



Certified Public Accountants and Business Consultants

Independent Auditor's Report

Town Council
Town of Gray, Maine

We have audited the accompanying financial statements of the government activities, each major fund, and the aggregate remaining fund information of the Town of Gray, Maine as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Gray, Maine's management. Our responsibility is to express opinions on the basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of the Town of Gray, Maine as of June 30, 2007 and the respective changes in financial positions and budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007 on our consideration of the Town of Gray, Maine's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financials statements that collectively comprise the Town of Gray, Maine's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Rumyon Kristen Ouellette

November 15, 2007
South Portland, Maine

TOWN OF GRAY, MAINE
Balance Sheet
Governmental Funds
June 30, 2007

| | General Fund | Other Governmental Funds | Totals |
|---|---------------------|--------------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 6,966,164 | 131,522 | 7,097,686 |
| Receivables: | | | |
| Taxes | 402,293 | - | 402,293 |
| Liens | 71,998 | - | 71,998 |
| Other (net of allowance of \$60,000) | 8,595 | - | 8,595 |
| Interfund loans | - | 8,944 | 8,944 |
| Total assets | \$ 7,449,050 | 140,466 | 7,589,516 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable and amounts held in escrow | 86,198 | - | 86,198 |
| Accrued payroll | 23,295 | - | 23,295 |
| Deferred revenue | 174,000 | - | 174,000 |
| Taxes paid in advance | 31,141 | - | 31,141 |
| Interfund loans | 8,944 | - | 8,944 |
| Total liabilities | 323,578 | - | 323,578 |
| Fund balances: | | | |
| Reserved for capital improvements | 2,349,629 | - | 2,349,629 |
| Reserved for nonexpendable principal | - | 65,290 | 65,290 |
| Unreserved, reported in: | | | |
| General fund - designated | 1,664,756 | - | 1,664,756 |
| General fund - undesignated | 3,111,087 | - | 3,111,087 |
| Special revenue funds | - | 8,944 | 8,944 |
| Permanent funds | - | 66,232 | 66,232 |
| Total fund balances | 7,125,472 | 140,466 | 7,265,938 |
| Total liabilities and fund balances | \$ 7,449,050 | 140,466 | |
| 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. | | | 7,198,788 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | | | 174,000 |
| Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds: | | | |
| Accrued compensated absences | | | (148,771) |
| Bonds payable | | | (184,200) |
| Net assets of governmental activities | | | \$ 14,305,755 |

See accompanying notes to financial statements.

TOWN OF GRAY, MAINE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2007

| | General Fund | Other Governmental Funds | Totals |
|-----------------------------------|---------------------|--------------------------------|------------------|
| Revenues: | | | |
| Taxes | \$ 9,555,695 | - | 9,555,695 |
| Intergovernmental revenues | 620,961 | - | 620,961 |
| Charges for services | 464,944 | 89,199 | 554,143 |
| Interest | 404,422 | 5,936 | 410,358 |
| Other | 128,646 | - | 128,646 |
| Total revenues | 11,174,668 | 95,135 | 11,269,803 |
| Expenditures: | | | |
| Current: | | | |
| General government | 686,184 | - | 686,184 |
| Public safety | 670,050 | - | 670,050 |
| Public works | 860,953 | - | 860,953 |
| Recycling | 688,173 | - | 688,173 |
| Recreation | 95,600 | 95,658 | 191,258 |
| County tax | 408,299 | - | 408,299 |
| Education | 5,652,708 | - | 5,652,708 |
| Health and welfare | 66,744 | - | 66,744 |
| Employee benefits | 514,371 | - | 514,371 |
| Other | 123,589 | 7,330 | 130,919 |
| Debt service | 156,706 | - | 156,706 |
| Capital outlay | 1,222,241 | - | 1,222,241 |
| Total expenditures | 11,145,618 | 102,988 | 11,248,606 |
| Net change in fund balance | 29,050 | (7,853) | 21,197 |
| Fund balances, beginning of year | 7,096,422 | 148,319 | 7,244,741 |
| Fund balances, end of year | \$ 7,125,472 | 140,466 | 7,265,938 |

See accompanying notes to financial statements.

