

TOWN OF MOUNT DESERT

***FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES WITH
INDEPENDENT AUDITOR'S REPORT***

FOR THE YEAR ENDED DECEMBER 31, 2003

**TOWN OF MOUNT DESERT
FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2003**

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INDEPENDENT AUDITOR'S REPORT

January 15, 2004

Members of the Board of Selectmen
Town of Mount Desert
Mount Desert, Maine 04662

We have audited the accompanying general-purpose financial statements of the Town of Mount Desert, Maine, as of and for the fiscal year ended December 31, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Town of Mount Desert's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

As described in Note 1D, the general purpose financial statements referred to above do not include the General Fixed Assets Account Group, which should be included to conform with generally accepted accounting principles. The amount which should be recorded in the General Fixed Assets Account Group is not known.

In our opinion, except for the effect on the general-purpose financial statements of the omission described in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Town of Mount Desert, Maine, at December 31, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements of the Town of Mount Desert, Maine, taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the Town of Mount Desert, Maine. All such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully Submitted,

James W. Wadman, CPA

James W. Wadman, CPA

GENERAL PURPOSE FINANCIAL STATEMENTS

The general purpose financial statements provide an overview of the financial position of all fund types and account groups and the operating results by fund types. They also serve as an introduction to the more detailed schedules that follow. The notes to the general purpose financial statements are an integral part of the general purpose financial statements.

TOWN OF MOUNT DESERT
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2003

<i>Assets</i>	<i>Governmental Fund Types</i>		
	<i>General</i>	<i>Special Revenue</i>	<i>Capital Projects</i>
Cash and Equivalents	2,472,622		983,610
Investments		2,524,951	
Receivables			
Taxes	124,556		
Tax Liens	7,743		
Other	1,227		
Due from Other Governments	5,210		
Due from Other Funds	68,225	2,050,963	170
Amount to be Provided for Retirement of General Long-Term Debt			
Total Assets	2,679,583	4,575,914	983,780
 <i>Liabilities and Fund Balances</i>			
Liabilities			
Due to Other Funds	2,051,133		68,076
Due to Other Governments	261		
Deferred Property Taxes	110,766		
Deferred Donations	271		
Prepaid Property Taxes	425		
Retainage Payable			8,112
Accounts Payable	111,092		39,391
Long Term Debt Payable			
Total Liabilities	2,273,948		115,579
Fund Balances			
Reserved for Encumbrances	305,635		
Reserved for Endowments			
Reserved for Construction			4,250
Unreserved			
Designated for Subsequent Years' Expenditures		2,936,437	863,951
Undesignated	100,000	1,639,477	
Total Fund Balances	405,635	4,575,914	868,201
Total Liabilities and Fund Balances	2,679,583	4,575,914	983,780

The notes to financial statements are an integral part of this statement.

Fiduciary Fund Type Trust	Account Group General Long-Term Debt	Totals (Memorandum Only)	
		2003	2002
		3,456,232	6,954,051
26,183		2,551,134	2,122,601
		124,556	105,993
		7,743	3,762
		1,227	735
		5,210	
		2,119,358	2,384,301
	6,986,548	6,986,548	7,596,626
26,183	6,986,548	15,252,008	19,168,069
149		2,119,358	2,384,301
		261	56
		110,766	75,000
		271	
		425	8,448
		8,112	8,112
111		150,594	177,671
	6,986,548	6,986,548	7,596,626
260	6,986,548	9,376,335	10,250,214
		305,635	225,290
19,948		19,948	20,158
		4,250	
		3,800,388	7,018,309
5,975		1,745,452	1,654,098
25,923		5,875,673	8,917,855
26,183	6,986,548	15,252,008	19,168,069

The notes to financial statements are an integral part of this statement.

