. Risk Management

The town is exposed to various risks of loss related to torts; theft of, damage and destruction of assets; errors and omissions; and natural disasters for which the town participated in public entity risk pools sponsored by the Maine Municipal Association (MMA) for workers' compensation, and property damage.

Workers' Compensation - MMA's workers' compensation self-insured trust retains \$400,000 of risk and purchases excess insurance for claims which exceed \$400,000 up to a maximum coverage of \$2,000,000. All participants are jointly and severally liable, therefore, if collected claims exceed collective contributions the trust has a right to assess additional contributions to its members.

Property and Casualty - MMA's Self-Funded Risk Management Pool (Pool) was created to establish and administer a risk management service and to bring about prevention or lessening of casualty and property losses to member towns. The town pays an annual premium to the Pool for various coverages and services. The Pool retains loss of property risk which exceeds \$1,000 up to a maximum coverage of \$100,000 and purchases an additional \$255,000,000 per occurrence. The Pool retains the first \$100,000 liability coverage per occurrence and purchases excess insurance for claims which exceed \$100,000 up to a maximum of \$1,000,000 per occurrence, \$3,000,000 aggregate coverage, and crime coverage which exceeds \$1,000 up to a maximum coverage of \$250,000.

TOWN OF MOUNT DESERT NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2007

NOTE 4 - OTHER INFORMATION (Continued)

D. Risk Management (Continued)

Based on the coverage provided by the pools described above, the town is not aware of any material actual or potential claim liabilities, which should be recorded at December 31, 2007.

NOTE 5 – SCHOOL DEPARTMENT OPERATIONS

The financial operations of the Mount Desert School Department are included in the accompanying financial statements. Since the School Department budgets and presents its financial statements on a July 1 to June 30 fiscal year, as opposed to the Town's January 1 to December 31 fiscal year, detailed budget to actual comparison results are not shown. In addition, since it has not been the practice of the School Department to prepare financial statements on a fund accounting basis at December 31, the operating statements shown here do not separate all funds of the School Department. The financial statements of the Mount Desert School Department are audited on a June 30 fiscal year basis.