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**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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The Town of Gorham, Maine was incorporated in 1764 and operates under a Council-Manager form of government, adopted by charter in 1967.

The accounting policies of the Town of Gorham conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies.

**A. The Reporting Entity**

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

**B. Basis of Presentation**

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**C. Basis of Accounting/Measurement Focus**

**Government - Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the 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 activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Town of Gorham, at this time, does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported as general revenues.

**Fund Financial Statements**

Fund financial statements report detailed information about the Town. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

**GOVERNMENTAL FUNDS**

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. An exception to the general rule is principal and interest on long-term debt which is recognized when due.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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The Town reports the following major governmental funds:

The General Fund and the School Operations Fund in the Special Revenue Fund are the Town's primary operating funds. They account for all financial resources of the general government and education, except those required to be accounted for in another fund. The Capital Reserve Fund in the Special Revenue Fund, which accounts for all capital equipment and project expenditures funded through fund balance transfers, is another major governmental fund.

Additionally, the Town reports the following fund type:

Fiduciary funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. The Town's fiduciary funds include the following types: agency funds (school activity funds) and private purpose trust funds (scholarships).

**Revenue Recognition**

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. Those revenues susceptible to accrual are property taxes, interest, and charges for services. Licenses and permits, fines and forfeits, and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

**Expenditure Recognition**

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on long-term debt as well as expenditures related to certain compensated absences and claims and judgments are only recorded when payment is due. Allocation of costs, such as depreciation, is not recognized in the governmental funds.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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**D. Encumbrances**

Encumbrance accounting, whereby commitments for the expenditure of monies are recorded to preserve that portion of the applicable appropriation, is being employed by the Town during the fiscal year. At year-end, encumbrances are recorded as an expenditure for budgetary reporting and as a designation of fund balance within the fund financial statements, since they do not constitute expenditures or liabilities and are added to the subsequent year's adopted appropriations.

**E. Investments**

Investments are stated at fair value.

**F. Inventories**

Inventory consists of the School Lunch Fund (Governmental Special Revenue Fund) food, supplies, and donated commodities and is recorded at the lower of cost or market on the first-in, first-out basis. The Town has also chosen to record the trash bag inventory maintained by the Public Works Department for the pay-per-bag program instituted on July 1, 2002. This inventory is recorded at cost on the first-in, first-out basis.

**G. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities in the government-wide financial statements. The Town defines capital assets as assets with an estimated useful life in excess of one year and an initial, individual cost of more than \$5,000. The Town's assets are capitalized at historical cost or estimated historical cost. For roads accepted by the Town from a developer, the Town will record the accepted road's value at the average cost per mile based on the road type. The Public Works Department will determine the average cost per mile for each road type. Gifts or contributions of capital assets are recorded at fair market value when received. The town does not intend to use the "modified approach" to record infrastructure. The Town has also decided not to capitalize immaterial assets such as firearms, firefighting equipment such as air-paks, and certain computer equipment.

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 GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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Depreciation is recorded based on the straight-line method using the full-month convention beginning with the month following the purchase date over the assets' estimated useful live. In addition, all assets will be depreciated down to zero. Historical treasures, works of art, and library books, which are capitalized, will not be depreciated.

The following estimated useful lives are used to compute depreciation:

- Buildings -- 40 years
- HVAC Systems & Roofing -- 20 years
- Electrical/Plumbing Systems -- 30 years
- Land Improvements -- 20-30 years
- Roads -- 20-50 years
- Bridges -- 50 years
- Vehicles
  - Cars and light trucks -- 7 years
  - Police cruisers -- 4 years
  - Buses and rescue units -- 10 years
  - Fire Trucks -- 20 years
- Office furniture and fixtures -- 7 years
- Equipment -- 10-20 years
- Computer equipment -- 5-7 years

The Town conducted an inventory of all capital assets for fiscal year 2003 and completed an internal update for fiscal year 2005. This process involved determining the original cost. Original costs were developed in one of four ways: 1) historical records; 2) assessed value records deflated to date of acquisition; 3) engineering estimates and Land Use and Development Code; or 4) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, as 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.

**H. Compensated Absences**

Employees earn vacation and sick leave as they provide services. Under the terms of personnel policies and union contracts, vacation and sick leave are granted in varying amounts according to length of service. Town employees may accumulate (subject to certain limitations) up to 180 days of unused sick leave and, upon retirement, termination or death, may be compensated for amounts up to 90 days at current rates of pay.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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Vacation time is earned based on anniversary date and length of service in amounts ranging from two to four weeks per year. Unused vacation days for regular full-time employees may accrue from one year to the next at a maximum of 150 hours for employees with less than six (6) years of continuous service, 225 hours for an employee with six (6) years of continuous service but less than eleven (11) years of continuous service and 260 hours for employees with eleven (11) years of continuous service. Employees are paid for allowable accruals upon termination of employment.

In the fund financial statements, no amount is recorded unless the amount is to be paid out shortly after year-end. But the full liability is recorded in the government-wide statements.

**I. Long-Term Obligations**

Long-term debt is recognized as a liability of a governmental fund when due. In the fund financial statements, for other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

**J. 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.

**K. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**L. Fund Equity**

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

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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**M. Comparative Data/Reclassification**

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.

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**Note 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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**A. Budgetary Information**

Budgets are adopted for the General Fund and School Operations Fund only, and are adopted on a basis consistent with generally accepted accounting principles (GAAP) except as described in the budget footnote, Note 17, BUDGETARY VS. GAAP ACCOUNTING. The level of control (level at which expenditures may not exceed budget) is the Department for the general fund budget and the total budget for the school operations fund. With Council authorization, mid-year budget adjustments between departments can be made. The budget as presented reflects these changes. Generally, all unexpended budgetary accounts lapse at the close of the fiscal year. However, the Town adopted a policy that allows certain departments to carry 50% of unexpended balances to be used towards future capital purchases. These amounts have been shown as transfers to the capital reserve special revenue fund at year-end. Additionally, the Town has a policy in which the amount of fund balance at the end of the year, which is greater than 8% of the budget, is transferred to a capital reserve account. This transfer happens subsequent to year-end, during the next fiscal years' budget process.