TOWN OF MOUNT DESERT

Exhibit B

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED DECEMBER 31, 2003

	General	Special Revenue	Capital Projects	Totals (Memorandum Only) 2003	2002
Revenues					
Taxes	8,825,763			8,825,763	8,117,468
Intergovernmental Revenues	131,043	377,413		508,456	524,476
Charges for Services	575,304			575,304	543,794
Miscellaneous	200,060			200,060	255,918
Increase(Decrease) in Fair Value		147,602		147,602	(264,725)
Local Sources		10,562	82,079	92,641	114,386
Total Revenues	9,732,170	535,577	82,079	10,349,826	9,291,317
Expenditures					
General Government	527,519			527,519	533,955
Public Safety	579,800			579,800	748,105
Public Works Department	1,042,299			1,042,299	1,021,353
Civil Emergency, Health, and Public Assistance					1,281
Compliance/Mandates	335,988			335,988	
Other Services	106,879			106,879	100,379
Recreation	60,411			60,411	60,026
Wastewater Capital and Debt	532,467			532,467	
Wastewater Treatment Plants	557,425			557,425	528,414
Marine Department	171,150			171,150	178,280
Debt Service	11,029			11,029	490,422
Personnel	660,601			660,601	485,626
Assessments	2,334,294			2,334,294	2,227,517
Capital Improvements		340,114	3,753,896	4,094,010	2,047,142
Education		2,674,211		2,674,211	2,173,457
Other		500		500	522
Total Expenditures	6,919,862	3,014,825	3,753,896	13,688,583	10,596,479
Excess of Revenues Over (Under) Expenditures	2,812,308	(2,479,248)	(3,671,817)	(3,338,757)	(1,305,162)
Other Financing Sources (Uses)					
Note Proceeds			297,303	297,303	
Bond Proceeds					5,950,000
Transfers from Other Funds	481,391	3,213,354		3,694,745	3,509,375
Transfers to Other Funds	(3,213,354)	(481,391)		(3,694,745)	(3,509,375)
Total Other Financing Sources (Uses)	(2,731,963)	2,731,963	297,303	297,303	5,950,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	80,345	252,715	(3,374,514)	(3,041,454)	4,644,838
Fund Balance - January 1	325,290	4,323,199	4,242,715	8,891,204	4,246,366
Fund Balance - December 31	405,635	4,575,914	868,201	5,849,750	8,891,204

The notes to financial statements are an integral part of this statement.

TOWN OF MOUNT DESERT
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit C

	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
Revenues			
Taxes	8,737,276	8,825,763	88,487
Intergovernmental Revenues	126,936	131,043	4,107
Charges for Services	502,550	575,304	72,754
Miscellaneous	153,319	200,060	46,741
Total Revenues	9,520,081	9,732,170	212,089
Expenditures			
General Government	560,548	534,984	25,564
Public Safety	634,895	572,711	62,184
Public Works Department	1,076,585	1,053,402	23,183
Compliance/Mandates	353,045	352,021	1,024
Other Services	106,879	106,879	
Recreation	62,686	60,411	2,275
Wastewater Capital and Debt	626,028	623,362	2,666
Wastewater Treatment	508,558	480,446	28,112
Marine Department	238,696	210,067	28,629
Debt Service	36,500	11,029	25,471
Personnel	601,776	660,601	(58,825)
Assessments	2,365,286	2,334,294	30,992
Total Expenditures	7,171,482	7,000,207	171,275
Excess of Revenues Over (Under) Expenditures	2,348,599	2,731,963	383,364
Other Financing Sources (Uses)			
Transfers from Other Funds	481,391	481,391	
Transfer to Credit Reserve		(383,364)	(383,364)
Transfers to Other Funds	(2,829,990)	(2,829,990)	
Total Other Financing Sources (Uses)	(2,348,599)	(2,731,963)	(383,364)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses			
Fund Balance - January 1 (Budgetary Basis)		100,000	
Fund Balance - December 31 (Budgetary Basis)		100,000	
Adjustments to Conform with GAAP: Elimination of Encumbrances		305,635	
Fund Balance - December 31		405,635	

The notes to financial statements are an integral part of this statement.

TOWN OF MOUNT DESERT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit D

	<i>Fiduciary Fund Type Nonexpendable Trust Funds</i>
Revenues	
Interest and Dividend Income	742
Increase/(Decrease) in Fair Value	(210)
	<hr/>
Total Revenues	532
	<hr/>
Expenditures	
Cemetery	160
Scholarships	1,100
	<hr/>
Total Expenditures	1,260
	<hr/>
Excess of Revenues Over (Under) Expenditures	(728)
Fund Balance - January 1	26,651
	<hr/>
Fund Balance - December 31	25,923
	<hr/>

The notes to financial statements are an integral part of this statement.

TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

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.

B. Basis of Presentation – 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 are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

Governmental funds are those through which most governmental functions of the Town are financed. The acquisition, use and balances of the Town's expendable financial resources, and the related liabilities are accounted for through governmental funds. The following are the Town's Governmental Fund Types:

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 *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

Capital Project funds are used to account for transactions related to resources obtained and used for the acquisition, construction, or improvement of capital facilities.

**TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation – Fund Accounting (Continued)

Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the Town under the terms of a formal trust agreement. Agency funds are used to account for the assets held as an agent by the Town for others.

Account Groups. The general fixed assets account group is used to account for fixed assets not accounted for in proprietary or trust funds. The general long-term debt account group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

C. Measurements Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financial sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All Non-expendable Trust Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet.

Agency Funds are purely custodial (assets equal liabilities) and, thus, do not involve measurement of results of operations.

The accounts of the Governmental, Expendable Trust, and Agency Funds are maintained and reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Application of the "susceptibility to accrual" criteria requires judgement, consideration of the materiality of the item in question, and due regard for the practicality of accrual, as well as consistency in application. Those revenues susceptible to accrual are taxes, intergovernmental revenues, and interest revenue. Expenditures are recorded when the related fund liability is incurred. Accumulated unpaid vacation and sick pay, and principal and interest on general long-term debt are recorded as fund liabilities when due. Non-expendable Trust Funds are accounted for using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Town to invest excess funds in accounts or deposits of financial institutions provided the institutions are insured by Federal depository insurance or credit union insurance, U.S. Government obligations, and in money market mutual funds, provided that the fund is limited to investing in obligations of the U.S. Government.

The Town is further authorized to contract with a financial institution with trust powers and authorized to do business in the State for the management and investment of its reserve and trust funds.

Investments are stated at fair value.

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, \$110,766 had been so classified and reported on the general fund balance sheet. Property taxes were levied on June 18 on property values assessed on April 1. Taxes were due on August 31, with interest at 7.00% beginning September 1. Tax liens are placed on real property within 12 months following the tax commitment date if taxes remain delinquent. Liens were placed on the 2002 levy on June 23, 2003. 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

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

4. Fixed Assets

Fixed Assets used in governmental fund types of the government are required to be recorded in the general fixed assets account group at cost or estimated historical cost if purchased or

**TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

4. Fixed Assets (Continued)

constructed. Donated fixed assets should be recorded at their estimated fair value at the date of the donation. The Town does not maintain a record of its general fixed assets and, accordingly, a statement of general fixed assets, required by generally accepted accounting principles, is not included in these financial statements.

5. Compensated Absences

It is the government's policy to permit town employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. Vacation pay 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. Amounts not expected to be liquidated with the expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. The Town has no material accumulated compensated absences.

Teachers accumulate sick leave and vacation in varying amounts based on days scheduled to work during the year. Vacation leave is not accrued beyond one year. Accumulated sick leave is not paid upon termination. Any accumulated vacation and sick leave would be immaterial to the financial statements.

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

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Equity (Continued)

8. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, or results of operations in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

9. Use of Estimates

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

NOTE 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.

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 \$305,635 at December 31 and is detailed in Exhibit A-2.

TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

B. Budget/GAAP Reconciliation

The Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (Exhibit C) reconciles financial data on a budgetary basis for the government's general fund to the data shown on the Combined Statement of Revenues, Expenditures and Changes in Fund Balance (Exhibit B). The major difference is that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP).

C. Budget Transfers

The following budget transfers were made in the general fund during the year for pay raises authorized:

<i>Appropriation</i>	<i>Adopted Budget</i>	<i>Transfers To/(From)</i>	<i>Amended Budget</i>
Administration	221,903	1,802	223,705
Assessor	88,266	447	88,713
CEO/Assessor Agent	60,131	946	61,077
Buildings and Grounds	68,613	520	69,133
Town Clerk/Registrar	46,070	752	46,822
Police	282,879	6,137	289,016
Fire Department	188,095	1,311	189,406
Communications	153,456	3,017	156,473
Highways, Streets & Roads	730,843	1,660	732,503
NEH Marina	205,453	358	205,811
Salary Adjustments	21,972	(16,950)	5,022
Unchanged Items	<u>7,933,791</u>	<u> </u>	<u>7,933,791</u>
Total Budget	<u>10,001,472</u>	<u>-0-</u>	<u>10,001,472</u>

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 \$3,456,232 and the bank balance was \$3,583,984. 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.

TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

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

A. Cash and Equivalents (Continued)

	<i>Bank Balance</i>	<i>Category</i>		
		<i>1</i>	<i>2</i>	<i>3</i>
Cash and Equivalents	<u>3,583,984</u>	<u>101,647</u>	<u>3,482,337</u>	<u>-0-</u>

Included in the Town's cash equivalents at December 31, 2003, 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, 2003, the Town held investments in repurchase agreements as follows:

<u>Collateral Pledged</u>				
<u>Amount</u>	<u>Underlying Interest Rate</u>	<u>Maturity Date</u>	<u>Securities</u>	<u>Fair Value</u>
\$962,667	4.125%	1/1/04	FHLB	\$1,027,100
\$1,940,612	4.125%	1/1/04	FHLB	\$2,054,200
\$54,470	4.70%	1/2/04	FNMA	\$54,470
\$496,965	2.90%	1/2/04	FRD MAC	\$496,965

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.

TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

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

B. Investments (Continued)

	<i>Category 2</i>	<i>Fair Value</i>
U.S. Government Obligations	977,946	977,946
Corporate Bonds/Notes	54,543	54,543
Common Stock	1,387,050	1,387,050
Foreign Equities	<u>109,440</u>	<u>109,440</u>
	<u>2,528,979</u>	2,528,979
Unclassified		<u>22,155</u>
		<u>2,551,134</u>

C. Property Taxes

Property taxes were levied for the fiscal year as follows:

Assessed Value	680,680,693
Tax Rate (per \$1,000)	<u>12.15</u>
Commitment	<u>8,270,277</u>
Appropriations	8,380,264
Less: State Municipal Revenue Sharing	81,391
Homestead Exemption	<u>28,596</u>
Net Assessment for Commitment	<u>8,270,277</u>

Uncollected taxes at December 31 for the current year commitment totaled \$123,438. Unpaid liens at December 31 totaled \$7,743.

TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

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, 2003 were as follows:

	<i>Interfund Receivable</i>	<i>Interfund Payable</i>
General Fund	68,225	2,051,133
Special Revenue Funds		
Municipal Revenue Sharing	8,042	
School Department	1,627,049	
Reserve Funds	404,807	
Shellfish Fund	4,386	
Comprehensive Plan	6,679	
Capital Projects	170	68,076
Trust Funds	<u> </u>	<u>149</u>
Totals	<u>2,119,358</u>	<u>2,119,358</u>

E. 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		
1987 Sewer Bond, maturing 2007	7.38 - 8.60%	300,000
1992 Sewer Bond, maturing 2005	5.90 - 5.975%	339,884
1996 Sewer Bond, maturing 2012	3.13%	694,164
2002 School Construction Bond, maturing 2022	3.05 - 5.25%	<u>5,652,500</u>
		<u>6,986,548</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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

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

E. Long-Term Debt (Continued)

1. General Obligation Debt (Continued)

Annual debt service requirements to maturity for general obligation bonds and notes, including interest of \$2,923,368 are as follows:

<i>December 31,</i>	<i>General Long-Term Debt Account Group</i>
2004	934,927
2005	917,488
2006	714,221
2007	695,804
2008	601,570
Thereafter	<u>6,045,906</u>
Total	<u>9,909,916</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	7,596,626
Additions	
Reductions	<u>(610,078)</u>
Balance - December 31	<u>6,986,548</u>

3. Debt Authorization – Unissued Bonds

Article 4 of the 2002 Town Meeting authorized the issuance of bonds or notes in an amount not to exceed \$4,400,000 to finance the design and construction of improvements to the Town's wastewater treatment and collection system. Article 2 of the 12/8/03 Special Town Meeting authorized the issuance of bonds or notes not to exceed \$1,500,000 to increase the wastewater treatment and collection system improvements already authorized for a total of \$5,900,000. At December 31, 2003, both of these authorizations remain unissued.

F. Reserve Funds

The Town has authorized various reserve funds primarily for future acquisitions. At December 31, these funds total \$2,929,758 and are detailed in Exhibit B-3.

TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

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. Trust Funds

The principal amount of all Non-expendable Trust 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 Trust Funds at December 31 are detailed as follows:

<i>Purpose</i>	<i>Principal</i>	<i>Income</i>	<i>Total</i>
Cemetery Care	3,961		3,961
Scholarships	<u>15,987</u>	<u>5,975</u>	<u>21,962</u>
Total	<u>19,948</u>	<u>5,975</u>	<u>25,923</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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 - OTHER INFORMATION (Continued)

C. Pension Plans (Continued)

Plan Description (Continued)

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, 2003 amounted to \$34,549.

