

MAINE MUNICIPAL ASSOCIATION

Financial Statements

Years ended December 31, 2002 and 2001

MAINE MUNICIPAL ASSOCIATION
Financial Statements
December 31, 2002 and 2001

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report		
Balance Sheets	1	1
Statement of Revenue, Expenses and Changes in Fund Balances	2	2
Statements of Cash Flows	3	3
Notes to Financial Statements		4-8
Additional Information:		
Schedule of Changes in Designated and Restricted Fund Balances by Fund		9



Certified Public Accountants and Business Consultants

Independent Auditor's Report

Executive Committee

Maine Municipal Association:

We have audited the accompanying balance sheets of Maine Municipal Association as of December 31, 2002 and 2001, and the related statements of revenue, expenses and changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Association as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in designated and restricted fund balances by fund is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Runyon Kersteen Ouellette

March 7, 2003
South Portland, Maine

MAINE MUNICIPAL ASSOCIATION
Balance Sheets
December 31, 2002
(with comparative totals for December 31, 2001)

	Unrestricted		Restricted Special Funds	Totals	
	General Fund	Designated Funds		2002	2001
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 673,306	357,287	15,505	1,046,098	537,821
Investments:					
Certificates of deposit	321,818	170,771	7,411	500,000	350,000
Corporate bonds	-	-	-	-	509,521
U.S. Government securities	153,928	350,938	15,229	520,095	255,679
Accounts receivable	48,280	-	-	48,280	81,320
Accrued interest receivable	18,074	-	-	18,074	23,669
Prepaid expenses and other assets	228,473	-	-	228,473	249,732
Total current assets	1,443,879	878,996	38,145	2,361,020	2,007,742
Other assets:					
Board Designated U.S. Government securities	507,414	-	-	507,414	521,604
Deferred financing costs	28,620	-	-	28,620	31,056
Total other assets	536,034	-	-	536,034	552,660
Property and equipment:					
Land	202,500	-	-	202,500	202,500
Land improvements	33,286	-	-	33,286	33,286
Building	2,626,820	-	-	2,626,820	2,626,820
Furniture and equipment	1,378,384	272,536	-	1,650,920	1,494,678
	4,240,990	272,536	-	4,513,526	4,357,284
Less accumulated depreciation	(1,458,215)	(127,659)	-	(1,585,874)	(1,277,263)
Net property and equipment	2,782,775	144,877	-	2,927,652	3,080,021
Total assets	\$ 4,762,688	1,023,873	38,145	5,824,706	5,640,423
LIABILITIES AND FUND BALANCES					
Current liabilities:					
Accounts payable	143,361	750	-	144,111	69,552
Accrued payroll and payroll taxes	125,180	-	-	125,180	87,260
Accrued vacation time	323,798	-	-	323,798	286,773
Deferred revenue - current	120,712	-	-	120,712	120,712
Note payable - current	88,500	-	-	88,500	88,500
Total current liabilities	801,551	750	-	802,301	652,797
Long-term liabilities:					
Deferred revenue	-	-	-	-	120,712
Note payable	951,375	-	-	951,375	1,039,875
Total long-term liabilities	951,375	-	-	951,375	1,160,587
Fund balances:					
Restricted	-	-	38,145	38,145	44,214
Unrestricted:					
Expendable	1,266,862	-	-	1,266,862	1,238,493
Designated	-	1,023,123	-	1,023,123	773,063
Net investment in property and equipment	1,742,900	-	-	1,742,900	1,771,269
Total fund balances	3,009,762	1,023,123	38,145	4,071,030	3,827,039
Total liabilities and fund balances	\$ 4,762,688	1,023,873	38,145	5,824,706	5,640,423

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statement of Revenues, Expenses and Changes in Fund Balances
For the year ended December 31, 2002
(with comparative totals for the year ended December 31, 2001)

	Unrestricted		Restricted	Totals	
	General Fund	Designated Funds	Special Funds	2002	2001
Revenues:					
Dues	\$ 1,480,578	-	-	1,480,578	1,446,893
Group services- administrative fees	6,009,498	-	-	6,009,498	5,410,632
Publications	169,674	-	-	169,674	184,101
Investment income	88,040	-	-	88,040	176,879
Contract services	61,129	-	-	61,129	40,497
Convention	142,990	-	-	142,990	124,393
Grants	-	-	-	-	25,000
Training and affiliate groups	87,250	-	-	87,250	122,735
Other	(1,098)	-	-	(1,098)	(1,022)
Total revenues	8,038,061	-	-	8,038,061	7,530,108
Expenses:					
Salaries and wages	4,149,680	-	-	4,149,680	3,960,954
Fringe benefits	1,312,165	-	-	1,312,165	1,181,642
Supplies and general expenses	860,491	3,826	-	864,317	879,755
Professional services	160,949	74,191	-	235,140	274,990
Travel meetings/committees	334,504	7,565	6,069	348,138	343,932
Insurance	150,855	-	-	150,855	143,571
Local government center	313,288	57,056	-	370,344	327,092
Depreciation	253,728	54,881	-	308,609	350,491
Interest	54,822	-	-	54,822	59,084
Total expenses	7,590,482	197,519	6,069	7,794,070	7,521,511
Excess (deficiency) of revenues over (under) expenses	447,579	(197,519)	(6,069)	243,991	8,597
Fund balances, beginning of year	3,009,762	773,063	44,214	3,827,039	3,818,442
Net fund balance transfers	(447,579)	447,579	-	-	-
Fund balances, end of year	\$ 3,009,762	1,023,123	38,145	4,071,030	3,827,039

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Cash Flows
For the years ended December 31, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 243,991	8,597
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities		
Depreciation	308,609	350,491
Amortization of loan expenses	2,436	2,436
Net accretion of investments	37,838	15,538
Investment income	(88,040)	(176,879)
Change in assets and liabilities:		
Accounts receivable	33,040	28,144
Prepaid expenses and other assets	21,259	(70,849)
Accounts payable	74,559	(120,012)
Accrued payroll and payroll taxes	37,920	(88,096)
Accrued vacation	37,025	15,196
Deferred revenue	(120,712)	(120,714)
Net cash provided by (used in) operating activities	587,925	(156,148)
Cash flows from capital and related financing activities:		
Purchase of fixed assets	(156,241)	(178,371)
Principal payments on notes payable	(88,500)	(88,500)
Net cash used in capital and related financing activities	(244,741)	(266,871)
Cash flows from investing activities:		
Maturities of corporate bonds	500,000	-
Purchase of corporate bonds	-	(517,918)
Purchase of certificates of deposits	(750,000)	(350,000)
Maturities of certificates of deposit	600,000	449,000
Purchase of U.S. Government securities	(517,330)	(254,170)
Maturities of U.S. Government securities	250,000	750,000
Investment income received	82,422	151,300
Net cash provided by investing activities	165,092	228,212
Increase (decrease) in cash and cash equivalents	508,276	(194,807)
Cash and cash equivalents - beginning of year	537,821	732,628
Cash and cash equivalents - end of year	\$ 1,046,097	537,821

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Maine Municipal Association was founded in 1937 and is a voluntary organization of cities, towns and plantations. The Association is a nonprofit, nonpartisan organization dedicated to the purpose of improving the quality and efficiency of local government in Maine through information exchange, policy advocacy, professional management assistance and the joint purchase of goods and services. The Association also offers associate memberships to counties, water and sewer districts, and other special districts.

The Association provides administrative services to the Maine Municipal Association Workers' Compensation Fund, Maine Municipal Association Property and Casualty Pool, Maine Municipal Association Unemployment Compensation Group Fund, and the Maine Municipal Employees Health Trust. The Association receives administrative fees for providing these services, which are recorded as income. These Funds are accounted for as separate accounting entities and are not included in the financial statements of Maine Municipal Association.

Effective in 1995, the Governmental Accounting Standards Board (GASB) issued Statement No. 29, *The Use of Not-For-Profit Accounting and Financial Reporting Principles by Governmental Entities*. This Statement allows governmental entities that had previously been following accounting principles generally accepted in the United States of America applicable for not-for-profit organizations the option of continuing that practice with some modifications or following governmental accounting and reporting requirements. The Maine Municipal Association elected to continue to apply not-for-profit accounting principles in its reporting; therefore, the accounting policies of the Association conform to accounting principles generally accepted in the United States of America applicable to nonprofit governmental organizations. The following is a summary of the more significant of such policies.

Tax Exempt Status - The Association is recognized as an instrumentality of municipalities and is exempt from income taxes.

Fund Accounting - The accounts of the Association are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balances, revenue and expenses.

Basis of Accounting - The accrual basis of accounting is followed for all funds.

Cash and Cash Equivalents - The Association considers all highly liquid deposits with an initial maturity of three months or less to be cash and cash equivalents.

Investments - The investments of Maine Municipal Association include U.S. government securities, corporate bonds and certificates of deposit, none of which are held for trading purposes. The Association estimates that the fair value of all financial instruments at December 31, 2002 and 2001 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by quoted market prices.

Accounts Receivable - Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts is considered necessary at December 31, 2002 and 2001.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fixed Assets - Property and equipment are capitalized at cost and depreciated over their estimated useful lives of three to forty years on a straight-line basis. The Association's policy is to capitalize expenditures for major improvements, additions and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets.

Deferred Revenue - Deferred revenue represents contributions which have been received by the Association related to the next fiscal year.

Designated Funds - The Association has several designated funds established by the board for specific purposes. These funds are accounted for in designated funds until expenditures are made for the purpose specified.

Special Funds - The Association has several special funds established by donor contributions for specific purposes. These funds are accounted for in restricted special funds until expenditures are made for the purpose specified by the contributor.

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

DEPOSITS AND INVESTMENTS

Deposits - Cash and cash equivalents are composed of cash management (CMA) and money market accounts, and consist of the following at December 31:

	<u>Unrestricted Funds</u>		<u>Restricted Funds</u>	<u>Totals</u>
	<u>General Fund</u>	<u>Designated Funds</u>	<u>Special Funds</u>	
<u>2002</u>				
CMA - deposit account	\$ 1,928	1,023	44	2,995
CMA - MMF Sweep account	(55,291)	(29,339)	(1,273)	(85,903)
Money market accounts	726,669	385,603	16,734	1,129,006
Totals	\$ 673,306	357,287	15,505	1,046,098
<u>2001</u>				
CMA - deposit account	\$ 4,098	1,317	116	5,531
CMA - MMF Sweep account	134,645	52,204	3,993	190,842
Money market accounts	241,244	93,060	7,144	341,448
Totals	\$ 379,987	146,581	11,253	537,821

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Cash and cash equivalents for all of the Maine Municipal entities are pooled together, at a single financial institution, in cash management and money market accounts. The cash management-deposit account amounts that exceed the \$100,000 FDIC insured limit are considered uninsured and uncollateralized. The CMA-sweep and money market accounts are held in a money market mutual funds which invests exclusively in securities issued or guaranteed by the U.S. Government or certain of its agencies and instrumentalities.

The MMA-General Fund portion at December 31, 2002 and 2001, had bank balances totaling \$6,904 and \$363,260, respectively. The financial statement balance for each entity reflects a reduction for outstanding checks at that date.

Investments - Investments are categorized into three categories of credit risk as follows:

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

At December 31, 2002 and 2001, investment balances were as follows:

	<u>Category</u>	<u>2002</u>	<u>2001</u>
Certificates of deposit	*	\$ 500,000	350,000
Corporate debt securities	1	-	509,521
U.S. Government securities	1	1,027,509	777,283
Totals		\$ 1,527,509	1,636,804

The securities matured in various amounts during 2002. U.S. Government securities included in other assets, which mature in 2003, represent proceeds received from the prepayment of a note receivable in 1994 which have been segregated by the Board for retirement of the mortgage note payable.

* Of the certificate of deposit bank balance, \$200,000 was covered by federal depository insurance; the remainder is uninsured and uncollateralized.

NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS

Net appreciation (depreciation) in fair value of investments during the years ended December 31, 2002 and 2001 by type is as follows. Such amounts are included in investment income on the statement of revenue, expenses and changes in fund balances.

	<u>2002</u>	<u>2001</u>
Corporate bonds	\$ (4,550)	4,550
U.S. Government securities	(7,722)	16,749
Totals	\$ (12,272)	21,299

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEFERRED REVENUE

The deferred revenue account is maintained by the Association in connection with its future service obligations to the Workers' Compensation Fund. The service fee paid to the Association by the Workers' Compensation Fund in each year includes prepayment for future services to that fund year. Based on an analysis by management, the deferred revenue account was adjusted to \$603,567 at December 31, 1998. In 1998, \$557,444 was transferred to the Workers' Compensation Fund and \$285,490 was recognized as additional administrative fee revenue in the General Fund.

Management has determined that fees paid in 1999 and subsequent years will cover only services to be provided in each twelve month period. The remaining balance, which represents estimated cost to provide administrative services to the 1998 and prior funds, will be recognized from 1999 through 2003.

NOTES PAYABLE

The note payable consists of borrowings from Key Bank related to a mortgage note payable in the amount of \$1,039,875 at December 31, 2002 on the Association's building which, at December 31, 2002 has a book value of \$2,065,914. The mortgage note is due in monthly principal payments of \$7,375 plus interest over a 20 year period beginning on the first day of October 1994. The interest rate was reset on June 1, 1998 at 4.75% for the remaining term of the mortgage. The note payable is secured by a first mortgage on the building. Financing costs incurred during the construction project have been capitalized and will be expensed over the term of the note. Interest of \$52,386 and \$56,648 was paid in 2002 and 2001, respectively.

Principal maturities on the note payable over the next five years and to maturity are as follows:

2003	\$ 88,500
2004	88,500
2005	88,500
2006	88,500
2007	88,500
Thereafter	597,375
<u>Total</u>	<u>\$1,039,875</u>

RETIREMENT PLANS

The Association's employees are covered under Social Security benefit programs. In addition, the Association contributes to a 401(a) qualified deferred compensation plan, or to the Maine State Retirement System (MSRS) pension plan for those employees who retained their eligibility prior to the Association's discontinuance as a participating local district on April 6, 1994. As a withdrawn participating local district, the Association is required to fund the plan on an actuarially sound basis for liabilities of any current active, inactive vested, or retired participants. At June 30, 2002 (the latest available report date), there was one active and six retired participants. The plan is not material to the financial statements of the Maine Municipal Association. The expense for this plan was \$4,302 and \$3,933 for 2002 and 2001, respectively. The MSRS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing the Maine State Retirement System, 46 State House Station, Augusta, ME 04333-0046.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

RETIREMENT PLANS, CONTINUED

The 401(a) qualified deferred compensation plan requires a contribution of 5% of salary from employees which is supplemented by the Association at 5.8%. Employees are fully vested in their own contributions immediately and become 100% vested in the Association's contributions after three years of service. The expense for this plan was \$197,820 and \$163,771 for 2002 and 2001, respectively.

The Association also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan permits them to defer a portion of their salary until future years.

Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are to be held in trust and maintained for the exclusive benefit of participants and their beneficiaries. Under the plan, no part of the corpus or the income of the trust shall revert to the employer or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries.

In applying the provisions of Governmental Accounting Standards Board Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, the Association has determined that it is not required to record the assets and associated liability of the Plan.

TRANSFER TO AND FROM SPECIAL FUNDS

The Executive Committee approved the following transfers as part of the 2002 Budget, which was made during the year, ended December 31, 2002:

From:	Designated Funds	Association Database Fund	\$ (28,866)
		Organization Management Fund	(10,000)
To:	Designated Funds	MINet Subsidy Fund	6,436
		Citizen Education/Communications Fund	862
		Building Maintenance Reserve	17,456
		MIS Training & Consulting Fund	6,412
		Legal Fees/Insurance Deductible Fund	7,700

The Executive Committee also approved the following transfer as of December 31, 2002:

From:	General fund	(\$475,049)
To:	Designated Funds Legislative Initiatives Fund	475,049

AFFILIATED ORGANIZATIONS

On September 15, 1982, the Trustees of the Association's Insurance Reserve, a fiduciary fund of the Association, terminated its existence and authorized the transfer of its assets to the Maine Municipal Employees Health Trust. The net assets were transferred to the Maine Municipal Employees Health Trust on January 1, 1983 totaled \$403,843.

MAINE MUNICIPAL ASSOCIATION
Schedule of Changes in Designated and Restricted
Fund Balances by Fund
Year ended December 31, 2002

	Fund balances, January 1, 2002	Revenue	Expenses	Transfers	Fund balances, December 31, 2002
Designated funds:					
Legislative Initiatives Fund	\$ 200,000	-	60,500	475,049	614,549
Assn Database Capital Fund	228,036	-	55,287	(28,866)	143,883
MINet Subsidy	48,516	-	-	(21,034)	27,482
Communication/Citizen Education	7,500	-	5,026	862	3,336
Building Maintenance Reserve	174,011	-	58,900	17,456	132,567
Organization Management	10,000	-	-	(10,000)	-
Legal Defense Fund - General	30,000	-	-	-	30,000
MIS Training/Consultant	50,000	-	10,106	6,412	46,306
Legal/Insurance Deductible Fund	25,000	-	7,700	7,700	25,000
Total designated funds	773,063	-	197,519	447,579	1,023,123
Restricted funds:					
Legal Defense Fund - MSRS	6,303	-	-	-	6,303
Governing Skills Project	37,911	-	6,069	-	31,842
Total restricted funds	44,214	-	6,069	-	38,145
Total	\$ 817,277	-	203,588	447,579	1,061,268

MAINE MUNICIPAL ASSOCIATION

Financial Statements

Years ended December 31, 2003 and 2002

MAINE MUNICIPAL ASSOCIATION
Financial Statements
December 31, 2003 and 2002

Table of Contents

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Independent Auditor's Report

Executive Committee
Maine Municipal Association

We have audited the accompanying balance sheets of Maine Municipal Association as of December 31, 2003 and 2002, and the related statements of revenue, expenses and changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Association as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in designated and restricted fund balances by fund is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

March 8, 2004
South Portland, Maine

MAINE MUNICIPAL ASSOCIATION
Balance Sheets
December 31, 2003
(with comparative totals for December 31, 2002)

	Unrestricted		Restricted	Totals	
	General Fund	Designated Funds	Special Funds	2003	2002
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 719,572	459,091	18,308	1,196,971	1,046,098
Investments:					
Certificates of deposit	-	-	-	-	500,000
U.S. Government securities	300,686	191,840	7,650	500,176	520,095
Accounts receivable	72,019	-	-	72,019	48,280
Accrued interest receivable	13,108	-	-	13,108	18,074
Prepaid expenses and other assets	221,497	-	-	221,497	228,473
Total current assets	1,326,882	650,931	25,958	2,003,771	2,361,020
Other assets:					
Board designated U.S. Government securities	-	-	-	-	507,414
Deferred financing costs	26,184	-	-	26,184	28,620
Total other assets	26,184	-	-	26,184	536,034
Property and equipment:					
Land	202,500	-	-	202,500	202,500
Land improvements	33,286	-	-	33,286	33,286
Building	2,626,820	-	-	2,626,820	2,626,820
Furniture and equipment	1,177,030	272,536	-	1,449,566	1,650,920
	4,039,636	272,536	-	4,312,172	4,513,526
Less accumulated depreciation	(1,373,183)	(185,710)	-	(1,558,893)	(1,585,874)
Net property and equipment	2,666,453	86,826	-	2,753,279	2,927,652
Total assets	\$ 4,019,519	737,757	25,958	4,783,234	5,824,706
LIABILITIES AND FUND BALANCES					
Current liabilities:					
Accounts payable	101,344	3,964	1,200	106,508	144,111
Accrued payroll and payroll taxes	150,057	-	-	150,057	125,180
Accrued vacation time	353,671	-	-	353,671	323,798
Deferred revenue - current	-	-	-	-	120,712
Note payable - current	88,500	-	-	88,500	88,500
Total current liabilities	693,572	3,964	1,200	698,736	802,301
Long-term liabilities:					
Note payable	862,875	-	-	862,875	951,375
Total long-term liabilities	862,875	-	-	862,875	951,375
Fund balances:					
Restricted	-	-	24,758	24,758	38,145
Unrestricted:					
Expendable	747,994	-	-	747,994	1,266,862
Designated	-	733,793	-	733,793	1,023,123
Net investment in property and equipment	1,715,078	-	-	1,715,078	1,742,900
Total fund balances	2,463,072	733,793	24,758	3,221,623	4,071,030
Total liabilities and fund balances	\$ 4,019,519	737,757	25,958	4,783,234	5,824,706

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Revenues, Expenses and Changes in Fund Balances
For the year ended December 31, 2003
(with comparative totals for the year ended December 31, 2002)

	Unrestricted		Restricted	Totals	
	General Fund	Designated Funds	Special Funds	2003	2002
Revenues:					
Dues	\$ 1,537,579	-	-	1,537,579	1,480,578
Group services - administrative fees	6,334,004	-	-	6,334,004	6,009,498
Publications	173,725	-	-	173,725	169,674
Investment income	38,046	-	-	38,046	88,040
Contract services	74,154	-	-	74,154	61,129
Convention	138,252	-	-	138,252	142,990
Grants	-	-	370	370	-
Training and affiliate groups	92,104	-	-	92,104	87,250
Other	-	-	-	-	(1,098)
Total revenues	8,387,864	-	370	8,388,234	8,038,061
Expenses:					
Salaries and wages	4,574,937	-	-	4,574,937	4,149,680
Fringe benefits	1,484,015	-	-	1,484,015	1,312,165
Supplies and general expenses	817,688	3,335	331	821,354	864,317
Professional services	175,448	995,428	-	1,170,876	235,140
Travel meetings/committees	316,426	-	7,123	323,549	348,138
Insurance	184,550	-	-	184,550	150,855
Local government center	317,907	-	-	317,907	370,344
Depreciation	242,527	68,566	-	311,093	308,609
Interest	49,360	-	-	49,360	54,822
Total expenses	8,162,858	1,067,329	7,454	9,237,641	7,794,070
Excess (deficiency) of revenues over (under) expenses	225,006	(1,067,329)	(7,084)	(849,407)	243,991
Fund balances, beginning of year	3,009,762	1,023,123	38,145	4,071,030	3,827,039
Net fund balance transfers	(771,696)	777,999	(6,303)	-	-
Fund balances, end of year	\$ 2,463,072	733,793	24,758	3,221,623	4,071,030

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Cash Flows
For the years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Excess (deficiency) of revenues over expenses	\$ (849,407)	243,991
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities		
Depreciation	311,093	308,609
Amortization of loan expenses	2,436	2,436
Net accretion of investments	43,012	37,838
Investment income	(38,046)	(88,040)
Change in assets and liabilities:		
Accounts receivable	(23,739)	33,040
Prepaid expenses and other assets	6,976	21,259
Accounts payable	(37,603)	74,559
Accrued payroll and payroll taxes	24,877	37,920
Accrued vacation	29,873	37,025
Deferred revenue	(120,712)	(120,712)
Net cash provided by (used in) operating activities	(651,240)	587,925
Cash flows from capital and related financing activities:		
Purchase of fixed assets	(136,720)	(156,241)
Principal payments on notes payable	(88,500)	(88,500)
Net cash used in capital and related financing activities	(225,220)	(244,741)
Cash flows from investing activities:		
Maturities of corporate bonds	-	500,000
Purchase of certificates of deposits	-	(750,000)
Maturities of certificates of deposit	500,000	600,000
Purchase of U.S. Government securities	-	(517,330)
Maturities of U.S. Government securities	527,333	250,000
Investment income received	-	82,423
Net cash provided by investing activities	1,027,333	165,093
Increase in cash and cash equivalents	150,873	508,277
Cash and cash equivalents - beginning of year	1,046,098	537,821
Cash and cash equivalents - end of year	\$ 1,196,971	1,046,098

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Maine Municipal Association was founded in 1937 and is a voluntary organization of cities, towns and plantations. The Association is a nonprofit, nonpartisan organization dedicated to the purpose of improving the quality and efficiency of local government in Maine through information exchange, policy advocacy, professional management assistance and the joint purchase of goods and services. The Association also offers associate memberships to counties, water and sewer districts, and other special districts.

The Association provides administrative services to the Maine Municipal Association Workers' Compensation Fund, Maine Municipal Association Property and Casualty Pool, Maine Municipal Association Unemployment Compensation Group Fund, and the Maine Municipal Employees Health Trust. The Association receives administrative fees for providing these services, which are recorded as income. These Funds are accounted for as separate accounting entities and are not included in the financial statements of Maine Municipal Association.

Effective in 1995, the Governmental Accounting Standards Board (GASB) issued Statement No. 29, *The Use of Not-For-Profit Accounting and Financial Reporting Principles by Governmental Entities*. This Statement allows governmental entities that had previously been following accounting principles generally accepted in the United States of America applicable for not-for-profit organizations the option of continuing that practice with some modifications or following governmental accounting and reporting requirements. The Maine Municipal Association elected to continue to apply not-for-profit accounting principles in its reporting; therefore, the accounting policies of the Association conform to accounting principles generally accepted in the United States of America applicable to nonprofit governmental organizations. The following is a summary of the more significant of such policies.

Tax Exempt Status - The Association is recognized as an instrumentality of municipalities and is exempt from income taxes.

Fund Accounting - The accounts of the Association are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balances, revenue and expenses.

Basis of Accounting - The accrual basis of accounting is followed for all funds.

Cash and Cash Equivalents - The Association considers all highly liquid deposits with an initial maturity of three months or less to be cash and cash equivalents.

Investments - The investments of Maine Municipal Association include U.S. government securities, corporate bonds and certificates of deposit, none of which are held for trading purposes. The Association estimates that the fair value of all financial instruments at December 31, 2003 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by quoted market prices.

Accounts Receivable - Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts is considered necessary at December 31, 2003 and 2002.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fixed Assets - Property and equipment are capitalized at cost and depreciated over their estimated useful lives of three to forty years on a straight-line basis. The Association's policy is to capitalize expenditures for major improvements and additions and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets.

Deferred Revenue - Deferred revenue represents contributions which have been received by the Association related to the next fiscal year.

Statement of Cash Flows - For purposes of the statements of cash flows, the Association considers all highly liquid deposits and debt instruments purchased with a maturity of three months or less to be cash equivalents.

Designated Funds - The Association has several designated funds established by the board for specific purposes. These funds are accounted for in designated funds until expenditures are made for the purpose specified.