**B. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2005, expenditures exceeded appropriations in the following departments and the school operations fund as shown on Statement 6:

Public Works	\$ 77,466
Recreation	4,627
Education	318,356

Public Works was over expended due to four major snowstorms during February and March 2005. The Town did received FEMA (Federal Emergency Management Agency) funds to offset this over expenditure.



**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, Continued**

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The overage in the Recreation category was due to the heating costs associated with the old Shaw School. Although the building was vacant, due to asbestos abatement work, the heating system was damaged and the Town was unable to regulate the heat throughout the building.

The Education category overage was due to capital improvements that were not budgeted for in the fiscal year 2005 budget.

These over expenditures lapsed to fund balance.

**C. Deficit Fund Equity**

The School Operations Fund has a deficit fund balance of \$873,206 at June 30, 2005. This is due primarily to variations between the budgetary and GAAP methods of accounting for summer teachers' payroll. See Note 17, BUDGETARY VS. GAAP ACCOUNTING.

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**Note 3 – RISK MANAGEMENT**

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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, participates in a public entity risk pool, or is effectively self-insured. Currently, the Town participates in several public entity and self-insured risk pools sponsored by the Maine Municipal Association, which provides the following coverages to the Town: property & casualty, liability, vehicle, and workers' compensation. The Town is self insured for unemployment compensation. Based on the coverage provided by these 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, 2005.

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**Note 4 - DEPOSITS AND INVESTMENTS**

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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 average yield for the Town's investments during fiscal year 2005 was 1.76%, producing total investment income for the General Fund of \$150,742 less bank management fees of \$6,298 and interfund transfers of \$34,278 for a net of \$110,166.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 4 - DEPOSITS AND INVESTMENTS, Continued**

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**A. Deposits**

At June 30, 2005, cash consisted of the following:

	<u>Carrying amount</u>	<u>Bank balance</u>
Checking, savings, NOW, and certificates of deposit accounts		
Government Funds	236,246	272,389
Agency Funds	215,361	215,361
Petty Cash - Government Funds	<u>750</u>	<u>-</u>
<b>Totals</b>	<b>\$ <u>452,357</u></b>	<b>\$ <u>487,750</u></b>

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have deposit policy for custodial risk. As of June 30, 2005, \$135,488 of the Town's bank balances of \$487,750 was exposed to custodial credit risks because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Town's name.

**B. Investments**

At June 30, 2005, investments consisted of the following:

Investment Type	Total	Maturities			
		within 6 Months	6 Months to 1 Year	1 Year to 3 Years	Over 3 Years
Mutual Funds	\$ 4,027,436	4,027,436	-	-	-
U.S. Treasuries	583,980	-	77,180	201,164	305,636
Commercial Paper	5,970,253	5,970,253	-	-	-
Repurchase Agreements	3,895,287	3,895,287	-	-	-
Common Stock	14,834	-	-	-	-
<b>Total Fair Value:</b>	<b>\$ <u>14,491,790</u></b>	<b><u>13,892,976</u></b>	<b><u>77,180</u></b>	<b><u>201,164</u></b>	<b><u>305,636</u></b>
<b>% of Portfolio:</b>		<b>95.9%</b>	<b>0.5%</b>	<b>1.4%</b>	<b>2.1%</b>

*Interest Rate Risk.* Although the Town of Gorham does not have an approved investment policy, the Town manages its exposure to decline in fair values by limiting the majority of the maturity of its investments to less than six months.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 4 - DEPOSITS AND INVESTMENTS, Continued**

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*Credit Risk.* Maine statutes authorize the Town to invest in obligations of U.S. Treasury and U.S. Agencies, repurchase agreements, and certain corporate stocks and bonds. Generally, the Town invests funds in certificates of deposit or savings accounts in the case of special revenue, capital projects and trust funds, and in commercial paper or repurchase agreements (through a financial institution trust department) in the case of the General Fund. The Town only invests in commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency.

*Concentration Risk.* Although the Town of Gorham does not have an approved investment policy, the Town attempts to diversify its investment portfolios by limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities), by limiting investment in securities that have higher credit risks, by investing in securities with varying maturities, and by continuously investing a portion of the portfolio in readily available funds such as money market funds or overnight repurchase agreements to ensure the appropriate liquidity is maintained in order to meet ongoing obligations.

*Custodial Credit Risk – Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the investments in commercial paper, \$5,970,253, the Town has a custodial credit risk exposure of \$5,970,253 because the related securities are uninsured, unregistered and held by the Town's brokerage firms which are also the counterparty for these particular securities.

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**Note 5 - PROPERTY TAXES**

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Property taxes for the current year were committed on September 1, 2004, on the assessed value listed as of the prior April 1 for all real and personal property located in the Town. Assessed values are periodically established by the Town's Assessor at 100% of assumed market value. A revaluation was completed for the list of April 1, 2001. The assessed value represented 90% of market value and 80.0% of the estimated State valuation of \$1,085,600,000.

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 \$175,134 for the year ended June 30, 2005. The variance between actual property tax revenues and budgeted property tax revenues represents overlay plus supplemental taxes less abatements.

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 tax liens and associated costs remain unpaid.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 5 - PROPERTY TAXES, Continued**

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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 2005 and 2004 levies:

	<u>2005</u>	<u>2004</u>
Assessed Value	\$868,307,900	\$839,361,000
Tax Rate (per \$1,000)	<u>20.00</u>	<u>19.40</u>
Commitment	\$ 17,366,158	\$ 16,283,603
Supplemental Taxes Assessed	<u>13,824</u>	<u>27,533</u>
	\$ 17,379,982	\$ 16,311,136
Less: Abatements	108,846	48,193
Collections	<u>16,719,750</u>	<u>15,779,735</u>
Receivable at June 30, 2005 and 2004	<u>\$ 551,386</u>	<u>\$ 483,208</u>
Due Date(s)	½ 11/15/2004	½ 11/01/2003
	½ 05/15/2005	½ 05/01/2004
Interest Rates on Delinquent Taxes	6.50%	7.00%
Collection Rate	96.8%	97.0%