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, 2001, 2002 and 2003, were \$1,130, \$749 and \$5,270 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 19.17% of the annual covered salary for fiscal year 2003. The State's cost for 2003 was approximately \$174,266. There is no contribution required by the Town except for federally funded teachers for which the Town contributed 19.17% of their compensation. This cost amounted to \$4,062 for 2003 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.

TOWN OF MOUNT DESERT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 - OTHER INFORMATION (Continued)

D. Risk Management (Continued)

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.

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, 2003.

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.

NOTE 6 - DEFICIT FUND BALANCE

The Sewer Treatment capital project fund has a deficit fund balance of \$68,076 at December 31, 2003. This deficit arises due to the application of generally accepted accounting principles to this fund. Bonds authorized and unissued in the amount of \$5,900,000 at December 31, 2003 to fund this project are not recognized in the financial statements until issued.

GENERAL FUND

The General Fund is the general operating fund. All revenues that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The fund pays general operating expenditures, fixed charges and capital improvement costs which are not paid through other funds.

TOWN OF MOUNT DESERT
GENERAL FUND
STATEMENT OF ESTIMATED AND ACTUAL REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit A-1
Page 1 of 2

	<i>Estimated</i>	<i>Actual</i>	<i>Over (Under) Budget</i>
Taxes			
Property	8,270,276	8,234,510	(35,766)
Motor Vehicle Excise	425,000	495,039	70,039
Boat Excise	31,000	33,102	2,102
Supplemental		50,867	50,867
Interest on Taxes	11,000	12,245	1,245
	<u>8,737,276</u>	<u>8,825,763</u>	<u>88,487</u>
Intergovernmental Revenues			
Acadia National Park	18,000	22,429	4,429
Otter Creek Treatment Plant	30,000	31,926	1,926
Road Assistance	43,140	43,140	
Tree Growth	4,000	4,540	540
General Assistance	2,000	253	(1,747)
Homestead Reimbursement	28,596	27,731	(865)
Snowmobile Refund	400	137	(263)
Veterans Exemption	800	887	87
	<u>126,936</u>	<u>131,043</u>	<u>4,107</u>
Charges for Services			
Marine Department			
Marina	375,000	430,491	55,491
Moorings	35,000	36,295	1,295
Concessions	3,000	2,906	(94)
Police Department	8,000	11,607	3,607
Highways	2,500	3,113	613
Sewers	250	300	50
Solid Waste	1,800	969	(831)
Paid Parking	40,000	47,659	7,659
Planning and Zoning	22,500	23,775	1,275
Town Clerk	4,500	7,647	3,147
Tax Collection	10,000	10,542	542
	<u>502,550</u>	<u>575,304</u>	<u>72,754</u>

TOWN OF MOUNT DESERT
GENERAL FUND
STATEMENT OF ESTIMATED AND ACTUAL REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit A-1
Page 2 of 2

	<i>Estimated</i>	<i>Actual</i>	<i>Over (Under) Budget</i>
Miscellaneous			
Surplus Property and Equipment	5,000	5,571	571
Solid Waste Performance Credit	28,519	30,046	1,527
Interest on Investments	105,000	144,008	39,008
Insurance Dividends/Refunds	1,000	8,858	7,858
Maple Lane Apartments	3,000	2,818	(182)
Telephone Booths	200	166	(34)
Donations	2,000	1,050	(950)
Adelphia Rental	3,600	3,600	
Other	5,000	3,943	(1,057)
	153,319	200,060	46,741
Transfers and Other Sources			
Credit Reserve	400,000	400,000	
Municipal Revenue Sharing	81,391	81,391	
	481,391	481,391	
Total Revenues and Transfers	10,001,472	10,213,561	212,089

TOWN OF MOUNT DESERT

GENERAL FUND

STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES
FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit A-2

