TOWN OF FREEPORT, MAINE

Annual Financial Report

June 30, 2010

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Independent Auditors' Report

Town Council
Town of Freeport
Freeport, Maine

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

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16 and the Schedule of Funding Progress on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Town Council
Town of Freeport

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules on pages 46 through 72 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The prior year comparative information has been derived from the Town's 2009 financial statements and, in our report dated December 7, 2009, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macdonald Page & Co LLC

South Portland, Maine
December 16, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

TOWN OF FREEPORT FISCAL YEAR 2010 AUDIT

As the management of the Town of Freeport, Maine, we are pleased to provide this Management Discussion and Analysis as part of our annual financial statements. We offer readers of the financial statements this narrative overview and analysis of the financial activities of the Town of Freeport for the year ended June 30, 2010. It is the belief of management that all the information contained herein is accurate in all material respects and reflects fairly the financial position and operations of the Town. This Management Discussion and Analysis is designed to offer further explanation of the information contained herein. We encourage readers to consider the information that we have furnished in the Town's basic financial statements that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Freeport's basic financial statements. The Town's financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The Table of Contents in the front section of the report provides the specific pages where the various statements and exhibits can be found.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Freeport's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Freeport that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The Town currently reports the activities of the Nonemergency Transportation Program (NET Program) as a business-type activity. The governmental activities of the Town include general government, public safety, public works, education, and community services.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Freeport, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town of Freeport's own programs.

Governmental Funds

For the reporting period, the Town had a decrease in fund balance for total governmental funds (from statement 4) of approximately $572,000. The General Fund's fund balance decreased by approximately $248,000. The reason for the decline in the general fund's June 30, 2010 fund balance is the final transfer of fund balance to RSU #5. The voters in the State of Maine passed LD 499, enacting school consolidation statewide effective July 1, 2009. This legislation along with the RSU #5 plan document required the Town to remit school assets to the new RSU. The former school department's general fund balance is $277,098 as of June 30, 2009. This is shown as the "final transfer to RSU #5" on Statement #4. Reserve funds increased due to a $688,000 transfer from the general fund, $175,000 from each the Bartol and cell tower lease funds, and $251,500 transfer to the capital projects fund for projects authorized by the Town Council in the 2010 capital plan in addition to other transfers out as authorized by the Town Council. Other governmental funds decreased by $1.65 million due to the final $474,000 transfer to RSU #5 and a transfer to the community center repayment and land purchase funds from the capital fund to the reserve funds of $277,000 and $1.5 million in TIF expenditures during FY 2010 (see exhibit C-3). Other increases in various capital projects and several other non-major governmental funds also occurred.

ENTITY WIDE CONDENSED PRESENTATION OF NET ASSETS

Net Assets serves as a useful indicator of a government's financial position. The following information is condensed from Statement 1, Statement of Net Assets for fiscal year 2010. It distinguishes between capital and other assets, notes the Town's general liabilities and debt service, and shows the Town's net assets by restricted and unrestricted amounts. This information is for the Town's Governmental Activities and Business-type Activities as of June 30:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
ASSETS						
Cash and cash equivalents	$ 12,186,429	13,949,749	-	-	12,186,429	13,949,749
Investments	6,595,515	6,118,323	-	-	6,595,515	6,118,323
Receivables	1,158,100	1,444,780	129,039	129,396	1,287,139	1,574,176
Internal balances	79,146	34,517	(79,146)	(34,517)	-	-
Inventory	15,154	45,092	-	-	15,154	45,092
Capital assets, net	17,127,095	32,219,548	19,726	30,834	17,146,821	32,250,382
Total assets	37,161,439	53,812,009	69,619	125,713	37,231,058	53,937,722
LIABILITIES						
Current liabilities	1,061,242	2,159,043	14,648	7,131	1,075,890	2,166,174
Noncurrent liabilities	9,706,030	11,722,728	-	-	9,706,030	11,722,728
Total liabilities	10,767,272	13,881,771	14,648	7,131	10,781,920	13,888,902
NET ASSETS						
Invested in capital assets, net of debt	8,212,473	21,881,943	19,726	30,834	8,232,199	21,912,777
Restricted	2,157,015	2,768,336	-	-	2,157,015	2,768,336
Unrestricted	16,024,679	15,279,959	35,245	87,748	16,059,924	15,367,707
Total net assets	**$ 26,394,167**	**39,930,238**	**54,971**	**118,582**	**26,449,138**	**40,048,820**

A large portion of the Town's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the Town investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Town's net assets represents resources that are subject to external restrictions on how they may be expended. The remaining unrestricted balance of net assets may be used to meet the government's ongoing obligations to its citizens and creditors.

It is notable that between FY 2009 and FY 2010, LD 499 enacted school consolidation in Maine. Freeport School Department had historically been a department of the Town, but as of July 1, 2009, the Town was required to transfer all assets to the new Regional School Unit. The FY 2009 Statement of Net Assets included the school as a department of the Town and the FY 2010 Statement removes these assets. The categories most affected are inventory (removing school lunch) and capital assets (removing all buildings, land, equipment, and other fixed assets). However, the Town was required to maintain the debt, regardless of affiliation with the RSU. The debt (bonds due within one year and bonds due in more than one year) was issued by the Town, and must remain so until paid in full. This is the reason for the $13.6 million decline in the Town's government-wide net assets.

ENTITY WIDE CONDENSED PRESENTATION OF CHANGES IN NET ASSETS

Our next analysis focuses on changes in net assets of the Town's governmental and business type activities. Governmental activities had a decrease in net assets of $13,536,070 and business-type activities had a decrease of $63,611 during the year ended June 30, 2010. The following analysis provides the key elements of the results.

	Governmental Activities	Business-type Activities	2010 Primary Government	2009 Primary Government
Program revenues:				
Charges for services	$ 1,048,268	429,254	1,477,522	2,908,541
Operating grants and contributions	213,853	-	213,853	4,592,689
Capital grants and contributions	247,937	-	247,937	-
General revenues:				
Property taxes	20,012,186	-	20,012,186	19,933,811
Motor vehicle excise taxes	1,316,407	-	1,316,407	1,342,755
Interest and lien costs	80,668	-	80,668	107,649
State Revenue Sharing	533,336	-	533,336	657,168
Homestead exemption	160,625	-	160,625	155,092
Other State aid	346,470	-	346,470	72,758
Unrestricted investment earnings	687,788	-	687,788	(161,449)
Miscellaneous revenues	1,157,047	-	1,157,047	1,821,531
Total revenues	25,804,585	429,254	26,233,839	31,430,545
Program expenses:				
General government	1,711,138	-	1,711,138	1,693,688
Public safety	2,778,277	447,865	3,226,142	3,043,126
Public works	2,535,598	-	2,535,598	2,985,527
Community services	987,873	-	987,873	986,362
Education	12,067,308	-	12,917,045	17,697,544
County tax	824,736	-	824,736	788,142
Unclassified	2,668,299	-	2,668,299	1,555,196
Interest on debt	375,975	-	(473,762)	528,369
Capital maintenance expenses	647,401	-	647,401	924,070
Total expenses	24,596,606	447,865	25,044,471	30,202,024
Change in net assets before transfers	1,207,980	(18,611)	1,189,369	1,228,521
Transfers	(14,744,049)	(45,000)	(14,789,049)	-
Change in net assets after transfers	(13,536,070)	(63,611)	(13,599,681)	1,228,521
Net assets - beginning	39,930,238	118,582	40,048,820	38,820,299
Net assets - ending	$ 26,394,169	54,971	26,449,140	40,048,820

It should be noted that this presentation is prepared on an entity wide condensed net assets presentation and not prepared on a basis consistent with the budget. A detailed budgetary presentation can be found in the basic financial statements in Exhibit A-2.