Of the total taxes committed for the year ended June 30, 2005, the original amount allocated to the Gorham Industrial Park Municipal Development Tax Increment Financing District and the ODAT-Grondin Municipal Development Tax Increment Financing District was \$252,318. However, on February 3, 2005, the Tax Assessor issued a personal property tax abatement reducing the assessed value of the personal property by \$28,500. The revised tax increment financing amount allocated to the two districts is \$251,748. The following amounts were allocated to various companies located within the Gorham Industrial Park district: Big Water Realty -- \$9,346, CMJ, Inc. -- \$7,688, Foreside Management Co. -- \$55,908, D & G Group (formerly Gushee Enterprises) -- \$28,064, Hampstead Associates -- \$24,822, Mega Industries -- \$38,418, Montalvo Properties -- \$46,458, and Transformat -- \$12,002. The following amounts were allocated to two companies located within the ODAT-Grondin district: ODAT -- \$15,228, and Grondin -- \$13,814. (see Note 14, TAX INCREMENT FINANCING DISTRICT)

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 6 – CAPITAL ASSETS**

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In accordance with GASB Statement No. 34, the Town has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. All capital assets were reported using the basic approach whereby accumulated depreciation and depreciation expense has been recorded.

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
<b><i>Governmental Activities:</i></b>				
Capital assets, not being depreciated:				
Books/historical treasures/artwork	1,083,774	6,500	-	1,090,274
Land	1,579,159	-	-	1,579,159
Construction in progress	398,609	642,850	398,609	642,850
Total capital assets, not being depreciated	3,061,542	649,350	398,609	3,312,283
Capital assets, being depreciated:				
Land improvements	4,302,678	98,159	-	4,400,837
Buildings and building improvements	40,607,121	480,991	-	41,088,112
Machinery and equipment	1,157,577	150,877	7,500	1,300,954
Furniture and office equipment	1,949,727	-	-	1,949,727
Computer equipment	289,059	-	-	289,059
Vehicles	6,783,914	428,301	315,957	6,896,258
Infrastructure	17,513,688	1,309,483	-	18,823,171
Total capital assets being depreciated	72,603,764	2,467,811	323,457	74,748,118

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Note 6 – CAPITAL ASSETS, Continued**

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Less accumulated depreciation for:				
Land improvements	377,067	160,770	-	537,837
Buildings and building improvements	10,189,629	1,145,604	-	11,335,233
Machinery and equipment	311,923	105,220	5,937	411,206
Furniture and office equipment	320,218	237,164	-	557,382
Computer equipment	168,236	47,190	-	215,426
Vehicles	4,006,897	478,047	307,897	4,177,047
Infrastructure	13,033,289	328,517	-	13,361,806
Total accumulated depreciation	28,407,259	2,502,512	313,834	30,595,937
Total capital assets being depreciated, net	44,196,505	(34,701)	9,623	44,152,181
<b>Governmental activities capital assets, net</b>	<b>47,258,047</b>	<b>614,649</b>	<b>408,232</b>	<b>47,464,464</b>

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

Governmental activities:

General government	\$ 76,991
Public safety	272,905
Public works, including depreciation of general infrastructure assets	510,554
Recreation and library	94,595
Education	<u>1,547,467</u>
Total depreciation expense – governmental activities:	<u><u>\$ 2,502,512</u></u>

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 7 – PENSION PLANS**

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**A. MSRS – Consolidated Plan**

**Description of the Plan** – The Town contributes to Maine State Retirement System Consolidated Plan, a cost sharing multiple-employer public employee 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 benefit provisions 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 System, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

**Funding Policy** – Plan members are required to contribute 6.5% of their annual covered salary and the Town of Gorham is required to contribute an actuarially determined rate. The current rates range from 2.8% to 4% of annual covered payroll. The contribution rates of plan members and the Town of Gorham are established and may be amended by the Maine State Retirement System Board of Trustees. Due to an unfunded liability credit, the Town's contribution to the Maine State Retirement System Consolidated Plan for the years ended June 30, 2005, 2004 and 2003 are \$0, \$0 and \$0, respectively, equal to the required contributions for each year.

**B. MSRS Teacher's Group**

**Description of Plan** – All schoolteachers, 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. 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 benefit provisions 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 Teacher's Group. That report may be obtained by writing to Maine State Retirement System, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

**Funding Policy** – Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education is required, by the same statute, to contribute the employer contribution, which amounts to \$2,205,447 (17.77%) for the fiscal year 2005. There is no contribution required by the School except for federally funded teachers, for which the School contributed 17.77% of their compensation. This cost is charged to the applicable grant.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 7 – PENSION PLANS, Continued**

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**C. Deferred Compensation Plan**

The Town of Gorham offers all its employees not participating in Maine State Retirement a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The Town expended \$158,208 for the year ended June 30, 2005, and \$137,419 for the year ended June 30, 2004. 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 liabilities for the compensation deferred by plan participants, including earnings on plan assets, are not included in the Town's financial statements.

**D. Other Retirement Contributions**

Additionally, the Town participates in the Social Security Retirement Program. The Town contributed \$352,130 including F.I.C.A. and Medicare to the Social Security Retirement Program on behalf of Town employees for the year ended June 30, 2005 and \$320,301 for the year ended June 30, 2004.

School employees who are not eligible for the Maine State Retirement Program participate in the Social Security Retirement Program. In addition, a small group of School employees participates in both programs. The School Department contributed \$276,039 including F.I.C.A. and Medicare to the Social Security Retirement Program on behalf of the School employees for the year ended June 30, 2005 and \$264,563 for the year ended June 30, 2004.