Page 1 of 2

	<i>Encumbered from 2002</i>	<i>Appropriation</i>	<i>Expenditures</i>	<i>Encumbered to 2004</i>	<i>(Over) Under Budget</i>
General Government					
Elected Officials		13,743	18,173		(4,430)
Administration		223,705	213,002		10,703
Assessor/CEO	32,200	88,713	69,469	47,515	3,929
Tax Collector/Treasurer		57,355	49,138		8,217
CEO/Assessor Assistant	8,055	61,077	51,765	11,055	6,312
Buildings and Grounds	9,850	69,133	78,848		135
Town Clerk/Registrar	1,000	46,822	47,124		698
	51,105	560,548	527,519	58,570	25,564
Public Safety					
Police Department	21,425	289,016	252,576	16,195	41,670
Fire Department	7,884	189,406	186,493	3,200	7,597
Communications	7,000	156,473	140,731	9,825	12,917
	36,309	634,895	579,800	29,220	62,184
Public Works Department					
Highways, Streets and Roads	5,093	732,503	718,739	18,720	137
Waste Collection and Disposal	2,524	319,005	306,256		15,273
Parks and Cemeteries		25,077	17,304		7,773
	7,617	1,076,585	1,042,299	18,720	23,183
Compliance/Mandates	8,492	353,045	335,988	24,525	1,024
Other Services		106,879	106,879		
Recreation		62,686	60,411		2,275
Wastewater Capital and Debt	37,405	626,028	532,467	128,300	2,666
Wastewater Treatment					
Sewer Treatment	12,511	329,921	327,522		14,910
Northeast Harbor Plant	16,766	73,652	99,337		(8,919)
Somesville Plant	24,865	37,600	59,239		3,226
Seal Harbor Plant	11,506	40,685	40,897		11,294
Otter Creek Plant	11,331	26,700	30,430		7,601
	76,979	508,558	557,425		28,112
Marine Department					
Northeast Harbor	4,383	205,811	165,161	21,300	23,733
Seal Harbor	3,000	16,285	4,906	10,000	4,379
Somesville Harbor		500	50		450
Bartlett Narrows		16,100	1,033	15,000	67
	7,383	238,696	171,150	46,300	28,629

TOWN OF MOUNT DESERT

GENERAL FUND

STATEMENT OF APPROPRIATIONS, EXPENDITURES AND ENCUMBRANCES

FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit A-2

Page 2 of 2

	<i>Encumbered from 2002</i>	<i>Appropriation</i>	<i>Expenditures</i>	<i>Encumbered to 2004</i>	<i>(Over) Under Budget</i>
Debt Service					
Interest on Temporary Notes		35,000	10,071		24,929
Legal Expense		1,500	958		542
		36,500	11,029		25,471
Personnel					
Unemployment Compensation		6,000	3,079		2,921
Maine State Retirement		1,500	5,270		(3,770)
Actuary Administration		1,000	88,712		(87,712)
ICMA Retirement		37,400	34,549		2,851
Section 125 Admin Expenses		1,920	560		1,360
Workers Compensation		67,896	64,517		3,379
Social Security/Medicare		105,788	106,399		(611)
Medical Insurance		370,900	351,868		19,032
Life/Accident Insurance		350	476		(126)
Recruit Expenses		4,000	5,171		(1,171)
Salary Adjustments		5,022			5,022
		601,776	660,601		(58,825)
Assessments					
MDI High School		1,778,760	1,778,760		
County Tax		548,546	548,546		
Overlay		37,980	6,988		30,992
		2,365,286	2,334,294		30,992
Operating Transfers Out					
Elementary School		2,470,490	2,470,490		
Reserve Funds					
Town Roads Reserve		25,000	25,000		
Public Works Equipment Reserve		100,500	100,500		
Refuse Equipment Reserve		15,000	15,000		
Wastewater Reserve		25,000	25,000		
Administrative Office Equipment Reserve		5,500	5,500		
Fire Equipment Reserve		65,000	65,000		
Town Office Building Reserve		4,000	4,000		
Seal Harbor Bait House Reserve		500	500		
Northeast Harbor Marina Reserve		57,000	57,000		
Seal Harbor Dock Reserve		5,000	5,000		
Seal Harbor Marina Road Reserve		50,000	50,000		
Bartlett Narrows Deck Reserve		2,000	2,000		
Communications Reserve		5,000	5,000		
		2,829,990	2,829,990		
Totals	225,290	10,001,472	9,749,852	305,635	171,275

TOWN OF MOUNT DESERT**Exhibit A-3****GENERAL FUND****STATEMENT OF CHANGES IN UNRESERVED - UNDESIGNATED FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2003**

Unreserved Fund Balance, January 1	100,000	
Unreserved Fund Balance, December 31	<u>100,000</u>	
Increase		<u><u>0</u></u>

Analysis of Change

Additions		
Budget Summary		
Revenue Surplus - Exhibit A-1	212,089	
Unexpended Balance of		
Appropriations - Exhibit A-2	<u>171,275</u>	
Budget Surplus		<u>383,364</u>
Deductions		
Fund Balance Transferred to		
Credit Reserve per Vote		<u>(383,364)</u>
Increase		<u><u>0</u></u>

SPECIAL REVENUE FUNDS

Special Revenue funds account for specific resources, the expenditure of which is restricted by law or administrative action for particular purposes.