TOWN OF GRAY, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budgetary Basis - General Fund
For the year ended June 30, 2007

| | Budget | | Actual | Variance with final budget positive (negative) |
|---|--------------|------------|------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Taxes | \$ 9,482,053 | 9,482,053 | 9,555,695 | 73,642 |
| Intergovernmental revenues | 779,475 | 779,475 | 620,961 | (158,514) |
| Charges for services | 403,165 | 403,165 | 464,944 | 61,779 |
| Interest | 113,000 | 113,000 | 404,422 | 291,422 |
| Other | 12,050 | 12,050 | 128,646 | 116,596 |
| Total revenues | 10,789,743 | 10,789,743 | 11,174,668 | 384,925 |
| Expenditures: | | | | |
| General government | 703,100 | 703,100 | 686,184 | 16,916 |
| Public safety | 735,262 | 735,262 | 670,050 | 65,212 |
| Public works | 884,201 | 884,201 | 860,953 | 23,248 |
| Recycling | 712,743 | 712,743 | 688,173 | 24,570 |
| Recreation | 90,229 | 90,229 | 95,600 | (5,371) |
| County tax | 408,299 | 408,299 | 408,299 | - |
| Education | 5,652,708 | 5,652,708 | 5,652,708 | - |
| Health and welfare | 46,776 | 46,776 | 66,744 | (19,968) |
| Employee benefits | 536,091 | 536,091 | 514,371 | 21,720 |
| Other | 131,300 | 131,300 | 123,589 | 7,711 |
| Debt service | 156,694 | 156,694 | 156,706 | (12) |
| Capital outlay | 1,343,990 | 1,719,091 | 1,470,831 | 248,260 |
| Total expenditures | 11,401,393 | 11,776,494 | 11,394,208 | 382,286 |
| Excess (deficiency) of revenues over (under) expenditures | (611,650) | (986,751) | (219,540) | 767,211 |
| Other financing sources (uses): | | | | |
| Use of reserved fund balance | - | 287,180 | - | 287,180 |
| Use of designated fund balance | - | 87,921 | - | 87,921 |
| Use of undesignated fund balance | 406,650 | 406,650 | - | 406,650 |
| Reserve transfers | 205,000 | 205,000 | - | 205,000 |
| Total other financing sources | 611,650 | 986,751 | - | 986,751 |
| Net change in fund balance - budgetary basis | - | - | (219,540) | (219,540) |
| Add back transfers to reserves held within general fund | - | - | 248,590 | |
| Net change in fund balance - GAAP basis | - | - | 29,050 | |
| Fund balance, beginning of year | | | 7,096,422 | |
| Fund balance, end of year | \$ | | 7,125,472 | |

See accompanying notes to financial statements.

TOWN OF GRAY, MAINE
General Fund
Comparative Balance Sheets
June 30, 2007 and 2006

| | 2007 | 2006 |
|---|---------------------|------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 6,966,164 | 7,006,513 |
| Receivable: | | |
| Taxes | 402,293 | 393,878 |
| Liens | 71,998 | 50,448 |
| Rescue receivable (net of allowance of \$75,000 and \$60,000) | 8,595 | 8,595 |
| Total assets | \$ 7,449,050 | 7,459,434 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts payable and amounts held in escrow | 86,198 | 91,180 |
| Accrued payroll | 23,295 | - |
| Taxes paid in advance | 31,141 | 29,401 |
| Interfund loans | 8,944 | 21,431 |
| Deferred revenue | 174,000 | 221,000 |
| Total liabilities | 323,578 | 363,012 |
| Fund balance: | | |
| Reserved for capital improvements | 2,349,629 | 2,403,776 |
| Unreserved: | | |
| Designated | 1,664,756 | 1,622,191 |
| Undesignated | 3,111,087 | 3,070,455 |
| Total fund balance | 7,125,472 | 7,096,422 |
| Total liabilities and fund balance | \$ 7,449,050 | 7,459,434 |

TOWN OF GRAY, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budgetary Basis
Year ended June 30, 2007 with comparative actual amounts for 2006