**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 8 – INTERFUND ACCOUNTS**

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Individual interfund loans receivable and payable balances at June 30, 2005, were as follows:

<u>Fund</u>	<u>Interfund loan receivable</u>	<u>Interfund loan payable</u>
Governmental Funds		
General fund	\$ -	\$ 2,299,591
School operations fund	1,170,257	104,261
Capital reserve fund	86,584	7,972
Other governmental funds:		
Special revenue funds:		
School lunch fund	-	140,937
School special revenue funds	227,879	21,037
Tax increment financing district	322,178	-
Sewer operations	950,726	-
Little Falls sewer reserve & loan fund	14,552	-
Economic development fund	23,577	-
Capital project funds:		
Middle school construction	-	7,439
Narragansett school roof	-	223,892
Various school projects	29,044	-
Permanent funds:		
Cemetery perpetual care	6,875	-
Baxter library and museum	108	26,035
Miscellaneous	-	616
Total other governmental funds	1,574,939	419,956
<b>Totals:</b>	<b>2,831,780</b>	<b>2,831,780</b>

The purpose of the interfunds is to charge revenue and expenditure activity to the appropriate funds. With centralized cash, everything is received and disbursed through the general fund. With interfund accounts, it allows the activity to be recorded within the proper fund, even though the activity occurs within the general fund cash account.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 8 – INTERFUND ACCOUNTS, Continued**

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Interfund transfers during the year ended June 30, 2005 consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General fund	\$ 125,232	\$ 13,154,311
School operations fund	12,588,286	-
Capital reserve fund	507,726	66,933
Other governmental funds:		
Special revenue funds:		
Economic Development fund	58,299	-
TIF fund	-	58,299
Total other governmental funds	58,299	58,299
<b>Totals:</b>	<b>\$ 13,279,543</b>	<b>\$ 13,279,543</b>

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The transfer outs comprised of the following:

1. From the General Fund: to provide the school operations fund with the local tax allocation for education (\$12,588,286) and to provide the capital reserve fund with the allocation of undesignated fund balance approved by the Town Council to fund projects and the transfer of half balances remaining at year-end in departmental budgets to fund future capital needs for those departments (\$507,726).
2. From the Capital Reserve Fund: to provide funds to purchase three new cruisers through the general fund (\$66,933).
3. From the Special Revenue Fund's TIF Fund: to provide funding for the Economic Development Corporation (\$58,299).

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 9 – DUE FROM OTHER GOVERNMENTS**

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Due from other governments is comprised of the following:

School operations fund – State agency clients	\$ 72,626
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Other governmental funds:

School special revenue funds

Medicare Reimbursements	24,180
Title VI, Innovative Education	3,232
Title IVA, Drug Free Grant	2,784
Title IIA, NCLB	20,787
Title IID, NCLB Tech Literacy Challenge	1,864
Preschool Grant	2,083
School Lunch – USDA subsidy	11,230

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Total other governmental funds	66,160
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<b>Total</b>	<b>\$ 138,786</b>
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**Note 10 – LONG-TERM DEBT**

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**A. Statutory Debt Limit**

In accordance with 30 MRSA, Section 5061, as amended, no municipality shall incur debt for specified purposes in excess of certain percentages of state valuation of such municipality. At June 30, 2005, the Town was in compliance with these limitations. (see Table 13, STATISTICAL SECTION)

**B. Changes in Long Term Debt**

Due to a prior period adjustment for the accrued compensated absences; the beginning balance for accrued vacation and sick leave has been adjusted by \$241,167, from \$420,980 to \$662,147.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 10 – LONG-TERM DEBT, Continued**

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Long-term liability activity for the year ended June 30, 2005, was as follows:

		<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental activities:</b>						
General obligation bonds	\$	32,902,542	-	2,474,646	30,427,896	2,444,646
Capital leases		534,671	344,308	219,502	659,477	188,706
Accrued vacation and sick leave		662,147	107,942	99,025	671,064	see Note 10, E
<b>Governmental activity</b>						
<b>Long-term liabilities</b>	\$	34,099,360	452,250	2,793,173	31,758,437	2,633,352

**C. Bonds and Notes Payable**

General obligation bonds are direct obligations and pledge the full faith and credit of the Town. These bonds are issued as serial bonds, generally with equal amounts of principal maturing each year.

General obligation bonds currently outstanding at June 30, 2005, are comprised of the following:

	Date of Issue	Original Issue Amount	Date of Maturity	Interest Rate	Balance	Balance by Bond
Bonds and notes payable:						
Governmental activities:						
Public Works, paving/Village sewer lines & pump stations	5/20/1987	3,030,000	10/25/2007	5.7-7.5%	\$ 700,000	\$ 700,000
Robie Gym improvements & Baxter Library handicapped access	6/2/1988	80,250	10/25/2008	5.9-7.7%	31,900	
Public Works, dump truck, transfer trailer, truck scale	6/2/1988	117,700	10/25/2008	5.9-7.7%	24,640	
Public Safety, aerial ladder truck & lucas tool	6/2/1988	310,300	10/25/2008	5.9-7.7%	48,840	
General Gov't, voting machines	6/2/1988	26,750	10/25/2008	5.9-7.7%	4,620	110,000
Rebuild tennis courts and Baxter Library handicapped addition	10/26/1988	75,000	10/25/2008	6.5-7.4%	18,160	
Public Works, hauler truck, back hoe, paving box	10/26/1988	174,000	10/25/2008	6.5-7.4%	42,160	
Public Safety, repair and pump tank 3	10/26/1988	50,000	10/25/2008	6.5-7.4%	12,160	
General Gov't, computer upgrade	10/26/1988	31,000	10/25/2008	6.5-7.4%	7,520	80,000
Education, Village school addition	5/4/1989	4,100,000	10/25/2009	7.25-7.3%	1,025,000	1,025,000

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Note 10 – LONG-TERM DEBT, Continued**