ANALYSIS OF TOWN POSITION AND OPERATIONS –GOVERNMENTAL FUNDS BUDGETARY BASIS

In Freeport, the Town has managed over the past several years to build its general fund undesignated fund balance (the equivalent of a savings account) to $4.5 million. The Town Council established a figure of $2 million (one twelfth of the annual budget) as a minimum level of fund balance to maintain. Under the Town's fund balance policy, amounts in excess of one twelfth of the annual budget can be used to set aside additional reserves for capital needs, used to reduce property taxes for subsequent years' budgets or be used for immediate operational or capital needs. The Town Council modified its fund balance policy five years ago, establishing a Tax Rate Stabilization Account. The Council funded the stabilization account each of the first three years for a total of $1 million. No additional funding was provided during FY 2010 and the account remained at $1 million at June 30, 2010. During periods of low new valuation or extraordinary unpredicted increases in costs, up to fifty (50) percent of the Tax Rate Stabilization Account may be used annually to offset the municipal tax rate. For example, the FY 2011 budget includes $39,162 from the Tax Rate Stabilization Account.

For the fiscal year ended June 30, 2010 the general fund's fund balance decreased by $248,000 as a result of the transfer of $277,000 to the RSO. If school consolidation had not occurred on July 1, 2009, the general fund would have shown a $29,000 increase in fund balance. In addition, over the years, the Town has established various capital and other reserves. For the year ended June 30, 2010, the Town's reserves increased by approximately $1.3 million. At June 30, 2010, the Town's reserved funds totaled $7.79 million compared to the prior year's $6.46 million. The Town annually will fund various capital projects from reserves, appropriations from the general fund and from bond authorizations. During FY 2010, the capital projects fund declined $800,000 due to a $277,000 transfer to reserves, transfer out to the RSU of $68,000, and numerous paving and drainage projects totaling $479,000, and other smaller projects Town wide.

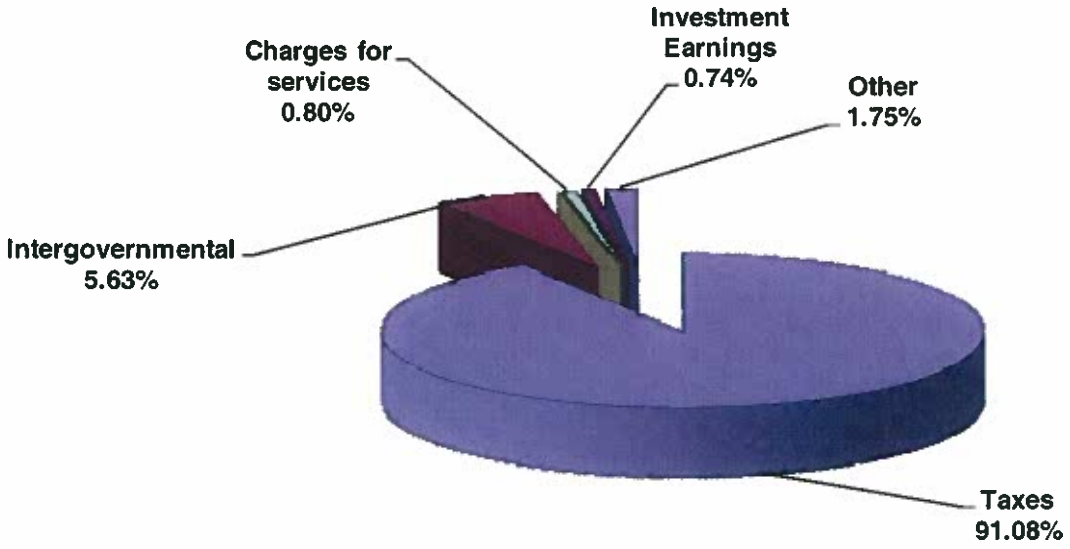
General Fund Revenues Budget to Actual Summary

For fiscal year 2010, revenues exceeded estimated revenues by approximately $589,000. The major reasons were an overlay of $438,000, strong vehicle excise tax collections with collections exceeding budget by $77,000. It is notable that due to lower than State-forecasted income and sales tax figures in addition to State reduction in revenue sharing distributions caused the actual revenue received to be $67,000 lower than budgeted. For FY 2010, $469,125 was budgeted from the fund balance to reduce property taxes. The property tax collection rate for the year declined slightly to 96.12% from the previous year's collection rate of 96.62%.

General Fund Revenues Budget to Actual Summary

nd	Budget	Actual	Variance
Taxes	19,664,065	20,111,391	447,326
Licenses and permits	191,940	220,827	28,887
Intergovernmental	1,207,300	1,242,386	35,086
Tuition and other charges for services - education	-	-	-
Charges for services	133,000	176,669	43,669
Fees and fines	88,400	97,664	9,264
Unclassified	46,362	66,829	20,467
Investment earnings	160,000	164,124	4,124
Total revenues	21,491,067	22,079,890	588,823

