

TOWN OF FRYE ISLAND
FINANCIAL REPORT



DECEMBER 31, 2003

TOWN OF FRYE ISLAND
DECEMBER 31, 2003

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INDEPENDENT AUDITORS' REPORT

Board of Selectmen and Town Manager
Town of Frye Island
Frye Island, Maine

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

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

As described in the notes, the Town has not maintained a record of its general fixed assets and, accordingly, a statement of general fixed assets, required by accounting principles generally accepted in the United States of America, is not included in the financial report. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Frye Island as of December 31, 2003 and the results of operations of those funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The exhibits and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Berry, Fowles & Co.

Certified Public Accountants
May 6, 2004

TOWN OF FRYE ISLAND
COMBINED BALANCE SHEET - ALL FUND TYPES
 DECEMBER 31, 2003
 (With Comparative Totals for the Year ended December 31, 2002)

	Governmental Funds		Fiduciary	Account	Totals	
	General	Special Revenue	Fund Type		2003	(Memorandum Only) 2002
ASSETS:						
Cash and Investments	\$ 1,189,184	\$ 0	\$ 0	\$ 0	\$ 1,189,184	\$ 940,555
Receivable:						
Taxes	24,213	0	0	0	24,213	3,488
Tax Liens	15,296	0	0	0	15,296	25,908
Accounts	6,811	6,712	0	0	13,523	112
Tax Acquired Property	3,583	0	0	0	3,583	8,172
Prepaid Expense	7,176	0	0	0	7,176	25,743
Inventory	0	9,943	0	0	9,943	0
Due from Other Funds	0	25,994	2,894	0	28,888	3,337
Amount to be Provided for Retirement of Capital Leases	0	0	0	13,930	13,930	21,707
TOTAL ASSETS	\$ 1,246,263	\$ 42,649	\$ 2,894	\$ 13,930	\$ 1,305,736	\$ 1,029,022
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$ 20,211	\$ 0	\$ 0	\$ 0	\$ 20,211	\$ 52,336
Accrued Expenses	0	1,494	0	0	1,494	0
Deferred Revenues	599,121	2,700	0	0	601,821	469,639
Due to Other Funds	28,888	0	0	0	28,888	3,337
Due to Other Groups	0	0	2,894	0	2,894	3,337
Capital Leases	0	0	0	13,930	13,930	21,707
	648,220	4,194	2,894	13,930	669,238	550,356
Fund Balances:						
Reserved:						
For Specific Purposes	162,648	38,455	0	0	201,103	167,150
Unreserved:						
Undesignated	435,395	0	0	0	435,395	311,516
	598,043	38,455	0	0	636,498	478,666
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,246,263	\$ 42,649	\$ 2,894	\$ 13,930	\$ 1,305,736	\$ 1,029,022

The Accompanying Notes are an Integral Part of these Statements.

TOWN OF FRYE ISLAND
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2003
 (With Comparative Totals for the Year ended December 31, 2002)

	<u>Governmental Fund Types</u>			<u>Totals</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>	<u>2003</u>	<u>2002</u>
REVENUES					
Taxes	\$ 1,271,797	\$ 0		\$ 1,271,797	\$ 1,171,620
Licenses and Permits	44,922	0		44,922	24,511
Intergovernmental	6,750	0		6,750	13,238
Charges for Services	370,898	0		370,898	300,385
Other	14,931	231,162		246,093	101,609
TOTAL REVENUES	<u>1,709,298</u>	<u>231,162</u>		<u>1,940,460</u>	<u>1,611,363</u>
EXPENDITURES:					
General Government	336,766	0		336,766	291,275
Public Works and Sanitation	255,208	0		255,208	198,647
Ferry Service	267,123	0		267,123	408,067
Public Safety	37,923	0		37,923	32,330
Recreation	41,400	0		41,400	64,333
Education	639,340	0		639,340	610,034
Fixed Expenses	44,871	0		44,871	49,985
Program Expenditures	0	159,997		159,997	0
TOTAL EXPENDITURES	<u>1,622,631</u>	<u>159,997</u>		<u>1,782,628</u>	<u>1,654,671</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	86,667	71,165		157,832	(43,308)
OTHER FINANCING SOURCES (USES):	<u>32,710</u>	<u>(32,710)</u>		<u>0</u>	<u>0</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	119,377	38,455		157,832	(43,308)
FUND BALANCE - BEGINNING OF YEAR	478,666	0		478,666	521,974
FUND BALANCE - END OF YEAR	<u>\$ 598,043</u>	<u>\$ 38,455</u>		<u>\$ 636,498</u>	<u>\$ 478,666</u>