| | 2007 | | Variance positive (negative) | 2006 Actual |
|-----------------------------------|-------------------|-------------------|------------------------------------|-------------------|
| | Budget | Actual | | |
| Revenues: | | | | |
| Taxes: | | | | |
| Property taxes | \$ 8,123,053 | 8,123,053 | - | 7,878,306 |
| Supplemental taxes | - | 1,671 | 1,671 | 40,503 |
| Change in deferred taxes | - | 47,000 | 47,000 | - |
| Excise taxes | 1,359,000 | 1,383,971 | 24,971 | 1,375,732 |
| Total taxes | 9,482,053 | 9,555,695 | 73,642 | 9,294,541 |
| Intergovernmental: | | | | |
| State Revenue Sharing | 550,000 | 402,305 | (147,695) | 508,235 |
| Highway block grant | 82,308 | 82,308 | - | 82,308 |
| Tree growth reimbursement | 7,000 | 2,784 | (4,216) | - |
| General assistance | 5,000 | 15,568 | 10,568 | 9,480 |
| Snowplow contract | 17,613 | - | (17,613) | - |
| Snowmobile refund | 3,000 | 3,303 | 303 | 3,732 |
| Homestead redemption | 112,254 | 112,254 | - | 131,525 |
| Veterans reimbursement | 2,300 | 2,439 | 139 | - |
| Total intergovernmental | 779,475 | 620,961 | (158,514) | 735,280 |
| Charges for services: | | | | |
| Clerk fees | 72,600 | 81,044 | 8,444 | 77,818 |
| General government | 5,500 | 5,375 | (125) | 5,858 |
| Recycling | 102,470 | 130,220 | 27,750 | 119,696 |
| Rescue | 155,000 | 187,816 | 32,816 | 171,097 |
| Recreation | 2,595 | 4,672 | 2,077 | 24,419 |
| Library | - | 4,500 | 4,500 | 6,284 |
| Building permits | 65,000 | 51,317 | (13,683) | 64,830 |
| Total charges for services | 403,165 | 464,944 | 61,779 | 470,002 |
| Interest: | | | | |
| Delinquent taxes | 45,000 | 34,595 | (10,405) | 107,446 |
| Operating funds | 68,000 | 187,636 | 119,636 | 122,856 |
| Crisis fund | - | 53,739 | 53,739 | 30,909 |
| Reserve funds | - | 128,452 | 128,452 | 64,088 |
| Total interest | 113,000 | 404,422 | 291,422 | 325,299 |
| Other: | | | | |
| Cable TV franchise | - | 60,672 | 60,672 | 59,890 |
| Other | 12,050 | 67,974 | 55,924 | 42,045 |
| Total other | 12,050 | 128,646 | 116,596 | 101,935 |
| Total revenues | 10,789,743 | 11,174,668 | 384,925 | 10,927,057 |

TOWN OF GRAY, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budgetary Basis, Continued

| | 2007 | | Variance positive (negative) | 2006 Actual |
|---------------------------------|------------------|------------------|------------------------------------|------------------|
| | Budget | Actual | | |
| Expenditures: | | | | |
| General government: | | | | |
| Administration | \$ 321,028 | 318,464 | 2,564 | 297,621 |
| Council, boards and committees | 15,305 | 15,081 | 224 | 17,920 |
| Assessor | 71,173 | 71,823 | (650) | 61,471 |
| Geographic information | 8,000 | 800 | 7,200 | (20) |
| Elections | 5,150 | 6,112 | (962) | 5,620 |
| Planner | 62,861 | 64,471 | (1,610) | 60,970 |
| Planning board | 6,476 | 3,836 | 2,640 | 5,761 |
| Animal control | 15,147 | 14,714 | 433 | 13,807 |
| Library | 189,345 | 181,484 | 7,861 | 174,625 |
| Stimson Hall | 3,000 | 5,686 | (2,686) | 2,914 |
| Ordinance review | 2,190 | 1,572 | 618 | 1,865 |
| Recreation and conservation | 350 | - | 350 | - |
| Economic development | 225 | - | 225 | 385 |
| Zoning board of appeals | 2,850 | 2,141 | 709 | 2,154 |
| Total general government | 703,100 | 686,184 | 16,916 | 645,093 |
| Public safety: | | | | |
| Utilities | 127,223 | 126,539 | 684 | 125,221 |
| Public safety services | 336,581 | 310,412 | 26,169 | 301,749 |
| Rescue | 35,600 | 34,973 | 627 | 21,365 |
| Communications | 156,869 | 124,081 | 32,788 | 148,824 |
| Code enforcement | 78,989 | 74,045 | 4,944 | 69,844 |
| Total public safety | 735,262 | 670,050 | 65,212 | 667,003 |
| Public works: | | | | |
| Public works - winter roads | 296,588 | 262,364 | 34,224 | 250,650 |
| Public works - summer roads | 206,222 | 218,195 | (11,973) | 165,041 |
| Garage | 203,799 | 198,292 | 5,507 | 179,948 |
| Additional roadwork | 67,017 | 74,726 | (7,709) | 67,017 |
| Buildings and grounds | 110,575 | 107,376 | 3,199 | 100,436 |
| Total public works | 884,201 | 860,953 | 23,248 | 763,092 |
| Recycling | 712,743 | 688,173 | 24,570 | 668,152 |
| Recreation: | | | | |
| Parks and recreation | 90,229 | 95,600 | (5,371) | 89,913 |
| Total recreation | 90,229 | 95,600 | (5,371) | 89,913 |
| County tax | 408,299 | 408,299 | - | 393,465 |
| Education | 5,652,708 | 5,652,708 | - | 5,628,163 |
| Health and welfare: | | | | |
| General assistance | 10,950 | 30,968 | (20,018) | 17,389 |
| Community services | 35,826 | 35,776 | 50 | 30,286 |
| Total health and welfare | 46,776 | 66,744 | (19,968) | 47,675 |