Revenue Sources 2010

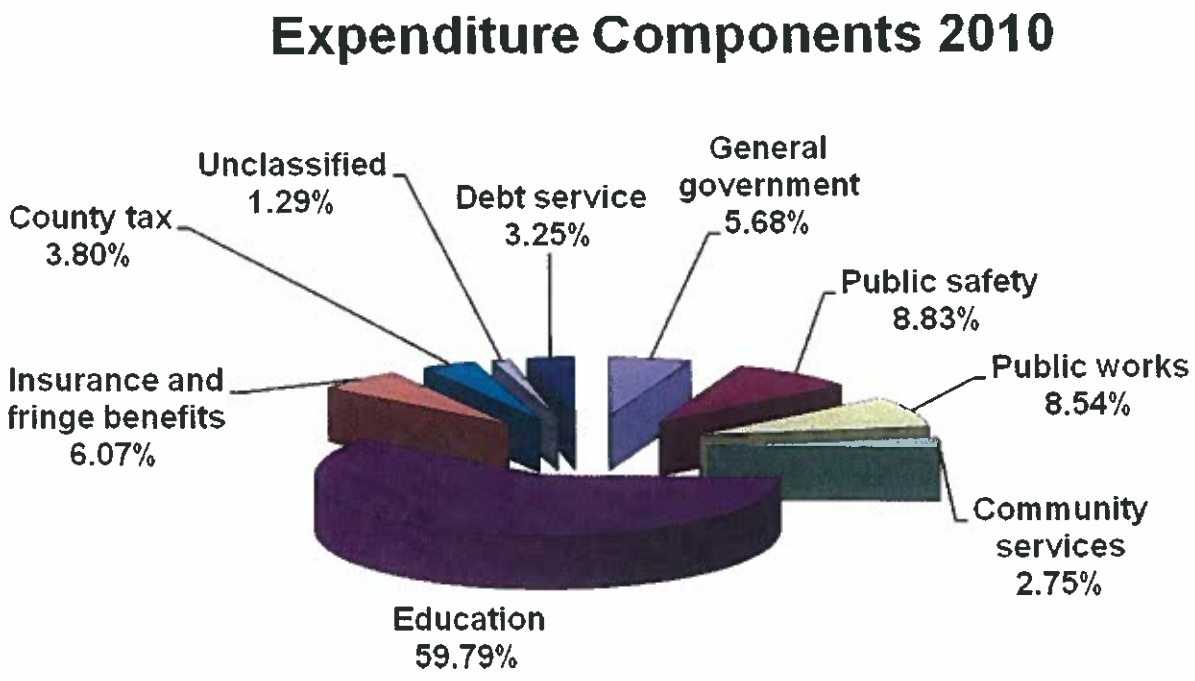


General Fund Expenditures Budget-to-Actual Summary

General Fund expenditure budgets are approved by the Town Council at the departmental level, with charter budgetary limits at the function level. Expenditures were less than appropriations throughout the budget resulting in approximately $600,000 of savings. The most significant favorable result was in public works which was under budget by $210,000 due to the light winter and favorable asphalt prices. Department managers are directed and make every effort to leave five percent surpluses in budgets, especially during tough economic times when revenue could be lower than budgeted for the fiscal year. All charter function levels were significantly within budget limits. The following summarizes the Town of Freeport's General Fund budgeted appropriations to actual by function for the year ended June 30, 2010 (see Exhibit A-2 for a more detailed presentation):

General Fund Expenditures Budget-to-Actual Summary

Expenditures:	Budget	Actual	Variance
Current:			
General government	1,351,758	1,232,765	118,993
Public safety	1,970,519	1,918,249	52,270
Public works	2,065,259	1,855,111	210,148
Community services	640,853	597,354	43,499
Education	12,985,533	12,985,533	-
Insurance and fringe benefits	1,403,660	1,319,109	84,551
County tax	824,736	824,736	-
Unclassified	361,500	279,131	82,369
Debt service	714,374	705,347	9,027
Total expenditures	22,318,192	21,717,335	600,857



SUMMARY OF CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

CAPITAL ASSETS

The Town has developed and maintained a five-year and a twenty-year Capital Improvement Plan (CIP) for over twenty years. This plan is updated annually as part of the budget cycle and is used for equipment, vehicles, building and Town wide infrastructure needs. Additionally, the Town has a street paving account in the Public Works' budget for ongoing street paving.

The Town's 2010 capital budget that was approved in May of 2010 included the following:

	2010	Funding Source				
	Council Approved	Reserve	Bond	Fund Balance	TIF	Other
School	-	-				
Police	-	-				
Fire	39,000	39,000				
Rescue	-	-				
Public Works	-	-				
Solid Waste	-	-				
Comprehensive Town Imp.	97,500	97,500				
Parking Lots	-	-				
Municipal Facilities	95,000	95,000				
TIF	256,365	-			256,365	
Library	-	-				
Cable	14,000	14,000				
Other (Community Center)	6,000	6,000				
Total	507,865	251,500	-	-	256,365	-

A summary of the Town's capital assets at June 30, 2010 and 2009 are as follows:

General fixed assets:		2010	2009
Land	$	1,489,584	1,849,869
Land improvements		1,570,709	1,736,907
Buildings and improvements		10,055,840	29,976,967
Machinery, equipment and other		4,548,728	5,219,066
Vehicles		3,766,620	4,671,667
Infrastructure		7,331,028	6,969,522
Construction in process		494,543	627,646
Total governmental fund capital assets	**$**	**29,257,052**	**51,051,644**

It is notable that the large decline in the Town's fixed assets listing is due to the legal requirement to transfer all properties and equipment related to the former school department to the new Regional School Unit. This was done as of July 1, 2009, and these items were removed from the listing above.

LONG-TERM DEBT

The State allows municipalities to borrow up to 15% of their total valuation. Since the Town's State Valuation was $1,554,400,000 for 2010, the debt limit was more than $233,160,000. The Town's current debt is $8,914,622, or less than 1% of State Valuation or approximately 3.82% of the Town's debt limit. Another measure of a municipality's debt load is debt-per-capita. As of June 30, 2010, the Town of Freeport's debt per capita was $1,101 as compared to the prior year of $1,325.

The following is a summary of bond and note transactions of the Town for the year ended June 30, 2010:

Bonds and notes payable at June 30, 2009	$ 10,337,605
Principal additions	-
Principal payments	(1,422,983)
Bonds and notes payable at June 30, 2010	**$ 8,914,622**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Freeport has a vibrant downtown, many thriving businesses, and residential growth outside the downtown, but has not been immune to the national economic downturn. For example, at the height of residential growth in 2005, the Town issued 85 new residential single family building permits, and only issued 24 during FY 2010.

Freeport's largest retailer and employer, L.L. Bean, purchased 800 acres of land on the west end of Town and has long planned to build an "Adventure Center" on this land, which will include a convention center, hotel, and outdoor activity complex. In April of 2009, Berenson Associates, in partnership with L.L. Bean, opened a 550 car parking garage and 118,000 sq ft of new retail and restaurant space. While the retail space has not been filled as quickly as Berenson or L.L. Bean had hoped, the complex is approximately 60% full as of June 30, 2010. While information regarding lease rates is not public information, Berenson Associates reports that lease rates have been competitive with local rates. The total project, including the parking garage and retail space, cost approximately $45 million, and the Town has entered into a TIF credit enhancement agreement with the developer to assist with a maximum of $17.5 million over 20 years toward the public parking garage portion of the development. While not as large as the Berenson/Bean project, surrounding stores such as Cole Haan and Mexicali Blues underwent construction projects to make their stores accessible to the new shopping and parking complex. This has led to a better pedestrian flow in the downtown, and has ensured more accessibility to all retailers and businesses throughout the downtown.

In addition to the new retail and parking garage space, as of June 20, 2010, Berenson announced plans to construct a six-screen theater which will show first-run movies. Information on the movie theater is very preliminary at this time, and will be updated as it becomes available.

The Northern New England Passenger Rail Authority received a $35 million federal ARRA grant for the construction of passenger rail infrastructure from Brunswick to Portland with a stop in Freeport for service beginning in 2012.

The local grocery store/deli Bow Street Market has begun construction to triple its floor space from 5,000 to 15,000 square feet in size. This expansion includes the extension of School Street over a gulley to meet Bow Street; this is an exciting project, as it will allow through auto, bicycle, and foot traffic.