Special Funds - The Association has several special funds established by donor contributions for specific purposes. These funds are accounted for in restricted special funds until expenditures are made for the purpose specified by the contributor.

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

DEPOSITS AND INVESTMENTS

Deposits - Cash and cash equivalents are composed of cash management accounts (CMA) and money market instruments and consist of the following at December 31:

	<u>Unrestricted Funds</u>		<u>Restricted Funds</u>	<u>Totals</u>
	<u>General Fund</u>	<u>Designated Funds</u>	<u>Special Funds</u>	
<u>2003</u>				
CMA - deposit account	\$ 1,267	808	32	2,108
CMA - mutual fund investment sweep	2,270	1,448	58	3,775
Money market mutual fund	716,035	456,835	18,218	1,191,088
Totals	\$ 719,572	459,091	18,308	1,196,971
<u>2002</u>				
CMA - deposit account	\$ 1,926	1,024	44	2,994
CMA - mutual fund investment sweep	(55,291)	(29,339)	(1,273)	(85,903)
Money market mutual fund	726,669	385,603	16,734	1,129,006
Totals	\$ 673,304	357,288	15,505	1,046,097

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Cash and cash equivalents for the Maine Municipal Association are held at a single financial institution. The CMA - deposit and CMA - mutual fund investment sweep are pooled accounts containing assets of the General Fund, Special Funds, Workers' Compensation Fund, Unemployment Compensation Fund, Public Officials Liability Fund, and Property & Casualty Pool. The money market mutual fund is also a pooled account but does not include the Workers' Compensation Fund.

The CMA - deposit account amounts in excess of the \$100,000 FDIC insured limit are considered uninsured and uncollateralized. Amounts in the CMA-mutual fund investment sweep and the money market mutual fund are indirectly invested in U.S. Government obligations.

Investments - Investments are categorized into three categories of credit risk as follows:

1. Insured or registered, or securities held by the Association or held in a custodian's name to benefit the Association.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Association's name.
3. Uninsured and unregistered, with securities held by the counterparty or its trust department or agent but not in the Association's name.

At December 31, 2003 and 2002, investment balances were as follows:

	<u>Category</u>	<u>2003</u>	<u>2002</u>
Certificates of deposit	*	\$ -	500,000
U.S. Government securities	1	500,176	1,027,509
Totals		\$ 500,176	1,527,509

The securities mature in various amounts during 2003. U.S. Government securities included in other assets, which mature in 2003, represent proceeds received from the prepayment of a note receivable in 1994 which have been segregated by the Board for retirement of the mortgage note payable.

* Of the certificate of deposit bank balance in 2002, \$200,000 was covered by federal depository insurance; the remainder is uninsured and uncollateralized.

NET APPRECIATION (DEPRECIATION) IN FAIR VALUE

Net appreciation (depreciation) in fair value during the years ended December 31, 2003 and 2002 by type of investment was as follows. Such amounts are included in investment income in the statements of revenues, expenses and changes in fund balances.

	<u>2003</u>	<u>2002</u>
Corporate bonds	\$ -	(4,550)
U.S. Government securities	(16,296)	(7,722)
Totals	\$ (16,296)	(12,272)

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEFERRED REVENUE

The deferred revenue account is maintained by the Association in connection with its future service obligations to the Workers' Compensation Fund. The service fee paid to the Association by the Workers' Compensation Fund in each year includes prepayment for future services to that fund year. Based on an analysis by management, the deferred revenue account was adjusted to \$603,567 at December 31, 1998. In 1998, \$557,444 was transferred to the Workers' Compensation Fund and \$285,490 was recognized as additional administrative fee revenue in the General Fund.

Management determined that fees paid in 1999 and subsequent years would cover only services to be provided in each twelve month period. The remaining balance, which represents estimated cost to provide administrative services to the 1998 and prior funds, was recognized from 1999 through 2003. The deferred revenue account has a zero balance as of December 31, 2003.

NOTES PAYABLE

The note payable consists of borrowings from Key Bank related to a mortgage note payable in the amount of \$951,375 at December 31, 2003 on the Association's building which, at December 31, 2003, has a book value of \$2,065,914. The mortgage note is due in monthly principal payments of \$7,375 plus interest over a 20 year period beginning on the first day of October 1994. The interest rate was reset on July 1, 2003 at 4.46% for the remaining term of the mortgage. The note payable is secured by a first mortgage on the building. Financing costs incurred during the construction project have been capitalized and will be expensed over the term of the note. Interest of \$46,924 and \$52,386 was paid in 2003 and 2002, respectively.

Principal maturities on the note payable over the next five years and to maturity are as follows:

2004	\$ 88,500
2005	88,500
2006	88,500
2007	88,500
2008	88,500
Thereafter	508,875
Total	\$ 951,375

RETIREMENT PLANS

The Association's employees are covered under Social Security benefit programs. In addition, the Association contributes to a 401(a) qualified deferred compensation plan, or to the Maine State Retirement System (MSRS) pension plan for those employees who retained their eligibility prior to the Association's discontinuance as a participating local district on April 6, 1994. As a withdrawn participating local district, the Association is required to fund the plan on an actuarially sound basis for liabilities of any current active, inactive vested, or retired participants. At June 30, 2003 (the latest available report date), there were one active and six retired participants. The plan is not material to the financial statements of the Maine Municipal Association. The expense for this plan was \$5,281 and \$4,302 for 2003 and 2002, respectively. The MSRS issues a publicly available financial report that includes financial statements and requires supplementary information for the plan. That report may be obtained by writing the Maine State Retirement System, 46 State House Station, Augusta, ME 04333-0046.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

RETIREMENT PLANS, CONTINUED

The 401(a) qualified deferred compensation plan requires a contribution of 5% of salary from employees which is supplemented by the Association at 5.8%. Employees are fully vested in their own contributions immediately and become 100% vested in the Association's contributions after three years of service. The expense for this plan was \$222,000 and \$197,820 for 2003 and 2002, respectively.

The Association also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan permits them to defer a portion of their salary until future years.

Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are to be held in trust and maintained for the exclusive benefit of participants and their beneficiaries. Under the plan, no part of the corpus or the income of the trust shall revert to the employer or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries.

In applying the provisions of Governmental Accounting Standards Board Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, the Association has determined that effective December 31, 1998 it is no longer required to record the assets and associated liability of the Plan.

TRANSFER TO AND FROM SPECIAL FUNDS

The Executive Committee approved the following transfers as part of the 2004 Budget and which were made during the year ended December 31, 2003:

From:	Restricted Funds	Legal Defense Fund - MSRS	\$ (6,303)
	Designated Funds	Legal Defense Fund - General	(20,000)
	General Fund	Expendable Fund Balance	(277,820)
To:	Designated Funds	Legal Fees/Insurance Deductible Fund	14,698
		Building Maintenance Reserve	18,841
		MIS Training & Consulting Fund	29,584
		Legal Fees/Insurance Deductible Fund	241,000

The Executive Committee also approved the following transfer as of December 31, 2003:

To:	Designated Funds	Legislative Initiatives Fund	\$ 153,000
From:	General Fund	Expendable Fund Balance	(153,000)

AFFILIATED ORGANIZATIONS

On September 15, 1982, the Trustees of the Association's Insurance Reserve, a fiduciary fund of the Association, terminated its existence and authorized the transfer of its assets to the Maine Municipal Employees Health Trust. The net assets transferred to the Maine Municipal Employees Health Trust on January 1, 1983 totaled \$403,843.

MAINE MUNICIPAL ASSOCIATION
Schedule of Changes in Designated and Restricted
Fund Balances by Fund
Year ended December 31, 2003

	Fund balances, January 1, 2003	Revenue	Expenses	Transfers	Fund balances, December 31, 2003
Designated funds:					
Legislative Initiatives Fund	\$ 614,549	-	969,166	748,617	394,000
Assn Database Capital Fund	143,883	-	57,058	-	86,825
MINet Subsidy	27,482	-	-	(13,741)	13,741
Communication/Citizen Education	3,336	-	3,336	-	-
Building Maintenance Reserve	132,567	-	14,888	18,841	136,520
Legal Defense Fund - General	30,000	-	-	(20,000)	10,000
MIS Training/Consultant	46,306	-	2,607	29,584	73,283
Legal/Insurance Deductible Fund	25,000	-	20,274	14,698	19,424
Total designated funds	1,023,123	-	1,067,329	777,999	733,793
Restricted funds:					
Legal Defense Fund - MSRS	6,303	-	-	(6,303)	-
Governing Skills Project	31,842	370	7,454	-	24,758
Total restricted funds	38,145	370	7,454	(6,303)	24,758
Total	\$ 1,061,268	370	1,074,783	771,696	758,551

MAINE MUNICIPAL ASSOCIATION

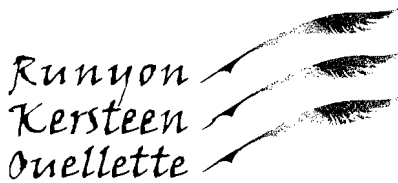
Financial Statements

Years ended December 31, 2004 and 2003

MAINE MUNICIPAL ASSOCIATION
Financial Statements
December 31, 2004 and 2003

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report		
Management Discussion and Analysis		1-4
Statements of Net Assets	1	5
Statements of Revenues, Expenses and Changes in Net Assets	2	6
Statements of Cash Flows	3	7
Notes to Financial Statements		8-12
	<u>Schedule</u>	
Additional Information:		
Statement of Net Assets by Fund	1	13
Statement of Revenues, Expenses and Changes in Net Assets by Fund	2	14
Schedule of Changes in Designated and Restricted Net Assets	3	15



Certified Public Accountants and Business Consultants

Independent Auditor's Report

Executive Committee
Maine Municipal Association:

We have audited the accompanying statements of net assets of Maine Municipal Association as of December 31, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Association as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Maine Municipal Association adopted the provisions of Governmental Accounting Standards Board Statements No. 34, 36, 37, and 38 as well as GASB Interpretation 6 as of and for the year ended December 31, 2004. This resulted in changes in the Association's format and content of the financial statements.

The Management Discussion and Analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Executive Committee
Maine Municipal Association
Page 2

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. Supplemental schedules 1 through 3 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script, reading "Raymond K. Ouellette".

March 15, 2005
South Portland, Maine

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis
Fiscal Year Ended 2004

This section of the Maine Municipal Association (MMA) annual financial report sets forth a narrative overview of its financial activities for the year ended December 31, 2004. Please read it in conjunction with MMA's financial statements and accompanying notes.

MMA GENERAL FUND

The General Fund includes the assets, liabilities, net assets, revenues and expenses of the Maine Municipal Association. All of the information presented in the following management discussion and analysis is for the General Fund only and does not include the self insured funds administered by MMA, nor does it include Board Designated or Restricted Funds.

FINANCIAL HIGHLIGHTS

- MMA's assets at December 31, 2004 amounted to \$4,417,464, or an increase of 9.9% over the prior year.
- Cash and investments totaled \$1,405,576, an increase of 37.8%.
- Operating revenues exclusive of transfers in 2004 totaled \$8,971,220 (7.0% increase).
- Operating expenses exclusive of transfers in 2004 totaled \$8,506,301 (4.2% increase).
- During 2004, the MMA general fund received transfers from MMA designated funds totaling \$30,927 and transferred \$181,043 to designated funds.
- Net assets at December 31, 2004 totaled \$2,777,875, an increase of 12.8% over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

MMA's fiscal year is January 1 through December 31.

The annual financial report consists of three parts:

- Management Discussion and Analysis
- Basic Financial Statements
- Notes to the Statements
- Required Supplemental Information

Management Discussion and Analysis provides a narrative overview of the statements and comments on significant developments during the reporting period.

Basic Statements include:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

These statements include the General fund, designated funds and restricted funds and present MMA's status at December 31, 2004 and financial developments during fiscal year 2004.

Notes to the Statements provide explanations of the accounting principles followed and of key items in the statements.

Required Supplemental Information includes:

- Statement of Net Assets by Fund
- Statement of Revenues, Expenses and Changes in Net Assets by Fund
- Schedule of Changes in Designated and Restricted Net Assets

FINANCIAL ANALYSIS

The following table summarizes the Statement of Net Assets:

	12/31/2004	12/31/2003	% Change
ASSETS			
Current Assets	1,726,617	1,326,882	30.1%
Other Assets	23,750	26,184	-9.3%
Capital Assets	2,667,097	2,666,453	0.0%
Total Assets	4,417,464	4,019,519	9.9%
LIABILITIES			
Current Liabilities	781,645	693,572	12.7%
Long Term Liabilities	857,944	862,875	-0.6%
Total Liabilities	1,639,589	1,556,447	5.3%
NET ASSETS			
Investment in Property & Plant	1,686,417	1,715,078	-1.7%
Unrestricted	1,091,458	747,994	45.9%
Total Net Assets	2,777,875	2,463,072	12.8%

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets:

	12/31/2004	12/31/2003	% CHANGE
OPERATING REVENUES			
Member Dues	1,579,116	1,537,579	2.7%
Group Services Administrative Fees	6,858,963	6,334,004	8.3%
Other Revenues	533,141	516,651	3.2%
Total Operating Revenues	8,971,220	8,388,234	7.0%
OPERATING EXPENSES			
Salaries and Benefits	6,385,332	6,058,952	5.4%
Facility and Insurance	801,531	794,344	0.9%
Other Expenses	1,319,438	1,309,562	0.8%
Total Operating Expenses	8,506,301	8,162,858	4.2%
GAIN OR (LOSS) FROM OPERATIONS	464,919	225,376	106.3%
NET TRANSFERS BETWEEN FUNDS	(150,116)	(771,696)	-80.5%
CHANGE IN NET ASSETS	314,803	(546,320)	-157.6%
NET ASSETS - BEGINNING	2,463,072	3,009,762	-18.2%
NET ASSETS - ENDING	2,777,875	2,463,442	12.8%

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

ANALYSIS OF FINANCIAL DEVELOPMENTS IN FISCAL YEAR 2004

The following table presents a budget to actual comparison in summarized form:

	BUDGET	ACTUAL	% CHANGE
REVENUES			
Member Dues	1,575,017	1,579,116	0.3%
Group Services Administrative Fees	6,858,963	6,858,963	0.0%
Other Revenues	505,553	533,141	5.5%
Total Revenues	8,939,533	8,971,220	0.4%
EXPENSES			
Salaries and Benefits	6,710,809	6,385,332	-4.9%
Facility and Insurance	862,236	801,531	-7.0%
Other Expenses	1,374,229	1,319,438	-4.0%
Total Expenses	8,947,274	8,506,301	-4.9%
GAIN OR (LOSS) FROM OPERATIONS	(7,741)	464,919	
NET TRANSFERS BETWEEN FUNDS	7,741	(150,116)	
CHANGE IN NET ASSETS	-	314,803	

CAPITAL ASSETS AND LONG-TERM DEBT

At December 31, 2004, General Fund capital assets totaled \$4,270,706, offset by accumulated depreciation totaling \$1,603,609. Capital assets net of depreciation amounted to \$2,667,097. By major category, capital assets included:

Building and improvements	2,626,820
Land and improvements	235,786
Furniture and equipment	1,408,100
	4,270,706

Long-term debt associated with capital assets included:

Mortgage on building	\$862,875 including \$88,500 due in coming year
Capital lease - photocopiers	\$117,804 including \$34,235 due in coming year

CONDITIONS WHICH MAY IMPACT ON MMA'S FINANCIAL CONDITION IN THE FUTURE

Management is aware of no conditions, decisions or contingencies which are expected to significantly impact on MMA's financial position in the future.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

SPECIAL FUNDS

This fund group includes:

Designated Funds: Accounts established by the MMA Executive Committee by transfer from the General Fund, to meet specific purposes. At 12/31/04 there were seven Designated Funds with Net Assets totaling \$430,860. Financial developments over the course of 2004 were as follows:

Beginning Balance	733,793
Transfers from General Fund	181,043
Transfers to General Fund	(30,927)
Expenses	(453,049)
Ending Balance	430,860

Restricted Funds: Accounts established by the Executive Committee with funds provided by outside donors, with restrictions based on donor guidelines. At 12/31/04, there was one Restricted Fund with Net Assets of \$19,056. Financial developments over the course of 2004 were as follows:

Beginning Balance	24,758
Received from Donors	-
Expenses	(5,702)
Ending Balance	19,056

REQUEST FOR INFORMATION

This financial report is designed to provide our members, customers, investors and creditors with a general overview of MMA's finances and to show MMA's accountability for the money it receives. If you have any questions about this report or need additional information, contact Martin Hanish, Chief Financial Officer at (207)-623-8428.

MAINE MUNICIPAL ASSOCIATION
Statements of Net Assets
December 31, 2004
(includes general, designated and restricted funds
with comparative totals for December 31, 2003)

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,326,550	1,196,971
Investments:		
Certificates of deposit	500,000	-
U.S. Government securities	-	500,176
Accounts receivable	99,425	72,019
Accrued interest receivable	766	13,108
Prepaid expenses and other assets	220,850	221,497
Total current assets	2,147,591	2,003,771
Other assets:		
Deferred financing costs	23,750	26,184
Total other assets	23,750	26,184
Capital assets:		
Land	202,500	202,500
Land improvements	33,286	33,286
Building	2,626,820	2,626,820
Furniture and equipment	1,680,636	1,449,566
	4,543,242	4,312,172
Less accumulated depreciation	(1,847,203)	(1,558,893)
Net capital assets	2,696,039	2,753,279
Total assets	\$ 4,867,380	4,783,234
LIABILITIES		
Current liabilities:		
Accounts payable	111,401	106,508
Accrued payroll and payroll taxes	188,164	150,057
Accrued vacation time	359,345	353,671
Capital lease - current	34,235	-
Note payable - current	88,500	88,500
Total current liabilities	781,645	698,736
Noncurrent liabilities:		
Capital lease	83,569	-
Note payable	774,375	862,875
Total noncurrent liabilities	857,944	862,875
Total liabilities	\$ 1,639,589	1,561,611
NET ASSETS		
Invested in capital assets, net of related debt	1,686,417	1,715,078
Restricted	19,056	24,758
Unrestricted:		
Expendable	1,091,458	747,994
Designated	430,860	733,793
Total net assets	\$ 3,227,791	3,221,623

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Revenues, Expenses and Changes in Net Assets
For the year ended December 31, 2004
(includes general, designated and restricted funds
with comparative totals for December 31, 2003)

	2004	2003
Revenues:		
Dues	\$ 1,579,116	1,537,579
Group services - administrative fees	6,858,963	6,334,004
Publications	168,073	173,725
Investment income	31,012	38,046
Contract services	83,891	74,154
Convention	157,739	138,252
Grants	-	370
Training and affiliate groups	92,406	92,104
Other	20	-
Total revenues	8,971,220	8,388,234
Expenses:		
Salaries and wages	4,783,501	4,574,937
Fringe benefits	1,601,831	1,484,015
Supplies and general expenses	832,185	821,354
Professional services	561,973	1,170,876
Travel meetings/committees	322,080	323,549
Insurance	227,780	184,550
Local government center	287,416	317,907
Depreciation	304,550	311,093
Interest and deferred financing costs	43,737	49,360
Total expenses	8,965,053	9,237,641
Change in net assets	6,167	(849,407)
Net assets, beginning of year	3,221,624	4,071,030
Net asset transfers	-	-
Net assets, end of year	\$ 3,227,791	3,221,623

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Cash Flows
For the years ended December 31, 2004 and 2003
(includes general, designated and restricted funds)

	2004	2003
Cash flows from operating activities:		
Receipts from dues	\$ 1,551,708	1,393,128
Receipts from group services - administrative fees	6,858,963	6,334,004
Receipts from publications	168,073	173,725
Receipts from investment income	43,354	38,046
Receipts from contract services	83,891	74,154
Receipts from convention	157,739	138,252
Receipts from grants	-	370
Receipts from training and affiliate groups	92,407	92,104
Receipts from other	20	-
Payments for salaries and benefits	(6,341,551)	(6,004,202)
Payments for supplies and general expenses	(827,292)	(858,957)
Payments for professional services	(561,973)	(1,170,876)
Payments for travel meetings/committees	(322,080)	(323,549)
Payments for insurance	(227,133)	(177,574)
Payments for local government center	(287,416)	(317,907)
Payments for interest	(41,300)	(46,924)
Net cash provided by (used in) operating activities	347,410	(656,206)
Cash flows from capital and related financing activities:		
Proceeds from capital leases	117,804	-
Net (purchases) disposals of capital assets	(247,311)	(131,754)
Principal payments on notes payable	(88,500)	(88,500)
Net cash used in capital and related financing activities	(218,007)	(220,254)
Cash flows from investing activities:		
Purchase of certificates of deposits	(500,000)	-
Maturities of certificates of deposit	-	500,000
Maturities of U.S. Government securities	500,176	527,333
Net cash provided by investing activities	176	1,027,333
Increase in cash and cash equivalents	129,579	150,873
Cash and cash equivalents - beginning of year	1,196,971	1,046,098
Cash and cash equivalents - end of year	\$ 1,326,550	1,196,971
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 6,167	(849,407)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	304,550	311,093
Amortization of loan expenses	2,436	2,436
(Increase) decrease in assets:		
Accounts receivable	(27,406)	(23,739)
Accrued interest receivable	12,342	-
Prepaid expenses and other assets	647	6,976
Increase (decrease) in liabilities:		
Accounts payable	4,893	(37,603)
Accrued payroll and payroll taxes	38,107	24,877
Accrued vacation time	5,674	29,873
Deferred revenue	-	(120,712)
Net cash provided by (used in) operating activities	\$ 347,410	(656,206)

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Maine Municipal Association was founded in 1937 and is a voluntary organization of cities, towns and plantations. The Association is a nonprofit, nonpartisan organization dedicated to the purpose of improving the quality and efficiency of local government in Maine through information exchange, policy advocacy, professional management assistance and the joint purchase of goods and services. The Association also offers associate memberships to counties, water and sewer districts, and other special districts.

The Association provides administrative services to the Maine Municipal Association Workers' Compensation Fund, Maine Municipal Association Property and Casualty Pool, Maine Municipal Association Unemployment Compensation Group Fund, and the Maine Municipal Employees Health Trust. The Association receives administrative fees for providing these services, which are recorded as income. These Funds are accounted for as separate accounting entities and are not included in the financial statements of Maine Municipal Association.

Tax Exempt Status - The Association is recognized as an instrumentality of municipalities and is exempt from income taxes.

Fund Accounting - The accounts of the Association are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenue and expenses.

Basis of Accounting - The accrual basis of accounting is followed for all funds.

Cash and Cash Equivalents - The Association considers all highly liquid deposits with an initial maturity of three months or less to be cash and cash equivalents.

Investments - The investments of Maine Municipal Association include U.S. government securities, corporate bonds and certificates of deposit, none of which are held for trading purposes. The Association estimates that the fair value of all financial instruments at December 31, 2004 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The estimated fair value amounts have been determined by quoted market prices.

Accounts Receivable - Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts is considered necessary at December 31, 2004 and 2003.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets - Property and equipment are capitalized at cost and depreciated over their estimated useful lives of three to forty years on a straight-line basis. The Association's policy is to capitalize expenditures for major improvements and additions and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets.

Statements of Cash Flows - For purposes of the statements of cash flows, the Association considers all highly liquid deposits and debt instruments purchased with a maturity of three months or less to be cash equivalents.

Designated Funds - The Association has several designated funds established by its Board for specific purposes. These funds are accounted for in designated funds until expenditures are made for the purpose specified.

Restricted Funds - The Association has a restricted fund established by donor contributions for specific purposes. These funds are accounted for in restricted funds until expenditures are made for the purpose specified by the contributor.

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

DEPOSITS AND INVESTMENTS

Deposits - Cash and cash equivalents are comprised of cash management accounts (CMA) and money market instruments and consist of the following at December 31:

	<u>Unrestricted Funds</u>		<u>Restricted Funds</u>	<u>Totals</u>
	<u>General Fund</u>	<u>Designated Funds</u>	<u>Special Funds</u>	
<u>2004</u>				
CMA - deposit account	\$ -	-	-	-
CMA - mutual fund investment sweep	(316,509)	401,918	19,056	104,465
Money market mutual fund	1,222,085	-	-	1,222,085
Totals	\$ 905,576	401,918	19,056	1,326,550
<u>2003</u>				
CMA - deposit account	\$ 1,267	808	32	2,107
CMA - mutual fund investment sweep	2,270	1,448	58	3,776
Money market mutual fund	716,035	456,835	18,218	1,191,088
Totals	\$ 719,572	459,091	18,308	1,196,971

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Cash and cash equivalents for the Maine Municipal Association are held at a single financial institution. The CMA - deposit and CMA - mutual fund investment sweep are pooled accounts containing assets of the General Fund, Special Funds, Workers' Compensation Fund, Unemployment Compensation Fund, Public Officials Liability Fund and Property & Casualty Pool. The money market mutual fund is also a pooled account but does not include the Workers' Compensation Fund.

The CMA - deposit account amounts in excess of the \$100,000 FDIC insured limit are considered uninsured and uncollateralized. Amounts in the CMA - mutual fund investment sweep and the money market mutual fund are indirectly invested in U.S. government obligations.

Investments - Investments are categorized into three categories of credit risk as follows:

1. Insured or registered, or securities held by the Association or held in a custodian's name to benefit the Association.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Association's name.
3. Uninsured and unregistered, with securities held by the counterparty or its trust department or agent but not in the Association's name.

At December 31, 2004 and 2003, investment balances were as follows:

	<u>Category</u>	<u>2004</u>	<u>2003</u>
Certificates of deposit	*	\$ 500,000	-
U.S. Government securities	1	-	500,176
Totals		\$ 500,000	500,176

The certificate of deposit matures in December, 2005

* Of the certificate of deposit in 2004, \$100,000 was covered by federal depository insurance; the remainder is uninsured and uncollateralized.

NET APPRECIATION (DEPRECIATION) IN FAIR VALUE

Net appreciation (depreciation) in fair value during the years ended December 31, 2004 and 2003 by type of investment was as follows. Such amounts are included in investment income in the statement of revenues, expenses and changes in net assets.