The Accompanying Notes are an Integral Part of these Statements.

TOWN OF FRYE ISLAND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
BUDGETARY BASIS
YEAR ENDED DECEMBER 31, 2003

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 1,275,530	\$ 1,271,797	\$ (3,733)
Licenses and Permits	19,300	44,922	25,622
Intergovernmental	7,912	6,750	(1,162)
Charges for Services	271,788	370,898	99,110
Other	17,900	12,387	(5,513)
	<u>1,592,430</u>	<u>1,706,754</u>	<u>114,324</u>
TOTAL REVENUES			
EXPENDITURES:			
General Government	363,262	336,766	26,496
Public Works and Sanitation	262,433	255,208	7,225
Ferry Service	293,902	300,361	(6,459)
Public Safety	61,502	50,423	11,079
Recreation	35,942	41,400	(5,458)
Education	650,276	639,340	10,936
Fixed Expenses	50,512	44,871	5,641
	<u>1,717,829</u>	<u>1,668,369</u>	<u>49,460</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(125,399)	38,385	163,784
OTHER FINANCING SOURCES (USES)	<u>125,399</u>	<u>32,710</u>	<u>(92,689)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 0</u>	<u>\$ 71,095</u>	<u>\$ 71,095</u>

The Accompanying Notes are an Integral Part of these Statements.

TOWN OF FRYE ISLAND
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

Town of Frye Island was incorporated in July 1, 1998 and operates under a Town Meeting-Board of Selectmen form of Government. The Board consists of seven members elected by the registered voters for staggered three-year terms.

In evaluating the Town of Frye Island as a reporting entity, management has addressed all potential component units for which the Town may or may not be financially accountable and, as such, be includable within the Town's general purpose financial statements. In accordance with GASB Statement #14, the Town (the primary government) is financially accountable if it appoints a voting majority of the organizations governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Town. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's general purpose financial statements to be misleading or incomplete. Based on the application of these criteria, there are no other entities within the Town that should be included as part of these general purpose financial statements.

With the exception of the departure noted in the Independent Auditors' Report, the financial statements of the Town of Frye Island conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

Basis of Presentation

The accounts of the Town are organized on the basis of funds and account groups, each of which is considered 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 equities, revenues and expenditures. The various funds, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations, are grouped by type in the general purpose financial statements. Amounts in the "Totals - Memorandum Only" columns represent a summation of the combined general purpose financial statement line items of the fund type and account group and is presented only to facilitate analysis.

The following fund types and account groups are used:

Governmental Funds

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

TOWN OF FRYE ISLAND
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Governmental Funds (Continued)

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) requiring separate accounting because of legal or regulatory provisions or administration action.

Fiduciary Funds

Trust Funds - Trust funds are used to account for assets received by the Town and held in the capacity of trustee, custodian or agent. Non-expendable trust funds are those whose principal must be preserved intact. Expendable are those whose principal and income may be expended in the course of their designated operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements or results of operations.

Account Groups

General Long-Term Debt Group of Accounts - This account group is established to account for the long-term debt that is backed by the Town of Frye Island's full faith and credit. At December 31, 2003, there was \$13,930 of outstanding debt, represented by capital lease obligations (see Note 6).