Maine Natural Gas has committed to installing natural gas infrastructure in Freeport's downtown. While that infrastructure has not been constructed by June 30, 2010, as of the time of these footnotes, its installation has begun.

In addition, Freeport's downtown storefront vacancy rate remains lower than that of other Southern Maine communities, which makes Freeport highly desirable for new retail businesses. Vacancy rate data is difficult to capture on any given date due to the different organizations tracking the information, but it is estimated that the average vacancy rate in Southern Maine retail districts is approximately 20%; Freeport's vacancy rate as of June 30, 2010 was only 14.7% of total storefront space. This has increased from approximately 12% at June 30, 2009 but the June 30, 2010 statistic now includes office and the new "Freeport Village Station" space while the 2009 statistic did not.

The Town of Freeport is located within a 25 mile radius of the Brunswick U.S. Naval Air Station. The base is scheduled for closure in 2011 as part of the 2005 Base Realignment and Closure decision. However, the Town anticipates fairly limited impact on its housing stock due to its close proximity to the City of Portland, its coastal location and availability of land which has made it very attractive to residential development for the Portland market. Freeport has seen substantial residential construction and anticipates a continuation of this trend for the near future.

New Fiscal Year Budget

In adopting the budget for the ensuing fiscal year 2011, the Town officials considered many factors in making judgments and estimates about the finances for the upcoming year. A primary objective was to continue to provide basic town services to the citizens while attempting to keep the property tax rate low. The Town completed a comprehensive revaluation of Town property effective April 1, 2006 for the FY 2007 tax year. The total Town value increased by 33% during that revaluation, and increased by approximately $21 million between 2009 and 2010, or 0.013% of the Town's total taxable value. Presently for fiscal year 2010, the Town believes that its valuation (based on a valuation date of April 1, 2009) is at 100% of present market value.

The budget for the fiscal year starting July 1, 2010 was approved by the Town Council with a tax rate of $15.15 mils, which appears to be a large increase from the FY 2010 rate of $12.75. However, due to the decline in the real estate market and declining sales data, the Town's assessor decreased all real property values by 15%; the mil rate increased to compensate for that decline in addition to a small increase from RSU #5 of approximately $160,000 or approximately 12 cents-per-$1,000 of assessed value.

The following summarizes the major components of the FY 2010 and FY 2011 budgets:

		FY 2010 Appropriation		FY 2011 Appropriation	Increase (Decrease)
REVENUES					
Town Non-Property Tax	$	3,489,002		3,182,740	(306,262)
Property taxes		18,360,065		18,678,986	318,921
Fund Balance		469,125		508,287	39,162
TOTALS		**22,318,192**		**22,370,013**	**51,821**
EXPENDITURES					
Municipal		7,966,551		7,943,449	(23,102)
Education		12,985,533		13,104,454	118,921
County Tax		824,736		825,598	862
Reserves		-		-	-
Debt Service		541,372		496,512	(44,860)
TOTALS	**$**	**22,318,192**		**22,370,013**	**51,821**
Mill Rate	**$**	**12.75**	**$**	**15.15**	

One notable change in the table above is the creation of the new Regional School Unit, RSU #5. In the past, neighboring towns Pownal and Durham paid the Town of Freeport tuition to send their students to Freeport High School. For FY 2010, there is one RSU budget including all three towns and no tuition is moving between the Towns. The RSU can be viewed as a separate assessment, and is no longer a department of the Town as of July 1, 2009.

While Freeport is currently in very good financial shape, the Town must be very careful of declining revenues from the State of Maine. Such revenues include, but are not limited to revenue sharing (a portion of sales and income taxes), road assistance, homestead exemption, and business equipment tax payments. The Town must maintain a tight budget in order to ensure that expenditures do not begin to outpace revenues in future years.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Freeport's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town of Freeport, 30 Main Street, Freeport, Maine 04032.

Respectfully submitted,

Dale C. Olmstead Jr.
Town Manager

Abigail C. Yacoben
Finance Director

BASIC FINANCIAL STATEMENTS

Statement 1

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 12,186,429	-	12,186,429
Investments	6,595,515	-	6,595,515
Receivables:			
Accounts, net	77,248	129,039	206,287
Intergovernmental	-	-	-
Taxes receivable	789,062	-	789,062
Tax liens	291,790	-	291,790
Internal balances	79,146	(79,146)	-
Inventory	15,154	-	15,154
Capital assets, net	17,127,095	19,726	17,146,821
Total assets	37,161,439	69,619	37,231,058
LIABILITIES			
Accounts payable and other current liabilities	596,831	5,798	602,629
Accrued wages and benefits payable	168,863	8,850	177,713
Accrued vacation	239,176	-	239,176
Accrued interest	56,372	-	56,372
Noncurrent liabilities:			
Other long-term liabilities	622,115	-	622,115
Other postemployment benefits liability	169,293	-	169,293
Bonds due within one year	1,367,983	-	1,367,983
Bonds due in more than one year	7,546,639	-	7,546,639
Total liabilities	10,767,272	14,648	10,781,920
NET ASSETS			
Invested in capital assets, net of related debt	8,212,473	19,726	8,232,199
Restricted for:			
Special revenues	1,188,591	-	1,188,591
Capital projects	24,531	-	24,531
Nonexpendable trust funds	943,893	-	943,893
Unrestricted	16,024,679	35,245	16,059,924
Total net assets	**$ 26,394,167**	**54,971**	**26,449,138**

See accompanying notes to financial statements.

TOWN OF FREEPORT, MAINE
Statement of Activities
For the Year Ended June 30, 2010

Functions/programs	Expenses	Program Revenues: Charges for services	Program Revenues: Operating grants and contributions	Program Revenues: Capital grants and contributions	Net (expense) revenue and changes in net assets: Primary Government: Governmental activities	Net (expense) revenue and changes in net assets: Primary Government: Business-type activities	Net (expense) revenue and changes in net assets: Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 1,711,138	136,841	-	-	(1,574,297)	-	(1,574,297)
Public safety	2,778,277	308,256	64,558	-	(2,405,463)	-	(2,405,463)
Public works	2,535,598	164,154	137,034	-	(2,234,410)	-	(2,234,410)
Community services	987,873	190,595	12,261	-	(785,017)	-	(785,017)
Education	12,067,308	-	-	-	(12,067,308)	-	(12,067,308)
County tax	824,736	-	-	-	(824,736)	-	(824,736)
Unclassified	2,668,299	248,422	-	-	(2,419,877)	-	(2,419,877)
Interest on debt	375,975	-	-	-	(375,975)	-	(375,975)
Capital maintenance expenses	647,401	-	-	247,937	(399,464)	-	(399,464)
Total governmental activities	24,596,606	1,048,268	213,853	247,937	(23,086,548)	-	(23,086,548)
Business-type activities:							
Nonemergency Transportation	447,865	429,254	-	-	-	(18,611)	(18,611)
Total business-type activities	447,865	429,254	-	-	-	(18,611)	(18,611)
Total primary government	**$ 25,044,471**	**1,477,522**	**213,853**	**247,937**	**(23,086,548)**	**(18,611)**	**(23,105,159)**
General revenues:							
Property taxes, levied for general purposes					$ 20,012,186	-	20,012,186
Motor vehicle excise taxes					1,316,407	-	1,316,407
Interest and lien costs					80,668	-	80,668
Grants and contributions not restricted to specific programs:							
Homestead exemption					160,625	-	160,625
Other State aid					346,470	-	346,470
State Revenue Sharing					533,336	-	533,336
Unrestricted investment earnings					687,788	-	687,788
Transfer					45,000	(45,000)	-
Miscellaneous revenues					1,157,047	-	1,157,047
Final Transfer to RSU #5					(14,789,049)	-	(14,789,049)
Total general revenues and transfers					9,550,478	(45,000)	9,505,478
Change in net assets					(13,536,070)	(63,611)	(13,599,681)
Net assets - beginning					39,930,238	118,582	40,048,820
Net assets - ending					$ 26,394,168	54,971	26,449,139

See accompanying notes to financial statements.