	<u>2004</u>	<u>2003</u>
U.S. Government securities	\$ (30)	(16,296)
Totals	\$ (30)	(16,296)

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

NOTES PAYABLE

The note payable consists of borrowings from Key Bank related to a mortgage note payable in the amount of \$862,875 at December 31, 2004 on the Association's building which, at December 31, 2004 has a book value of \$1,931,902. The mortgage note had an original amount of \$1,770,000 and is due in monthly principal payments of \$7,375 plus interest over a 20 year period beginning on the first day of October 1994. The interest rate was reset on July 1, 2004 at 4.46% for the remaining term of the mortgage. The note payable is secured by a first mortgage on the building. Financing costs incurred during the construction project have been capitalized and will be expensed over the term of the note. Interest of \$41,300 and \$46,924 was paid in 2004 and 2003, respectively.

Principal maturities on the note payable over the next five years and to maturity are as follows:

2005	\$ 88,500
2006	88,500
2007	88,500
2008	88,500
2009	88,500
Thereafter	420,375
Total	<u>\$ 862,875</u>

RETIREMENT PLANS

The Association's employees are covered under Social Security benefit programs. In addition, the Association contributes to a 401(a) qualified deferred compensation plan, or to the Maine State Retirement System (MSRS) pension plan for those employees who retained their eligibility prior to the Association's discontinuance as a participating local district on April 6, 1994. As a withdrawn participating local district, the Association is required to fund the plan on an actuarially sound basis for liabilities of any current active, inactive vested, or retired participants. At June 30, 2004 (the latest available report date), there were one active and four retired participants. The plan is not material to the financial statements of the Maine Municipal Association. The expense for this plan was \$5,964 and \$4,902 for 2004 and 2003, respectively. The MSRS issues a publicly available financial report that includes financial statements and requires supplementary information for the Plan. That report may be obtained by writing the Maine State Retirement System, 46 State House Station, Augusta, ME 04333-0046.

The 401(a) qualified deferred compensation plan requires a contribution of 5% of salary from employees which is supplemented by the Association at 5.8%. Employees are fully vested in their own contributions immediately and become 100% vested in the Association's contributions after three years of service. The expense for this plan was \$235,828 and \$222,077 for 2004 and 2003, respectively.

The Association also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan permits them to defer a portion of their salary until future years.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

RETIREMENT PLANS, CONTINUED

Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are to be held in trust and maintained for the exclusive benefit of participants and their beneficiaries. Under the plan, no part of the corpus or the income of the trust shall revert to the employer or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries.

In applying the provisions of Governmental Accounting Standards Board Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, the Association has determined that effective December 31, 1998 it is no longer required to record the assets and associated liability of the Plan.

TRANSFER TO AND FROM SPECIAL FUNDS

The Executive Committee approved the following transfer as part of the 2004 Budget and the transfer was made on January 1, 2004:

From:	General Fund	Expendable Fund Balance	\$ (6,000)
To:	Designated Funds	Legislative Initiatives Fund	6,000

The Executive Committee also approved the following transfer as of April 2, 2004:

From:	Designated Funds	Building Maintenance Reserve	\$ (17,186)
To:	General Fund	Expendable Fund Balance	17,186

The Executive Committee approved the following transfers as part of the 2005 Budget and which were made during the year ended December 31, 2004:

From:	General Fund	Expendable Fund Balance	\$ (175,043)
To:	Designated Funds	Building Maintenance Reserve	70,049
		MIS Training & Consulting Fund	7,217
		Legislative Initiatives Fund	67,200
		Legal Fees/Insurance Deductible Fund	30,577

AFFILIATED ORGANIZATIONS

On September 15, 1982, the Trustees of the Association's Insurance Reserve, a fiduciary fund of the Association, terminated its existence and authorized the transfer of its assets to the Maine Municipal Employees Health Trust. The net assets transferred to the Maine Municipal Employees Health Trust on January 1, 1983 totaled \$403,843.

MAINE MUNICIPAL ASSOCIATION
Statement of Net Assets by Fund
December 31, 2004

	Unrestricted		Restricted	Total 2004
	General fund	Designated funds	Special funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 905,576	401,918	19,056	1,326,550
Investments:				
Certificates of deposit	500,000	-	-	500,000
U.S. Government securities	-	-	-	-
Accounts receivable	99,425	-	-	99,425
Accrued interest receivable	766	-	-	766
Prepaid expenses and other assets	220,850	-	-	220,850
Total current assets	1,726,617	401,918	19,056	2,147,591
Other assets:				
Board designated U.S. Government securities	-	-	-	-
Deferred financing costs	23,750	-	-	23,750
Total other assets	23,750	-	-	23,750
Capital assets:				
Land	202,500	-	-	202,500
Land improvements	33,286	-	-	33,286
Building	2,626,820	-	-	2,626,820
Furniture and equipment	1,408,100	272,536	-	1,680,636
	4,270,706	272,536	-	4,543,242
Less accumulated depreciation	(1,603,609)	(243,594)	-	(1,847,203)
Net capital assets	2,667,097	28,942	-	2,696,039
Total assets	\$ 4,417,464	430,860	19,056	4,867,380
LIABILITIES				
Current liabilities:				
Accounts payable	111,401	-	-	111,401
Accrued payroll and payroll taxes	188,164	-	-	188,164
Accrued vacation time	359,345	-	-	359,345
Deferred revenue - current	-	-	-	-
Capital lease - current	34,235	-	-	34,235
Note payable - current	88,500	-	-	88,500
Total current liabilities	781,645	-	-	781,645
Non-current liabilities:				
Capital lease	83,569	-	-	83,569
Note payable	774,375	-	-	774,375
Total non-current liabilities	857,944	-	-	857,944
Total liabilities	\$ 1,639,589	-	-	1,639,589
NET ASSETS				
Invested in capital assets, net of related debt	1,686,417	-	-	1,686,417
Restricted	-	-	19,056	19,056
Unrestricted:				
Expendable	1,091,458	-	-	1,091,458
Designated	-	430,860	-	430,860
Total net assets	\$ 2,777,875	430,860	19,056	3,227,791

MAINE MUNICIPAL ASSOCIATION
Statement of Revenues, Expenses and Changes in Net Assets by Fund
For the year ended December 31, 2004

	Unrestricted		Restricted	Total 2004
	General fund	Designated funds	Special funds	
Revenues:				
Dues	\$ 1,579,116	-	-	1,579,116
Group services - administrative fees	6,858,963	-	-	6,858,963
Publications	168,073	-	-	168,073
Investment income	31,012	-	-	31,012
Contract services	83,891	-	-	83,891
Convention	157,739	-	-	157,739
Training and affiliate groups	92,406	-	-	92,406
Other	20	-	-	20
Total revenues	8,971,220	-	-	8,971,220
Expenses:				
Salaries and wages	4,783,501	-	-	4,783,501
Fringe benefits	1,601,831	-	-	1,601,831
Supplies and general expenses	831,670	515	-	832,185
Professional services	171,391	390,582	-	561,973
Travel meetings/committees	316,377	-	5,702	322,079
Insurance	227,780	-	-	227,780
Local government center	287,416	-	-	287,416
Depreciation	242,598	61,952	-	304,550
Interest and deferred financing costs	43,737	-	-	43,737
Total expenses	8,506,301	453,049	5,702	8,965,052
Change in net assets	464,919	(453,049)	(5,702)	6,168
Net assets, beginning of year	2,463,072	733,793	24,758	3,221,623
Net asset transfers	(150,116)	150,116	-	-
Net assets, end of year	\$ 2,777,875	430,860	19,056	3,227,791

MAINE MUNICIPAL ASSOCIATION
Schedule of Changes in Designated and Restricted Net Assets
Year ended December 31, 2004

	Net Assets January 1, 2004	Revenue	Expenses	Transfers	Net Assets December 31, 2004
Designated net assets:					
Legislative Initiatives Fund	\$ 394,000	-	386,200	73,200	81,000
Assn Database Capital Fund	86,825	-	57,884	-	28,941
MINet Subsidy	13,741	-	-	(13,741)	-
Building Maintenance Reserve	136,520	-	6,983	52,863	182,400
Legal Defense Fund - General	10,000	-	-	-	10,000
MIS Training/Consultant	73,283	-	500	7,217	80,000
Legal/Insurance Deductible Fund	19,424	-	1,482	30,577	48,519
Total designated net assets	733,793	-	453,049	150,116	430,860
Restricted net assets:					
Governing Skills Project	24,758	-	5,702	-	19,056
Total restricted net assets	24,758	-	5,702	-	19,056
Total	\$ 758,551	-	458,751	150,116	449,916

MAINE MUNICIPAL ASSOCIATION

Financial Statements

Years ended December 31, 2005 and 2004

MAINE MUNICIPAL ASSOCIATION
Financial Statements
For the years ended December 31, 2005 and 2004

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report		
Management Discussion and Analysis		1-4
Statements of Net Assets	1	5
Statements of Revenues, Expenses and Changes in Net Assets	2	6
Statements of Cash Flows	3	7
Notes to Financial Statements		8-13
	<u>Schedule</u>	<u>Page</u>
Additional Information:		
Schedule of Net Assets by Fund	1	14
Schedule of Revenues, Expenses and Changes in Net Assets by Fund	2	15
Schedule of Changes in Designated and Restricted Net Assets	3	16



Independent Auditor's Report

Executive Committee

Maine Municipal Association:

We have audited the accompanying statements of net assets of Maine Municipal Association as of December 31, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Association as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. Supplemental schedules 1 through 3 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in cursive script that reads "Runyon Kersteen Ouellette".

March 14, 2006
South Portland, Maine

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis
Fiscal Year Ended 2005

This section of the Maine Municipal Association (MMA) annual financial report sets forth a narrative overview of its financial activities for the year ended December 31, 2005. Please read it in conjunction with MMA's financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

MMA's fiscal year is January 1 through December 31.

The annual financial report consists of four parts:

- Management Discussion and Analysis
- Basic Financial Statements
- Notes to the Statements
- Supplemental Information (Schedules)

Management Discussion and Analysis provides a narrative overview of the statements and comments on significant developments during the reporting period.

Basic Statements include:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

These statements include the General Fund, Designated Funds and Restricted Funds and present MMA's status at December 31, 2005 and financial developments during fiscal year 2005.

Notes to the Statements provide explanations of the accounting principles followed and of key items in the statements.

Supplemental Schedules include:

- Schedule of Net Assets by Fund
- Schedule of Revenues, Expenses and Changes in Net Assets by Fund
- Schedule of Changes in Designated and Restricted Net Assets

MMA GENERAL FUND

The General Fund includes the assets, liabilities, net assets, revenues and expenses of the Maine Municipal Association. All of the information presented in the following management discussion and analysis is for the General Fund only and does not include the self insured funds administered by MMA, nor does it include Board Designated or Restricted Funds.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

FINANCIAL HIGHLIGHTS – General Fund

- Assets at December 31, 2005 amounted to \$4,661,369, an increase of 5.5% over the prior year.
- Cash and investments totaled \$1,828,029, an increase of 30.1%.
- Operating revenues exclusive of transfers in 2005 totaled \$9,141,884 (1.9% increase).
- Operating expenses exclusive of transfers in 2005 totaled \$8,658,642 (1.8% increase).
- During 2005, the MMA general fund transferred \$137,882 to designated funds.
- Net assets at December 31, 2005 totaled \$3,123,235, an increase of 12.4% over the prior year.

FINANCIAL ANALYSIS – General Fund

The following table summarizes the Statements of Net Assets:

	<u>12/31/2005</u>	<u>12/31/2004</u>	<u>% Change</u>
ASSETS			
Current Assets	2,117,982	1,726,617	22.7%
Other Assets	21,313	23,750	-10.3%
Capital Assets	<u>2,522,074</u>	<u>2,667,097</u>	<u>-5.4%</u>
Total Assets	<u>4,661,369</u>	<u>4,417,464</u>	<u>5.5%</u>
LIABILITIES			
Current Liabilities	799,690	781,645	2.3%
Long Term Liabilities	<u>738,444</u>	<u>857,944</u>	<u>-13.9%</u>
Total Liabilities	<u>1,538,134</u>	<u>1,639,589</u>	<u>-6.2%</u>
NET ASSETS			
Expendable	1,467,611	1,091,458	34.5%
Investment in Property & Plant	<u>1,655,624</u>	<u>1,686,417</u>	<u>-1.8%</u>
Total Net Assets	<u>3,123,235</u>	<u>2,777,875</u>	<u>12.4%</u>

The following table summarizes the Statements of Revenues, Expenses and Changes in Net Assets:

	<u>2005</u>	<u>2004</u>	<u>% Change</u>
OPERATING REVENUES			
Member Dues	1,608,211	1,579,116	1.8%
Group Services Administrative Fees	6,970,418	6,858,963	1.6%
Other Revenues	<u>563,255</u>	<u>533,141</u>	<u>5.6%</u>
Total Operating Revenues	<u>9,141,884</u>	<u>8,971,220</u>	<u>1.9%</u>
OPERATING EXPENSES			
Salaries and Benefits	6,513,595	6,385,332	2.0%
Facility, Insurance and Interest	835,760	801,531	4.3%
Other Expenses	<u>1,309,287</u>	<u>1,319,438</u>	<u>-0.8%</u>
Total Operating Expenses	<u>8,658,642</u>	<u>8,506,301</u>	<u>1.8%</u>
GAIN OR (LOSS) FROM OPERATIONS			
Net transfer between funds	<u>(137,882)</u>	<u>(150,116)</u>	<u>-8.1%</u>
Change in Net Assets	<u>345,360</u>	<u>314,803</u>	<u>9.7%</u>
NET ASSETS - BEGINNING	2,777,875	2,463,072	12.8%
NET ASSETS - ENDING	<u>3,123,235</u>	<u>2,777,875</u>	<u>12.4%</u>

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

ANALYSIS OF FINANCIAL DEVELOPMENTS IN FISCAL YEAR 2005

The following table presents a budget to actual comparison of the General Fund in summarized form:

	BUDGET	ACTUAL	% Change
REVENUES			
Member Dues	1,608,548	1,608,211	0.0%
Group Services Administrative Fees	6,970,418	6,970,418	0.0%
Other Revenues	502,403	563,255	12.1%
Total Revenues	9,081,369	9,141,884	0.7%
EXPENSES			
Salaries and Benefits	6,883,173	6,513,595	-5.4%
Facility, Insurance and Interest	838,310	835,760	-0.3%
Other Expenses	1,359,886	1,309,287	-3.7%
Total Expenses	9,081,369	8,658,642	-4.7%
GAIN OR (LOSS) FROM OPERATIONS	-	483,242	
NET TRANSFERS BETWEEN FUNDS	-	(137,882)	
CHANGE IN NET ASSETS	-	345,360	

CAPITAL ASSETS AND LONG-TERM DEBT

At December 31, 2005, General Fund capital assets totaled \$4,369,870, offset by accumulated depreciation totaling \$1,847,796. Capital assets net of depreciation amounted to \$2,522,074. By major category, capital assets included:

Buildings and improvements	2,626,820
Land and improvements	235,786
Furniture and equipment	1,507,264
	4,369,870

Long-term debt associated with capital assets included:

Mortgage on building	\$774,375 (including \$88,500 due in coming year)
Capital lease - photocopiers	\$ 92,075 (including \$39,506 due in coming year)

CONDITIONS WHICH MAY IMPACT ON MMA'S FINANCIAL CONDITION IN THE FUTURE

Management is aware of no conditions, decisions or contingencies which are expected to significantly impact on MMA's financial position in the future.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

SPECIAL FUNDS

This fund group includes:

Designated Funds: Accounts established by the MMA Executive Committee, by transfer from the General Fund, to meet specific purposes. At 12/31/05 there were eight Designated Funds with Net Assets totaling \$427,643. Financial developments over the course of 2005 were as follows:

Beginning Balance	430,860
Transfers from General Fund	137,882
Expenses	<u>(141,099)</u>
Ending Balance	<u><u>427,643</u></u>

Restricted Funds: Accounts established by the Executive Committee, with funds provided by outside donors, with restrictions based on donor guidelines. At 12/31/05, there was one Restricted Fund with Net Assets of \$8,185. Financial developments over the course of 2005 were as follows:

Beginning Balance	19,056
Transfers from General Fund	-
Expenses	<u>(10,871)</u>
Ending Balance	<u><u>8,185</u></u>

REQUEST FOR INFORMATION

This financial report is designed to provide our members, customers, investors and creditors with a general overview of MMA's finances and to show MMA's accountability for the money it receives. If you have any questions about this report or need additional information, contact Martin Hanish, Chief Financial Officer, at (207)-623-8428.

MAINE MUNICIPAL ASSOCIATION
Statements of Net Assets
December 31, 2005 and 2004
(includes general, designated and restricted funds)

	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 747,537	1,326,550
Investments:		
Certificates of deposit	750,000	500,000
U.S. Government securities	766,319	-
Accounts receivable	72,884	99,425
Accrued interest receivable	3,406	766
Prepaid expenses and other assets	213,663	220,850
Total current assets	2,553,809	2,147,591
Other assets:		
Deferred financing costs	21,313	23,750
Total other assets	21,313	23,750
Capital assets:		
Land	202,500	202,500
Land improvements	33,286	33,286
Building	2,626,820	2,626,820
Furniture and equipment	1,779,800	1,680,636
	4,642,406	4,543,242
Less accumulated depreciation	(2,120,332)	(1,847,203)
Net capital assets	2,522,074	2,696,039
Total assets	\$ 5,097,196	4,867,380
LIABILITIES		
Current liabilities:		
Accounts payable	121,095	111,401
Accrued payroll and payroll taxes	193,575	188,164
Accrued vacation time	357,014	359,345
Capital lease - current	39,506	34,235
Note payable - current	88,500	88,500
Total current liabilities	799,690	781,645
Noncurrent liabilities:		
Capital lease	52,569	83,569
Note payable	685,875	774,375
Total noncurrent liabilities	738,444	857,944
Total liabilities	\$ 1,538,134	1,639,589
NET ASSETS		
Invested in capital assets, net of related debt	1,655,624	1,686,417
Restricted	8,185	19,056
Unrestricted:		
Expendable	1,467,611	1,091,458
Designated	427,642	430,860
Total net assets	\$ 3,559,062	3,227,791

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Revenues, Expenses and Changes in Net Assets
For the years ended December 31, 2005 and 2004
(includes general, designated and restricted funds)

	2005	2004
Revenues:		
Dues	\$ 1,608,211	1,579,116
Group services - administrative fees	6,970,418	6,858,963
Publications	178,580	168,073
Investment income	91,761	31,012
Contract services	60,082	83,891
Convention	145,568	157,739
Training and affiliate groups	89,343	92,406
Other	(2,079)	20
Total revenues	9,141,884	8,971,220
Expenses:		
Salaries and wages	4,942,664	4,783,501
Fringe benefits	1,570,931	1,601,831
Supplies and general expenses	789,335	832,185
Professional services	198,685	561,973
Travel meetings/committees	336,603	322,080
Insurance	240,622	227,780
Local government center	417,439	287,416
Depreciation	274,716	304,550
Interest and deferred financing costs	39,618	43,737
Total expenses	8,810,613	8,965,053
Change in net assets	331,271	6,167
Net assets, beginning of year	3,227,791	3,221,624
Net assets, end of year	\$ 3,559,062	3,227,791

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Cash Flows
For the years ended December 31, 2005 and 2004
(includes general, designated and restricted funds)

	2005	2004
Cash flows from operating activities:		
Receipts from dues	\$ 1,634,752	1,551,708
Receipts from group services - administrative fees	6,970,418	6,858,963
Receipts from publications	178,580	168,073
Receipts from investment income	91,550	43,354
Receipts from contract services	60,082	83,891
Receipts from convention	145,568	157,739
Receipts from training and affiliate groups	89,343	92,407
Receipts from other	2,777	20
Payments for salaries and benefits	(6,508,184)	(6,341,551)
Payments for supplies and general expenses	(779,641)	(827,292)
Payments for professional services	(198,685)	(561,973)
Payments for travel meetings/committees	(336,603)	(322,080)
Payments for insurance	(240,622)	(227,133)
Payments for local government center	(417,439)	(287,416)
Payments for interest	(37,182)	(41,300)
Net cash provided by operating activities	654,714	347,410
Cash flows from capital and related financing activities:		
Proceeds from capital leases	(25,729)	117,804
Net (purchases) disposals of capital assets	(100,751)	(247,311)
Principal payments on notes payable	(88,500)	(88,500)
Net cash used in capital and related financing activities	(214,980)	(218,007)
Cash flows from investing activities:		
Purchase of certificates of deposits	(250,000)	(500,000)
Purchase of U.S. Government securities	(768,748)	-
Maturities of U.S. Government securities	-	500,176
Net cash provided by (used in) investing activities	(1,018,748)	176
Increase (decrease) in cash and cash equivalents	(579,014)	129,579
Cash and cash equivalents - beginning of year	1,326,550	1,196,971
Cash and cash equivalents - end of year	\$ 747,536	1,326,550
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 331,271	6,167
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	274,716	304,550
Amortization of loan expenses	2,436	2,436
(Increase) decrease in assets:		
Unrealized loss on investments	2,429	-
Accounts receivable	26,541	(27,406)
Accrued interest receivable	(2,640)	12,342
Prepaid expenses and other assets	7,187	647
Increase (decrease) in liabilities:		
Accounts payable	9,694	4,893
Accrued payroll and payroll taxes	5,411	38,107
Accrued vacation time	(2,331)	5,674
Net cash provided by operating activities	\$ 654,714	347,410

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Maine Municipal Association was founded in 1936 and is a voluntary organization of cities, towns and plantations. The Association is a nonprofit, nonpartisan organization dedicated to the purpose of improving the quality and efficiency of local government in Maine through information exchange, policy advocacy, professional management assistance and the joint purchase of goods and services. The Association also offers associate memberships to counties, water and sewer districts, and other special districts.

The Association provides administrative services to the Maine Municipal Association Workers' Compensation Fund, Maine Municipal Association Property and Casualty Pool, Maine Municipal Association Unemployment Compensation Group Fund, and the Maine Municipal Employees Health Trust. The Association receives administrative fees for providing these services, which are recorded as income. These Funds are accounted for as separate accounting entities and are not included in the financial statements of Maine Municipal Association.

Tax Exempt Status - The Association is recognized as an instrumentality of municipalities and is exempt from income taxes.

Fund Accounting - The accounts of the Association are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses.

Basis of Accounting - The accrual basis of accounting is followed for all funds.

The Association follows the applicable provisions of Government Accounting Standards Board's (GASB) generally accepted accounting principles (GAAP) for state and local governments through its pronouncements (Statements and Interpretations). Additionally, the Association follows the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The Association has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents - The Association considers all highly liquid deposits with an initial maturity of three months or less to be cash and cash equivalents. Amounts in the mutual fund investment sweep and the money market mutual fund are indirectly invested in U.S. government obligations.

Investments - The investments of Maine Municipal Association include U.S. government securities, corporate bonds and certificates of deposit, none of which are held for trading purposes. The Association estimates that the fair value of all financial instruments at December 31, 2005 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The estimated fair value amounts have been determined by quoted market prices.

Accounts Receivable - Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts is considered necessary at December 31, 2005 and 2004.

Capital Assets - Property and equipment are capitalized at cost and depreciated over their estimated useful lives of three to forty years on a straight-line basis. The Association's policy is to capitalize expenditures for major improvements and additions and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets.

Designated Funds - The Association has several designated funds established by its Board for specific purposes. These funds are accounted for in designated funds until expenditures are made for the purpose specified.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Restricted Funds - The Association has a restricted fund established by donor contributions for specific purposes. These funds are accounted for in restricted funds until expenditures are made for the purpose specified by the contributor.

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

DEPOSITS AND INVESTMENTS

Deposits

Cash and cash equivalents are comprised of cash management accounts (CMA) and money market instruments and consist of the following at December 31:

	<u>Unrestricted Funds</u>		<u>Restricted Funds</u>	<u>Totals</u>
	<u>General Fund</u>	<u>Designated Funds</u>	<u>Special Funds</u>	
<u>2005</u>				
CMA - deposit account	\$ 46,221	-	-	46,221
CMA - mutual fund investment sweep	11,236	427,642	8,185	447,063
Money market mutual fund	254,253	-	-	254,253
Totals	\$ 311,710	427,642	8,185	747,537
<u>2004</u>				
CMA - deposit account	\$ -	-	-	-
CMA - mutual fund investment sweep	(316,509)	401,918	19,056	104,465
Money market mutual fund	1,222,085	-	-	1,222,085
Totals	\$ 905,576	401,918	19,056	1,326,550

Depository and mutual fund sweep accounts are pooled accounts containing assets of the General Fund, Special Funds, Workers' Compensation Fund, Unemployment Compensation Fund, Public Officials Liability Fund and Property & Casualty Pool. The money market mutual fund is also a pooled account but does not include the Workers' Compensation Fund. Only the assets belonging to the General Fund, Designated Fund, and Restricted Fund are included in these financial statements.

Custodial Credit Risk-Association Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits in excess of the FDIC insured limit may not be recoverable. The Association addresses this risk by minimizing balances in bank accounts. Checking accounts are on a zero balance basis and collected funds are transferred from the CMA - deposit account on a daily basis either to the checking accounts to cover checks presented for payment or to a money market fund outside of the bank. The CMA - mutual fund investment sweep and the money market mutual fund are mutual funds outside the bank, invested in short term government securities. These funds are uninsured and uncollateralized, and subject to custodial credit risk.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

The December 31, 2005 CMA - deposit account balance of \$46,221 consists of checks deposited which are not yet available for transfer.

Investments

At December 31, 2005, the Association had the following investments and maturities:

Investment types:	Fair Value	< 1 year to Maturity	1 to 5 years to Maturity	5 + years to Maturity
Certificates of deposit (1)	\$ 750,000	750,000	-	-
U.S. government obligations	766,319	445,667	320,652	-
Totals	\$ 1,516,319	1,195,667	320,652	-

(1) Of the certificates of deposit held at December 31, 2005, \$200,000 was covered by FDIC. The remainder is uninsured and uncollateralized.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association's investment policy requires that, to the extent possible, the Association attempts to match investments with anticipated cash requirements. Investments outside of the parameters of the adopted Asset Strategy must be presented for Board approval prior to implementation. Liquidity risk, as defined by MMA's investment policy, is the risk that funds may not be available as needed, or may be available only by liquidating investments with a resultant capital loss. The Association's investment policy requires that investment maturities be timed to meet projected cash flow requirements, with a margin for the unexpected. The maximum maturity permitted under Board policy in 2005 was 2 years.