**TOWN OF MOUNT DESERT
ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2003**

Exhibit B-1

<i>Assets</i>	<i>Municipal Revenue Sharing</i>	<i>Elementary School Department</i>	<i>Town Reserve Funds</i>	<i>Comprehensive Planning Grant</i>	<i>Shellfish Fund</i>	<i>Total</i>
Investments			2,524,951			2,524,951
Due from Other Funds	8,042	1,627,049	404,807	6,679	4,386	2,050,963
Total Assets	8,042	1,627,049	2,929,758	6,679	4,386	4,575,914

Fund Balances

Fund Balances						
Unreserved						
Designated for Subsequent Years' Expenditures			2,929,758	6,679		2,936,437
Undesignated	8,042	1,627,049			4,386	1,639,477
Total Fund Balance	8,042	1,627,049	2,929,758	6,679	4,386	4,575,914

**TOWN OF MOUNT DESERT
ALL SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2003**

Exhibit B-2

	Municipal Revenue Sharing	Elementary School Department	Town Reserve Funds	Comprehensive Planning Grant	Shellfish Fund	Total
Revenues						
Intergovernmental Revenues	86,627	109,841		6,679		203,147
Local Sources		5,170	4,312		1,080	10,562
Fair Value Increase(Decrease)			147,602			147,602
Total Revenues	86,627	115,011	151,914	6,679	1,080	361,311
Expenditures						
Education		2,499,945				2,499,945
Capital Outlay			340,114			340,114
Other			500			500
Total Expenditures		2,499,945	340,614			2,840,559
Excess of Revenues Over (Under) Expenditures	86,627	(2,384,934)	(188,700)	6,679	1,080	(2,479,248)
Other Financing Sources (Uses)						
Transfers from Other Funds		2,470,490	742,864			3,213,354
Transfers to Other Funds	(81,391)		(400,000)			(481,391)
Total Other Financing Sources (Uses)	(81,391)	2,470,490	342,864			2,731,963
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	5,236	85,556	154,164	6,679	1,080	252,715
Fund Balance - January 1	2,806	1,541,493	2,775,594		3,306	4,323,199
Fund Balance - December 31	8,042	1,627,049	2,929,758	6,679	4,386	4,575,914

**TOWN OF MOUNT DESERT
RESERVE FUNDS
STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2003**

Exhibit B-3

	Balance January 1	Transfers In	Receipts	Expenditures/ Transfers	Balance December 31
Capital Improvement Funds					
Town Roads	34,939	25,000			59,939
State Aid Roads	101,956				101,956
Wastewater	89,412	25,000			114,412
Northeast Harbor Marina	239,004	57,000		152,010	143,994
Seal Harbor Bait House	2,124	500		1,509	1,115
Town Office Building	8,055	4,000			12,055
Land Acquisition	71,502		3,060		74,562
Credit Reserve	1,262,348	383,364		400,010	1,245,702
Bartlett Narrows Dock	8,000	2,000			10,000
Summit Sewer	191,255			4,710	186,545
Seal Harbor Dock	30,000	5,000			35,000
Seal Harbor Marina Road		50,000			50,000
Capital Equipment Funds					
Public Works	144,598	100,500		84,722	160,376
Fire	117,653	65,000			182,653
Police	8,500			8,500	
Refuse	105,726	15,000		88,653	32,073
Assessor's Car	1,004				1,004
Office Equipment	3,831	5,500			9,331
Communications Radio	4,324	5,000			9,324
Others					
Dog Welfare	5,100		1,252	500	5,852
Sub-Total	2,429,331	742,864	4,312	740,614	2,435,893
General (Fair Value Changes)	346,263		147,602		493,865
Total	2,775,594	742,864	151,914	740,614	2,929,758

CAPITAL PROJECT FUNDS

Capital Project funds account for the acquisition of fixed assets of construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

**TOWN OF MOUNT DESERT
ALL CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2003**

Exhibit C-1

<i>Assets</i>	<i>School Construction</i>	<i>Sewer Treatment Project</i>	<i>Total</i>
Cash and Equivalents	983,610		983,610
Due from Other Funds	170		170
Total Assets	983,780		983,780
 <i>Liabilities and Fund Balances</i>			
Liabilities			
Due to Other Funds		68,076	68,076
Retainage Payable	8,112		8,112
Accounts Payable	39,391		39,391
Total Liabilities	47,503	68,076	115,579
Fund Balances			
Reserved for Construction	4,250		4,250
Unreserved			
Designated for Subsequent Years' Expenditures	932,027	(68,076)	863,951
Total Fund Balances	936,277	(68,076)	868,201
Total Liabilities and Fund Balances	983,780		983,780