General Fixed Assets Account Group - The Town does not maintain this group of accounts which would otherwise account for the fixed assets of the town.

Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined, and "Available" means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. For property taxes, available means collected in the current period or within sixty (60) days after the end of the current fiscal year. Revenues susceptible to accrual are property taxes, interest revenue, and charges for services. Fines, licenses, and permits are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

TOWN OF FRYE ISLAND
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

All proprietary and nonexpendable trust funds are accounted for using the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets.

The Town reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Town before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Town has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Budgetary Accounting

Budgets are adopted for the general fund only on a basis consistent with accounting principles generally accepted in the United States of America. Formal budgetary integration is employed as a management control device during the year for the general fund. A comparison of budget to actual is presented in the financial statements.

Cash and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Town policy is that deposits can only be made in financial institutions insured by the FDIC. The Town's investment policy authorizes investments in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, certain corporate bonds, certain certificates of deposit and certain money market funds. The Town invests its funds in an effort to ensure preservation of capital, remain sufficiently liquid and attain a reasonable market rate of return, while remaining within the guidelines as provided by the Town's Investment Policy.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditures, or are legally separated for a specific future use.

Inventories of Supplies

In the general fund, inventories of supplies are considered to be expenditures at the time of purchase and are not included in the general fund balance sheet. The inventories at the golf pro shop are valued at the lower of cost or market, with cost determined on the first-in, first-out (FIFO) method.

Prepaid Expenses

Payments made to vendors that will benefit periods beyond December 31, 2003, are recorded as prepaid expenses.

TOWN OF FRYE ISLAND
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets

General fixed assets that have been acquired for general Town purposes have been recorded as expenditures in the fund making the expenditure. These expenditures are required to be capitalized at historical cost in the general fixed asset account group for accountability purposes. The Town is in the process of inventorying its fixed assets to be in compliance with GASB #34. The Town does not maintain a record of its general fixed assets and, accordingly, a statement of general fixed assets, required by accounting principles generally accepted in the United States of America, is not included in this financial report.

Interfund Transactions

During the course of normal operations, the Town has transactions between funds including expenditures and transfers of resources to provide resources, construct assets, and service debt. These transactions, if any, are reported as operating transfers.

Comparative Data

Comparative data for the prior year has been presented in the accompanying general purpose financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, complete comparative data has not been presented in those instances where their inclusion would not provide meaningful comparisons or would make certain statements unduly complex and difficult to understand.

New Accounting Pronouncement

The Government Accounting Standards Board (GASB) issued statement No. 34 in June, 1999. This statement will require the Town to change the format and contents of its general purpose financial statements. Among other changes, the statement requires the Town to capitalize assets and to include management's discussion and analysis as a component of required supplementary information. The statement is applicable to the Town calendar year 2004.

Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets, liabilities, the disclosure of contingent liabilities, and the reported revenue and expenses.

TOWN OF FRYE ISLAND
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Note 2 - DEPOSITS AND INVESTMENTS

Deposits

The Town of Frye Island's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines, while avoiding unreasonable risk. The funds are invested in savings, money market accounts, and repurchase agreements coinciding with its cash needs during the year.

The deposits are categorized as follows to give an indication of the level of risk assumed at year end: Category 1 includes deposits covered by federal depository insurance or by collateral held by the Town or by the Town's agent in the Town's name; Category 2 includes uninsured deposits covered by collateral held by the pledging financial institution's trust department or agent in the Town's name; and Category 3 includes uninsured and uncollateralized deposits.

At December 31, 2003, cash and cash equivalents consisted of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>#1</u>	<u>CATEGORY #2</u>	<u>#3</u>
Checking and Money Market	<u>\$ 1,182,903</u>	<u>\$ 1,234,392</u>	<u>\$ 1,234,392</u>	<u>\$ 0</u>	<u>\$ 0</u>

Investments

The Town is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury and U.S. Agencies and repurchase agreements.