Credit Risk: Credit risk is the risk that the entity in which the fund has invested may be unable to redeem investments when they mature. The Association's investment policy limits investments to entities that have high ratings by recognized rating agencies. Management monitors the ratings of entities in which it has invested and would sell investments should a significant rating decline occur. No such issues were noted in 2005, and the Association had no investments in corporate stocks or bonds as of December 31, 2005.

Custodial Credit Risk-Association's investments: For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association addresses this risk by having the custodian hold investments to the Association's benefit, by maintaining high quality standards for the entities in which it invests and by monitoring the ratings of entities in which it has invested.

Concentration of Credit Risk: It is the Association's policy to diversify its investments by security type to mitigate concentration risk. 2005 asset allocation targets were as follows: money market funds: 50%, certificates of deposit: 25%, and U.S. government securities: 25%. Actual levels vary over the course of the year, and may be adjusted by management based on changing economic conditions.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

NET APPRECIATION (DEPRECIATION) IN FAIR VALUE

Net appreciation (depreciation) in fair value during the years ended December 31, 2005 and 2004 by type of investment was as follows. Such amounts are included in investment income in the statements of revenues, expenses and changes in net assets.

	<u>2005</u>	<u>2004</u>
U.S. Government securities	\$ (2,429)	(30)
Totals	\$ (2,429)	(30)

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Balance at</u> <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>12/31/05</u>
Capital assets, not being depreciated:				
Land	\$ 202,500	-	-	202,500
Total capital assets not being depreciated	202,500	-	-	202,500
Capital assets, being depreciated:				
Land improvements	33,286	-	-	33,286
Buildings	2,626,820	-	-	2,626,820
Furniture and equipment	1,680,636	123,894	24,730	1,779,800
Total capital assets being depreciated	4,340,742	123,894	24,730	4,439,906
Less accumulated depreciation for:				
Land improvements	(23,300)	(2,219)	-	(25,519)
Buildings	(694,918)	(67,006)	-	(761,924)
Furniture and equipment	(1,128,985)	(225,205)	(21,301)	(1,332,889)
Total accumulated depreciation	(1,847,203)	(294,430)	(21,301)	(2,120,332)
Total capital assets being depreciated, net	2,493,539	(170,536)	3,429	2,319,574
Total capital assets, net	\$ 2,696,039	(170,536)	3,429	2,522,074

Depreciation expense for the years ended December 31, 2005 and 2004 was \$274,716 and \$304,550, respectively.

NOTES PAYABLE

The note payable consists of borrowings from a bank related to a mortgage note payable in the amount of \$774,375 at December 31, 2005 on the Association's building which, at December 31, 2005 has a book value of \$1,864,875. The mortgage note had an original amount of \$1,770,000 and is due in monthly principal payments of \$7,375 plus interest over a 20 year period beginning on the first day of October 1994. The interest rate was reset on July 1, 2005 at 4.46% for the remaining term of the mortgage. The note payable is secured by a first mortgage on the building. Financing costs incurred during the construction project have been capitalized and will be expensed over the term of the note. Interest of \$37,182 and \$41,300 was paid in 2005 and 2004, respectively.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

NOTES PAYABLE, CONTINUED

Principal maturities on the note payable over the next five years and to maturity are as follows:

2006	\$ 88,500
2007	88,500
2008	88,500
2009	88,500
2010	88,500
2011-2014	331,875
<u>Total</u>	<u>\$ 774,375</u>

DESIGNATED NET ASSETS

Designated Fund accounts are established by the MMA Executive Committee, by transfer from the General Fund, to meet specific purposes. At December 31, 2005, there were eight Designated Funds:

	<u>Net assets at</u> <u>December 31, 2005</u>
Legislative Initiatives Fund	\$ 100,000
Assn Database Capital Fund	-
Building Maintenance Reserve	131,531
Membership Survey Fund	25,000
BackOffice Applications Fund	30,000
Legal Defense Fund - General	10,000
MIS Training/Consultant	81,111
Legal/Insurance Deductible Fund	50,000
	<u>\$ 427,642</u>

RETIREMENT PLANS

Maine State Retirement System

The Association's employees are covered under Social Security benefit programs. In addition, the Association contributes to a 401(a) qualified deferred compensation plan, or to the Maine State Retirement System (MSRS) pension plan for those employees who retained their eligibility prior to the Association's discontinuance as a participating local district on April 6, 1994. As a withdrawn participating local district, the Association is required to fund the plan on an actuarially sound basis for liabilities of any current active, inactive vested, or retired participants. At June 30, 2005 (the latest available report date), there were one active and four retired participants. The plan is not material to the financial statements of the Maine Municipal Association.

The expense for this plan was \$6,282 and \$5,964 for 2005 and 2004, respectively. The MSRS issues a publicly available financial report that includes financial statements and requires supplementary information for the plan. That report may be obtained by writing the Maine State Retirement System, 46 State House Station, Augusta, ME 04333-0046.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

RETIREMENT PLANS, CONTINUED

401(a) Qualified Deferred Compensation Plan

The 401(a) qualified deferred compensation plan requires a contribution of 5% of salary from employees which is supplemented by the Association at 5.8%. Employees are fully vested in their own contributions immediately and become 100% vested in the Association's contributions after three years of service. The expense for this plan was \$251,504 and \$235,918 for 2005 and 2004, respectively.

457 Deferred Compensation Plan

The Association also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan permits them to defer a portion of their salary until future years.

Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property, or rights are to be held in trust and maintained for the exclusive benefit of participants and their beneficiaries.

Under the 401(a) qualified and 457 deferred compensation plans, no part of the corpus or the income of the trust shall revert to the employer or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries.

TRANSFERS TO SPECIAL FUNDS

The Executive Committee approved the following transfers from the General Fund to specific designated funds as part of the 2006 Budget and which were made during the year ended December 31, 2005:

	<u>Transfer out</u>	<u>Transfers in</u>
General Fund	\$ 137,882	-
Legislative Initiatives Fund	-	19,000
Building Maintenance Reserve	-	57,400
Membership Survey Fund	-	25,000
BackOffice Applications Fund	-	30,000
MIS Training/Consultant	-	5,000
Legal/Insurance Deductible Fund	-	1,482
	\$ <u>137,882</u>	<u>137,882</u>

MAINE MUNICIPAL ASSOCIATION
Statement of Net Assets by Fund
December 31, 2005

	Unrestricted		Restricted	Total 2005
	General fund	Designated funds	Special funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 311,710	427,642	8,185	747,537
Investments:				
Certificates of deposit	750,000	-	-	750,000
U.S. Government securities	766,319	-	-	766,319
Accounts receivable	72,884	-	-	72,884
Accrued interest receivable	3,406	-	-	3,406
Prepaid expenses and other assets	213,663	-	-	213,663
Total current assets	2,117,982	427,642	8,185	2,553,809
Other assets:				
Deferred financing costs	21,313	-	-	21,313
Total other assets	21,313	-	-	21,313
Capital assets:				
Land	202,500	-	-	202,500
Land improvements	33,286	-	-	33,286
Buildings and improvements	2,626,820	-	-	2,626,820
Furniture and equipment	1,507,264	272,536	-	1,779,800
	4,369,870	272,536	-	4,642,406
Less accumulated depreciation	(1,847,796)	(272,536)	-	(2,120,332)
Net capital assets	2,522,074	-	-	2,522,074
Total assets	\$ 4,661,369	427,642	8,185	5,097,196
LIABILITIES				
Current liabilities:				
Accounts payable	121,095	-	-	121,095
Accrued payroll and payroll taxes	193,575	-	-	193,575
Accrued vacation time	357,014	-	-	357,014
Capital lease - current	39,506	-	-	39,506
Note payable - current	88,500	-	-	88,500
Total current liabilities	799,690	-	-	799,690
Non-current liabilities:				
Capital lease	52,569	-	-	52,569
Note payable	685,875	-	-	685,875
Total non-current liabilities	738,444	-	-	738,444
Total liabilities	\$ 1,538,134	-	-	1,538,134
NET ASSETS				
Invested in capital assets, net of related debt	1,655,624	-	-	1,655,624
Restricted	-	-	8,185	8,185
Unrestricted:				
Expendable	1,467,611	-	-	1,467,611
Designated	-	427,642	-	427,642
Total net assets	\$ 3,123,235	427,642	8,185	3,559,062

MAINE MUNICIPAL ASSOCIATION
Statement of Revenues, Expenses and Changes in Net Assets by Fund
For the year ended December 31, 2005

	Unrestricted		Restricted	Total 2005
	General fund	Designated funds	Special funds	
Revenues:				
Member dues	\$ 1,608,211	-	-	1,608,211
Group services - administrative fees	6,970,418	-	-	6,970,418
Publications	178,580	-	-	178,580
Investment income	91,761	-	-	91,761
Contract services	60,082	-	-	60,082
Convention	145,568	-	-	145,568
Training and affiliate groups	89,343	-	-	89,343
Other	(2,079)	-	-	(2,079)
Total revenues	9,141,884	-	-	9,141,884
Expenses:				
Salaries and wages	4,942,664	-	-	4,942,664
Fringe benefits	1,570,931	-	-	1,570,931
Supplies and general expenses	787,335	-	2,000	789,335
Professional services	190,220	4,465	4,000	198,685
Travel meetings/committees	331,732	-	4,871	336,603
Insurance	240,622	-	-	240,622
Local government center	309,746	107,693	-	417,439
Depreciation	245,774	28,942	-	274,716
Interest and deferred financing costs	39,618	-	-	39,618
Total expenses	8,658,642	141,100	10,871	8,810,613
Change in net assets	483,242	(141,100)	(10,871)	331,271
Net assets, beginning of year	2,777,875	430,860	19,056	3,227,791
Net asset transfers	(137,882)	137,882	-	-
Net assets, end of year	\$ 3,123,235	427,642	8,185	3,559,062

MAINE MUNICIPAL ASSOCIATION
Schedule of Changes in Designated and Restricted Net Assets
Year ended December 31, 2005

	Net assets January 1, 2005	Revenues	Expenses	Transfers	Net assets December 31, 2005
Designated net assets:					
Legislative Initiatives Fund	\$ 81,000	-	-	19,000	100,000
Assn Database Capital Fund	28,942	-	28,942	-	-
Building Maintenance Reserve	182,400	-	108,269	57,400	131,531
Membership Survey Fund	-	-	-	25,000	25,000
BackOffice Applications Fund	-	-	-	30,000	30,000
Legal Defense Fund - General	10,000	-	-	-	10,000
MIS Training/Consultant	80,000	-	3,889	5,000	81,111
Legal/Insurance Deductible Fund	48,518	-	-	1,482	50,000
Total designated net assets	430,860	-	141,100	137,882	427,642
Restricted net assets:					
Governing Skills Project	19,056	-	10,871	-	8,185
Total restricted net assets	19,056	-	10,871	-	8,185
Totals	\$ 449,916	-	151,971	137,882	435,827

MAINE MUNICIPAL ASSOCIATION

Financial Statements

For the years ended December 31, 2006 and 2005

MAINE MUNICIPAL ASSOCIATION
Financial Statements
For the years ended December 31, 2006 and 2005

Table of Contents

	<u>Statement</u>	<u>Page</u>
Independent Auditor's Report		
Management Discussion and Analysis		1-4
Statements of Net Assets	1	5
Statements of Revenues, Expenses and Changes in Net Assets	2	6
Statements of Cash Flows	3	7
Notes to Financial Statements		8-14
	<u>Schedule</u>	<u>Page</u>
Additional Information:		
Schedule of Net Assets by Fund	1	15
Schedule of Revenues, Expenses and Changes in Net Assets by Fund	2	16
Schedule of Changes in Designated and Restricted Net Assets	3	17



Certified Public Accountants and Business Consultants

Independent Auditor's Report

Executive Committee

Maine Municipal Association:

We have audited the accompanying statements of net assets of Maine Municipal Association as of December 31, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Association as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management discussion and analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. Supplemental schedules 1 through 3 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 audits 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.

A handwritten signature in cursive script that reads "Runyon Kersteen Ouellette".

April 4, 2007
South Portland, Maine

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis
Fiscal Year Ended 2006

This section of the Maine Municipal Association (MMA) annual financial report sets forth a narrative overview of its financial activities for the year ended December 31, 2006. Please read it in conjunction with MMA's financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

MMA's fiscal year is January 1 through December 31.

The annual financial report consists of four parts:

- Management Discussion and Analysis
- Basic Financial Statements
- Notes to Financial Statements
- Supplemental Information (Schedules)

Management Discussion and Analysis provides a narrative overview of the statements and comments on significant developments during the reporting period.

Basic Financial Statements include:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

These statements include the General Fund, Designated Funds and Restricted Funds and present MMA's status at December 31, 2006 and financial developments during fiscal year 2006.

Notes to Financial Statements provide explanations of the accounting principles followed and of key items in the statements.

Supplemental Schedules include:

- Statement of Net Assets by Fund
- Statement of Revenues, Expenses and Changes in Net Assets by Fund
- Statement of Changes in Designated and Restricted Net Assets

MMA GENERAL FUND

The General Fund includes the assets, liabilities, net assets, revenues and expenses of the Maine Municipal Association. All of the information presented in the following management discussion and analysis is for the General Fund only and does not include the self insured funds administered by MMA, nor does it include Board Designated or Restricted Funds.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

FINANCIAL HIGHLIGHTS – General Fund

- MMA’s assets at December 31, 2006 amounted to \$4,884,923, for an increase of 4.8%.
- Cash and investments totaled \$2,016,684, an increase of 10.3%.
- Operating revenues exclusive of transfers in 2006 totaled \$9,765,957 (6.8% increase).
- Operating expenses exclusive of transfers in 2006 totaled \$9,233,386 (6.6% increase).
- During 2006, the MMA general fund transferred \$137,388 to designated funds.
- Net assets at December 31, 2006 totaled \$3,518,418, an increase of 12.7%.

FINANCIAL ANALYSIS – General Fund

The following table summarizes the Statements of Net Assets:

	<u>12/31/2006</u>	<u>12/31/2005</u>	<u>% Change</u>
ASSETS			
Current Assets	2,358,942	2,117,982	11.4%
Other Assets	18,877	21,313	-11.4%
Capital Assets	2,507,104	2,522,074	-0.6%
Total Assets	<u>4,884,923</u>	<u>4,661,369</u>	<u>4.8%</u>
LIABILITIES			
Current Liabilities	391,475	442,676	-11.6%
Long Term Liabilities	975,030	1,095,458	-11.0%
Total Liabilities	<u>1,366,505</u>	<u>1,538,134</u>	<u>-11.2%</u>
NET ASSETS			
Expendable	1,749,762	1,467,611	19.2%
Investment in Property & Plant	1,768,656	1,655,624	6.8%
Total Net Assets	<u>3,518,418</u>	<u>3,123,235</u>	<u>12.7%</u>

The following table summarizes the Statements of Revenues, Expenses and Changes in Net Assets:

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
OPERATING REVENUES			
Member Dues	1,610,074	1,608,211	0.1%
Group Services Administrative Fees	7,510,107	6,970,418	7.7%
Other Revenues	645,776	563,255	14.7%
Total Operating Revenues	<u>9,765,957</u>	<u>9,141,884</u>	<u>6.8%</u>
OPERATING EXPENSES			
Salaries and Benefits	6,889,165	6,513,595	5.8%
Facility, Insurance and Interest	840,667	835,760	0.6%
Other Expenses	1,503,554	1,309,287	14.8%
Total Operating Expenses	<u>9,233,386</u>	<u>8,658,642</u>	<u>6.6%</u>
GAIN OR (LOSS) FROM OPERATIONS			
Net transfer between funds	532,571	483,242	10.2%
Change in Net Assets	<u>(137,388)</u>	<u>(137,882)</u>	<u>-0.4%</u>
NET ASSETS - BEGINNING	395,183	345,360	14.4%
NET ASSETS - ENDING	<u>3,123,235</u>	<u>2,777,875</u>	<u>12.4%</u>
	<u>3,518,418</u>	<u>3,123,235</u>	<u>12.7%</u>

**MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued**

ANALYSIS OF FINANCIAL DEVELOPMENTS IN FISCAL YEAR 2006

The following table presents a budget to actual comparison of the General Fund in summarized form:

	Budget	Actual	% Change
REVENUES			
Member Dues	1,610,675	1,610,074	0.0%
Group Services Administrative Fees	7,510,107	7,510,107	0.0%
Other Revenues	598,940	645,776	7.8%
Total Revenues	<u>9,719,722</u>	<u>9,765,957</u>	<u>0.5%</u>
EXPENSES			
Salaries and Benefits	7,230,541	6,889,165	-4.7%
Facility, Insurance and Interest	827,162	840,667	1.6%
Other Expenses	1,590,597	1,503,554	-5.5%
Total Expenses	<u>9,648,300</u>	<u>9,233,386</u>	<u>-4.3%</u>
GAIN OR (LOSS) FROM OPERATIONS	71,422	532,571	
NET TRANSFER BETWEEN FUNDS	(71,422)	(137,388)	
CHANGE IN NET ASSETS	-	395,183	

CAPITAL ASSETS AND LONG-TERM DEBT

At December 31, 2006, General Fund capital assets totaled \$4,576,772, offset by accumulated depreciation totaling \$2,069,668. Capital assets net of depreciation amounted to \$2,507,104. By major category, capital assets included:

Land	202,500
Land improvements	33,286
Buildings and improvements	2,637,243
Furniture and equipment	1,703,743
	<u>4,576,772</u>

Long-term debt associated with capital assets included:

Mortgage on building	\$685,875 including \$88,500 due in coming year
Capital lease - photocopiers	\$ 52,573 including \$41,537 due in coming year

CONDITIONS WHICH MAY IMPACT ON MMA'S FINANCIAL CONDITION IN THE FUTURE

Management is aware of no conditions, decisions or contingencies which are expected to significantly impact on MMA's financial position in the future.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

SPECIAL FUNDS

This fund group includes:

Designated Funds: Accounts established by the MMA Executive Committee by transfer from the General Fund, to meet specific purposes. At 12/31/06 there were eight Designated Funds with Net Assets totaling \$413,761. Financial developments over the course of 2006 were as follows:

Beginning Balance	427,642
Transfers from General Fund	137,388
Expenses	<u>(151,269)</u>
Ending Balance	<u><u>413,761</u></u>

Restricted Funds: Accounts established by the Executive Committee with funds provided by outside donors, with restrictions based on donor guidelines. At 12/31/06, there was one Restricted Fund with Net Assets of \$8,185. Financial developments over the course of 2006 were as follows:

Beginning Balance	8,185
Transfers from General Fund	-
Expenses	<u>-</u>
Ending Balance	<u><u>8,185</u></u>

REQUEST FOR INFORMATION

This financial report is designed to provide our members, customers, investors and creditors with a general overview of MMA's finances and to show MMA's accountability for the money it receives. If you have any questions about this report or need additional information, contact Martin Hanish, Chief Financial Officer, at (207) 623-8428.

MAINE MUNICIPAL ASSOCIATION
Statements of Net Assets
December 31, 2006 and 2005
(includes general, designated and restricted funds)

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 688,817	747,537
Investments:		
Certificates of deposit	1,550,000	750,000
U.S. Government securities	199,813	766,319
Accounts receivable	95,164	72,884
Accrued interest receivable	9,395	3,406
Prepaid expenses and other assets	237,699	213,663
Total current assets	2,780,888	2,553,809
Other assets:		
Deferred financing costs	18,877	21,313
Total other assets	18,877	21,313
Capital assets:		
Land	202,500	202,500
Land improvements	33,286	33,286
Buildings and improvements	2,637,243	2,626,820
Furniture and equipment	1,976,279	1,779,800
	4,849,308	4,642,406
Less accumulated depreciation	(2,342,204)	(2,120,332)
Net capital assets	2,507,104	2,522,074
Total assets	\$ 5,306,869	5,097,196
LIABILITIES		
Current liabilities:		
Accounts payable	63,436	121,095
Accrued payroll and payroll taxes	198,002	193,575
Capital lease - current	41,537	39,506
Note payable - current	88,500	88,500
Total current liabilities	391,475	442,676
Noncurrent liabilities:		
Accrued compensated absences	366,619	357,014
Capital lease	11,036	52,569
Note payable	597,375	685,875
Total noncurrent liabilities	975,030	1,095,458
Total liabilities	\$ 1,366,505	1,538,134
NET ASSETS		
Invested in capital assets, net of related debt	1,768,656	1,655,624
Restricted - expendable	8,185	8,185
Unrestricted:		
Expendable	1,749,762	1,467,611
Designated	413,761	427,642
Total net assets	\$ 3,940,364	3,559,062

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Revenues, Expenses and Changes in Net Assets
For the years ended December 31, 2006 and 2005
(includes general, designated and restricted funds)

	2006	2005
Revenues:		
Member dues	\$ 1,610,074	1,608,211
Group services - administrative fees	7,510,107	6,970,418
Publications	164,696	178,580
Investment income	160,271	91,761
Contract services	51,604	60,082
Convention	164,579	145,568
Training and affiliate groups	98,339	89,343
Other	6,287	(2,079)
Total revenues	9,765,957	9,141,884
Expenses:		
Salaries and wages	5,138,066	4,942,664
Fringe benefits	1,751,099	1,570,931
Supplies and general expenses	879,542	789,335
Professional services	379,293	198,685
Travel meetings/committees	395,988	336,603
Insurance	240,121	240,622
Local government center	319,424	417,439
Depreciation	245,506	274,716
Interest and deferred financing costs	35,616	39,618
Total expenses	9,384,655	8,810,613
Change in net assets	381,302	331,271
Net assets, beginning of year	3,559,062	3,227,791
Net assets, end of year	\$ 3,940,364	3,559,062

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Cash Flows
For the years ended December 31, 2006 and 2005
(includes general, designated and restricted funds)

	2006	2005
Cash flows from operating activities:		
Receipts from dues	\$ 1,587,794	1,634,752
Receipts from group services - administrative fees	7,510,107	6,970,418
Receipts from publications	164,696	178,580
Receipts from investment income	140,420	91,550
Receipts from contract services	51,604	60,082
Receipts from convention	164,579	145,568
Receipts from training and affiliate groups	98,339	89,343
Receipts from other	3,390	2,778
Payments for salaries and benefits	(6,884,738)	(6,508,184)
Payments for supplies and general expenses	(937,201)	(779,641)
Payments for professional services	(379,293)	(198,685)
Payments for travel meetings/committees	(395,988)	(336,603)
Payments for insurance	(240,121)	(240,622)
Payments for local government center	(319,424)	(417,439)
Payments for interest	(33,180)	(37,182)
Net cash provided by operating activities	530,984	654,715
Cash flows from capital and related financing activities:		
Repayments of capital leases	(39,502)	(25,729)
Net (purchases) disposals of capital assets	(230,536)	(100,751)
Principal payments on notes payable	(88,500)	(88,500)
Net cash used in capital and related financing activities	(358,538)	(214,980)
Cash flows from investing activities:		
Purchase of certificates of deposits	(800,000)	(250,000)
Purchase of U.S. Government securities	-	(768,748)
Maturities of U.S. Government securities	568,834	-
Net cash used in investing activities	(231,166)	(1,018,748)
Decrease in cash and cash equivalents	(58,720)	(579,013)
Cash and cash equivalents - beginning of year	747,537	1,326,550
Cash and cash equivalents - end of year	\$ 688,817	747,537
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 381,302	331,271
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	245,506	274,716
Amortization of loan expenses	2,436	2,436
(Increase) decrease in assets:		
Unrealized loss (gain) on investments	(2,328)	2,429
Accounts receivable	(22,280)	26,541
Accrued interest receivable	(5,989)	(2,640)
Prepaid expenses and other assets	(24,036)	7,188
Increase (decrease) in liabilities:		
Accounts payable	(57,659)	9,694
Accrued payroll and payroll taxes	4,427	5,411
Accrued compensated absences	9,605	(2,331)
Net cash provided by operating activities	\$ 530,984	654,715

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Maine Municipal Association was founded in 1936 and is a voluntary organization of cities, towns and plantations. The Association is a nonprofit, nonpartisan organization dedicated to the purpose of improving the quality and efficiency of local government in Maine through information exchange, policy advocacy, professional management assistance and the joint purchase of goods and services. The Association also offers associate memberships to counties, water and sewer districts, and other special districts.

The Association provides administrative services to the Maine Municipal Association Workers' Compensation Fund, Maine Municipal Association Property and Casualty Pool, Maine Municipal Association Unemployment Compensation Group Fund, and the Maine Municipal Employees Health Trust. The Association receives administrative fees for providing these services, which are recorded as income. These Funds are accounted for as separate accounting entities and are not included in the financial statements of Maine Municipal Association.

Tax Exempt Status - The Association is recognized as an instrumentality of municipalities and is exempt from income taxes.

Fund Accounting - The accounts of the Association are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses.

Basis of Accounting - The accrual basis of accounting is followed for all funds.

The Association follows the applicable provisions of Government Accounting Standards Board's (GASB) U.S. generally accepted accounting principles (GAAP) for state and local governments through its pronouncements (Statements and Interpretations). Additionally, the Association follows the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The Association has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents - The Association considers all highly liquid deposits with an initial maturity of three months or less to be cash and cash equivalents. Amounts in the mutual fund investment sweep and the money market mutual fund are indirectly invested in U.S. government obligations.

Investments - The investments of Maine Municipal Association include U.S. government securities, corporate bonds and certificates of deposit, none of which are held for trading purposes. The Association estimates that the fair value of all financial instruments at December 31, 2006 and 2005 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The estimated fair value amounts have been determined by quoted market prices.

Accounts Receivable - Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts was considered necessary at December 31, 2006 and 2005.

Inventories - Inventories are included in prepaid and other assets and are valued at current cost.

Capital Assets - Property and equipment are capitalized at cost and depreciated over their estimated useful lives of three to forty years on a straight-line basis. The Association's policy is to capitalize expenditures for major improvements and additions, and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets.

Designated Funds - The Association has several designated funds established by its Board for specific purposes. These funds are accounted for in designated funds until expenditures are made for the purpose specified.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Restricted Funds - The Association has a restricted fund established by donor contributions for specific purposes. These funds are accounted for in restricted funds until expenditures are made for the purpose specified by the contributor.