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

		General	Town Reserve Funds	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets:					
Cash	$	10,138,092	1,334,613	713,724	12,186,429
Investments		16,432	5,562,985	1,016,098	6,595,515
Receivables:					
Accounts		51,907	22,549	2,792	77,248
Intergovernmental		-	-	-	-
Taxes receivable		789,062	-	-	789,062
Tax liens		291,790	-	-	291,790
Interfund loans receivable		176,799	870,731	2,610,704	3,658,234
Inventory		15,154	-	-	15,154
Total assets	**$**	**11,479,236**	**7,790,878**	**4,343,318**	**23,613,432**
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$	212,283	(440)	62,635	274,477
Accrued wages and benefits		168,863	-	-	168,863
Accrued vacation		239,176	-	-	239,176
Taxes collected in advance		-	-	-	-
Interfund loans		3,487,926	-	91,162	3,579,088
Development escrows		196,422	-	-	196,422
Deferred tax revenues		722,208	-	-	722,208
Other deferred revenues		125,931	-	-	125,931
Total liabilities		5,152,809	(440)	153,797	5,306,165
Fund balances:					
Reserved for:					
Carryover		101,304	-	-	101,304
Nonexpendable trust funds		-	-	943,893	943,893
Future retirement pay		173,750	-	-	173,750
Inventory		15,154	-	-	15,154
Unreserved, reported in:					
Designated		1,508,287	-	100,000	1,608,287
Undesignated:					
General fund		4,527,932	-	-	4,527,932
Special revenue funds		-	7,791,318	2,050,135	9,841,452
Capital project funds		-	-	1,095,493	1,095,493
Total fund balances		6,326,427	7,791,318	4,189,521	18,307,266
Total liabilities and fund balances	**$**	**11,479,236**	**7,790,878**	**4,343,318**	**23,613,431**

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	17,127,095
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds.	722,208
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	(9,762,402)
Net assets of governmental activities	**26,394,167**

See accompanying notes to financial statements.

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

		General	Town Reserve Funds	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$	20,111,391	-	1,197,363	21,308,754
Licenses, permits and fees		220,827	93,758	-	314,585
Intergovernmental		1,242,386	-	332,309	1,574,695
Charges for services		176,669	233,076	785,635	1,195,380
Fees and fines		97,664	-	-	97,664
Unclassified		66,829	243,804	214,579	525,212
Investment earnings		164,124	407,792	115,872	687,788
Total revenues		22,079,890	978,430	2,645,758	25,704,078
Expenditures:					
Current:					
General government		1,232,765	-	-	1,232,765
Public safety		1,918,249	-	-	1,918,249
Public works		1,855,111	-	18,991	1,874,102
Community services		597,354	-	-	597,354
Education		12,985,533	-	-	12,985,533
Insurance and fringe benefits		1,319,109	-	-	1,319,109
County tax		824,736	-	-	824,736
Unclassified		279,131	461,041	1,905,477	2,645,649
Capital outlay		-	-	1,301,500	1,301,500
Debt service		705,347	-	164,962	870,309
Total expenditures		21,717,335	461,041	3,390,930	25,569,306
Excess (deficiency) of revenues over (under) expenditures		362,555	517,389	(745,172)	134,771
Other financing sources (uses):					
Bond proceeds		-	-	-	-
Operating transfers from other funds		358,000	-	58,713	416,713
Operating transfers to other funds		(691,275)	809,454	(489,892)	(371,713)
Final Transfer to RSU #5		(277,098)	-	(474,302)	(751,400)
Total other financing sources (uses)		(610,373)	809,454	(905,481)	(706,400)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses		(247,818)	1,326,843	(1,650,653)	(571,629)
Fund balances, beginning of year		6,574,245	6,464,475	5,840,174	18,878,894
Fund balances, end of year	**$**	**6,326,427**	**7,791,318**	**4,189,521**	**18,307,267**

See accompanying notes to financial statements.

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

Net change in fund balances - total governmental funds (from Statement 4)	$	(571,629)
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation and the loss from disposal of capital assets in the current period.		(390,827)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		100,508
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(59,456)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the net book value of capital assets transferred to RSU #5 less compensated absences assumed by RSU #5.		(14,037,649)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds. During the year 2010 there were no bond proceeds.		1,422,983
Change in net assets of governmental activities (see Statement 2)	**$**	**(13,536,070)**

See accompanying notes to financial statements.

TOWN OF FREEPORT, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - All Budgeted Governmental Fund Types
General Fund
For the year ended June 30, 2010

	Budgeted amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Taxes	$ 20,027,173	19,664,065	20,111,391	447,326
Licenses, permits and fees	191,940	191,940	220,827	28,887
Intergovernmental	1,207,300	1,207,300	1,242,386	35,086
Charges for services	133,000	133,000	176,669	43,669
Fees and fines	88,400	88,400	97,664	9,264
Unclassified	46,362	46,362	66,829	20,467
Investment earnings	160,000	160,000	164,124	4,124
Total revenues	21,854,175	21,491,067	22,079,890	588,823
Expenditures:				
Current:				
General government	1,351,758	1,351,758	1,232,765	118,993
Public safety	1,970,519	1,970,519	1,918,249	52,270
Public works	2,065,259	2,065,259	1,855,111	210,148
Community services	640,853	640,853	597,354	43,499
Education	12,985,533	12,985,533	12,985,533	-
Insurance and fringe benefits	1,403,660	1,403,660	1,319,109	84,551
County tax	824,736	824,736	824,736	-
Unclassified	361,500	361,500	279,131	82,369
Debt service	1,077,482	714,374	705,347	9,027
Total expenditures	22,681,300	22,318,192	21,717,335	600,857
Excess (deficiency) of revenues over expenditures	(827,125)	(827,125)	362,555	1,189,680
Other financing sources (uses):				
Use of undesignated fund balance - Town	469,125	469,125	-	(469,125)
Use of undesignated fund balance - Reserves	-	-	-	-
Final Transfer to RSU #5	-	-	(277,098)	(277,098)
Operating transfers from other funds	358,000	358,000	358,000	-
Operating transfers to other funds	-	-	(691,275)	(691,275)
Total other financing sources (uses)	827,125	827,125	(610,373)	(1,437,498)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses - budgetary basis	-	-	(247,818)	(247,818)
Reconciliation to GAAP basis:				
Encumbrances			-	
Excess (deficiency) of revenues and other financing sources over (under) expenditures - GAAP basis			(247,818)	
Fund balance, beginning of year			6,574,245	
Fund balance, end of year	$		**6,326,427**	

See accompanying notes to financial statements.