The Town's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested in government securities planned to coincide with its cash needs during the year.

Government Accounting Standards Board Statement 3 requires the investments to be classified into three categories. Category 1 includes investments which are insured or registered or for which the securities are held by the Town or its agent in the Town's name; Category 2 includes uninsured and unregistered investments held by the financial institution's trust department or agent in the Town's name; and Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent, but not in the Town's name.

At December 31, 2003, investments consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>	<u>#1</u>	<u>Category #2</u>	<u>#3</u>
Investments	<u>\$ 6,281</u>	<u>\$ 6,281</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,281</u>

TOWN OF FRYE ISLAND
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Note 3 - PROPERTY TAX

Town of Frye Island's property tax for the current year was levied on the assessed value listed as of April 1, 2002. Assessed values are periodically established by the assessor at 100% of assumed market value. Each property must be reviewed no less than once every four years. The assessed value, upon which the levy for the year ended December 31, 2003 was based, was \$32,632,900. Interest was charged at 8.75% on all unpaid taxes from January 1, 2003, and July 1, 2003. The following summarizes the levy:

Valuation and Assessment		
Real Property		\$ 32,306,100
Personal Property		<u>326,800</u>
Total Valuation		32,632,900
Tax Rate per Thousand		<u>38.60</u>
Tax Commitment		<u>\$ 1,259,630</u>
Collection of 2003 Taxes		
Original Commitment		\$ 1,259,630
Less: Collection in Current Year	\$ 1,237,281	
Abatements	<u>1,579</u>	<u>1,238,860</u>
Taxes Receivable		<u>\$ 20,770</u>

Taxes receivables at December 31, 2003 are as follows:

	<u>General</u>
Taxes – Current Year	\$ 20,770
Taxes – Prior Year	<u>3,443</u>
	<u>\$ 24,213</u>

The Town of Frye Island is permitted by the laws of the State of Maine to levy taxes to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$6,000 for the year ended December 31, 2003. Property taxes levied for the fiscal year are recorded as receivables at the time the levy is made. The receivables collected during the year and during the first sixty (60) days after December 31, 2003 are recognized as revenues. The remaining receivables estimated to be collectible subsequent to the sixty (60) day period are recorded as deferred revenues.

The 2003 property taxes were committed November 1, 2002, were due and payable on January 1 and July 1, 2003, and have been recorded as revenues. The 2004 property taxes were levied November 1, 2003, and are due and payable January 1, and July 1, 2004. The payments collected in 2003 have been recorded as deferred revenues. Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid. In addition, the Town may bring a civil action for collection of unpaid personal property taxes.

TOWN OF FRYE ISLAND
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Note 3 – PROPERTY TAX (Continued)

Property acquired by foreclosure for non-payment of taxes is recorded at the amount of expired tax liens plus the costs involved in foreclosure. Liens and any current taxes on the same parcel are not included as part of the tax acquired property account until expiration of statutory time limits.

Note 4 - INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2003, the balances due to and due from accounts were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 0	\$ 28,888
Special Revenue	25,994	0
Agency	<u>2,894</u>	<u>0</u>
	<u>\$ 28,888</u>	<u>\$ 28,888</u>

Note 5 - OPERATING LEASE

The Town of Frye Island has entered into a one year lease agreement with Frye Island, Inc. (FII) which has been extended until July 31, 2004 by mutual agreement. For a net annual fee of \$46,880, FII leases the following: Ferry Boats and Docks, Various Island Buildings, Roads and Road Maintenance Equipment, Water System, Recreational Facilities, Golf Course, and Marinas.