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

DEPOSITS AND INVESTMENTS

Deposits

Cash and cash equivalents are comprised of cash management accounts (CMA) and money market instruments and consisted of the following at December 31:

	<u>Unrestricted funds</u>		<u>Restricted funds</u>	<u>Totals</u>
	<u>General fund</u>	<u>Designated funds</u>	<u>Special funds</u>	
<u>2006</u>				
CMA - deposit account	\$ 3,989	-	-	3,989
CMA - mutual fund investment sweep	(625,765)	413,761	8,185	(203,819)
Money market mutual fund	888,647	-	-	888,647
<u>Totals</u>	\$ 266,871	413,761	8,185	688,817
<u>2005</u>				
CMA - deposit account	\$ 46,221	-	-	46,221
CMA - mutual fund investment sweep	11,236	427,642	8,185	447,063
Money market mutual fund	254,253	-	-	254,253
<u>Totals</u>	\$ 311,710	427,642	8,185	747,537

CMA - deposit account balances of \$3,989 and \$46,221 at December 31, 2006 and 2005, respectively, consisted of checks deposited which are not yet available for transfer.

Depository and mutual fund sweep accounts are pooled accounts containing assets of the General Fund, Special Funds, Workers' Compensation Fund, Unemployment Compensation Fund, Public Officials Liability Fund and Property & Casualty Pool. The money market mutual fund is also a pooled account but does not include the Workers' Compensation Fund. Only the assets belonging to the General fund, designated fund, and restricted fund are included in these financial statements. Negative balances in the CMA - mutual fund investment sweep account represent outstanding checks at December 31, 2006 which are offset by other pooled account balances.

Custodial Credit Risk-Association Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits in excess of the FDIC insured limit may not be recoverable. The Association addresses this risk by minimizing balances in bank accounts. Checking accounts are on a zero balance basis and collected funds are transferred from the CMA - deposit account on a daily basis either to the checking accounts to cover checks presented for payment or to a money market fund outside of the bank. Funds in the CMA - deposit

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

account are insured by FDIC up to \$100,000. Any balance in this account in excess of the \$100,000 FDIC insured limit is considered uninsured and uncollateralized and subject to custodial credit risk. The CMA - mutual fund investment sweep and the money market mutual fund are mutual funds outside the bank, invested in short term government securities. These funds are uninsured and uncollateralized, and subject to custodial credit risk.

Investments

At December 31, 2006, the Association had the following investments and maturities:

Investment types:	Fair Value	< 1 year to Maturity	1 to 5 years to Maturity	5 + years to Maturity
Certificates of deposit (1)	\$ 1,550,000	1,550,000	-	-
U.S. government obligations	199,813	199,813	-	-
Totals	\$ 1,749,813	1,749,813	-	-

(1) Of the certificates of deposit held at December 31, 2006, \$410,000 was covered by FDIC. The remainder was uninsured and uncollateralized.

At December 31, 2005, the Association had the following investments and maturities:

Investment types:	Fair Value	< 1 year to Maturity	1 to 5 years to Maturity	5 + years to Maturity
Certificates of deposit (1)	\$ 750,000	750,000	-	-
U.S. government obligations	766,319	445,667	320,652	-
Totals	\$ 1,516,319	1,195,667	320,652	-

(1) Of the certificates of deposit held at December 31, 2005, \$150,000 was covered by FDIC. The remainder was uninsured and uncollateralized.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association's investment policy requires that, to the extent possible, the Association attempts to match investments with anticipated cash requirements. Investments outside of the parameters of the adopted Asset Strategy must be presented for Board approval prior to implementation. Liquidity risk, as defined by MMA's investment policy, is the risk that funds may not be available as needed, or may be available only by liquidating investments with a resultant capital loss. The Association's investment policy requires that investment maturities be timed to meet projected cash flow requirements, with a margin for the unexpected. The maximum maturity permitted under Board policy in 2006 and 2005 was 2 years.

Credit Risk: Credit risk is the risk that the entity in which the fund has invested may be unable to redeem investments when they mature. The Association's investment policy limits investments to entities that have high ratings by recognized rating agencies. Management monitors the ratings of entities in which it has invested and would sell investments should a significant rating decline occur. No such issues were noted in 2006 or 2005, and the Association had no investments in corporate stocks or bonds as of December 31, 2006 and 2005.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Custodial Credit Risk-Association's Investments: For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association addresses this risk by having the custodian hold investments to the Association's benefit, by maintaining high quality standards for the entities in which it invests and by monitoring the ratings of entities in which it has invested.

Concentration of Credit Risk: It is the Association's policy to diversify its investments by security type to mitigate concentration risk. 2006 asset allocation targets were, as follows: money market funds: 40%, certificates of deposit: 30%, and U.S. government securities: 30%. 2005 asset allocation targets were, as follows: money market funds: 50%, certificates of deposit: 25%, and U.S. government securities: 25%. Actual levels vary over the course of the year, and may be adjusted by management based on changing economic conditions.

NET APPRECIATION (DEPRECIATION) IN FAIR VALUE

Net appreciation (depreciation) in fair value during the years ended December 31, 2006 and 2005 by type of investment was as follows. Such amounts are included in investment income in the statements of revenues, expenses and changes in net assets.

	<u>2006</u>	<u>2005</u>
U.S. Government securities	\$ 2,328	(2,429)
Totals	\$ 2,328	(2,429)

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance at 12/31/05	Additions	Disposals	Balance at 12/31/06
Capital assets, not being depreciated:				
Land	\$ 202,500	-	-	202,500
Total capital assets not being depreciated	202,500	-	-	202,500
Capital assets, being depreciated:				
Land improvements	33,286	-	-	33,286
Buildings	2,626,820	10,423	-	2,637,243
Furniture and equipment	1,779,800	259,787	(63,308)	1,976,279
Total capital assets being depreciated	4,439,906	270,210	(63,308)	4,646,808
Less accumulated depreciation for:				
Land improvements	(25,519)	(2,219)	-	(27,738)
Buildings	(761,924)	(67,528)	-	(829,452)
Furniture and equipment	(1,332,889)	(198,573)	46,448	(1,485,014)
Total accumulated depreciation	(2,120,332)	(268,320)	46,448	(2,342,204)
Total capital assets being depreciated, net	2,319,574	1,890	(16,860)	2,304,604
Total capital assets, net	\$ 2,522,074	1,890	(16,860)	2,507,104

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

CAPITAL ASSETS, CONTINUED

Depreciation expense for the years ended December 31, 2006 and 2005 was \$245,506 and \$274,716, respectively. The difference between accumulated depreciation additions and depreciation expense was \$22,814 and \$19,714 for 2006 and 2005, respectively, representing capital lease expenses allocated by department.

LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Note payable	\$ 774,375	-	88,500	685,875	88,500
Capital lease payable	92,075	-	39,502	52,573	41,537
Accrued compensated absences	357,014	9,605	-	366,619	-
Long-term liabilities	\$ 1,223,464	9,605	128,002	1,105,067	130,037

Note Payable

The note payable consists of borrowings from a bank related to a mortgage note payable in the amount of \$685,875 at December 31, 2006 on the Association's building which, at December 31, 2006 has a book value of \$1,864,875. The mortgage note had an original amount of \$1,770,000 and is due in monthly principal payments of \$7,375 plus interest over a 20 year period beginning on the first day of October 1994. The interest rate was reset on July 1, 2005 at 4.46% for the remaining term of the mortgage. The note payable is secured by a first mortgage on the building. Financing costs incurred during the construction project have been capitalized and will be expensed over the term of the note. Interest of \$33,180 and \$37,182 was paid in 2006 and 2005, respectively.

Principal maturities on the note payable over the next five years and to maturity are as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 88,500	28,779	117,279
2008	88,500	24,903	113,403
2009	88,500	20,885	109,385
2010	88,500	16,939	105,439
2011	88,500	12,989	101,489
2012-2015	243,375	15,370	258,745
Total	\$ 685,875	119,865	805,740

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

RETIREMENT PLANS

Maine State Retirement System

The Association's employees are covered under Social Security benefit programs. In addition, the Association contributes to a 401(a) qualified deferred compensation plan, or to the Maine State Retirement System (MSRS) pension plan for those employees who retained their eligibility prior to the Association's discontinuance as a participating local district on April 6, 1994. As a withdrawn participating local district, the Association is required to fund the plan on an actuarially sound basis for liabilities of any current active, inactive vested, or retired participants. At June 30, 2006 (the latest available report date), there were no active and seven retired participants. The plan is not material to the financial statements of the Maine Municipal Association.

The expense for this plan was \$0 and \$6,282 for 2006 and 2005, respectively. The MSRS issues a publicly available financial report that includes financial statements and requires supplementary information for the plan. That report may be obtained by writing the Maine State Retirement System, 46 State House Station, Augusta, ME 04333-0046.

401(a) Qualified Deferred Compensation Plan

The 401(a) qualified deferred compensation plan requires a contribution of 5% of salary from employees which is supplemented by the Association at 5.8%. Employees are fully vested in their own contributions immediately and become 100% vested in the Association's contributions after three years of service. The expense for this plan was \$268,791 and \$251,504 for 2006 and 2005, respectively.

457 Deferred Compensation Plan

The Association also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan permits them to defer a portion of their salary until future years.

Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property, or rights are to be held in trust and maintained for the exclusive benefit of participants and their beneficiaries.

Under the 401(a) qualified and 457 deferred compensation plans, no part of the corpus or the income of the trust shall revert to the employer or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

TRANSFERS TO SPECIAL FUNDS

The Executive Committee approved the following transfers from the General Fund to specific designated funds as part of the budget and which were made during the year ended December 31, 2006:

	<u>Transfer out</u>	<u>Transfers in</u>
General Fund	\$ 137,388	-
Legislative Initiatives Fund	-	71,000
Building Maintenance Reserve	-	869
Membership Survey Fund	-	9,469
BackOffice Applications Fund	-	30,000
Outside Legal Counsel Fund	-	26,050
	<u>\$ 137,388</u>	<u>137,388</u>

MAINE MUNICIPAL ASSOCIATION
Schedule of Net Assets by Fund
December 31, 2006

	Unrestricted		Restricted	Total 2006
	General fund	Designated funds	Special funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 266,871	413,761	8,185	688,817
Investments:				
Certificates of deposit	1,550,000	-	-	1,550,000
U.S. Government securities	199,813	-	-	199,813
Accounts receivable	95,164	-	-	95,164
Accrued interest receivable	9,395	-	-	9,395
Prepaid expenses and other assets	237,699	-	-	237,699
Total current assets	2,358,942	413,761	8,185	2,780,888
Other assets:				
Deferred financing costs	18,877	-	-	18,877
Total other assets	18,877	-	-	18,877
Capital assets:				
Land	202,500	-	-	202,500
Land improvements	33,286	-	-	33,286
Buildings and improvements	2,637,243	-	-	2,637,243
Furniture and equipment	1,703,743	272,536	-	1,976,279
	4,576,772	272,536	-	4,849,308
Less accumulated depreciation	(2,069,668)	(272,536)	-	(2,342,204)
Net capital assets	2,507,104	-	-	2,507,104
Total assets	\$ 4,884,923	413,761	8,185	5,306,869
LIABILITIES				
Current liabilities:				
Accounts payable	63,436	-	-	63,436
Accrued payroll and payroll taxes	198,002	-	-	198,002
Capital lease - current	41,537	-	-	41,537
Note payable - current	88,500	-	-	88,500
Total current liabilities	391,475	-	-	391,475
Non-current liabilities:				
Accrued compensated absences	366,619	-	-	366,619
Capital lease	11,036	-	-	11,036
Note payable	597,375	-	-	597,375
Total non-current liabilities	975,030	-	-	975,030
Total liabilities	\$ 1,366,505	-	-	1,366,505
NET ASSETS				
Invested in capital assets, net of related debt	1,768,656	-	-	1,768,656
Restricted - expendable	-	-	8,185	8,185
Unrestricted:				
Expendable	1,749,762	-	-	1,749,762
Designated	-	413,761	-	413,761
Total net assets	\$ 3,518,418	413,761	8,185	3,940,364

MAINE MUNICIPAL ASSOCIATION
Schedule of Revenues, Expenses and Changes in Net Assets by Fund
For the year ended December 31, 2006

	Unrestricted		Restricted	Total 2006
	General fund	Designated funds	Special funds	
Revenues:				
Member dues	\$ 1,610,074	-	-	1,610,074
Group services - administrative fees	7,510,107	-	-	7,510,107
Publications	164,696	-	-	164,696
Investment income	160,271	-	-	160,271
Contract services	51,604	-	-	51,604
Convention	164,579	-	-	164,579
Training and affiliate groups	98,339	-	-	98,339
Other	6,287	-	-	6,287
Total revenues	9,765,957	-	-	9,765,957
Expenses:				
Salaries and wages	5,138,066	-	-	5,138,066
Fringe benefits	1,751,099	-	-	1,751,099
Supplies and general expenses	879,542	-	-	879,542
Professional services	228,024	151,269	-	379,293
Travel meetings/committees	395,988	-	-	395,988
Insurance	240,121	-	-	240,121
Local government center	319,424	-	-	319,424
Depreciation	245,506	-	-	245,506
Interest and deferred financing costs	35,616	-	-	35,616
Total expenses	9,233,386	151,269	-	9,384,655
Change in net assets	532,571	(151,269)	-	381,302
Net assets, beginning of year	3,123,235	427,642	8,185	3,559,062
Net asset transfers per 2006 budget	(47,050)	47,050	-	-
Net asset transfers per 2007 budget	(90,338)	90,338	-	-
Net assets, end of year	\$ 3,518,418	413,761	8,185	3,940,364

MAINE MUNICIPAL ASSOCIATION
Schedule of Changes in Designated and Restricted Net Assets
Year ended December 31, 2006

	Net assets January 1, 2006	Revenues	Expenses	Transfers	Net assets December 31, 2006
Designated net assets:					
Legislative Initiatives Fund	\$ 100,000	-	121,000	71,000	50,000
Building Maintenance Reserve	131,531	-	-	869	132,400
Membership Survey Fund	25,000	-	22,269	9,469	12,200
BackOffice Applications Fund	30,000	-	-	30,000	60,000
Legal Defense Fund - General	10,000	-	-	-	10,000
MIS Training/Consultant	81,111	-	8,000	-	73,111
Legal/Insurance Deductible Fund	50,000	-	-	-	50,000
Outside Legal Counsel Fund	-	-	-	26,050	26,050
Total designated net assets	427,642	-	151,269	137,388	413,761
Restricted net assets:					
Governing Skills Project	8,185	-	-	-	8,185
Total restricted net assets	8,185	-	-	-	8,185
Totals	\$ 435,827	-	151,269	137,388	421,946

MAINE MUNICIPAL ASSOCIATION

Financial Statements

For the years ended December 31, 2007 and 2006

MAINE MUNICIPAL ASSOCIATION
Financial Statements
For the years ended December 31, 2007 and 2006

Table of Contents

	<u>Statement</u>	<u>Page</u>
Independent Auditor's Report		
Management Discussion and Analysis		1-4
Statements of Net Assets	1	5
Statements of Revenues, Expenses and Changes in Net Assets	2	6
Statements of Cash Flows	3	7
Notes to Financial Statements		8-14
	<u>Schedule</u>	<u>Page</u>
Additional Information:		
Schedule of Net Assets by Fund	1	15
Schedule of Revenues, Expenses and Changes in Net Assets by Fund	2	16
Schedule of Changes in Designated and Restricted Net Assets	3	17



Certified Public Accountants and Business Consultants

Independent Auditor's Report

Executive Committee

Maine Municipal Association:

We have audited the accompanying statements of net assets of Maine Municipal Association as of December 31, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Association as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management 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 U.S. generally accepted accounting principles. 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 audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. Supplemental schedules 1 through 3 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 audits 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.

A handwritten signature in cursive script that reads "Runyon Kersteen Ouellette".

March 27, 2008
South Portland, Maine

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis
Fiscal Year Ended 2007

This section of the Maine Municipal Association (MMA) annual financial report sets forth a narrative overview of its financial activities for the year ended December 31, 2007. Please read it in conjunction with MMA's financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

MMA's fiscal year is January 1 through December 31.

The annual financial report consists of four parts:

- Management Discussion and Analysis
- Basic Financial Statements
- Notes to Financial Statements
- Supplemental Information (Schedules)

Management Discussion and Analysis provides a narrative overview of the statements and comments on significant developments during the reporting period.

Basic Financial Statements include:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

These statements include the General Fund, Designated Funds and Restricted Funds and present MMA's status at December 31, 2007 and financial developments during fiscal year 2007.

Notes to Financial Statements provide explanations of the accounting principles followed and of key items in the statements.

Supplemental Schedules include:

- Schedule of Net Assets by Fund
- Schedule of Revenues, Expenses and Changes in Net Assets by Fund
- Schedule of Changes in Designated and Restricted Net Assets

MMA GENERAL FUND

The General Fund includes the assets, liabilities, net assets, revenues and expenses of the Maine Municipal Association. All of the information presented in the following management discussion and analysis is for the General Fund only and does not include the self insured funds administered by MMA, nor does it include Board Designated or Restricted Funds.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

FINANCIAL HIGHLIGHTS – General Fund

- MMA’s assets at December 31, 2007 amounted to \$4,993,987, for an increase of 2.2%.
- Cash and investments totaled \$2,245,680, an increase of 23.6%.
- Operating revenues exclusive of transfers in 2007 totaled \$10,245,401 (4.9% increase).
- Operating expenses exclusive of transfers in 2007 totaled \$9,372,113 (1.5% increase).
- During 2007, the MMA general fund transferred \$807,483 to designated funds.
- Net assets at December 31, 2007 totaled \$3,584,223, an increase of 1.9%.

FINANCIAL ANALYSIS – General Fund

The following table summarizes the Statements of Net Assets:

	<u>12/31/2007</u>	<u>12/31/2006</u>	<u>% Change</u>
ASSETS			
Current Assets	2,584,279	2,358,942	9.6%
Other Assets	16,441	18,877	-12.9%
Capital Assets	2,393,267	2,507,104	-4.5%
Total Assets	<u>4,993,987</u>	<u>4,884,923</u>	<u>2.2%</u>
LIABILITIES			
Current Liabilities	521,298	391,475	33.2%
Long Term Liabilities	888,466	975,030	-8.9%
Total Liabilities	<u>1,409,764</u>	<u>1,366,505</u>	<u>3.2%</u>
NET ASSETS			
Expendable	1,799,379	1,749,762	2.8%
Investment in Property & Plant	1,784,844	1,768,656	0.9%
Total Net Assets	<u>3,584,223</u>	<u>3,518,418</u>	<u>1.9%</u>

The following table summarizes the Statements of Revenues, Expenses and Changes in Net Assets:

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
OPERATING REVENUES			
Member Dues	1,615,083	1,610,074	0.3%
Group Services Administrative Fees	7,950,339	7,510,107	5.9%
Other Revenues	679,979	645,776	5.3%
Total Operating Revenues	<u>10,245,401</u>	<u>9,765,957</u>	<u>4.9%</u>
OPERATING EXPENSES			
Salaries and Benefits	7,039,862	6,889,165	2.2%
Facility, Insurance and Interest	820,868	840,667	-2.4%
Other Expenses	1,511,383	1,503,554	0.5%
Total Operating Expenses	<u>9,372,113</u>	<u>9,233,386</u>	<u>1.5%</u>
GAIN OR (LOSS) FROM OPERATIONS	873,288	532,571	64.0%
Net transfer between funds	(807,483)	(137,388)	487.7%
Change in Net Assets	<u>65,805</u>	<u>395,183</u>	<u>-83.3%</u>
NET ASSETS - BEGINNING	3,518,418	3,123,235	12.7%
NET ASSETS - ENDING	<u>3,584,223</u>	<u>3,518,418</u>	<u>1.9%</u>

**MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued**

ANALYSIS OF FINANCIAL DEVELOPMENTS IN FISCAL YEAR 2007

The following table presents a budget to actual comparison of the General Fund in summarized form:

	Budget	Actual	% Change
REVENUES			
Member Dues	1,610,739	1,615,083	0.3%
Group Services Administrative Fees	7,950,339	7,950,339	0.0%
Other Revenues	620,027	679,979	9.7%
Total Revenues	<u>10,181,105</u>	<u>10,245,401</u>	<u>0.6%</u>
EXPENSES			
Salaries and Benefits	7,676,434	7,039,862	-8.3%
Facility, Insurance and Interest	895,297	820,868	-8.3%
Other Expenses	1,606,057	1,511,383	-5.9%
Total Expenses	<u>10,177,788</u>	<u>9,372,113</u>	<u>-7.9%</u>
GAIN OR (LOSS) FROM OPERATIONS	3,317	873,288	
NET TRANSFER BETWEEN FUNDS	(3,317)	(807,483)	
CHANGE IN NET ASSETS	-	65,805	

CAPITAL ASSETS AND LONG-TERM DEBT

At December 31, 2007, General Fund capital assets totaled \$4,720,096, offset by accumulated depreciation totaling \$2,326,829. Capital assets net of depreciation amounted to \$2,393,267. By major category, capital assets included:

Land	202,500
Land improvements	33,286
Buildings and improvements	2,637,243
Furniture and equipment	1,847,067
	<u>4,720,096</u>

Long-term debt associated with capital assets included:

Mortgage on building	\$ 597,375 including \$88,500 due in coming year
Capital lease - photocopiers	\$ 11,048 all of which is due in the coming year

CONDITIONS WHICH MAY IMPACT ON MMA'S FINANCIAL CONDITION IN THE FUTURE

Management is aware of no conditions, decisions or contingencies which are expected to significantly impact on MMA's financial position in the future.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

SPECIAL FUNDS

This fund group includes:

Designated Funds: Accounts established by the MMA Executive Committee by transfer from the General Fund, to meet specific purposes. At 12/31/07 there were eight Designated Funds with Net Assets totaling \$1,183,750. Financial developments over the course of 2007 were as follows:

Beginning Balance	413,761
Transfers from General Fund	807,483
Expenses	<u>(37,494)</u>
Ending Balance	<u><u>1,183,750</u></u>

Restricted Funds: Accounts established by the Executive Committee with funds provided by outside donors, with restrictions based on donor guidelines. At 12/31/07, there was one Restricted Fund with Net Assets of \$8,185. Financial developments over the course of 2007 were as follows:

Beginning Balance	8,185
Transfers from General Fund	-
Expenses	<u>-</u>
Ending Balance	<u><u>8,185</u></u>

REQUEST FOR INFORMATION

This financial report is designed to provide our members, customers, investors and creditors with a general overview of MMA's finances and to show MMA's accountability for the money it receives. If you have any questions about this report or need additional information, contact Martin Hanish, Chief Financial Officer, at (207) 623-8428.

MAINE MUNICIPAL ASSOCIATION
Statements of Net Assets
December 31, 2007 and 2006
(includes general, designated and restricted funds)

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,449,865	688,817
Investments:		
Certificates of deposit	1,000,000	1,550,000
U.S. Government securities	-	199,813
Accounts receivable	79,924	95,164
Accrued interest receivable	2,446	9,395
Prepaid expenses	204,685	179,634
Inventory	51,544	58,065
Total current assets	3,788,464	2,780,888
Other assets:		
Deferred financing costs	16,441	18,877
Total other assets	16,441	18,877
Capital assets:		
Land	202,500	202,500
Land improvements	33,286	33,286
Buildings and improvements	2,637,243	2,637,243
Furniture and equipment	2,119,603	1,976,279
	4,992,632	4,849,308
Less accumulated depreciation	(2,599,365)	(2,342,204)
Net capital assets	2,393,267	2,507,104
Total assets	\$ 6,198,172	5,306,869
LIABILITIES		
Current liabilities:		
Accounts payable	209,951	63,436
Accrued payroll and payroll taxes	224,049	198,002
Capital lease - current	11,048	41,537
Note payable - current	88,500	88,500
Total current liabilities	533,548	391,475
Noncurrent liabilities:		
Accrued compensated absences	379,591	366,619
Capital lease	-	11,036
Note payable	508,875	597,375
Total noncurrent liabilities	888,466	975,030
Total liabilities	\$ 1,422,014	1,366,505
NET ASSETS		
Invested in capital assets, net of related debt	1,784,844	1,768,656
Restricted - expendable	8,185	8,185
Unrestricted:		
Expendable	1,799,379	1,749,762
Designated	1,183,750	413,761
Total net assets	\$ 4,776,158	3,940,364

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Revenues, Expenses and Changes in Net Assets
For the years ended December 31, 2007 and 2006
(includes general, designated and restricted funds)

	2007	2006
Revenues:		
Member dues	\$ 1,615,083	1,610,074
Group services - administrative fees	7,950,339	7,510,107
Publications	153,816	164,696
Investment income	195,704	160,271
Contract services	64,061	51,604
Convention	146,127	164,579
Training and affiliate groups	116,146	98,339
Other	4,125	6,287
Total revenues	10,245,401	9,765,957
Expenses:		
Salaries and wages	5,206,720	5,138,066
Fringe benefits	1,833,142	1,751,099
Supplies and general expenses	831,690	879,542
Professional services	306,354	379,293
Travel meetings/committees	410,833	395,988
Insurance	236,588	240,121
Local government center	299,857	319,424
Depreciation	252,809	245,506
Interest and deferred financing costs	31,614	35,616
Total expenses	9,409,607	9,384,655
Change in net assets	835,794	381,302
Net assets, beginning of year	3,940,364	3,559,062
Net assets, end of year	\$ 4,776,158	3,940,364

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Cash Flows
For the years ended December 31, 2007 and 2006
(includes general, designated and restricted funds)

	2007	2006
Cash flows from operating activities:		
Receipts from dues	\$ 1,630,323	1,587,794
Receipts from group services - administrative fees	7,950,339	7,510,107
Receipts from publications	153,816	164,696
Receipts from investment income	195,603	140,420
Receipts from contract services	64,061	51,604
Receipts from convention	146,127	164,579
Receipts from training and affiliate groups	116,146	98,339
Receipts from other	4,125	3,390
Payments for salaries and benefits	(7,000,843)	(6,884,738)
Payments for supplies and general expenses	(696,756)	(937,201)
Payments for professional services	(306,354)	(379,293)
Payments for travel meetings/committees	(410,833)	(395,988)
Payments for insurance	(236,588)	(240,121)
Payments for local government center	(299,857)	(319,424)
Payments for interest	(29,178)	(33,180)
Net cash provided by operating activities	1,280,131	530,984
Cash flows from capital and related financing activities:		
Repayments of capital leases	(41,525)	(39,502)
Net (purchases) disposals of capital assets	(138,972)	(230,536)
Principal payments on notes payable	(88,500)	(88,500)
Net cash used in capital and related financing activities	(268,997)	(358,538)
Cash flows from investing activities:		
Proceeds from (purchase of) certificates of deposits	550,000	(800,000)
Maturities of U.S. Government securities	199,914	568,834
Net cash provided by (used in) investing activities	749,914	(231,166)
Increase (decrease) in cash and cash equivalents	1,761,048	(58,720)
Cash and cash equivalents - beginning of year	688,817	747,537
Cash and cash equivalents - end of year	\$ 2,449,865	688,817
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 835,794	381,302
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	252,809	245,506
Amortization of loan expenses	2,436	2,436
(Increase) decrease in assets:		
Unrealized loss (gain) on investments	(101)	(2,328)
Accounts receivable	15,240	(22,280)
Accrued interest receivable	6,949	(5,989)
Prepaid expenses	(25,051)	(26,512)
Inventory	6,521	2,476
Increase (decrease) in liabilities:		
Accounts payable	146,515	(57,659)
Accrued payroll and payroll taxes	26,047	4,427
Accrued compensated absences	12,972	9,605
Net cash provided by operating activities	\$ 1,280,131	530,984

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Maine Municipal Association was founded in 1936 and is a voluntary organization of cities, towns and plantations. The Association is a nonprofit, nonpartisan organization dedicated to the purpose of improving the quality and efficiency of local government in Maine through information exchange, policy advocacy, professional management assistance and the joint purchase of goods and services. The Association also offers associate memberships to counties, water and sewer districts, and other special districts.