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

	Business-type Activities - Enterprise Funds	
		Nonemergency Transportation Program
ASSETS		
Current assets:		
Accounts receivable less allowance for uncollectibles of $113,000	$	129,039
Total current assets		129,039
Non-current assets:		
Property, plant, and equipment		150,309
Less accumulated depreciation		(130,583)
Total noncurrent assets		19,726
Total assets	**$**	**148,765**
LIABILITIES		
Current liabilities:		
Accounts payable		5,798
Interfund loans		79,146
Accrued wages and benefits payable		8,850
Total current liabilities		93,794
Total liabilities	**$**	**93,794**
NET ASSETS		
Invested in capital assets, net of related debt		19,726
Unrestricted		35,245
Total net assets	**$**	**54,971**

See accompanying notes to financial statements.

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

	Business-type Activities - Enterprise Funds	
		Nonemergency Transportation Program
Operating revenues:		
Charges for services	$	429,254
Total operating revenues		429,254
Operating expenses:		
Wages and benefits		385,241
Operational costs		51,517
Depreciation and amortization		11,107
Total operating expenses		447,865
Operating loss		(18,611)
Transfer to Ambulance Reserves		(45,000)
Change in net assets		(63,611)
Total net assets, beginning of year		118,582
Total net assets, end of year	**$**	**54,971**

See accompanying notes to financial statements.

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

	Business-type Activities - Enterprise Funds
	Nonemergency Transportation Program
Cash flows from operating activities:	
Receipts from customers and users	$ 429,611
Payments to suppliers	(46,750)
Payments to employees	(382,491)
Net cash provided by (used in) operating activities	370
Cash flows from capital and related financing activities:	
Purchase of fixed assets	-
Transfer to Ambulance reserve	(45,000)
Interfund borrowing	44,630
Net cash provided by (used in) financing activities	(370)
Change in cash	-
Cash, beginning of year	-
Cash, end of year	**$** -
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	$ (18,611)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization	11,107
(Increase) decrease in operating assets:	
Accounts receivable	357
Increase (decrease) in operating liabilities:	
Accounts payable	4,767
Accrued wages and benefits payable	2,750
Net cash provided by (used in) operating activities	370

See accompanying notes to financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Freeport, Maine was incorporated as a Town in 1789 under the laws of the State of Massachusetts and later the State of Maine. The Town operates under a council-manager form of government. Freeport is located in Cumberland County approximately 15 miles northeast of Portland along the southern Maine coast. The Council is comprised of seven members elected by district and at-large for staggered three-year terms.

On July 1, 2009 Freeport Public Schools became part of Regional School Unit No. 5 (RSU No. 5), a legally separate entity from the Town of Freeport. During FY 2010, the Town transferred all former school department assets to the new RSU. This is noted throughout the financial statements, and these transfers are shown as "final transfer to RSU 5".

Component Unit

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14 "The Financial Reporting Entity". The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. Based on the application of these criteria, the town has reported the following component unit:

Freeport Economic Development Corporation (FEDC) is a component unit of the Town and is governed by a Town appointed Board. Although it is legally separate from the Town, the FEDC is reported as if it were part of the primary government because its sole purpose is to attract new businesses to the Freeport area. There are no separately issued financial statements for this component unit and it is reported as a special revenue fund blended component unit.

Joint Venture

As defined in GASB Statement #14, a joint venture is a legal entity or other organization that results from a contractual arrangement (or interlocal agreement) and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an on-going financial interest or (b) an on-going financial responsibility. The Town participates in the following joint venture.

Eastern Cumberland - Sagadahoc County Vocational Program -The Town shares the financial and governing responsibility of the Eastern Cumberland - Sagadahoc County Vocational Program for Maine Region Ten Technical High School with Maine School Administrative District No. 75 and the Town of Brunswick, Maine. The entities fund the operations of the applied technology program through yearly assessments. Maine Region Ten Technical High School had total net assets of $1,052,068 as of June 30, 2010 (unaudited). The financial statements of Maine Region Ten Technical High School for the year ended June 30, 2010 are available from the Region in Topsham, Maine.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Government-wide and Fund 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Town reports the following major governmental funds:

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

The Town Capital Reserve Funds are used to account for financial resources reserved for the acquisition or construction of major equipment and capital facilities.

The Town reports the following proprietary fund:

Nonemergency Transportation Program (NET) accounts for the operation of a nonemergency transportation program operating in Southern Maine.

Additionally, the Town reports the following fund types:

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Receivables

Accounts receivable for the business-type activities include an allowance for doubtful accounts in the amount of $113,000 as of June 30, 2010 . Management has determined that potential uncollectible accounts for intergovernmental, taxes and tax liens receivable are not material.

E. Investments

Investments are stated at fair value, unless otherwise indicated. Investments of the Permanent Funds, Town and School Reserve accounts and certain capital project funds are pooled on a cost basis, with each individual fund subscribing to or disposing of interest in the investment pool on the basis of cost value at the beginning of the fiscal year. As such, investment income, investment expense, and gains and losses on sales of investments are allocated to each fund based on its proportionate interest in the investment pool.

F. Capital Assets

Capital assets, which include property, plant, equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the assets' estimated useful lives ranging from 3 to 60 years. Business-type fund capital assets are depreciated using the straight line method over the assets' estimated useful lives ranging from 4 to 7 years.

For all capital assets; buildings, vehicles and equipment, the Town elects to use the Depreciation Approach as defined by Statement No. 34 for reporting. The Town conducted an inventory of all other non-infrastructure capital assets for fiscal year 2003 and infrastructure for the fiscal year 2007. This process determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: 1) historical records; 2) standard unit costs appropriate for the construction/acquisition date; or 3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each capital asset. The book value was then computed by deducting the accumulated depreciation from the original cost.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

G. Vacation and Sick Leave

Under the terms of personnel policies and a union contract, vacation and sick leave are granted in varying amounts according to length of service. The Town and historically, the School Department, have accrued accumulated vacation leave and vested sick leave. The portion of this liability attributable to the General Fund, which is expected to be paid with current financial resources, is accrued in the General Fund with the balance reported in the government-wide financial statement. It is notable that the Town removed $664,000 from its books as part of the school consolidation process; this amount is included in the net "final transfer to RSU #5" on the financial statements.

H. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs if material to the basic financial statements, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. It is notable that while several debt service payments are the responsibility of and budgeted by RSU #5, the Town must continue to book these long-term liabilities because the Town is responsible for paying the bondholders.