Note 6 - CAPITAL LEASE OBLIGATIONS

The following is a summary of capital-lease obligation transactions of the Town for the year ended December 31, 2003:

	<u>Capital Lease Obligations</u>
Capital Lease Obligations Payable at December 31, 2002	\$ 21,707
Less Debt Retired	<u>7,777</u>
Capital Lease Obligations Payable at December 31, 2003	<u>\$ 13,930</u>

TOWN OF FRYE ISLAND
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Note 6 - CAPITAL LEASE OBLIGATIONS (Continued)

Obligations under long-term capital leases consists of the following:

2002 Ford F-250 Snowplow, maturing 1/31/2005, 6.85% interest rate, payable in annual payments of \$6,683.	\$ 12,109
<i>IOS Capital, Inc.</i>	
2001 Ricoh Photocopier, maturing 11/5/2006, 3.21% interest rate, payable in installments of \$312. Quarterly.	<u>1,821</u>
	<u>\$ 13,930</u>

The annual requirement for capital lease obligations outstanding as of December 31, 2003 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 5,853	\$ 830	\$ 6,683
2005	7,460	471	7,931
2006	<u>617</u>	<u>8</u>	<u>625</u>
	<u>\$ 13,930</u>	<u>\$ 1,309</u>	<u>\$ 15,239</u>

Note 7 - CONTINGENT LIABILITIES AND OTHER DISCLOSURES

Litigation

The Town is subject to certain legal proceedings and claims that arise in the ordinary course of conducting its activities. In the opinion of management, the Town has defensible positions and any ultimate liabilities are covered by insurance or will not materially affect the financial position of the Town.

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; and natural disasters for which the Town either carries commercial insurance, or participates in a public entity risk pool. Currently, the Town participates in a public entity risk pool, as well as coverage provided by purchased commercial insurance. The Town is not aware of any material actual or potential claim liabilities that should be recorded at December 31, 2003. Settled claims (if any) have not exceeded insurance coverage for any of the past three fiscal years.

TOWN OF FRYE ISLAND
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Note 10 - FUND BALANCE - RESERVED FOR SPECIFIC PURPOSES

General fund reserves consists of funds set aside by vote of the Town. The purpose and balances at December 31, 2003, are as follows:

Capital Funds	\$ 26,199
Ferry Dock & Ferry Reserve	24,022
Water System Improvements	25,250
Recreation	1,612
Equipment	16,545
Fire and Safety	15,102
Island Improvement	51,964
Revaluation	<u>1,954</u>
	<u>\$ 162,648</u>

Schedule 1 summarizes the activity in 2003.

Note 11 - RETIREMENT

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the International City Management Association Retirement Corporation.

The deferred compensation plan is available to all employees of the Town. Under the plan, employees may elect to defer a portion of their salary and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The Town's computed contribution to this plan for the year ended December 31, 2003 was approximately \$8,254. Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the Town's financial statements.

The employees participate in the Social Security Retirement Program. The Town's contribution to social security was approximately \$31,444 for the year ended December 31, 2003.

Note 12 - VACATION PAY

The Office Manager/Financial Coordinator earns vacation leave at 1.54 hours per week as he provides services. The Managers are allowed to accumulate and carry over vacation time earned to the next year and will be paid for such amounts upon termination.

At December 31, 2003, the vested portion of vacation pay is approximately \$2,344.

TOWN OF FRYE ISLAND
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2003

Note 7 - CONTINGENT LIABILITIES AND OTHER DISCLOSURES (Continued)

State and Federal Grants

The Town participates in state and federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Town has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the Town, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined general purpose financial statements for such contingencies.

Note 8 - OVERLAPPING DEBT

The Town's proportionate share of Cumberland County's and Maine School Administrative District No.6's bonded debt are not reported in the Town's financial statements. Debt service is included in the annual County and School assessments to the Town. The Town's share is .3% (\$42,383) of Cumberland County's outstanding debt of \$16,205,000, and 4.14% (\$571,181) of Maine School Administrative District No. 6's outstanding bonded debt of \$13,796,641. In addition, the Town is contracted to pay subsidy to MSAD No. 6 until June 30, 2004, totaling \$322,136.