	Date of Issue	Original Issue Amount	Date of Maturity	Interest Rate	Balance	Balance by Bond
Robie Gym windows, Chick recreation area, playground	5/24/1990	21,600	10/25/2010	7.1-7.2%	6,429	
Public Works, plow truck, street sweeper, Mitchell bridge, transfer trailer, air compressor, under- ground tanks, Great Falls bridge (local share)	5/24/1990	327,830	10/25/2010	7.1-7.2%	98,318	
Public Safety, new rescue and base radio upgrade	5/24/1990	106,000	10/25/2010	7.1-7.2%	31,881	
Education, Village & GSH schools asbestos abatement, and High school roof	5/24/1990	437,570	10/25/2010	7.1-7.2%	131,272	267,900
Education, GSH & Little Falls renovations	10/25/1990	714,438	10/25/2005	7.0-7.375%	47,647	
Baxter Library, renovations and equipment	10/25/1990	35,350	10/25/2005	7.0-7.375%	2,349	49,996
Education, GSH expansion	9/1/1993	11,565,000	9/1/2013	4.6-5.25%	5,165,000	5,165,000
Public Works, new facility	6/1/2000	1,295,000	6/1/2020	5.7-5.75%	975,000	975,000
Education, New Middle School Construction	9/1/2002	20,375,000	11/1/2022	2.25-4.375%	18,335,000	
Baxter Library, addition and renovations	9/1/2002	850,000	11/1/2017	2.25-4.375%	730,000	19,065,000
Old Shaw School/Community Ctr, renovation	2/1/2004	2,400,000	2/1/2024	3.25-4.35%	2,280,000	
Narragansett School, roof replacement	2/1/2004	400,000	2/1/2024		380,000	
Public Safety, 50% share of fire truck	2/1/2004	350,000	2/1/2024		330,000	2,990,000
Total governmental activities					\$ 30,427,896	\$ 30,427,896

The General Fund, the Special Revenue Funds' School Operations Fund and Sewer Fund, and the Permanent Funds' Baxter Library and Museum Fund pay all governmental activities long-term debt service requirements. The annual debt service requirements to amortize bonds and notes payable are as follows:

<b>Fiscal Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	2,444,646	1,230,483	3,675,129
2007	2,409,650	1,096,777	3,506,427
2008	2,424,650	999,343	3,423,993
2009	2,174,650	916,890	3,091,540
2010	2,124,650	828,459	2,953,109
2011-2015	8,829,650	2,971,305	11,800,955
2016-2020	6,355,000	1,462,169	7,817,169
2021-2025	3,665,000	265,534	3,930,534
<b>Total</b>	<b><u>\$ 30,427,896</u></b>	<b><u>\$ 9,770,960</u></b>	<b><u>\$ 40,198,856</u></b>

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 10 – LONG-TERM DEBT, Continued**

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**D. Capital Leases**

The Gorham School Department has entered into various lease agreements as lessee for school buses and copiers, and the Town has entered into two lease agreements for a pickup truck and dump truck. Those leases qualify as capital leases for accounting purposes, and therefore, have been recorded in the government-wide financial statements at the present value of future minimum lease payments as of the date of their inception.

The following is a summary of the capital lease commitments as of June 30, 2005:

	Original Purchase <u>Price</u>	Annual Depreciation <u>Expense</u>	Total Minimum Lease <u>Payments</u>	<u>Interest</u>	Present Value of Minimum Lease <u>Payments</u>
Education, fourteen (12) School Buses	638,849	62,044	480,349	45,468	434,881
Education, Photocopiers,	205,526	see note	140,352	11,745	128,607
Public Works, 2005 Chevy Pickup	27,000	1,478	23,404	2,255	21,149
Public Works, 2005 Dump Truck	95,628	9,563	83,152	8,312	74,840
			<u>\$727,257</u>	<u>\$67,780</u>	<u>\$659,477</u>

Note: Individually, the copiers were below the capitalization threshold, therefore, they have not been capitalized.

The following is a schedule of future minimum lease payments under the capital lease and the present value of the minimum lease payment at June 30, 2005:

Fiscal year <u>ending</u>	<u>Principal</u>	<u>Interest</u>	Total Lease <u>Obligation</u>
2006	188,706	29,046	217,752
2007	171,862	20,501	192,363
2008	179,344	13,020	192,364
2009	119,565	5,213	124,778
	<u>659,477</u>	<u>67,780</u>	<u>727,257</u>

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 10 – LONG-TERM DEBT, Continued**

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**E. Compensated Absences**

The Town's policy relating to compensated absences is described in Note 1, H. The long-term portion of this debt, amounting to \$671,064 for governmental activities at June 30, 2005, is expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the general fund.

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**Note 11 - OPERATING LEASES**

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The School Department has entered into seven leases for portable buildings, five expiring July 31, 2005 and two expiring August 31, 2008. For accounting purposes, all of these leases are considered to be operating leases. Lease expenditures for the year ended June 30, 2005 amounted to \$92,400. Future minimum lease payments for these leases are as follows:

Year ended June 30,	
2006	31,400
2007	26,400
2008	17,600
<b>Total</b>	<b>\$ 75,400</b>

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**Note 12 – OVERLAPPING DEBT AND OTHER CONTINGENCIES**

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**A. Overlapping Debt**

The Town is subject to an annual assessment of its proportional share of Cumberland 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, 2005, the Town's State valuation of \$1,085,600,000 was 3.58% of the County's State valuation of \$30,301,350,000. The Town's share is 3.58% or \$451,059 of Cumberland County's \$12,590,000 long-term debt outstanding as of June 30, 2005.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 12 – OVERLAPPING DEBT AND OTHER CONTINGENCIES, Continued**

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The Town is also served by the Portland Water District. At June 30, 2005, the Town's share of self-supporting bonded water debt is 5.30% or \$1,216,899 of total debt of \$22,940,000. At June 30, 2005, the Town's portion of Portland Water District's bonded sewer debt for which the Town of Gorham is directly obligated through sewer user fees is \$583,017. The Town also shares an obligation with the Town of Windham for a joint sewer project. Gorham's share of this debt amounts to \$7,064. The Water District annually assesses the Town for its proportionate share of debt issued for engineering and construction costs of a sewage treatment plant.

**B. Contingencies**

Regional Waste Systems, Inc. (RWS), a Maine corporation with twenty participating municipalities including the Town of Gorham, has issued bonds to fund the design, construction and start-up of a resource recovery system. The bonds are special revenue obligations of RWS, payable from and secured by a pledge of RWS revenues. The bonds do not constitute a debt or liability within the meaning of any constitutional or statutory provision of the State of Maine, or a pledge of the full faith and credit of any political subdivision of the State of Maine. RWS has no taxing power. Notwithstanding the foregoing, pursuant to the Waste Handling Agreements, the participating municipalities are obligated severally to deliver certain of the solid waste produced within each such participating municipality to RWS for processing, to make service payments and pay tipping fees for such processing in amounts which, when added to other available monies, will at least equal required debt service of the bonds. The obligations of the participating municipalities under the Waste Handling Agreements are secured by the full faith and credit of the participating municipalities subject to certain limitations. On June 30, 2005, outstanding "Incinerator Debt" of RWS totaled \$50,092,000 of which the Gorham share, based on estimated tonnage to be delivered, amounted to \$2,028,597.