TOWN OF GRAY, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budgetary Basis, Continued

| | 2007 | | | 2006 Actual |
|-------------------------------|------------|---------|------------------------------------|----------------|
| | Budget | Actual | Variance positive (negative) | |
| Employee benefits | \$ 536,091 | 514,371 | 21,720 | 498,253 |
| Other: | | | | |
| Insurance | 82,500 | 78,461 | 4,039 | 76,450 |
| Unemployment insurance | 4,500 | 2,323 | 2,177 | 2,020 |
| Worker's compensation | 40,500 | 39,405 | 1,095 | 37,805 |
| Public communications | 3,800 | 3,400 | 400 | 3,300 |
| Abatements | - | - | - | 6,234 |
| Total other | 131,300 | 123,589 | 7,711 | 125,809 |
| Debt service: | | | | |
| Principal | 140,561 | 140,561 | - | 203,561 |
| Interest | 16,133 | 16,145 | (12) | 24,286 |
| Total debt service | 156,694 | 156,706 | (12) | 227,847 |
| Capital outlay: | | | | |
| Reserve transfers: | | | | |
| Technology reserve | - | - | - | 72,500 |
| Public safety vehicle reserve | 116,000 | 116,000 | - | - |
| Bridge reserve | - | - | - | 104,200 |
| Total reserve transfers | 116,000 | 116,000 | - | 176,700 |
| Capital projects: | | | | |
| Public works | - | - | - | 134,000 |
| Public safety | 15,600 | - | 15,600 | 116,000 |
| Technology | 12,900 | 12,900 | - | 9,398 |
| Transfer station | 92,385 | 53,523 | 38,862 | 6,790 |
| Wilkie's Beach | 3,000 | 3,000 | - | - |
| Bridges | 80,000 | 40,897 | 39,103 | 64,840 |
| Street construction | - | - | - | 316,000 |
| Newbegin | 12,495 | 12,695 | (200) | 16,474 |
| Stimson Hall | 75,000 | - | 75,000 | 20,000 |
| Voting machines | - | - | - | 19,500 |
| Water monitoring | - | - | - | 2,500 |
| Diagnostic unit/PWD | 8,200 | 8,173 | 27 | - |
| MSW compactor repair | 12,000 | - | 12,000 | - |
| Library | 45,650 | 15,955 | 29,695 | - |
| Public works vehicles | 129,000 | 95,252 | 33,748 | - |
| Street reconstruction | 350,000 | 402,642 | (52,642) | - |
| Total capital projects | 836,230 | 645,037 | 191,193 | 705,502 |
| Reserve expenditures: | | | | |
| Cable | 30,129 | 30,129 | - | 69,964 |
| Public works | 159,270 | 159,270 | - | 143,192 |
| Library | 30,334 | 30,334 | - | 7,467 |
| Recycling | 38,152 | 38,152 | - | - |
| Public safety | 133,304 | 133,304 | - | 1,536 |
| Salt shed | 5,178 | 5,178 | - | - |
| Other | 23,403 | 23,403 | - | 1,418 |
| Total reserve expenditures | 419,770 | 419,770 | - | 223,577 |

TOWN OF GRAY, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Budgetary Basis, Continued

| | 2007 | | Variance positive (negative) | 2006 Actual |
|---|------------|------------------|------------------------------------|------------------|
| | Budget | Actual | | |
| Designated expenditures: | | | | |
| Tax increment financing districts | 219,890 | 190,845 | 29,045 | 193,220 |
| Compensated absences | 62,100 | 63,075 | (975) | 58,131 |
| Education/overlay | 39,280 | 9,989 | 29,291 | 112,377 |
| Tomco | (147) | 147 | (294) | 121 |
| Libby Hill | 100 | 100 | - | 2,487 |
| Segregated funds | 25,868 | 25,868 | - | 17,147 |
| Total designated expenditures | 347,091 | 290,024 | 57,067 | 383,483 |
| Total capital outlay | 1,719,091 | 1,470,831 | 248,260 | 1,489,262 |
| Total expenditures | 11,776,494 | 11,394,208 | 382,286 | 11,243,727 |
| Excess (deficiency) of revenues over (under) expenditures | (986,751) | (219,540) | 767,211 | (316,670) |
| Other financing sources (uses): | | | | |
| Use of reserved fund balance | 287,180 | - | (287,180) | - |
| Use of designated fund balance | 87,921 | - | (87,921) | - |
| Use of undesignated fund balance | 406,650 | - | (406,650) | - |
| Reserve transfers | 205,000 | - | (205,000) | - |
| Total other financing uses | 986,751 | - | (986,751) | - |
| Net change in fund balance - budgetary basis | - | (219,540) | (219,540) | (316,670) |
| Add back transfers to reserves from general fund | | 248,590 | | 357,500 |
| Net change in fund balance - GAAP basis | | 29,050 | | 40,830 |
| Fund balance, beginning of year | | 7,096,422 | | 7,055,592 |
| Fund balance, end of year | \$ | 7,125,472 | | 7,096,422 |