Note 9 - BUDGET vs GAAP BASIS OF ACCOUNTING

In order to conform to accounting principles generally accepted in the United States of America(GAAP), the accompanying financial statements have been adjusted to add the effects of the activities in the general fund reserve. Statement A-3, Statement of Revenues and Expenditures - Budget and Actual, reflects the current revenues and expenditures on a budgetary basis.

The following is an explanation of the various differences and their effect on current year revenues and expenditures on a GAAP basis as presented in Statement A-2:

Excess of revenues over(under) expenditures (Statement A-3)	\$ 38,385
Interest from Reserve Funds	2,544
Budgeted transfers to reserves	<u>45,738</u>
Excess of revenues over(under) expenditures (Statement A-2)	<u>\$ 86,667</u>

COMBINING AND INDIVIDUAL FUND STATEMENTS

These exhibits provide a more detailed view of the "general purpose financial statements" presented in the preceding subsection.

TOWN OF FRYE ISLAND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2003

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES:			
Taxes:			
Property	\$ 1,259,630	\$ 1,259,630	\$ 0
Change in Deferred Property Revenues	0	(3,706)	(3,706)
Excise	8,700	7,598	(1,102)
Interest and Lien costs on Taxes	7,200	8,275	1,075
	<u>1,275,530</u>	<u>1,271,797</u>	<u>(3,733)</u>
Licenses and Permits:			
Boat Registrations	6,100	8,329	2,229
Building Permits	10,200	32,880	22,680
Plumbing and Electrical Permits	2,500	3,513	1,013
Other Permits	200	0	(200)
Licenses	300	200	(100)
	<u>19,300</u>	<u>44,922</u>	<u>25,622</u>
Intergovernmental:			
Local Road Assistance	7,016	6,322	(694)
Veteran' Reimbursement	0	23	23
Homestead Exemptions	896	405	(491)
	<u>7,912</u>	<u>6,750</u>	<u>(1,162)</u>
Charges for Services:			
Ferry Fees	243,788	342,898	99,110
Water Hookup and Soil Test Fees	11,300	13,550	2,250
Environmental Disposal Fees	4,500	9,370	4,870
Management Fee	6,000	4,000	(2,000)
Other Fees	6,200	1,080	(5,120)
	<u>271,788</u>	<u>370,898</u>	<u>99,110</u>
Other:			
Interest Earnings	14,000	5,068	(8,932)
Miscellaneous	3,900	7,319	3,419
	<u>17,900</u>	<u>12,387</u>	<u>(5,513)</u>
TOTAL REVENUES	<u>1,592,430</u>	<u>1,706,754</u>	<u>114,324</u>

GENERAL FUND

The General Fund accounts for all revenues and expenditures which are not accounted for in other funds. Most governmental services are provided by the General Fund including public works, public safety, recreation, health and welfare, and general administrative services.

TOWN OF FRYE ISLAND
BALANCE SHEET - GENERAL FUND
DECEMBER 31, 2003

(With Comparative Totals for the Year ended December 31, 2002)

	<u>2003</u>	<u>2002</u>
ASSETS:		
Cash/Investments	\$ 1,189,184	\$ 940,555
Receivable:		
Taxes	24,213	3,488
Tax Liens	15,296	25,908
Accounts	6,811	112
Tax Acquired Property	3,583	8,172
Prepaid Expense	7,176	25,743
	<hr/>	<hr/>
TOTAL ASSETS	\$ 1,246,263	\$ 1,003,978
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES:		
Liabilities:		
Accounts Payable	\$ 20,211	\$ 52,336
Due to Other Funds	28,888	3,337
Deferred Revenue	599,121	469,639
	<hr/>	<hr/>
	648,220	525,312
	<hr/>	<hr/>
Fund Balances:		
Reserved:		
For Specific Purposes	162,648	167,150
Unreserved:		
Undesignated	435,395	311,516
	<hr/>	<hr/>
	598,043	478,666
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,246,263	\$ 1,003,978
	<hr/> <hr/>	<hr/> <hr/>