The Town has also entered into an agreement with Regional Waste Systems, Inc., as one of twenty RWS Member Municipalities along with an additional seven Participating Municipalities, to establish a Material Recycling Facility ("MRF") at RWS's demolition debris and recycling facility in Gorham. It is anticipated that the Town's share of debt incurred for this project will also be paid through service charges and user fees over the life of the project. At June 30, 2005, the Town's share is \$313,208 of RWS's outstanding MRF debt of \$5,593,000.

RWS operates a licensed balefill and ashfill site for which projected landfill closure and postclosure care costs approximate \$19,953,270 at June 30, 2004, the most recent data available. The Town's proportionate share of these estimated landfill closure and postclosure care costs is 4.08% or \$814,929.



**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 12 – OVERLAPPING DEBT AND OTHER CONTINGENCIES, Continued**

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**Total Debt and Contingencies**

<u>Governmental Unit</u>	As of June 30, 2005			Total <u>Debt</u>
	<u>Direct Debt</u>	<u>Overlapping Debt</u>	<u>Contingent Debt</u>	
Town of Gorham	\$30,427,896	-	-	\$30,427,896
Cumberland County	-	451,059	-	451,059
Portland Water District – sewer debt	-	583,017	-	583,017
Portland Water District – sewer shared with Town of Windham	-	7,064	-	7,064
Portland Water District - water debt	-	1,216,899	-	1,216,899
Regional Waste Systems:				
Resources recovery system	-	-	2,028,597	2,028,597
Material recycling facility	-	-	313,208	313,208
Landfill closure	-	-	814,929	814,929
<b>Totals</b>	<b><u>\$30,427,896</u></b>	<b><u>\$ 2,258,039</u></b>	<b><u>\$ 3,156,734</u></b>	<b><u>\$35,842,669</u></b>

**C. Arbitrage**

Pursuant to the Tax Reform Act of 1986, municipalities issuing tax-exempt bonds or entering into note or lease obligations are required to perform an arbitrage rebate calculation upon the fifth anniversary of the obligation and to remit such rebate to the federal government, subject to certain exceptions. The Town has had several issues for which a rebate calculation is or has been required. As of June 30, 2005, substantially all such calculations have been performed.

**D. Grant Funds**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowance 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 Town expects such amounts, if any, to be immaterial.

**E. Litigation**

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's attorney the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 12 – OVERLAPPING DEBT AND OTHER CONTINGENCIES, Continued**

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**F. Conduit Debt**

From time to time, the Town has issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Town, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2005, there were two series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$3,875,000.

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**Note 13 – REIMBURSEMENT FOR DEBT SERVICE EXPENDITURES**

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The State of Maine currently reimburses the Town for a portion of the financing costs of school building and school bus purchases. Continuation of such reimbursement is dependent upon continued appropriation by the state legislature.

Hannaford Brothers has agreed to reimburse the Town for certain debt service costs related to the Village Sewer Construction project. During the years ended June 30, 2005 and 2004, these reimbursements amounted to \$17,675 and \$18,718, respectively. Principal and interest to be reimbursed will total \$488,407 through fiscal year 2008. These reimbursements are recorded as revenue in the Sewer operations special revenue fund for 2005.

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**Note 14 - TAX INCREMENT FINANCING DISTRICT**

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Tax increment financing (TIF) pursuant to Chapter 207 of Title 30-A of the Maine Revised Statutes, as amended, enables a municipality to finance development by utilizing the future increased property tax receipts attributable to the development. Under the statutory framework, the municipality designates a tax increment-financing district and adopts a development program (the Development Program) stating the means and objectives for the development district. The municipality may designate, or “capture”, all or a portion of the increase in assessed value resulting from development within the district and dedicates the increased property taxes it receives in future years generated by the “captured” assessed value to payment of the costs of the Development Program, which may include debt service on borrowing to fund such costs.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 14 - TAX INCREMENT FINANCING DISTRICT, Continued**

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Tax increment financing districts are subject to statutory limits on their size, including the following limitations: (a) the total area of a single development district may not exceed 2% of the total acreage of the municipality, (b) the total area of all districts within a municipality may not exceed 5% of the total acreage of the municipality, and (c) the aggregate value of equalized taxable property of all districts within the municipality as of the April 1<sup>st</sup> preceding the date of designation of each such district cannot exceed 5% of the municipality's total value of equalized taxable property, excluding from this limit any district involving project costs in excess of \$10,000,000, the geographic area of which consists entirely of contiguous property owned by a single taxpayer with an assessed value in excess of 10% of the municipality's total assessed value.

The increase in assessed value captured by the municipality is excluded from the municipality's equalized just value for each year's State valuation filed with the Secretary of State in accordance with Title 36, Section 208 and 305 of Maine Revised Statutes, as amended, and is therefore not included in calculating that municipality's share of State educational aid, State municipal revenue sharing, the county tax or the 15% debt limitation for the municipality pursuant to Title 30-A, Section 5257 of the Maine Revised Statutes, as amended.

In March 1997, the Town designated a 19.97 acre area within the Gorham Industrial Park as the Gorham Industrial Park Municipal Development Tax Increment Financing District (the district). The district included three companies, Mega Industries, a high technology metals fabrication company, Transformit, a high quality fabric structures firm, and Foreside Company, an import-export, wholesale, retail company.

Subsequently, in March 1999, the Town expanded the geographic scope of the district. The expansion allows the Town to assist three additional businesses to be located in the district. The expansion of the district encompasses approximately 6.83 acres of taxable land.

On June 4, 2002, the Town Council approved a minor amendment to the original Tax Increment Financing District as subsequently amended on March 31, 1999, by adding approximately 1.08 acres which is part of Tax Map 12, Lot 33-5, to the District.