TOWN OF MOUNT DESERT
ALL CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit C-2

	<i>School Construction</i>	<i>Sewer Treatment Project</i>	<i>Total</i>
Revenues			
Donations	4,250		4,250
Interest Income	77,829		77,829
Total Revenues	82,079		82,079
Expenditures			
Architect Fees	72,879		72,879
Engineering		160,511	160,511
Advertising/Insurance/Legal	22,274	13,276	35,550
Athletic Field Renovation	99,591		99,591
Asbestos Removal	930		930
General Contractor	2,931,489		2,931,489
Data/Telecom System	85,176		85,176
Moveable Equipment	129,439		129,439
Playground Equipment	64,920		64,920
Air Quality Test	1,070		1,070
Field Inspection/Clerk of the Works	61,618		61,618
Environmental Assessment		34,873	34,873
Contingency	75,850		75,850
Total Expenditures	3,545,236	208,660	3,753,896
Excess of Revenues Over (Under) Expenditures	(3,463,157)	(208,660)	(3,671,817)
Other Financing Sources			
Loan Proceeds		297,303	297,303
		297,303	297,303
Excess of Revenues and Other Sources Over (Under) Expenditures	(3,463,157)	88,643	(3,374,514)
Fund Balance - July 1	4,399,434	(156,719)	4,242,715
Fund Balance - June 30	936,277	(68,076)	868,201

James W. Wadman

Certified Public Accountant

Telephone 207-667-6500

Facsimile 207-667-3636

E-Mail jwadman@midmaine.com

Independent Auditor's Communication of Reportable Conditions and Other Matters

January 15, 2004

Members of the Board of Selectmen
Town of Mount Desert
Mount Desert, Maine 04662

In planning and performing our audit of the Town of Mount Desert, Maine, for the year ended December 31, 2003, we considered the Town's internal control structure in order to determine the scope of our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements. Our review of these systems was not intended to provide assurance on the internal control structure and should not be relied on for that purpose.

Under the standards established by the American Institute of Certified Public Accountants, reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Town's ability to record, process, summarize, and report financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might constitute reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. There are no reportable conditions identified for the Town.

This report is intended solely for the information and use of management and others within the administration. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Respectfully Submitted,

James W. Wadman, CPA

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OTHER MATTERS

2003-1 GASB Statement No. 34

On June 10, 1999, the Governmental Accounting Standards Board (GASB) approved the issuance of GASB NO. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. This pronouncement established substantial new requirements for the annual financial reports of state and local governments. Basic financial statements will require government-wide financial statements that consist of a statement of net assets and a statement of activities, which will focus on the government “taken as a whole” rather than on fund types. The statement of net assets will report capital assets, including infrastructure, and the statement of activities will report depreciation expense. Capital outlays will be reported as fixed assets, rather than expenditures. Long-term debt proceeds and principal payments will be reported as long-term liabilities rather than other financing sources and expenditures. The statement of activities will measure “net (expense) revenue” for each of the Town’s functions and report revenues by program, with general revenues (such as taxes) reported separately.

GASB No. 34 requires governments to present Management’s Discussion and Analysis (MD&A) as required supplementary information before the basic financial statements. This presentation will be entirely new to governments that currently prepare only general purpose financial statements. GASB No. 34 requires MD&A to include a brief discussion of the basic financial statement, as well as:

- Comparisons of the current year financial information to the prior year, based on government-wide information.
- An analysis of the government’s overall financial position and results of operations to help users assess whether financial position has improved or deteriorated due to current budget activities.
- A description of capital asset and long-term debt activity during the year.
- A description of currently known facts, conditions, or decisions expected to have a significant impact on financial position or results of operations.

GASB No. 34 becomes effective in phases, depending on the government’s total revenues. The Town of Mount Desert, Maine, will be required to implement the changes with the fiscal year beginning January 1, 2004. Obviously, considerable staff time must be expended prior to that date in planning for changes that will be significant to the Town’s financial reporting.

We recommend that the Town’s management review GASB No. 34 in detail as soon as practical to determine the amount of work required of Town personnel, and outline plans for implementation.