The Association provides administrative services to the Maine Municipal Association Workers' Compensation Fund, Maine Municipal Association Property and Casualty Pool, Maine Municipal Association Unemployment Compensation Group Fund, and the Maine Municipal Employees Health Trust. The Association receives administrative fees for providing these services, which are recorded as income. These Funds are accounted for as separate accounting entities and are not included in the financial statements of Maine Municipal Association.

Tax Exempt Status - The Association is recognized as an instrumentality of municipalities and is exempt from income taxes.

Fund Accounting - The accounts of the Association are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses.

Basis of Accounting - The accrual basis of accounting is followed for all funds.

The Association follows the applicable provisions of Government Accounting Standards Board's (GASB) U.S. generally accepted accounting principles (GAAP) for state and local governments through its pronouncements (Statements and Interpretations). Additionally, the Association follows the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The Association has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents - The Association considers all highly liquid deposits with an initial maturity of three months or less to be cash and cash equivalents. Amounts in the mutual fund investment sweep and the money market mutual fund are indirectly invested in U.S. government obligations.

Investments - The investments of Maine Municipal Association include U.S. government securities, corporate bonds and certificates of deposit, none of which are held for trading purposes. The Association estimates that the fair value of all financial instruments at December 31, 2007 and 2006 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The estimated fair value amounts have been determined by quoted market prices.

Accounts Receivable - Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts was considered necessary at December 31, 2007 and 2006.

Inventories - Inventories are valued at current cost (first-in, first-out basis).

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets - Property and equipment are capitalized at cost and depreciated over their estimated useful lives of three to forty years on a straight-line basis. The Association's policy is to capitalize expenditures for major improvements and additions, and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets.

Designated Funds - The Association has several designated funds established by its Board for specific purposes. These funds are accounted for in designated funds until expenditures are made for the purpose specified.

Restricted Funds - The Association has a restricted fund established by donor contributions for specific purposes. These funds are accounted for in restricted funds until expenditures are made for the purpose specified by the contributor.

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

DEPOSITS AND INVESTMENTS

Deposits

Cash and cash equivalents are comprised of cash management accounts (CMA) and money market instruments and consisted of the following at December 31:

	<u>Unrestricted funds</u>		<u>Restricted funds</u>	<u>Totals</u>
	<u>General fund</u>	<u>Designated funds</u>	<u>Special funds</u>	
<u>2007</u>				
CMA - deposit account	\$ 20	-	-	20
CMA - mutual fund investment sweep	(536,003)	1,196,000	8,185	668,182
Money market mutual fund	1,781,663	-	-	1,781,663
<u>Totals</u>	\$ 1,245,680	1,196,000	8,185	2,449,865
<u>2006</u>				
CMA - deposit account	\$ 3,989	-	-	3,989
CMA - mutual fund investment sweep	(625,765)	413,761	8,185	(203,819)
Money market mutual fund	888,647	-	-	888,647
<u>Totals</u>	\$ 266,871	413,761	8,185	688,817

CMA - deposit account balances of \$20 and \$3,989 at December 31, 2007 and 2006, respectively, consisted of checks deposited which are not yet available for transfer.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Depository and mutual fund sweep accounts are pooled accounts containing assets of the General Fund, Special Funds, Workers' Compensation Fund, Unemployment Compensation Fund, Public Officials Liability Fund and Property & Casualty Pool. The money market mutual fund is also a pooled account but does not include the Workers' Compensation Fund. Only the assets belonging to the General fund, designated fund, and restricted fund are included in these financial statements. Negative balances in the CMA - mutual fund investment sweep account represent outstanding checks at December 31, 2007 which are offset by other pooled account balances.

Custodial Credit Risk-Association Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits in excess of the FDIC insured limit may not be recoverable. The Association addresses this risk by minimizing balances in bank accounts. Checking accounts are on a zero balance basis and collected funds are transferred from the CMA - deposit account on a daily basis either to the checking accounts to cover checks presented for payment or to a money market fund outside of the bank. Funds in the CMA - deposit account are insured by FDIC up to \$100,000. Any balance in this account in excess of the \$100,000 FDIC insured limit is considered uninsured and uncollateralized and subject to custodial credit risk. The CMA - mutual fund investment sweep and the money market mutual fund are mutual funds outside the bank, invested in short term government securities. These funds are uninsured and uncollateralized, and subject to custodial credit risk.

Investments

At December 31, 2007, the Association had the following investments and maturities:

Investment types:	Fair Value	< 1 year to Maturity	1 to 5 years to Maturity	5 + years to Maturity
Certificates of deposit (1)	\$ 1,000,000	1,000,000	-	-
Totals	\$ 1,000,000	1,000,000	-	-

(1) Of the certificates of deposit held at December 31, 2007, \$700,000 was covered by FDIC. The remainder was uninsured and uncollateralized.

At December 31, 2006, the Association had the following investments and maturities:

Investment types:	Fair Value	< 1 year to Maturity	1 to 5 years to Maturity	5 + years to Maturity
Certificates of deposit (1)	\$ 1,550,000	1,550,000	-	-
U.S. government obligations	199,813	199,813	-	-
Totals	\$ 1,749,813	1,749,813	-	-

(1) Of the certificates of deposit held at December 31, 2006, \$410,000 was covered by FDIC. The remainder was uninsured and uncollateralized.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association's investment policy requires that, to the extent possible, the Association attempts to match investments with anticipated cash requirements. Investments outside of the parameters of the adopted Asset Strategy must be presented for Board approval prior to implementation. Liquidity risk, as defined by MMA's investment policy, is the risk that funds may not be available as needed, or may be available only by liquidating investments with a resultant capital loss. The Association's investment policy requires that investment maturities be timed to meet projected cash flow requirements, with a margin for the unexpected. The maximum maturity permitted under Board policy in 2007 and 2006 was 2 years.

Credit Risk: Credit risk is the risk that the entity in which the fund has invested may be unable to redeem investments when they mature. The Association's investment policy limits investments to entities that have high ratings by recognized rating agencies. Management monitors the ratings of entities in which it has invested and would sell investments should a significant rating decline occur. No such issues were noted in 2007 or 2006, and the Association had no investments in corporate stocks or bonds as of December 31, 2007 and 2006.

Custodial Credit Risk-Association's Investments: For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association addresses this risk by having the custodian hold investments to the Association's benefit, by maintaining high quality standards for the entities in which it invests and by monitoring the ratings of entities in which it has invested.

Concentration of Credit Risk: It is the Association's policy to diversify its investments by security type to mitigate concentration risk. 2007 asset allocation targets were, as follows: money market funds: 50%, certificates of deposit: 25%, and U.S. government securities: 25%. 2006 asset allocation targets were, as follows: money market funds: 40%, certificates of deposit: 30%, and U.S. government securities: 30%. Actual levels vary over the course of the year, and may be adjusted by management based on changing economic conditions.

NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS

Net appreciation (depreciation) in fair value during the years ended December 31, 2007 and 2006 by type of investment was as follows. Such amounts are included in investment income in the statements of revenues, expenses and changes in net assets.

	<u>2007</u>	<u>2006</u>
<u>U.S. Government securities</u>	<u>\$ 101</u>	<u>2,328</u>
<u>Totals</u>	<u>\$ 101</u>	<u>2,328</u>

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

CAPITAL ASSETS

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

	Balance at 12/31/06	Additions	Disposals	Balance at 12/31/07
Capital assets, not being depreciated:				
Land	\$ 202,500	-	-	202,500
Total capital assets not being depreciated	202,500	-	-	202,500
Capital assets, being depreciated:				
Land improvements	33,286	-	-	33,286
Buildings and improvements	2,637,243	-	-	2,637,243
Furniture and equipment	1,976,279	161,455	(18,131)	2,119,603
Total capital assets being depreciated	4,646,808	161,455	(18,131)	4,790,132
Less accumulated depreciation for:				
Land improvements	(27,738)	(2,219)	-	(29,957)
Buildings and improvements	(829,452)	(68,049)	-	(897,501)
Furniture and equipment	(1,485,014)	(205,024)	18,131	(1,671,907)
Total accumulated depreciation	(2,342,204)	(275,292)	18,131	(2,599,365)
Total capital assets being depreciated, net	2,304,604	(113,837)	-	2,190,767
Total capital assets, net	\$ 2,507,104	(113,837)	-	2,393,267

Depreciation expense for the years ended December 31, 2007 and 2006 was \$252,809 and \$245,506, respectively. The difference between accumulated depreciation additions and depreciation expense was \$22,483 and \$22,814 for 2007 and 2006, respectively, representing capital lease expenses allocated by department.

LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning <u>balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>balance</u>	Due within <u>one year</u>
Note payable	\$ 685,875	-	88,500	597,375	88,500
Capital lease payable	52,573	-	41,525	11,048	11,048
Accrued compensated absences	366,619	12,972	-	379,591	-
Long-term liabilities	\$ 1,105,067	12,972	130,025	988,014	99,548

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

LONG-TERM LIABILITIES, CONTINUED

Note Payable

The note payable consists of borrowings from a bank related to a mortgage note payable in the amount of \$597,375 at December 31, 2007 on the Association's building which, at December 31, 2007 has a book value of \$1,864,875. The mortgage note had an original amount of \$1,770,000 and is due in monthly principal payments of \$7,375 plus interest over a 20 year period beginning on the first day of October 1994. The interest rate was reset on July 1, 2005 at 4.46% for the remaining term of the mortgage. The note payable is secured by a first mortgage on the building. Financing costs incurred during the construction project have been capitalized and will be expensed over the term of the note. Interest of \$31,614 and \$33,180 was paid in 2007 and 2006, respectively.

Principal maturities on the note payable over the next five years and to maturity are as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 88,500	24,903	113,403
2009	88,500	20,885	109,385
2010	88,500	16,939	105,439
2011	88,500	12,989	101,489
2012	88,500	9,071	97,571
2013-2016	154,875	6,299	161,174
<u>Total</u>	<u>\$ 597,375</u>	<u>91,086</u>	<u>688,461</u>

RETIREMENT PLANS

Maine Public Employees Retirement System

The Association's employees are covered under Social Security benefit programs. In addition, the Association contributes to a 401(a) qualified deferred compensation plan, or to the Maine Public Employees Retirement System (MainePERS) pension plan for those employees who retained their eligibility prior to the Association's discontinuance as a participating local district on April 6, 1994. As a withdrawn participating local district, the Association is required to fund the plan on an actuarially sound basis for liabilities of any current active, inactive vested, or retired participants. At June 30, 2007 (the latest available report date), there were no active and five retired participants. The plan is not material to the financial statements of the Maine Municipal Association.

There were no expenses for this plan in 2007 or 2006, respectively. The MainePERS issues a publicly available financial report that includes financial statements and requires supplementary information for the plan. That report may be obtained by writing the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333-0046.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

RETIREMENT PLANS, CONTINUED

401(a) Qualified Deferred Compensation Plan

The 401(a) qualified deferred compensation plan requires a contribution of 5% of salary from employees which is supplemented by the Association at 5.8%. Employees are fully vested in their own contributions immediately and become 100% vested in the Association's contributions after three years of service. The expense for this plan was \$269,867 and \$268,791 for 2007 and 2006, respectively.

457 Deferred Compensation Plan

The Association also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan permits them to defer a portion of their salary until future years.

Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property, or rights are to be held in trust and maintained for the exclusive benefit of participants and their beneficiaries.

Under the 401(a) qualified and 457 deferred compensation plans, no part of the corpus or the income of the trust shall revert to the employer or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries.

TRANSFERS TO SPECIAL FUNDS

The Executive Committee approved the following transfers from the General Fund to specific designated funds as part of the budget and which were made during the year ended December 31, 2007:

	Transfer out	Transfers in
General Fund	\$ 807,483	-
Legislative Initiatives Fund	-	64,000
Financial Management Technical Assistance Fund	-	50,000
Citizen Education/Public Relations Fund	-	35,000
Citizen Education Program Consultant Fund	-	10,000
Building Maintenance Reserve	-	38,844
Membership Survey Fund	12,200	-
BackOffice Applications Fund	-	620,000
MIS Training/Consultant Fund	-	1,889
Outside Legal Counsel Fund	50	-
	\$ 819,733	819,733

MAINE MUNICIPAL ASSOCIATION
Schedule of Net Assets by Fund
December 31, 2007

	Unrestricted		Restricted	Total 2007
	General fund	Designated funds	Special funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,245,680	1,196,000	8,185	2,449,865
Investments:				
Certificates of deposit	1,000,000	-	-	1,000,000
U.S. Government securities	-	-	-	-
Accounts receivable	79,924	-	-	79,924
Accrued interest receivable	2,446	-	-	2,446
Prepaid expenses	204,685	-	-	204,685
Inventory	51,544	-	-	51,544
Total current assets	2,584,279	1,196,000	8,185	3,788,464
Other assets:				
Deferred financing costs	16,441	-	-	16,441
Total other assets	16,441	-	-	16,441
Capital assets:				
Land	202,500	-	-	202,500
Land improvements	33,286	-	-	33,286
Buildings and improvements	2,637,243	-	-	2,637,243
Furniture and equipment	1,847,067	272,536	-	2,119,603
	4,720,096	272,536	-	4,992,632
Less accumulated depreciation	(2,326,829)	(272,536)	-	(2,599,365)
Net capital assets	2,393,267	-	-	2,393,267
Total assets	\$ 4,993,987	1,196,000	8,185	6,198,172
LIABILITIES				
Current liabilities:				
Accounts payable	197,701	12,250	-	209,951
Accrued payroll and payroll taxes	224,049	-	-	224,049
Capital lease - current	11,048	-	-	11,048
Note payable - current	88,500	-	-	88,500
Total current liabilities	521,298	12,250	-	533,548
Non-current liabilities:				
Accrued compensated absences	379,591	-	-	379,591
Capital lease	-	-	-	-
Note payable	508,875	-	-	508,875
Total non-current liabilities	888,466	-	-	888,466
Total liabilities	\$ 1,409,764	12,250	-	1,422,014
NET ASSETS				
Invested in capital assets, net of related debt	1,784,844	-	-	1,784,844
Restricted - expendable	-	-	8,185	8,185
Unrestricted:				
Expendable	1,799,379	-	-	1,799,379
Designated	-	1,183,750	-	1,183,750
Total net assets	\$ 3,584,223	1,183,750	8,185	4,776,158

MAINE MUNICIPAL ASSOCIATION
Schedule of Revenues, Expenses and Changes in Net Assets by Fund
For the year ended December 31, 2007

	Unrestricted		Restricted	Total 2007
	General fund	Designated funds	Special funds	
Revenues:				
Member dues	\$ 1,615,083	-	-	1,615,083
Group services - administrative fees	7,950,339	-	-	7,950,339
Publications	153,816	-	-	153,816
Investment income	195,704	-	-	195,704
Contract services	64,061	-	-	64,061
Convention	146,127	-	-	146,127
Training and affiliate groups	116,146	-	-	116,146
Other	4,125	-	-	4,125
Total revenues	10,245,401	-	-	10,245,401
Expenses:				
Salaries and wages	5,206,720	-	-	5,206,720
Fringe benefits	1,833,142	-	-	1,833,142
Supplies and general expenses	831,690	-	-	831,690
Professional services	268,860	37,494	-	306,354
Travel meetings/committees	410,833	-	-	410,833
Insurance	236,588	-	-	236,588
Local government center	299,857	-	-	299,857
Depreciation	252,809	-	-	252,809
Interest and deferred financing costs	31,614	-	-	31,614
Total expenses	9,372,113	37,494	-	9,409,607
Change in net assets	873,288	(37,494)	-	835,794
Net assets, beginning of year	3,518,418	413,761	8,185	3,940,364
Net asset transfers per 2007 budget	(807,483)	807,483	-	-
Net assets, end of year	\$ 3,584,223	1,183,750	8,185	4,776,158

MAINE MUNICIPAL ASSOCIATION
Schedule of Changes in Designated and Restricted Net Assets
Year ended December 31, 2007

	Net assets January 1, 2007	Revenues	Expenses	Transfers	Net assets December 31, 2007
Designated net assets:					
Legislative Initiatives Fund	\$ 50,000	-	14,000	64,000	100,000
Financial Management Technical Asst Fund	-	-	-	50,000	50,000
Citizens Education/Public Relations Fund	-	-	-	35,000	35,000
Citizens Education Program Consultant Fund	-	-	-	10,000	10,000
Building Maintenance Reserve	132,400	-	11,244	38,844	160,000
Membership Survey Fund	12,200	-	-	(12,200)	-
BackOffice Applications Fund	60,000	-	12,250	620,000	667,750
Legal Defense Fund - General	10,000	-	-	-	10,000
MIS Training/Consultant	73,111	-	-	1,889	75,000
Legal/Insurance Deductible Fund	50,000	-	-	-	50,000
Outside Legal Counsel Fund	26,050	-	-	(50)	26,000
Total designated net assets	413,761	-	37,494	807,483	1,183,750
Restricted net assets:					
Governing Skills Project	8,185	-	-	-	8,185
Total restricted net assets	8,185	-	-	-	8,185
Totals	\$ 421,946	-	37,494	807,483	1,191,935

MAINE MUNICIPAL ASSOCIATION

Financial Statements

For the Years Ended December 31, 2008 and 2007

MAINE MUNICIPAL ASSOCIATION
Financial Statements
For the Years Ended December 31, 2008 and 2007

Table of Contents

	<u>Statement</u>	<u>Page</u>
Independent Auditor's Report		
Management Discussion and Analysis		1-4
Statements of Net Assets	1	5
Statements of Revenues, Expenses and Changes in Net Assets	2	6
Statements of Cash Flows	3	7
Notes to Financial Statements		8-14
	<u>Schedule</u>	<u>Page</u>
Additional Information:		
Schedule of Net Assets by Fund	1	15
Schedule of Revenues, Expenses and Changes in Net Assets by Fund	2	16
Schedule of Changes in Designated and Restricted Net Assets	3	17



Certified Public Accountants and Business Consultants

Independent Auditor's Report

Executive Committee
Maine Municipal Association

We have audited the accompanying statements of net assets of Maine Municipal Association as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Association as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management 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 U.S. generally accepted accounting principles. 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 audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. Supplemental schedules 1 through 3 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 audits 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.

A handwritten signature in cursive script that reads "Runyon Kersteen Ouellette".

April 27, 2009
South Portland, Maine

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis
Fiscal Year Ended 2008

This section of the Maine Municipal Association (MMA) annual financial report sets forth a narrative overview of its financial activities for the year ended December 31, 2008. Please read it in conjunction with MMA's financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

MMA's fiscal year is January 1 through December 31.

The annual financial report consists of four parts:

- Management Discussion and Analysis
- Basic Financial Statements
- Notes to Financial Statements
- Supplemental Information (Schedules)

Management Discussion and Analysis provides a narrative overview of the statements and comments on significant developments during the reporting period.

Basic Financial Statements include:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

These statements include the General Fund, Designated Funds and Restricted Funds and present MMA's status at December 31, 2008 and financial developments during fiscal year 2008.

Notes to Financial Statements provide explanations of the accounting principles followed and of key items in the statements.

Supplemental Schedules include:

- Schedule of Net Assets by Fund
- Schedule of Revenues, Expenses and Changes in Net Assets by Fund
- Schedule of Changes in Designated and Restricted Net Assets

MMA GENERAL FUND

The General Fund includes the assets, liabilities, net assets, revenues and expenses of the Maine Municipal Association. All of the information presented in the following management discussion and analysis is for the General Fund only and does not include the self insured funds administered by MMA, nor does it include Board Designated or Restricted Funds.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

FINANCIAL HIGHLIGHTS – General Fund

- MMA's assets at December 31, 2008 amounted to \$4,562,251, for a decrease of 8.6%.
- Current assets totaled \$2,159,176, a decrease of 16.4%.
- Operating revenues exclusive of transfers in 2008 totaled \$10,460,303 (2.1% increase).
- Operating expenses exclusive of transfers in 2008 totaled \$9,695,022 (3.4% increase).
- During 2008, the MMA general fund transferred \$933,400 to designated funds.
- Net assets at December 31, 2008 totaled \$3,416,104, a decrease of 4.7%.

FINANCIAL ANALYSIS – General Fund

The following table summarizes the Statements of Net Assets:

	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>% Change</u>
ASSETS			
Current Assets	2,159,176	2,584,279	-16.4%
Other Assets	14,006	16,441	-14.8%
Capital Assets	2,389,069	2,393,267	-0.2%
Total Assets	<u>4,562,251</u>	<u>4,993,987</u>	<u>-8.6%</u>
LIABILITIES			
Current Liabilities	352,444	521,298	-32.4%
Long Term Liabilities	793,703	888,466	-10.7%
Total Liabilities	<u>1,146,147</u>	<u>1,409,764</u>	<u>-18.7%</u>
NET ASSETS			
Investment in Property & Plant Expendable	1,880,194	1,784,844	5.3%
Total Net Assets	<u>3,416,104</u>	<u>3,584,223</u>	<u>-4.7%</u>

The following table summarizes the Statements of Revenues, Expenses and Changes in Net Assets:

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
OPERATING REVENUES			
Member Dues	1,677,325	1,615,083	3.9%
Group Services Administrative Fees	8,175,275	7,950,339	2.8%
Other Revenues	607,703	679,979	-10.6%
Total Operating Revenues	<u>10,460,303</u>	<u>10,245,401</u>	<u>2.1%</u>
OPERATING EXPENSES			
Salaries and Benefits	7,426,132	7,039,862	5.5%
Facility, Insurance and Interest	824,049	820,868	0.4%
Other Expenses	1,444,841	1,511,383	-4.4%
Total Operating Expenses	<u>9,695,022</u>	<u>9,372,113</u>	<u>3.4%</u>
GAIN OR (LOSS) FROM OPERATIONS			
Net transfer between funds	(933,400)	(807,483)	15.6%
Change in Net Assets	<u>(168,119)</u>	<u>65,805</u>	<u>-355.5%</u>
NET ASSETS - BEGINNING			
NET ASSETS - ENDING	<u>3,416,104</u>	<u>3,518,418</u>	<u>1.9%</u>
	<u>3,416,104</u>	<u>3,584,223</u>	<u>-4.7%</u>

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

ANALYSIS OF FINANCIAL DEVELOPMENTS IN FISCAL YEAR 2008

The following table presents a budget to actual comparison of the General Fund in summarized form:

	Budget	Actual	% Change
REVENUES			
Member Dues	1,677,005	1,677,325	0.0%
Group Services Administrative Fees	8,175,275	8,175,275	0.0%
Other Revenues	610,100	607,703	-0.4%
Total Revenues	<u>10,462,380</u>	<u>10,460,303</u>	0.0%
EXPENSES			
Salaries and Benefits	7,982,266	7,426,132	-7.0%
Facility, Insurance and Interest	890,556	818,432	-8.1%
Other Expenses	1,561,056	1,450,458	-7.1%
Transfer to Contingency Fund	28,502	-	-100.0%
Total Expenses	<u>10,462,380</u>	<u>9,695,022</u>	-7.3%
GAIN OR (LOSS) FROM OPERATIONS	-	765,281	
NET TRANSFER BETWEEN FUNDS	-	<u>(933,400)</u>	
CHANGE IN NET ASSETS	-	(168,119)	

CAPITAL ASSETS AND LONG-TERM DEBT

At December 31, 2008, General Fund capital assets totaled \$4,972,485, offset by accumulated depreciation totaling \$2,388,416. Capital assets net of depreciation amounted to \$2,583,416. By major category, capital assets included:

Land	202,500
Land improvements	33,286
Buildings and improvements	2,637,243
Furniture and equipment	2,013,617
Construction-In-Progress-Building	85,839
	<u>4,972,485</u>

Long-term debt associated with capital assets included:

Mortgage on building \$ 508,875 including \$88,500 due in coming year

CONDITIONS WHICH MAY IMPACT ON MMA'S FINANCIAL CONDITION IN THE FUTURE

Management is aware of no conditions, decisions or contingencies which are expected to significantly impact on MMA's financial position in the future.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

SPECIAL FUNDS

Designated and restricted funds include:

Designated Net Assets: Accounts established by the MMA Executive Committee by transfer from the General Fund, to meet specific purposes. At 12/31/08 there were ten Designated Funds with Net Assets totaling \$2,081,750. Financial developments over the course of 2008 were as follows:

Beginning Balance	1,183,750
Transfers from General Fund	933,400
Expenses	<u>(35,400)</u>
Ending Balance	<u><u>2,081,750</u></u>

Restricted Net Assets: Accounts established by the Executive Committee with funds provided by outside donors, with restrictions based on donor guidelines. At 12/31/08, there was one Restricted Fund with Net Assets of \$8,185. Financial developments over the course of 2008 were as follows:

Beginning Balance	8,185
Transfers from General Fund	-
Expenses	<u>-</u>
Ending Balance	<u><u>8,185</u></u>

REQUEST FOR INFORMATION

This financial report is designed to provide our members, customers, investors and creditors with a general overview of MMA's finances and to show MMA's accountability for the money it receives. If you have any questions about this report or need additional information, contact Martin Hanish, Chief Financial Officer, at (207) 623-8428.