On August 5, 2003, the Town designated approximately 28.1 acres within the Gorham Industrial Park as the ODAT/Grondin Development District. The joint name is to reflect that this district involves efforts of two separate developers on two separate but geographically proximate locations. ODAT is a precision manufacturer of component machine parts and will be constructing a 21,000 square foot manufacturing facility on its 4.9 acre tract of land.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 14 - TAX INCREMENT FINANCING DISTRICT, Continued**

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The purpose of the Grondin portion of the district is to encourage the creation of five (5) new industrial lots on 23.14 acres of land. Grondin Properties, LLC will develop a new industrial park access road on part of this 23 acre parcel of land and will be reimbursed from the TIF revenues generated over a 15 year period, up to a maximum of \$429,064 for construction costs related to the development of the new road.

On January 6, 2004, the Town Council approved the creation of a permanent Revolving Loan Fund program with the funding coming from the Town's portion of Tax Increment Financing revenues derived from the ODAT/Grondin Development District.

On March 2, 2004, the Town designated a 6.5-acre parcel of land in the Gorham Industrial Park as the Pettingill Municipal Development District. The Pettingill Ross Company, a sheet metal company, currently located in the Westbrook Industrial Park, has acquired the old Hill-Loma building and intends to improve, rehabilitate, construct and equip a manufacturing facility at this location in the Gorham Industrial Park.

On March 1, 2005, the Town designated a 2.1-acre parcel of land located at 14 County Road (Route 22) as the VIP, Inc. Tax Increment Financing Development District. VIP, Inc., a retail parts, tires, and automotive services business, requested the TIF designation when they found out that one of the conditions of building a new 9,620 sq. ft. retail store on the former Roberts' Welding property would be to construct a center turning lane. VIP estimates that the cost of the turning lane to be in the \$170,000 range, a cost that "makes the project bear an unreasonable amount of its share of rectifying the traffic problem," as stated in a February 14, 2005 letter to Town Manager David Cole. The Town Council in a 4-1 vote approved a 15-year TIF, which would give back 50% of the taxes generated from the increased tax value generated from the new building.

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**Note 15 - CLASSIFICATION OF NET ASSETS**

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In the Government-Wide financial statements net assets are classified in the following categories:

**Invested in Capital Assets, Net of Related Debt** - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 15 - CLASSIFICATION OF NET ASSETS, Continued**

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**Restricted Net Assets** - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. This category presents restrictions placed on the Permanent fund.

**Unrestricted Net Assets** - Represent the net assets of the Town, not restricted for any project or other purpose.

In the Funds financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Town Council and Management and can be increased, reduced or eliminated by similar actions. As of June 30, 2005, reservations of fund balance are described below:

**Reserved for Non-Current Receivables/Encumbrances** - These reserves represent the portion of purchase orders and contracts awarded for which goods and services have not yet been received, as well as the portion of receivables not due within the next 12 months after year end.

**Reserved for Nonexpendable trust principal** - These reserves represent that portion of originally contributed trust fund assets restricted from disbursement.

**Reserved for Inventory** - Represent that portion of General Fund and Special Revenue Fund – School Lunch Fund, restricted for trash bags, and food, supplies and donated commodities, used in the lunch program, respectively.

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**Note 16 – DESIGNATED FUND BALANCES**

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At June 30, 2005 and 2004, portions of the General Fund and the Special Revenue Funds' School Operation Fund and Capital Reserve Fund fund balances were appropriated to future periods as follows:

	<u><b>2005</b></u>	<u><b>2004</b></u>
General Fund:		
D.A.R.E.	\$ 9,442	\$ 9,388
Bicycle patrol	376	376
Restorative justice grant	3,697	4,205
Drug forfeiture	4,250	2,387

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 16 – DESIGNATED FUND BALANCES, Continued**

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	<u><b>2005</b></u>	<u><b>2004</b></u>
General Fund:		
Little Falls substation	2,272	2,272
Police K-9	-	10
Gorham triad	3,728	3,728
Seatbelt enforcement grant	(1,956)	-
Child safety seats	885	885
Fire prevention	2,284	3,060
Fire/rescue donations	-	641
FEMA fire grant	-	2,154
Cumberland County hazmet	6,313	-
WMD homeland security	(2,914)	-
Homeland security grant	(23,053)	-
Street opening permits	53,260	32,365
Pay-per-bag startup costs	5,636	5,636
Recycling committee	7	(225)
Recreation	149,292	114,556
Tree grant	1,358	2,377
Community Center donations	750	750
Vacation/comp/sick reserve	39,877	44,800
Unemployment insurance contingency reserve	21,500	20,000
Accrued compensated absences	251,068	-
<b>Total general fund</b>	<b>\$ 528,072</b>	<b>\$ 249,365</b>
Special Revenue Fund:		
School operation fund:		
Education capital projects	-	62,555
Use of Surplus for FY2006 Budget	281,681	-
<b>Total school operation fund</b>	<b>\$ 281,681</b>	<b>\$ 62,555</b>
Capital reserve fund:		
GIS system	50,109	33,069
Village plan study	6,000	6,000
Municipal Center	35,200	2,047
Revaluation	122,162	22,162
Paving	2,020	128,518
Impact study - residential growth	30	8,973

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Note 16 – DESIGNATED FUND BALANCES, Continued**