I. Inventory

Inventory in the General Fund consists of vehicle fuel and is recorded at the lower of cost or market on the first-in, first-out basis and is offset with a reserved fund balance for inventories.

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 operating transfers.

K. 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.

L. Use of Estimates

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

M. Budgetary Information

Each year the Town Manager submits to the Town Council a budget for the ensuing fiscal year. Hearings are held to obtain public comments. The budget is legally enacted by a council order. The order enacts the total Town appropriation. Budgets are adopted for the General Fund, Winslow Park Fund and Nonemergency Transportation Fund only, and are adopted on a basis consistent with generally accepted accounting principles (GAAP), except for encumbrances. These encumbrances have been recorded as expenditures for budgetary reporting in the year encumbered. There is no effect on the fund balance at the end of the year.

N. Recent Accounting Pronouncements

Hierarchy of Generally Accepted Accounting Principles

In April 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments.* This statement incorporates the hierarchy of GAAP for state and local governments into the GASB's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The GASB is responsible for establishing GAAP for state and local governments, however, prior to GASB No. 55 the GAAP hierarchy was set forth in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity with GAAP,* rather than in the authoritative literature of the GASB. The adoption of this statement did not have a material effect on the Town's financial position or results of operations.

Codification of Accounting and Financial Reporting Guidance

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.* This statement incorporates into the GASB authoritative literature accounting and financial reporting guidance on related party transactions, going concern considerations and subsequent events previously only contained in AICPA Statements on Auditing Standards. The statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. The adoption of this statement did not have a material effect on the Town's financial position or results of operations.

Fund Balance

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The new statement is effective for financial statement periods beginning after June 15, 2010. The Government is currently assessing the impact of this statement on its financial position and changes in financial position.

CASH AND INVESTMENTS

The Town's policy is to invest all available funds at the highest possible rates in conformance with legal and administrative guidelines, while avoiding unreasonable risk. The funds are invested in liquid investments with maturities planned to coincide with the Town's cash needs during the year. Generally, the Town invests such excess funds in cash management accounts and various insured certificates of deposits.

Deposits:

***Custodial Credit Risk*- Deposits**: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk, but requires all deposit accounts to hold collateral either at an outside bank in the Town's name or through an irrevocable letter of credit to the Town in any amounts above the FDIC insurance limits. The Town maintains deposits in banks or savings and loans that are a member of the FDIC and qualify as a depository of public funds in the State of Maine as defined in Title 30-A, Section 5706 of the Maine Revised Statutes. As of June 30, 2010, the Town reported deposits of $12,186,429 with a bank balance of $12,524,177. None of the Town's bank balances are uninsured and uncollaterized.

Investments:

***Custodial Credit Risk*- Investments**: For investments, this is the risk that in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have an investment policy for custodial credit risk.

At June 30, 2010, the Town had the following investments and maturities:

	Fair Value	Not Applicable	Less than 1 year	1-5 years
Money market funds	$165,940	-	$165,940	-
Barclays TIPS Bond Fund	1,071,627	-	1,071,627	-
Mutual Funds - Equity	2,465,469	$2,465,469	-	-
Mutual Funds – Fixed Income	2,892,479	2,892,479	-	-
Total investments	**$6,595,515**	**$5,357,948**	**$1,237,567**	**-**

Interest Rate Risk: The Town does not have a formal policy related to interest rate risk. To the extent possible, the Town attempts to match investments with anticipated cash requirements that attain a market value rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities and cash flow requirements.

Credit Risk and Concentration of Credit Risk: Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and certain corporate stocks and bonds. Generally, the Town invests such excess funds in U.S. Treasury and Agency bonds and notes, repurchase agreements, and in investment pool funds. Certain long-term reserve and trust funds are invested through a financial institution with trust powers in fixed income and equity mutual funds to provide long-term growth and income. The Town's investments in debt securities that require disclosure of credit risk were rated by Standard & Poor's as follows: Money market funds $16,432 – AAA, Money market funds $149,508 – unrated. Fixed income mutual funds $1,582,452 – AAA, Fixed income mutual funds $1,310,027 – unrated. As of June 30, 2010 the Town did not have investments in any one issuer that exceeded 5% of investments.

PROPERTY TAX

Property taxes for the current period were committed on September 15, 2009, on the assessed value listed as of April 1, 2009, for all real and personal property located in the Town. For real property, payment of taxes was due in equal installments on November 16, 2009 and May 17, 2010. Personal property taxes were due in whole on November 16, 2009. Interest at the rate of 9% per annum was charged on any amounts remaining unpaid after these dates. Assessed values are periodically established by the Assessor's agent at 100% of assumed market value. The FY 2010 assessed value was 100% of the estimated market value and 100.65% of the 2009 state valuation of $1,558,200,000.

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 $438,722 for the period ended June 30, 2010.

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.

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

	2010	2009
Assessed value	$1,568,325,529	1,546,890,745
Tax rate (per $1,000)	12.75	12.75
Commitment	19,996,150	19,722,857
Supplemental taxes assessed	12	466
	19,996,162	19,723,323
Less:		
Collections and abatements	19,220,359	19,057,526
Receivable at end of period (Current year)	**$ 775,803**	**665,797**
Collection rate	96.12%	96.62%

SIGNIFICANT TAXPAYER

For the year ended June 30, 2010, the Town of Freeport committed and collected $3,176,385 in real estate and personal property tax revenue from L.L. Bean Inc. This commitment represents approximately 15.88% of total property taxes assessed.

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	6/30/2009	Increases	Decreases	6/30/2010
Governmental Activities				
Land	$ 1,849,869	-	360,285	$ 1,489,584
Total capital assets not bring depreciated	1,849,869	-	360,285	1,489,584
Capital assets being depreciated				
Land improvements	1,736,907	-	166,198	1,570,709
Buildings and building improvements	29,976,967	-	19,921,127	10,055,840
Machinery, equipment, and other	5,219,066	182,988	864,100	4,537,954
Vehicles	4,671,667	170,059	1,214,643	3,627,083
Construction work in process	627,646	-	133,103	494,543
Infrastructure	6,969,522	434,416	72,943	7,330,995
Total capital assets being depreciated	49,201,775	787,463	22,372,114	27,617,124
Less accumulated depreciation	18,832,096	1,044,925	7,897,408	11,979,613
Total capital assets being depreciated, net	30,369,679	(257,462)	14,474,706	15,637,511
Governmental activities capital assets, net	**$32,219,548**	**(257,462)**	**14,834,991**	**$ 17,127,095**
Business-type activities				
Equipment	$ 10,772			$ 10,772
Vehicles	139,537			139,537
Total capital assets being depreciated	150,309			150,309
Less accumulated depreciation	119,476	11,107		130,583
Business-type activities capital assets, net	**$ 30,833**	**(11,107)**	**-**	**$ 19,726**

Depreciation expense was charged to functions/programs of the primary government for the year ended June 30, 2010 as follows:

Governmental Activities	
General government	$ 78,966
Public safety	299,754
Public works	417,776
Community services	225,779
Unclassified	22,650
Total depreciation expense-governmental activities	**1,044,925**
Business-type activities	
Nonemergency Transportation Program	11,107
Total depreciation expense-business activities	**11,107**

INTERFUND TRANSACTIONS

During the course of normal operations the Town has numerous transactions between funds including expenditures and transfers. Individual fund interfund receivables and payables balances at June 30, 2010 arising from these transactions were as follows:

	Receivable	Payable
General Fund	176,799	3,487,926
Special Revenue Funds:		
Town reserve funds	870,731	
Winslow Park		72,731
TIF Funds	378,926	
Bartol building lease fund	490,769	
Tower lease fund	252,549	
Other Town grants and programs	384,208	
Capital Project Funds:		
Fire department projects	16,761	
Rescue department projects	26,507	
Public works projects	53,871	
Police department projects	2,005	
Recycling projects	153,646	
Comprehensive Town projects	529,308	
Municipal buildings and other	272,154	
Boards and committees	48,801	
Undesignated interest		
Enterprise NET program		79,146
Permanent funds	1,199	18,431
Totals	$ 3,658,234	$ 3,658,234

FUND BALANCE

At June 30, 2010, the General Fund's fund balance was comprised of the following:

Reservations:	
Carryover	$ 101,304
Inventory	15,154
Future retirement pay	173,750
Total	**$ 290,208**
Designated fund balances:	
Town FY 2011 budgeted use of Fund Balance	$ 508,287
Tax rate stabilization account	1,000,000
Total	**$ 1,508,287**
Undesignated fund balance:	
Town undesignated	4,527,932
Total	**$ 4,527,932**

PENSION PLANS

Maine State Retirement System

Description of the Plan - The Town contributes to the Maine State Retirement System Consolidated Plan, a cost sharing, multiple employer retirement system established by the Maine State Legislature. The Maine State Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend 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 a percentage of their annual covered salary. The Town is required to contribute an actuarially determined rate. Employer and member rates for the year ended June 30, 2010 were as follows:

	Special #2C
Employer payroll rate(s):	
Normal cost	9.6%
Pooled UAL	-5.6%
Total payroll rate	4.0%
Monthly IUUAL available (7/1/09-6/30/10):	
Payment/(Credit)	($ 3,429)
Member contribution rate(s)	**6.5%**

Prior to the Consolidated Plan, the Town had a separate inactive District Plan. Effective July 1, 2003, the Town elected to join the Consolidated Plan. Under the terms of joining the Consolidated Plan, the Town has an Initial Unpooled Unfunded Actuarial Liability Credit (IUUAL). The credit is being amortized over 12 years starting with the fiscal year 2008. Employer contributions for the year ended June 30, 2010 were $24,731 net of credits taken. The contribution rates of plan members and the Town are established and may be amended by the Maine State Retirement System Board of Trustees. For the year ended June 30, 2010, employee contributions to the plan totaled $107,152.

Defined Contribution Plan

The Town offers its regular employees a defined contribution money purchase plan created in accordance with Internal Revenue Code Section 401(a). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate and are vested from the date of employment. Participating employees are required to contribute 7% of compensation for the year and the Town matches the employees' contribution with 10% of compensation for the plan year. For the year ended June 30, 2010, the Town's contribution to the plan totaled $147,617.

PENSION PLANS - CONTINUED

Deferred Compensation Plan

The Town offers all its employees 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 deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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

Other

Additionally, the Town participates in the Social Security Retirement Program. The Town's contribution to Social Security (including Medicare) was approximately $287,542 for the year ended June 30, 2010.

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009 was as follows:

Changes in Long-Term Liabilities Footnote	Beginning Balance	Additions	Reductions	Balance	Due Within One Year
Governmental Activities					
General obligation bonds	$ 10,337,605	$ -	$ 1,422,983	$ 8,914,622	$ 1,367,983
Compensated absences	864,305	12,787	663,977	213,115	
Landfill post-closure costs	422,000	-	13,000	409,000	
Other post-employment benefits	98,817	102,233	31,757	169,293	
Govermental Activitiy					
Long-term liabilities	$ 11,722,727	$ 115,020	$ 2,131,717	$ 9,706,030	$ 1,367,983

OTHER POST-EMPLOYMENT BENEFITS

The Governmental Accounting Standard Board (GASB) recently promulgated its Statement 45 which addressed the reporting and disclosure requirements for other post-employment benefits (OPEB). GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions,* was implemented, as required, by the Town of Freeport for the year ended June 30, 2009. Under this pronouncement, it requires that the long-term cost of retirement health care and obligations for other post-employment benefits be determined on an actuarial basis and reported similar to pension plans.

The Town is a member of the Maine Municipal Employees Health Trust. The Health Trust contracted with an outside consultant to assist in the determination and valuation of the Town's OPEB liability under GASB Statement 45. An OPEB liability actuarial valuation was completed by the consultants in May 2009. GASB 45 rules allow employers with less than 200 employees to use the same actuarial study for three years. The Town's annual required contribution (ARC) is $98,917; this is offset by $13,409 in current year payments by employees during FY 2010.

OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Plan Descriptions – In addition to providing pension benefits, the Town provides health care benefits for certain retired employees. Eligibility to receive health care benefits follows the same requirements as MainePERS. Eligible retirees are required to pay 100% of the health insurance premiums to receive health benefit coverage.

Funding Policy and Annual OPEB Cost – GASB Statement 45 does not mandate the prefunding of post-employment benefits liability. The Town currently plans to fund these benefits on a pay-as-you-go basis. No assets have been segregated and restricted to provide post-employment benefits. The ARC, an actuarial determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed thirty years.

The following table represents the OPEB costs for the year and the annual required contribution:

Normal cost	$ 44,082
Amortization of unfunded	52,797
Interest	1,938
Annual Required Contribution	$98,817

Funding Status and Funding Progress – The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2009 was as follows:

Annual required contribution	$ 98,817
Interest on Net OPEB Obligation	3,416
Amortization adjustment to ARC	(4,939)
Annual OPEB Cost	97,294
Contributions Made	(13,409)
Increase (decrease) in Net OPEB Obligation	83,885
Net OPEB Obligation, Beginning of Year	85,408
Net OPEB Obligation, End of Year	169,293
Actuarial accrued liability	$949,479
Plan assets	0
Unfunded actuarial accrued liability	$949,479
Covered payroll	$3,469,043
Unfunded actuarial accrued liability as a percentage of covered payroll	27%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Actuarial Methods and Assumptions – Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Town and plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets. Significant methods and assumptions were as follows:

Actuarial valuation date	1/1/09
Actuarial cost method	Early age normal
Amortization method	Level dollar
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	N/A
Healthcare inflation rate	4.0% - 9.6%

CONTINGENCIES

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

Grant Funds - 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 Town expects such amounts, if any, to be immaterial.

COMMITMENTS

As of June 30, 2010 the Town has incurred approximately $495,000 in construction in progress for several roads and a weatherization project at Town hall. Total anticipated costs for these projects upon completion will be approximately $900,000.