MAINE MUNICIPAL ASSOCIATION
Statements of Net Assets
December 31, 2008 and 2007
(includes general, designated and restricted funds)

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,124,151	2,449,865
Investments:		
Certificates of deposit	1,625,544	1,000,000
Accounts receivable	71,277	79,924
Accrued interest receivable	7,698	2,446
Prepaid expenses	176,550	204,685
Inventory	53,940	51,544
Total current assets	4,059,160	3,788,464
Other assets:		
Deferred financing costs	14,006	16,441
Total other assets	14,006	16,441
Capital assets:		
Land	202,500	202,500
Land improvements	33,286	33,286
Buildings and improvements	2,637,243	2,637,243
Furniture and equipment	2,476,104	2,119,603
Construction in progress - building project	85,839	-
	5,434,972	4,992,632
Less accumulated depreciation	(2,855,952)	(2,599,365)
Net capital assets	2,579,020	2,393,267
Total assets	\$ 6,652,186	6,198,172
LIABILITIES		
Current liabilities:		
Accounts payable	192,228	209,951
Accrued payroll and payroll taxes	71,716	224,049
Capital lease - current	-	11,048
Note payable - current	88,500	88,500
Total current liabilities	352,444	533,548
Noncurrent liabilities:		
Accrued compensated absences	373,328	379,591
Note payable	420,375	508,875
Total noncurrent liabilities	793,703	888,466
Total liabilities	\$ 1,146,147	1,422,014
NET ASSETS		
Invested in capital assets, net of related debt	1,880,194	1,784,844
Restricted - expendable	8,185	8,185
Unrestricted:		
Expendable	1,535,910	1,799,379
Designated	2,081,750	1,183,750
Total net assets	\$ 5,506,039	4,776,158

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Revenues, Expenses and Changes in Net Assets
For the years ended December 31, 2008 and 2007
(includes general, designated and restricted funds)

	2008	2007
Revenues:		
Member dues	\$ 1,677,325	1,615,083
Group services - administrative fees	8,175,275	7,950,339
Publications	147,696	153,816
Investment income	111,904	195,704
Contract services	74,913	64,061
Convention	142,824	146,127
Training and affiliate groups	130,366	116,146
Other	-	4,125
Total revenues	10,460,303	10,245,401
Expenses:		
Salaries and wages	5,508,794	5,206,720
Fringe benefits	1,917,338	1,833,142
Supplies and general expenses	796,350	831,690
Professional services	252,759	306,354
Travel meetings/committees	415,732	410,833
Insurance	226,582	236,588
Local government center	328,596	299,857
Depreciation	256,587	252,809
Interest and deferred financing costs	27,684	31,614
Total expenses	9,730,422	9,409,607
Change in net assets	729,881	835,794
Net assets, beginning of year	4,776,158	3,940,364
Net assets, end of year	\$ 5,506,039	4,776,158

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Cash Flows
For the years ended December 31, 2008 and 2007
(includes general, designated and restricted funds)

	2008	2007
Cash flows from operating activities:		
Receipts from dues	\$ 1,685,972	1,630,323
Receipts from group services - administrative fees	8,175,275	7,950,339
Receipts from publications	147,696	153,816
Receipts from investment income	111,904	195,603
Receipts from contract services	74,913	64,061
Receipts from convention	142,824	146,127
Receipts from training, affiliate groups and other	130,366	120,271
Payments for salaries and benefits	(7,584,728)	(7,000,843)
Payments for supplies and general expenses	(788,334)	(696,756)
Payments for professional services	(252,759)	(306,354)
Payments for travel meetings/committees	(415,732)	(410,833)
Payments for insurance	(226,582)	(236,588)
Payments for local government center	(328,596)	(299,857)
Payments for interest	(30,501)	(29,178)
Net cash provided by operating activities	841,718	1,280,131
Cash flows from capital and related financing activities:		
Repayments of capital leases	(11,048)	(41,525)
Net (purchases) disposals of capital assets	(442,340)	(138,972)
Principal payments on notes payable	(88,500)	(88,500)
Net cash used in capital and related financing activities	(541,888)	(268,997)
Cash flows from investing activities:		
Proceeds from (purchase of) certificates of deposits	(625,544)	550,000
Maturities of U.S. Government securities	-	199,914
Net cash provided by (used in) investing activities	(625,544)	749,914
Increase (decrease) in cash and cash equivalents	(325,714)	1,761,048
Cash and cash equivalents - beginning of year	2,449,865	688,817
Cash and cash equivalents - end of year	\$ 2,124,151	2,449,865
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 729,881	835,794
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	256,587	252,809
Amortization of loan expenses	2,435	2,436
(Increase) decrease in assets:		
Unrealized loss (gain) on investments	-	(101)
Accounts receivable	8,647	15,240
Accrued interest receivable	(5,252)	6,949
Prepaid expenses	28,135	(25,051)
Inventory	(2,396)	6,521
Increase (decrease) in liabilities:		
Accounts payable	(17,723)	146,515
Accrued payroll and payroll taxes	(152,333)	26,047
Accrued compensated absences	(6,263)	12,972
Net cash provided by operating activities	\$ 841,718	1,280,131

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Maine Municipal Association was founded in 1936 and is a voluntary organization of cities, towns and plantations. The Association is a nonprofit, nonpartisan organization dedicated to the purpose of improving the quality and efficiency of local government in Maine through information exchange, policy advocacy, professional management assistance and the joint purchase of goods and services. The Association also offers associate memberships to counties, water and sewer districts, and other special districts.

The Association provides administrative services to the Maine Municipal Association Workers' Compensation Fund, Maine Municipal Association Property and Casualty Pool, Maine Municipal Association Unemployment Compensation Group Fund, and the Maine Municipal Employees Health Trust. The Association receives administrative fees for providing these services, which are recorded as income. These Funds are accounted for as separate accounting entities and are not included in the financial statements of Maine Municipal Association.

Tax Exempt Status - The Association is recognized as an instrumentality of municipalities and is exempt from income taxes.

Basis of Accounting - The accrual basis of accounting is followed for all funds.

The Association follows the applicable provisions of Government Accounting Standards Board's (GASB) U.S. generally accepted accounting principles (GAAP) for state and local governments through its pronouncements (Statements and Interpretations). Additionally, the Association follows the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The Association has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents - The Association considers all highly liquid deposits with an initial maturity of three months or less to be cash and cash equivalents. Amounts in the mutual fund investment sweep and the money market mutual fund are indirectly invested in U.S. government obligations.

Investments - The investments of Maine Municipal Association include U.S. government securities, and certificates of deposit. The Association estimates that the fair value of all financial instruments at December 31, 2008 and 2007 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The estimated fair value amounts have been determined by quoted market prices.

Accounts Receivable - Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts was considered necessary at December 31, 2008 and 2007.

Inventories - Inventories are valued at current cost (first-in, first-out basis).

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets - Property and equipment are capitalized at cost and depreciated over their estimated useful lives of three to forty years on a straight-line basis. The Association's policy is to capitalize expenditures for major improvements and additions, and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets.

Designated Net Assets - The Association has several designated net asset accounts established by its Board for specific purposes.

Restricted Net Assets - The Association has a restricted net asset accounts established by donor contributions for specific purposes.

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

DEPOSITS AND INVESTMENTS

Deposits

Cash and cash equivalents are comprised of cash management accounts (CMA) and money market instruments and consisted of the following at December 31:

<u>2008</u>	<u>Totals</u>
CMA - deposit account	\$ 423
CMA - mutual fund investment sweep	897,754
<u>Money market mutual fund</u>	<u>1,225,974</u>
<u>Totals</u>	<u>\$ 2,124,151</u>
<u>2007</u>	<u>Totals</u>
CMA - deposit account	\$ 20
CMA - mutual fund investment sweep	668,182
<u>Money market mutual fund</u>	<u>1,781,663</u>
<u>Totals</u>	<u>\$ 2,449,865</u>

CMA - deposit account balances of \$423 and \$20 at December 31, 2008 and 2007, respectively, consisted of checks deposited which are not yet available for transfer.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Depository and mutual fund sweep accounts are pooled accounts containing assets of the Maine Municipal Association, Workers' Compensation Fund, Unemployment Compensation Fund, and Property & Casualty Pool. The money market mutual fund is also a pooled account but does not include the Workers' Compensation Fund. Only the assets belonging to the Maine Municipal Association are included in these financial statements.

Custodial Credit Risk-Association Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits in excess of the FDIC insured limit may not be recoverable. The Association addresses this risk by minimizing balances in bank accounts. Checking accounts are on a zero balance basis and collected funds are transferred from the CMA - deposit account on a daily basis either to the checking accounts to cover checks presented for payment or to a money market fund outside of the bank. Funds in the CMA - deposit account are insured by FDIC up to \$250,000. Any balance in this account in excess of the \$250,000 FDIC insured limit is considered uninsured and uncollateralized and subject to custodial credit risk. The CMA - mutual fund investment sweep and the money market mutual fund are mutual funds outside the bank, invested in short term government securities. These funds are uninsured and uncollateralized, and subject to custodial credit risk.

Investments

At December 31, 2008, the Association had the following investments and maturities:

Investment types:	Fair Value	< 1 year to Maturity	1 to 5 years to Maturity	5 + years to Maturity
Certificates of deposit (1)	\$ 1,625,544	1,625,544	-	-
Totals	\$ 1,625,544	1, 625,544	-	-

(1) All of the certificates of deposit held at December 31, 2008 were covered by FDIC.

At December 31, 2007, the Association had the following investments and maturities:

Investment types:	Fair Value	< 1 year to Maturity	1 to 5 years to Maturity	5 + years to Maturity
Certificates of deposit (1)	\$ 1,000,000	1,000,000	-	-
Totals	\$ 1,000,000	1,000,000	-	-

(1) Of the certificates of deposit held at December 31, 2007, \$700,000 was covered by FDIC. The remainder was uninsured and uncollateralized.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association's investment policy requires that, to the extent possible, the Association attempts to match investments with anticipated cash requirements. Investments outside of the parameters of the adopted Asset Strategy must be presented for Board approval prior to implementation. Liquidity risk, as defined by MMA's investment policy, is the risk that funds may not be available as needed, or may be available only by liquidating investments with a resultant capital loss. The Association's investment policy requires that investment maturities be timed to meet projected cash flow requirements, with a margin for the unexpected. The maximum maturity permitted under Board policy in 2008 and 2007 was two years.

Credit Risk: Credit risk is the risk that the entity in which the fund has invested may be unable to redeem investments when they mature. The Association's investment policy limits investments to entities that have high ratings by recognized rating agencies. Management monitors the ratings of entities in which it has invested and would sell investments should a significant rating decline occur. No such issues were noted in 2008 or 2007, and the Association had no investments in corporate stocks or bonds as of December 31, 2008 and 2007.

Custodial Credit Risk-Association's Investments: For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association addresses this risk by having the custodian hold investments to the Association's benefit, by maintaining high quality standards for the entities in which it invests and by monitoring the ratings of entities in which it has invested.

Concentration of Credit Risk: It is the Association's policy to diversify its investments by security type to mitigate concentration risk. 2008 asset allocation targets were, as follows: money market funds: 40%, certificates of deposit: 50%, and U.S. government securities: 10%. 2007 asset allocation targets were, as follows: money market funds: 40%, certificates of deposit: 30%, and U.S. government securities: 30%. Actual levels vary over the course of the year, and may be adjusted by management based on changing economic conditions.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance at 12/31/07	Additions	Disposals	Balance at 12/31/08
Capital assets, not being depreciated:				
Land	\$ 202,500	-	-	202,500
Construction-in-progress	-	85,839	-	85,839
Total capital assets not being depreciated	202,500	85,839	-	288,339
Capital assets, being depreciated:				
Land improvements	33,286	-	-	33,286
Buildings and improvements	2,637,243	-	-	2,637,243
Furniture and equipment	2,119,603	356,501	-	2,476,104
Total capital assets being depreciated	4,790,132	356,501	-	5,146,633
Less accumulated depreciation for:				
Land improvements	(29,958)	(2,219)	-	(32,177)
Buildings and improvements	(897,500)	(68,049)	-	(965,549)
Furniture and equipment	(1,671,907)	(186,319)	-	(1,858,226)
Total accumulated depreciation	(2,599,365)	(256,587)	-	(2,855,952)
Total capital assets being depreciated, net	2,190,767	99,914	-	2,290,681
Total capital assets, net	\$ 2,393,267	185,753	-	2,579,020

LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Note payable	\$ 597,375	-	88,500	508,875	88,500
Capital lease payable	11,048	-	11,408	-	-
Accrued compensated absences	379,591	-	6,263	373,328	-
Long-term liabilities	\$ 988,014	-	105,811	882,203	88,500

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

LONG-TERM LIABILITIES, CONTINUED

Note Payable

The note payable consists of borrowings from a bank related to a mortgage note payable in the amount of \$508,875 at December 31, 2008 on the Association's building which, at December 31, 2008 has a book value of \$1,671,694. The mortgage note had an original amount of \$1,770,000 and is due in monthly principal payments of \$7,375 plus interest over a 20 year period beginning on the first day of October 1994. The interest rate was reset on July 1, 2005 at 4.46% for the remaining term of the mortgage. The note payable is secured by a first mortgage on the building. Financing costs incurred during the construction project have been capitalized and will be expensed over the term of the note. Interest of \$27,684 and \$31,614 was paid in 2008 and 2007, respectively.

Principal maturities on the note payable over the next five years and to maturity are as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$88,500	24,903	113,403
2010	88,500	20,885	109,385
2011	88,500	16,939	105,439
2012	88,500	12,989	101,489
2013	88,500	9,071	97,571
<u>2014</u>	<u>66,375</u>	<u>6,299</u>	<u>161,174</u>
<u>Totals</u>	<u>\$508,875</u>	<u>66,211</u>	<u>688,461</u>

RETIREMENT PLANS

Maine Public Employees Retirement System

The Association's employees are covered under Social Security benefit programs. In addition, the Association contributes to a 401(a) qualified deferred compensation plan, or to the Maine Public Employees Retirement System (MainePERS) pension plan for those employees who retained their eligibility prior to the Association's discontinuance as a participating local district on April 6, 1994. As a withdrawn participating local district, the Association is required to fund the plan on an actuarially sound basis for liabilities of any current active, inactive vested, or retired participants. At June 30, 2008 (the latest available report date), there were no active and six retired participants. The plan is not material to the financial statements of the Maine Municipal Association.

There were no expenses for this plan in 2008 or 2007, respectively. The MainePERS issues a publicly available financial report that includes financial statements and requires supplementary information for the plan. That report may be obtained by writing the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333-0046.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

RETIREMENT PLANS, CONTINUED

401(a) Qualified Deferred Compensation Plan

The 401(a) qualified deferred compensation plan requires a contribution of 5% of salary from employees which is supplemented by the Association at 5.8%. Employees are fully vested in their own contributions immediately and become 100% vested in the Association's contributions after three years of service. The expense for this plan was \$291,018 and \$269,867 for 2008 and 2007, respectively.

457 Deferred Compensation Plan

The Association also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan permits them to defer a portion of their salary until future years.

Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property, or rights are to be held in trust and maintained for the exclusive benefit of participants and their beneficiaries.

Under the 401(a) qualified and 457 deferred compensation plans, no part of the corpus or the income of the trust shall revert to the employer or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries.

TRANSFERS

The Executive Committee approved the following transfers from expendable net assets to designated net assets as part of the budget and which were made during the year ended December 31, 2008:

	<u>Transfer out</u>	<u>Transfers in</u>
Expendable	\$ 933,400	-
Designated:		
Legislative Initiatives	-	50,000
Financial Management Technical Assistance	50,000	-
Citizens Education/Public Relations	-	25,000
Building Maintenance Reserve	-	55,400
NLC Region I Event	-	3,000
Dues Stabilization	-	850,000
	<u>\$ 983,400</u>	<u>983,400</u>

MAINE MUNICIPAL ASSOCIATION
Schedule of Net Assets by Fund
December 31, 2008

	Unrestricted		Restricted	Total 2008
	General fund	Designated funds	Special funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 224,167	1,891,799	8,185	2,124,151
Investments:				
Certificates of deposit	1,625,544	-	-	1,625,544
Accounts receivable	71,277	-	-	71,277
Accrued interest receivable	7,698	-	-	7,698
Prepaid expenses	176,550	-	-	176,550
Inventory	53,940	-	-	53,940
Total current assets	2,159,176	1,891,799	8,185	4,059,160
Other assets:				
Deferred financing costs	14,006	-	-	14,006
Total other assets	14,006	-	-	14,006
Capital assets:				
Land	202,500	-	-	202,500
Land improvements	33,286	-	-	33,286
Buildings and improvements	2,637,243	-	-	2,637,243
Furniture and equipment	2,013,617	462,487	-	2,476,104
Construction in progress - building project	85,839	-	-	85,839
	4,972,485	462,487	-	5,434,972
Less accumulated depreciation	(2,583,416)	(272,536)	-	(2,855,952)
Net capital assets	2,389,069	189,951	-	2,579,020
Total assets	\$ 4,562,251	2,081,750	8,185	6,652,186
LIABILITIES				
Current liabilities:				
Accounts payable	192,228	-	-	192,228
Accrued payroll and payroll taxes	71,716	-	-	71,716
Note payable - current	88,500	-	-	88,500
Total current liabilities	352,444	-	-	352,444
Noncurrent liabilities:				
Accrued compensated absences	373,328	-	-	373,328
Note payable	420,375	-	-	420,375
Total noncurrent liabilities	793,703	-	-	793,703
Total liabilities	\$ 1,146,147	-	-	1,146,147
NET ASSETS				
Invested in capital assets, net of related debt	1,880,194	-	-	1,880,194
Restricted - expendable	-	-	8,185	8,185
Unrestricted:				
Expendable	1,535,910	-	-	1,535,910
Designated	-	2,081,750	-	2,081,750
Total net assets	\$ 3,416,104	2,081,750	8,185	5,506,039

MAINE MUNICIPAL ASSOCIATION
Schedule of Revenues, Expenses and Changes in Net Assets by Fund
Year Ended December 31, 2008

	Unrestricted		Restricted	Total 2008
	General fund	Designated funds	Special funds	
Revenues:				
Member dues	\$ 1,677,325	-	-	1,677,325
Group services - administrative fees	8,175,275	-	-	8,175,275
Publications	147,696	-	-	147,696
Investment income	111,904	-	-	111,904
Contract services	74,913	-	-	74,913
Convention	142,824	-	-	142,824
Training and affiliate groups	130,366	-	-	130,366
Other	-	-	-	-
Total revenues	10,460,303	-	-	10,460,303
Expenses:				
Salaries and wages	5,508,794	-	-	5,508,794
Fringe benefits	1,917,338	-	-	1,917,338
Supplies and general expenses	796,350	-	-	796,350
Professional services	245,459	7,300	-	252,759
Travel meetings/committees	403,032	12,700	-	415,732
Insurance	226,582	-	-	226,582
Local government center	313,196	15,400	-	328,596
Depreciation	256,587	-	-	256,587
Interest and deferred financing costs	27,684	-	-	27,684
Total expenses	9,695,022	35,400	-	9,730,422
Change in net assets	765,281	(35,400)	-	729,881
Net assets, beginning of year	3,584,223	1,183,750	8,185	4,776,158
Net asset transfers per 2008 budget	(933,400)	933,400	-	-
Net assets, end of year	\$ 3,416,104	2,081,750	8,185	5,506,039

MAINE MUNICIPAL ASSOCIATION
Schedule of Changes in Designated and Restricted Net Assets
Year Ended December 31, 2008

	Net assets January 1, 2008	Revenues	Expenses	Transfers	Net assets December 31, 2008
Designated net assets:					
Legislative Initiatives Fund	\$ 100,000	-	-	50,000	150,000
Financial Management Technical Asst Fund	50,000	-	-	(50,000)	-
Citizens Education/Public Relations Fund	35,000	-	10,000	25,000	50,000
Citizens Education Program Consultant Fund	10,000	-	10,000	-	-
Building Maintenance Reserve	160,000	-	15,400	55,400	200,000
BackOffice Applications Fund	667,750	-	-	-	667,750
Legal Defense Fund - General	10,000	-	-	-	10,000
MIS Training/Consultant	75,000	-	-	-	75,000
Legal/Insurance Deductible Fund	50,000	-	-	-	50,000
Outside Legal Counsel Fund	26,000	-	-	-	26,000
NLC Region 1 Event	-	-	-	3,000	3,000
Building Project - Dues Stabilization Fund	-	-	-	850,000	850,000
Total designated net assets	1,183,750	-	35,400	933,400	2,081,750
Restricted net assets:					
Governing Skills Project	8,185	-	-	-	8,185
Total restricted net assets	8,185	-	-	-	8,185
Totals	\$ 1,191,935	-	35,400	933,400	2,089,935

MAINE MUNICIPAL ASSOCIATION

Financial Statements

For the Years Ended December 31, 2009 and 2008

MAINE MUNICIPAL ASSOCIATION
Financial Statements
For the Years Ended December 31, 2009 and 2008

Table of Contents

	<u>Statement</u>	<u>Page</u>
Independent Auditor's Report		
Management Discussion and Analysis		1-4
Statements of Net Assets	1	5
Statements of Revenues, Expenses and Changes in Net Assets	2	6
Statements of Cash Flows	3	7
Notes to Financial Statements		8-16
	<u>Schedule</u>	<u>Page</u>
Required Supplementary Information:		
Schedule of Funding Progress	1	17
Additional Information:		
Schedule of Net Assets by Fund	2	18
Schedule of Revenues, Expenses and Changes in Net Assets by Fund	3	19
Schedule of Changes in Designated and Restricted Net Assets	4	20



Independent Auditor's Report

Executive Committee
Maine Municipal Association

We have audited the accompanying statements of net assets of Maine Municipal Association as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Maine Municipal Association as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management discussion and analysis and the schedule of funding progress for the retiree healthcare plan, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. Supplemental schedules 2 through 4 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 audits 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.

A handwritten signature in cursive script that reads "Runyon Kersteen Ouellette".

May 27, 2010
South Portland, Maine

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis
Fiscal Year Ended 2009

This section of the Maine Municipal Association (MMA) annual financial report sets forth a narrative overview of its financial activities for the year ended December 31, 2009. Please read it in conjunction with MMA's financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

MMA's fiscal year is January 1 through December 31.

The annual financial report consists of four parts:

- Management Discussion and Analysis
- Basic Financial Statements
- Notes to Financial Statements
- Supplemental Information (Schedules)

Management Discussion and Analysis provides a narrative overview of the statements and comments on significant developments during the reporting period.

Basic Financial Statements include:

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

These statements include the General Fund, Designated Funds and Restricted Funds and present MMA's status at December 31, 2009 and financial developments during fiscal year 2009.

Notes to Financial Statements provide explanations of the accounting principles followed and of key items in the statements.

Required Supplementary Information provides information on the Retiree Healthcare Plan.

Supplemental Schedules include:

- Schedule of Net Assets by Fund
- Schedule of Revenues, Expenses and Changes in Net Assets by Fund
- Schedule of Changes in Designated and Restricted Net Assets

MMA GENERAL FUND

The General Fund includes the assets, liabilities, net assets, revenues and expenses of the Maine Municipal Association. All of the information presented in the following management discussion and analysis is for the General Fund only and does not include the self insured funds administered by MMA, nor does it include Board Designated or Restricted Funds.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

FINANCIAL HIGHLIGHTS – General Fund

- MMA’s assets at December 31, 2009 amounted to \$7,359,372, for an increase of 61.3%.
- Current assets totaled \$2,553,733, an increase of 18.3%.
- Operating revenues exclusive of transfers in 2009 totaled \$10,497,143 (.4% increase).
- Operating expenses exclusive of transfers in 2009 totaled \$10,057,072 (3.7% increase).
- During 2009, the MMA general fund transferred \$128,445 to designated funds.
- Net assets at December 31, 2009 totaled \$3,727,730, an increase of 9.1%.