	<u><b>2005</b></u>	<u><b>2004</b></u>
Capital reserve fund:		
State roads projects	652,634	653,705
Longfellow bridge	35,000	35,000
Extension - Wentworth Drive	6,500	6,500
Limited access highway	75,000	75,000
Drainage, 130 Main Street	6,219	6,219
Storm water phase II	15,177	8,566
Mechanic St turn lane/land acquisition	-	2,471
Stumpage	6,570	6,570
South St sidewalk (Heartwood)	119,431	-
Community Center granite sign	4,552	-
Repairs to outlying fire stations	5,752	3,000
Fire Dept master plan	22,620	-
Little Falls tennis courts	1,469	-
Baxter Memorial Library Assoc (BMLA)	4,838	4,369
Baxter Library expansion	20,021	5,145
Historical society building repairs	2,164	2,163
Recreation facility reserve	140,000	161,500
Narragansett skating	20,000	20,000
Public Works building	43,691	85,737
Chick property site development	1,947	(2,187)
Facility security reserve	-	127
Baxter Museum repairs	14,046	21,950
Community Center/Shaw school project	1,720,006	2,161,805
Land acquisition	40,772	40,772
Recreation facility impact fee	218,613	55,556
Open space impact fee	37,616	9,851
Water impact fee	15,787	600
Equipment	88,381	92,248
Portable Building - Planning Dept	1,792	2,716
Administration	266	266
Finance software/computer upgrade	197,569	21,761
Assessing	1,618	762
Code	436	-
Town clerk	660	-
Video system (laptops) - Police	-	3,815

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 16 – DESIGNATED FUND BALANCES, Continued**

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	<u><b>2005</b></u>	<u><b>2004</b></u>
Capital reserve fund:		
Video cameras/computers - Police	-	68
Cruisers	16,686	-
Police	9,561	7,673
Communications	7,276	5,943
Dispatch Center upgrade	-	136
Fire	854	364
Accountability transmitters - Fire	-	243
Auto Defibrillators - Fire	-	147
Thermal Imaging Camera - Fire	-	3,935
Protective clothing - Fire	-	99
Rescue	2,573	2,208
Public Works	26,619	29,108
Public Works vehicles	80,410	5,651
Baxter Library	5,088	3,288
Me Infonet system setup - Baxter	-	600
Recreation	748	-
Cable TV	275,953	181,498
Planning	6,817	4,925
Internet	18,711	18,711
Web site development	10,143	10,143
Fire truck reserve	130,942	130,942
Recreation vehicles	2,208	2,208
<b>Total capital reserve fund</b>	<b>\$ 4,331,257</b>	<b>\$ 4,094,646</b>
<b>Total governmental funds</b>	<b>\$ 5,141,010</b>	<b>\$ 4,406,566</b>



**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 17 – BUDGETARY VS. GAAP ACCOUNTING**

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Through June 30, 2005, the Town did not budget for revenues and expenditures related to teachers' summer pay and vacation and sick time on an accrual basis. Additionally, for budgetary purposes, the Town has recorded certain encumbrances as expenditures at year-end. The following is a reconciliation of fund balance for the General Fund and School Operations Fund (Special Revenue Fund) on the basis of accounting principles generally accepted in the United States of America and on the budgetary basis.

	<b><u>General Fund</u></b>	<b><u>Special Revenue School</u></b>
Fund balance (deficit), June 30, 2005 – GAAP basis	\$5,799,931	(873,206)
Accrued summer salaries	-	1,876,915
Encumbrances	(379,300)	(561,390)
<b>Fund balance, June 30, 2005 – budgetary basis:</b>	<b><u>\$5,420,631</u></b>	<b><u>\$ 442,319</u></b>

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**Note 18 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

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The Town has two landfills, one that holds household refuse and a second, which is used for demolition debris. The first was capped in the 1970's in accordance with Maine Department of Environmental Protection (MDEP) standards at the time. Monitoring wells in the area had shown levels of contamination and MDEP ordered a study be performed to determine the extent of contamination. This study has now been completed. Current MDEP requirements call for testing twice a year which is expected to cost the Town \$10,000 annually. The demolition debris landfill is now presently capped. Because of the study, the engineers do not expect any contamination problems in the future. All potential postclosure monitoring cost for this site has been deemed immaterial, and therefore no liability for these amounts has been accrued. Postclosure monitoring costs will be included in the Town's operating budget annually.

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**Note 19 – CONSTRUCTION COMMITMENT**

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At June 30, 2005, the Town was committed to a contract for architectural services and roof replacement for the Shaw School Community Center project for approximately \$382,000.

**TOWN OF GORHAM, MAINE**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Note 20 – RESTATEMENT OF FUND BALANCE**

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During 2005, the Town changed the manner in which it accounts for accrued compensated absences to comply with recent interpretations of previously issued accounting standards. Fund balance as of July 1, 2004 has been restated as follows:

	<u>General Fund</u>
Fund balance as previously reported	\$ 4,985,219
Prior period adjustment – accrued compensated absences	241,167
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Fund balance, as restated	\$ 5,226,386

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**Note 21 – SUBSEQUENT EVENTS**

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Subsequent to year-end, the School Department entered into an \$118,012 capital lease for the lease purchase of two 2006, school buses. This capital lease has a 4.25% interest rate with a maturity date of July 15, 2010.

The Gorham School Department also finalized the loan agreement with the Maine Municipal Bond Bank to receive funds from the State's school revolving renovation fund for replacement of the Narragansett School roof. The Town of Gorham officials executed the agreement with the Maine Municipal Bond Bank in August 2005 for a loan amount of \$223,892, with principal forgiveness of \$112,237 and a no interest loan balance of \$111,655 payable over the next five years by the Gorham School Department. The final maturity date is October 1, 2009.

The Town of Gorham has been considering "outsourcing" its dispatch services for several years and with the State mandated consolidation of the PSAPs, Gorham would no longer be a PSAP. Given the ramifications of losing its PSAP status, the Town evaluated two separate proposals for dispatching services – one from the City of Westbrook and the other from Cumberland County. On August 2, 2005, the Town Council accepted a proposal from Cumberland County to provide consolidated dispatching services at an estimated savings of \$223,500 annually. On August 15, 2005, the Town of Gorham terminated the employment of the six dispatchers, with five taking jobs with Cumberland County. The physical relocation of the dispatch operations took place September 7, 2005.

As a result of the Council's action, a citizens petition to overrule the Council's action was submitted to the Town with the required number of signatures on August 22, 2005. The Council set the special referendum election date as September 12, 2005. Due to insufficient voter turnout for this special election, the Town's dispatching services will remain with Cumberland County.

On September 7, 2005, the Town of Gorham sold \$5,000,000 in general obligation bonds to complete the renovation work at the old Shaw School. The interest rate on the bonds range from 3.75 - 4.00 percent and the maturity date is December 1, 2024.