FINANCIAL ANALYSIS – General Fund

The following table summarizes the Statements of Net Assets:

	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>% Change</u>
ASSETS			
Current Assets	2,553,733	2,159,176	18.3%
Other Assets	-	14,006	-100.0%
Capital Assets	4,805,639	2,389,069	101.2%
Total Assets	<u>7,359,372</u>	<u>4,562,251</u>	<u>61.3%</u>
LIABILITIES			
Current Liabilities	3,125,049	352,444	786.7%
Long Term Liabilities	506,593	793,703	-36.2%
Total Liabilities	<u>3,631,642</u>	<u>1,146,147</u>	<u>216.9%</u>
NET ASSETS			
Investment in Property & Plant	1,861,932	1,880,194	-1.0%
Expendable	1,865,798	1,535,910	21.5%
Total Net Assets	<u>3,727,730</u>	<u>3,416,104</u>	<u>9.1%</u>

The following table summarizes the Statements of Revenues, Expenses and Changes in Net Assets:

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
OPERATING REVENUES			
Member Dues	1,706,700	1,677,325	1.8%
Group Services Administrative Fees	8,288,383	8,175,275	1.4%
Other Revenues	502,060	607,703	-17.4%
Total Operating Revenues	<u>10,497,143</u>	<u>10,460,303</u>	<u>0.4%</u>
OPERATING EXPENSES			
Salaries and Benefits	7,959,604	7,426,132	7.2%
Facility, Insurance and Interest	756,890	824,049	-8.1%
Other Expenses	1,340,578	1,444,841	-7.2%
Total Operating Expenses	<u>10,057,072</u>	<u>9,695,022</u>	<u>3.7%</u>
GAIN OR (LOSS) FROM OPERATIONS	<u>440,071</u>	<u>765,281</u>	<u>-42.5%</u>
Net transfer between funds	(128,445)	(933,400)	-86.2%
Change in Net Assets	<u>311,626</u>	<u>(168,119)</u>	<u>-285.4%</u>
NET ASSETS - BEGINNING	<u>3,416,104</u>	<u>3,584,223</u>	<u>-4.7%</u>
NET ASSETS - ENDING	<u>3,727,730</u>	<u>3,416,104</u>	<u>9.1%</u>

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

ANALYSIS OF FINANCIAL DEVELOPMENTS IN FISCAL YEAR 2009- GENERAL FUND

The following table presents a budget to actual comparison of the General Fund in summarized form:

	<u>Budget</u>	<u>Actual</u>	<u>% Change</u>
REVENUES			
Member Dues	1,709,749	1,706,700	-0.2%
Group Services Administrative Fees	8,288,383	8,288,383	0.0%
Other Revenues	612,993	502,060	-18.1%
Total Revenues	<u>10,611,125</u>	<u>10,497,143</u>	-1.1%
EXPENSES			
Salaries and Benefits	8,223,057	7,959,604	-3.2%
Facility, Insurance and Interest	830,571	756,890	-8.9%
Other Expenses	1,557,497	1,340,578	-13.9%
Total Expenses	<u>10,611,125</u>	<u>10,057,072</u>	-5.2%
GAIN OR (LOSS) FROM OPERATIONS	-	440,071	
NET TRANSFER BETWEEN FUNDS	-	(128,445)	
CHANGE IN NET ASSETS	-	311,626	

CAPITAL ASSETS AND LONG-TERM DEBT- GENERAL FUND

At December 31, 2009, General Fund capital assets totaled \$6,834,609, offset by accumulated depreciation totaling \$2,028,970. Capital assets net of depreciation amounted to \$4,510,052. By major category, capital assets included:

Land	202,500
Land improvements	33,286
Buildings and improvements	2,624,343
Furniture and equipment	1,338,078
Construction-In-Progress-Building	<u>2,636,402</u>
	<u>6,834,609</u>

Long-term debt associated with capital assets included:

Construction loan on the building \$2,648,120, closing for the mortgage was scheduled for April 1, 2010. Estimated principal payments for the coming year are \$102,793.

CONDITIONS WHICH MAY IMPACT ON MMA'S FINANCIAL CONDITION IN THE FUTURE

Management is aware of no conditions, decisions or contingencies which are expected to significantly impact on MMA's financial position in the future.

MAINE MUNICIPAL ASSOCIATION
Management Discussion and Analysis, Continued

SPECIAL FUNDS

Designated and restricted funds include:

Designated Net Assets: Accounts established by the MMA Executive Committee by transfer from the General Fund, to meet specific purposes. At 12/31/09 there were ten Designated Funds with Net Assets totaling \$2,028,347. Financial developments over the course of 2009 were as follows:

Beginning Balance	2,081,750
Transfers from General Fund	128,445
Expenses	<u>(181,847)</u>
Ending Balance	<u><u>2,028,348</u></u>

Restricted Net Assets: Accounts established by the Executive Committee with funds provided by outside donors, with restrictions based on donor guidelines. At 12/31/09, there was one Restricted Fund with Net Assets of \$8,185. Financial developments over the course of 2009 were as follows:

Beginning Balance	8,185
Transfers from General Fund	-
Expenses	<u>-</u>
Ending Balance	<u><u>8,185</u></u>

REQUEST FOR INFORMATION

This financial report is designed to provide our members, customers, investors and creditors with a general overview of MMA's finances and to show MMA's accountability for the money it receives. If you have any questions about this report or need additional information, contact Martin Hanish, Chief Financial Officer, at (207) 623-8428.

MAINE MUNICIPAL ASSOCIATION
Statements of Net Assets
December 31, 2009 and 2008
(includes general, designated and restricted funds)

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 826,162	2,124,151
Investments:		
Certificates of deposit	2,416,344	1,625,544
U.S. Government and agency securities	569,033	-
Accounts receivable	63,000	71,277
Accrued interest receivable	2,957	7,698
Prepaid expenses	177,652	176,550
Inventory	74,424	53,940
Total current assets	4,129,572	4,059,160
Other assets:		
Deferred financing costs	-	14,006
Total other assets	-	14,006
Capital assets:		
Land	202,500	202,500
Land improvements	33,286	33,286
Buildings and improvements	2,624,343	2,637,243
Furniture and equipment	1,798,772	2,476,104
Construction in progress - building project	2,636,402	85,839
	7,295,303	5,434,972
Less accumulated depreciation	(2,028,970)	(2,855,952)
Net capital assets	5,266,333	2,579,020
Total assets	\$ 9,395,905	6,652,186
LIABILITIES		
Current liabilities:		
Accounts payable	367,955	192,228
Accrued payroll and payroll taxes	108,974	71,716
Note payable - current	-	88,500
Construction loan	2,648,120	-
Total current liabilities	3,125,049	352,444
Noncurrent liabilities:		
Accrued compensated absences	415,168	373,328
Post employment benefits	91,425	-
Note payable	-	420,375
Total noncurrent liabilities	506,593	793,703
Total liabilities	\$ 3,631,642	1,146,147
NET ASSETS		
Invested in capital assets, net of related debt	1,861,932	1,880,214
Invested in capital assets, net of related debt - designated	460,694	189,931
Restricted - expendable	8,185	8,185
Unrestricted:		
Expendable	1,865,798	1,345,959
Designated	1,567,654	2,081,750
Total net assets	\$ 5,764,263	5,506,039

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2009 and 2008
(includes general, designated and restricted funds)

	2009	2008
Revenues:		
Member dues	\$ 1,706,700	1,677,325
Group services - administrative fees	8,288,383	8,175,275
Publications	137,090	147,696
Investment income	58,138	111,904
Contract services	40,229	74,913
Convention	129,483	142,824
Training and affiliate groups	140,419	130,366
Other	(3,299)	-
Total revenues	10,497,143	10,460,303
Expenses:		
Salaries and wages	5,805,794	5,508,794
Fringe benefits	2,062,385	1,917,338
Annual required contribution - OPEB	91,425	-
Supplies and general expenses	726,496	796,350
Professional services	446,613	252,759
Travel meetings/committees	349,316	415,732
Insurance	197,401	226,582
Local government center	296,076	328,596
Depreciation	228,421	256,587
Interest and deferred financing costs	34,992	27,684
Total expenses	10,238,919	9,730,422
Change in net assets	258,224	729,881
Net assets, beginning of year	5,506,039	4,776,158
Net assets, end of year	\$ 5,764,263	5,506,039

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Statements of Cash Flows
For the Years Ended December 31, 2009 and 2008
(includes general, designated and restricted funds)

	2009	2008
Cash flows from operating activities:		
Receipts from dues	\$ 1,714,977	1,685,972
Receipts from group services - administrative fees	8,288,383	8,175,275
Receipts from publications	137,090	147,696
Receipts from investment income	58,138	111,904
Receipts from contract services	40,229	74,913
Receipts from convention	129,483	142,824
Receipts from training, affiliate groups and other	140,419	130,366
Payments for salaries and benefits	(7,789,081)	(7,584,728)
Payments for supplies and general expenses	(572,355)	(788,334)
Payments for professional services	(446,613)	(252,759)
Payments for travel meetings/committees	(349,316)	(415,732)
Payments for insurance	(197,401)	(226,582)
Payments for local government center	(296,076)	(328,596)
Payments for interest	(16,245)	(30,501)
Net cash and cash equivalents provided by operating activities	841,632	841,718
Cash flows from capital and related financing activities:		
Repayments of capital leases	-	(11,048)
Net (purchases) disposals of capital assets	(2,915,734)	(442,340)
Proceeds from construction line of credit	2,224,446	-
Principal payments on notes payable	(88,500)	(88,500)
Net cash and cash equivalents used in capital and related financing activities	(779,788)	(541,888)
Cash flows from investing activities:		
Proceeds from (purchase of) certificates of deposits	(790,800)	(625,544)
Purchase of U.S. Government securities	(569,033)	-
Net cash and cash equivalents provided by (used in) investing activities	(1,359,833)	(625,544)
Increase (decrease) in cash and cash equivalents	(1,297,989)	(325,714)
Cash and cash equivalents - beginning of year	2,124,151	2,449,865
Cash and cash equivalents - end of year	\$ 826,162	2,124,151
Reconciliation of change in net assets to net cash and cash equivalents provided by operating activities:		
Change in net assets	\$ 258,224	729,881
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation expense	228,421	256,587
Amortization of loan expenses	14,006	2,435
Loss on sale of assets	3,299	-
(Increase) decrease in assets:		
Unrealized loss (gain) on investments	-	-
Accounts receivable	8,277	8,647
Accrued interest receivable	4,741	(5,252)
Prepaid expenses	(1,102)	28,135
Inventory	(20,484)	(2,396)
Increase (decrease) in liabilities:		
Accounts payable	175,727	(17,723)
Accrued payroll and payroll taxes	37,258	(152,333)
Post employment benefits	91,425	-
Accrued compensated absences	41,840	(6,263)
Net cash and cash equivalents provided by operating activities	\$ 841,632	841,718

See accompanying notes to financial statements.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Maine Municipal Association (the Association) was founded in 1936 and is a voluntary organization of cities, towns and plantations. The Association is a nonprofit, nonpartisan organization dedicated to the purpose of improving the quality and efficiency of local government in Maine through information exchange, policy advocacy, professional management assistance and the joint purchase of goods and services. The Association also offers associate memberships to counties, water and sewer districts, and other special districts.

The Association provides administrative services to the Maine Municipal Association Workers' Compensation Fund, Maine Municipal Association Property and Casualty Pool, Maine Municipal Association Unemployment Compensation Group Fund, and the Maine Municipal Employees Health Trust. The Association receives administrative fees for providing these services, which are recorded as income. These Funds are accounted for as separate accounting entities and are not included in the financial statements of Maine Municipal Association.

Tax Exempt Status - The Association is recognized as an instrumentality of municipalities and is exempt from income taxes.

Basis of Accounting - The accrual basis of accounting is followed for all funds.

The Association follows the applicable provisions of Government Accounting Standards Board's (GASB) U.S. generally accepted accounting principles (GAAP) for state and local governments through its pronouncements (Statements and Interpretations). Additionally, the Association follows the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The Association has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents - The Association considers all highly liquid deposits with an initial maturity of three months or less to be cash and cash equivalents. Amounts in the mutual fund investment sweep and the money market mutual fund are indirectly invested in U.S. government obligations.

Investments - The investments of Maine Municipal Association include U.S. government securities, and certificates of deposit. The Association estimates that the fair value of all financial instruments at December 31, 2009 and 2008 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The estimated fair value amounts have been determined by quoted market prices.

Accounts Receivable - Accounts receivable have been adjusted for all known uncollectible accounts. No allowance for bad debts was considered necessary at December 31, 2009 and 2008.

Inventories - Inventories are valued at current cost (first-in, first-out basis).

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets - Property and equipment are capitalized at cost and depreciated over their estimated useful lives of three to forty years on a straight-line basis. The Association's policy is to capitalize expenditures for major improvements and additions, and charge maintenance and repairs currently for expenditures which do not extend the useful lives of the related assets.

Designated Net Assets - The Association has several designated net asset accounts established by its Board for specific purposes.

Restricted Net Assets - The Association has a restricted net asset accounts established by donor contributions for specific purposes.

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

DEPOSITS AND INVESTMENTS

Deposits

Cash and cash equivalents are comprised of cash management accounts (CMA) and money market instruments and consisted of the following at December 31:

<u>2009</u>	<u>Totals</u>
CMA - mutual fund investment sweep	\$ 352,720
Money market mutual fund	473,442
Totals	\$ 826,162
<u>2008</u>	<u>Totals</u>
CMA - deposit account	\$ 423
CMA - mutual fund investment sweep	897,754
Money market mutual fund	1,225,974
Totals	\$ 2,124,151

CMA - deposit account balances of \$423 at December 31, 2008 consisted of checks deposited which are not yet available for transfer.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Depository and mutual fund sweep accounts are pooled accounts containing assets of the Maine Municipal Association, Workers' Compensation Fund, Unemployment Compensation Fund, and Property & Casualty Pool. The money market mutual fund is also a pooled account but does not include the Workers' Compensation Fund. Only the assets belonging to the Maine Municipal Association are included in these financial statements.

Custodial Credit Risk-Association Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Association's deposits in excess of the FDIC insured limit may not be recoverable. The Association addresses this risk by minimizing balances in bank accounts. Checking accounts are on a zero balance basis and collected funds are transferred from the CMA - deposit account on a daily basis either to the checking accounts to cover checks presented for payment or to a money market fund outside of the bank. Funds in the CMA - deposit account are insured by FDIC up to \$250,000. Any balance in this account in excess of the \$250,000 FDIC insured limit is considered uninsured and uncollateralized and subject to custodial credit risk. The CMA - mutual fund investment sweep and the money market mutual fund are mutual funds outside the bank, invested in short term government securities. These funds are uninsured and uncollateralized, and subject to custodial credit risk.

Investments

At December 31, 2009, the Association had the following investments and maturities:

Investment types:	Fair Value	< 1 year to Maturity	1 to 5 years to Maturity	5 + years to Maturity
Certificates of deposit (1)	\$ 2,416,344	1,710,143	706,201	-
U.S. Government Securities	569,033	-	569,033	-
Totals	\$ 2,985,377	1,710,143	1,257,234	-

(1) Of the certificates of deposit held at December 31, 2009, \$1,977,328 were covered by FDIC, the remainder was collateralized with U.S. Governmental Securities.

At December 31, 2008, the Association had the following investments and maturities:

Investment types:	Fair Value	< 1 year to Maturity	1 to 5 years to Maturity	5 + years to Maturity
Certificates of deposit (1)	\$ 1,625,544	1,625,544	-	-
Totals	\$ 1,625,544	1,625,544	-	-

(1) All of the certificates of deposit held at December 31, 2008 were covered by FDIC.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

DEPOSITS AND INVESTMENTS, CONTINUED

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates might adversely affect the fair value of an investment. The Association addresses this risk by maintaining a high degree of liquidity so that investments will not have to be sold prior to maturity.

Credit Risk: Credit risk is the risk that the entity in which the Association has invested may be unable to honor investments when they mature. The Association's investment policy limits investments to entities that have high ratings by recognized rating agencies. Management monitors the ratings of entities in which it has invested. No such issues were noted in 2009 or 2008.

Custodial Credit Risk: Custodial credit risk is the risk that the Association might not be able to recover assets held on its behalf by a third party due to the insolvency of that entity. The Association addresses this risk by selecting a custodial bank with the highest rating awarded by Bauer Financial Services and monitoring the rating of its custodian on a quarterly basis. In addition, assets are held by the custodian for the Association's benefit.

Concentration Risk: Concentration risk is the risk that conditions adversely affecting an economic sector might have a significant negative impact on the Association. The Association addresses this risk by limiting certificate of deposit investments in any one institution to the FDIC insured limit and by limiting the portion of the Association which may be held in corporate investments.

Liquidity Risk: Liquidity risk is the risk that Association investments might not mature and be redeemed to provide cash to meet Association obligations as they arise. The Association controls this risk by maintaining a strong cash and equivalents position, by timing maturities to meet anticipated cash requirements, and by minimizing the other potential impacts of the other risk categories noted above.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance at 12/31/08	Additions	Disposals	Balance at 12/31/09
Capital assets, not being depreciated:				
Land	\$ 202,500	-	-	202,500
Construction-in-progress	85,839	2,550,563	-	2,636,402
Total capital assets not being depreciated	288,339	2,550,563	-	2,838,902
Capital assets, being depreciated:				
Land improvements	33,286	-	-	33,286
Buildings and improvements	2,637,243	-	(12,900)	2,624,343
Furniture and equipment	2,476,104	378,118	(1,055,450)	1,798,772
Total capital assets being depreciated	5,146,633	378,118	(1,068,350)	4,456,401
Less accumulated depreciation for:				
Land improvements	(32,177)	(1,109)	-	(33,286)
Buildings and improvements	(965,549)	(67,883)	4,632	(1,028,800)
Furniture and equipment	(1,858,226)	(159,429)	1,050,771	(966,884)
Total accumulated depreciation	(2,855,952)	(228,421)	1,055,403	(2,028,970)
Total capital assets being depreciated, net	2,290,681	149,697	(12,947)	2,427,431
Total capital assets, net	\$ 2,579,020	2,700,260	(12,947)	5,266,333

LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Note payable	\$ 508,875	-	508,875	-	-
Accrued compensated absences	373,328	41,840	-	415,168	-
Long-term liabilities	\$ 882,203	-	550,715	415,168	-

Note Payable

During the year the Association held a term loan with a bank related to a mortgage note payable with a balance of \$508,875 at December 31, 2008. In April 2009, the Association undertook a construction project to expand its Augusta office, financed with a construction line of credit with a different financial institution. Using the available funds with the construction line of credit, the Association paid off the balance due for the mortgage in the amount of \$488,619, which effectively consolidated the two loans into one line of credit that is expected to be refinanced at the end of the project in April 2010, into a 20 year term loan. At December 31, 2009 the construction line of credit carried a balance of \$2,648,120, with an interest rate of 4.18%, and is presented as a current liability.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

RETIREMENT PLANS

Maine Public Employees Retirement System

In 2009 the Association re-joined the Maine Public Employees Retirement System (Maine PERS) pension plan, in which it had not been participating since 1994. The Maine Public Employees 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 Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to Maine Public Employees Retirement, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

Plan members are required to contribute 6.5% of their annual covered salary and the Association is required to contribute an actuarially determined rate. The current rate ranges from 2.80% to 6.50% of annual covered payroll. The contribution rates of plan members and the Association are established and may be amended by the Maine Public Employees Retirement System Board of Trustees. The Association's contributions to the Maine Public Employees Retirement System Consolidated Plan for the years ended December 31, 2009 and 2008 were \$47,874 and \$0 respectively, equal to the required contributions for each year.

401(a) Qualified Deferred Compensation Plan

The 401(a) qualified deferred compensation plan requires a contribution of 5% of salary from employees which is supplemented by the Association at 5.8%. Employees are fully vested in their own contributions immediately and become 100% vested in the Association's contributions after three years of service. The expense for this plan was \$256,108 and \$291,018 for 2009 and 2008, respectively.

457 Deferred Compensation Plan

The Association also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457. The plan permits them to defer a portion of their salary until future years.

Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property, or rights are to be held in trust and maintained for the exclusive benefit of participants and their beneficiaries.

Under the 401(a) qualified and 457 deferred compensation plans, no part of the corpus or the income of the trust shall revert to the employer or be used for or diverted to purposes other than the exclusive benefit of participants and their beneficiaries.

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

OTHER POST EMPLOYMENT BENEFITS

The Governmental Accounting Standards 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 Postemployment Benefits Other Than Pensions*, was implemented, as required, by the Maine Municipal Association for the year ended December 31, 2009. This pronouncement requires that the long-term cost of retirement health care and obligations for other postemployment benefits be determined on an actuarial basis and reported in a manner similar to pension plans.

The Association 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 Association's OPEB liability under GASB Statement 45. An OPEB liability actuarial valuation was completed by the consultants in September 2009.

Plan Descriptions - In addition to providing pension benefits, the Association provides access to health care benefits for certain retired employees. Eligibility to receive these health care benefits follows the requirements established by the Maine Municipal Employees Health Trust. 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 postemployment benefits liability. The Association currently plans to fund these benefits on a pay-as-you-go basis. No assets have been segregated and restricted to provide postemployment benefits. The annual required contribution (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 calculation of the annual required contribution:

Normal Cost	\$ 66,238
Amortization of Unfunded	47,970
<u>Interest</u>	<u>4,568</u>
Annual Required Contribution	\$ 118,776
<u>Benefits Paid in 2009</u>	<u>(27,351)</u>
Net Annual Required Contribution	91,425

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

OTHER POST EMPLOYMENT BENEFITS, CONTINUED

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

Net annual required contribution	\$ 91,425
Percentage contributed	0%
Actuarial accrued liability	\$ 862,678
Plan Assets	-
Unfunded actuarial accrued liability	862,678
Covered payroll	5,805,794
Unfunded actuarial accrued liability as a percentage of covered payroll	14.86%

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 (only one year available) that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 Association and plan members at that point. Actuarial calculations reflect a long-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	Entry 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%

MAINE MUNICIPAL ASSOCIATION
Notes to Financial Statements, Continued

TRANSFERS TO SPECIAL FUNDS

The Executive Committee approved the following transfers from the General Fund to specific designated funds which were made during the year ended December 31, 2009:

	<u>Transfer out</u>	<u>Transfers in</u>
General Fund	\$ 128,445	-
Legislative Initiaves Fund		106,445
MIS Training & Consulting Fund	-	22,000
	<u>\$ 128,445</u>	<u>128,445</u>

CONTINGENCIES

Subsequent to year end but prior to the issuance of these reports, a lawsuit was filed against the Maine Municipal Association alleging that public funds were inappropriately used to fund political action committees. Although the outcome this lawsuit is not presently determinable, the Association intends to contest the case vigorously.

Required Supplemental Information

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Retiree Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a) / c]
12/31/08	\$ -	\$862,678	862,678	0.00%	5,805,794	14.86%

Additional Information

MAINE MUNICIPAL ASSOCIATION
Schedule of Net Assets by Fund
December 31, 2009

	Unrestricted		Restricted	Total 2009
	General fund	Designated funds	Special funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 50,323	767,654	8,185	826,162
Investments:				
Certificates of deposit	1,616,344	800,000	-	2,416,344
U.S. Government and agency securities	569,033	-	-	569,033
Accounts receivable	63,000	-	-	63,000
Accrued interest receivable	2,957	-	-	2,957
Prepaid expenses	177,652	-	-	177,652
Inventory	74,424	-	-	74,424
Total current assets	2,553,733	1,567,654	8,185	4,129,572
Capital assets:				
Land	202,500	-	-	202,500
Land improvements	33,286	-	-	33,286
Buildings and improvements	2,624,343	-	-	2,624,343
Furniture and equipment	1,338,078	460,694	-	1,798,772
Construction in progress - building project	2,636,402	-	-	2,636,402
	6,834,609	460,694	-	7,295,303
Less accumulated depreciation	(2,028,970)	-	-	(2,028,970)
Net capital assets	4,805,639	460,694	-	5,266,333
Total assets	\$ 7,359,372	2,028,348	8,185	9,395,905
LIABILITIES				
Current liabilities:				
Accounts payable	367,955	-	-	367,955
Accrued payroll and payroll taxes	108,974	-	-	108,974
Construction loan	2,648,120	-	-	2,648,120
Total current liabilities	3,125,049	-	-	3,125,049
Noncurrent liabilities:				
Post employment benefits	91,425	-	-	91,425
Accrued compensated absences	415,168	-	-	415,168
Total noncurrent liabilities	506,593	-	-	506,593
Total liabilities	\$ 3,631,642	-	-	3,631,642
NET ASSETS				
Invested in capital assets, net of related debt	1,861,932	460,694	-	2,322,626
Restricted - expendable	-	-	8,185	8,185
Unrestricted:				
Expendable	1,865,798	-	-	1,865,798
Designated	-	1,567,654	-	1,567,654
Total net assets	\$ 3,727,730	2,028,348	8,185	5,764,263

MAINE MUNICIPAL ASSOCIATION
Schedule of Revenues, Expenses and Changes in Net Assets by Fund
Year Ended December 31, 2009

	Unrestricted		Restricted	Total 2009
	General fund	Designated funds	Special funds	
Revenues:				
Member dues	\$ 1,706,700	-	-	1,706,700
Group services - administrative fees	8,288,383	-	-	8,288,383
Publications	137,090	-	-	137,090
Investment income	58,138	-	-	58,138
Contract services	40,229	-	-	40,229
Convention	129,483	-	-	129,483
Training and affiliate groups	140,419	-	-	140,419
Other	(3,299)	-	-	(3,299)
Total revenues	10,497,143	-	-	10,497,143
Expenses:				
Salaries and wages	5,805,794	-	-	5,805,794
Fringe benefits	2,062,385	-	-	2,062,385
Annual required contribution - OPEB	91,425	-	-	91,425
Supplies and general expenses	726,094	402	-	726,496
Professional services	268,168	178,445	-	446,613
Travel meetings/committees	346,316	3,000	-	349,316
Insurance	197,401	-	-	197,401
Local government center	296,076	-	-	296,076
Depreciation	228,421	-	-	228,421
Interest and deferred financing costs	34,992	-	-	34,992
Total expenses	10,057,072	181,847	-	10,238,919
Change in net assets	440,071	(181,847)	-	258,224
Net assets, beginning of year	3,416,104	2,081,750	8,185	5,506,039
Net asset transfers per 2008 budget	(128,445)	128,445	-	-
Net assets, end of year	\$ 3,727,730	2,028,348	8,185	5,764,263

MAINE MUNICIPAL ASSOCIATION
Schedule of Changes in Designated and Restricted Net Assets
Year Ended December 31, 2009

	Net assets January 1, 2009	Revenues	Expenses	Transfers	Net assets December 31, 2009
Designated net assets:					
Legislative Initiatives Fund	\$ 150,000	-	156,445	106,445	100,000
Citizens Education/Public Relations Fund	50,000	-	402	-	49,598
Building Maintenance Reserve	200,000	-	-	-	200,000
BackOffice Applications Fund	667,750	-	-	-	667,750
Legal Defense Fund - General	10,000	-	-	-	10,000
MIS Training/Consultant	75,000	-	22,000	22,000	75,000
Legal/Insurance Deductible Fund	50,000	-	-	-	50,000
Outside Legal Counsel Fund	26,000	-	-	-	26,000
NLC Region 1 Event	3,000	-	3,000	-	-
Building Project - Dues Stabilization Fund	850,000	-	-	-	850,000
Total designated net assets	2,081,750	-	181,847	128,445	2,028,348
Restricted net assets:					
Governing Skills Project	8,185	-	-	-	8,185
Total restricted net assets	8,185	-	-	-	8,185
Totals	\$ 2,089,935	-	181,847	128,445	2,036,533