TOWN OF FRYE ISLAND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2003

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
EXPENDITURES:			
General Government:			
Administration	\$ 337,902	\$ 312,906	\$ 24,996
Capital Improvements	25,360	23,860	1,500
	<u>363,262</u>	<u>336,766</u>	<u>26,496</u>
Public Works and Sanitation:			
Public Works	151,724	146,434	5,290
Roads	25,250	28,165	(2,915)
Water	61,292	25,681	35,611
Solid Waste	24,167	54,928	(30,761)
	<u>262,433</u>	<u>255,208</u>	<u>7,225</u>
Ferry Service:	<u>293,902</u>	<u>300,361</u>	<u>(6,459)</u>
Public Safety:			
Fire and Safety	29,786	29,786	0
Dispatch	3,500	266	3,234
Emergency Medical	3,000	0	3,000
Security	24,816	20,339	4,477
Animal Control	400	32	368
	<u>61,502</u>	<u>50,423</u>	<u>11,079</u>
Recreation:	<u>35,942</u>	<u>41,400</u>	<u>(5,458)</u>
Education:			
School Administrative District 6	<u>650,276</u>	<u>639,340</u>	<u>10,936</u>
Fixed Expenses:			
County Tax	44,512	43,292	1,220
Overlay	6,000	1,579	4,421
	<u>50,512</u>	<u>44,871</u>	<u>5,641</u>
TOTAL EXPENDITURES	<u>1,717,829</u>	<u>1,668,369</u>	<u>49,460</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(125,399)	38,385	163,784
OTHER FINANCING SOURCES (USES):			
Budgeted Use of Surplus	125,399	0	(125,399)
Transfers In	0	32,710	32,710
	<u>125,399</u>	<u>32,710</u>	<u>(92,689)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 0</u>	<u>\$ 71,095</u>	<u>\$ 71,095</u>

TOWN OF FRYE ISLAND
 STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
 YEAR ENDED DECEMBER 31, 2003

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ <u>0</u>	\$ <u>71,095</u>	\$ <u>71,095</u>
RECONCILIATION TO GAAP BASIS			
Appropriations		\$ 45,738	
Interest and Other Income to Reserves		<u>2,544</u>	
		<u>48,282</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		\$ <u>119,377</u>	

TOWN OF FRYE ISLAND
 STATEMENT OF CHANGES IN FUND BALANCE - GENERAL FUND
 YEAR ENDED DECEMBER 31, 2003

	<u>Reserved</u>	<u>Unreserved</u>	
	Specific Purpose (Schedule 1)	<u>Undesignated</u>	<u>Total</u>
FUND BALANCE - JANUARY 1, 2003	\$ 167,150	\$ 311,516	\$ 478,666
EXCESS OF ACTUAL REVENUES AND OTHER SOURCES OVER (UNDER) ACTUAL EXPENDITURES AND OTHER USES	<u>(4,502)</u>	<u>123,879</u>	<u>119,377</u>
FUND BALANCE - DECEMBER 31, 2003	<u>\$ 162,648</u>	<u>\$ 435,395</u>	<u>\$ 598,043</u>

SPECIAL REVENUE FUNDS

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

TOWN OF FRYE ISLAND
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
DECEMBER 31, 2003
(With Comparative Totals for the Year ended December 31, 2002)

	<u>Golf Club</u>	<u>Yacht Club</u>	<u>Total</u>
ASSETS:			
Due From General Fund	\$ 15,146	\$ 10,848	\$ 25,994
Accounts Receivable	6,712	0	6,712
Inventory	<u>9,943</u>	<u>0</u>	<u>9,943</u>
TOTAL ASSETS	<u><u>\$ 31,801</u></u>	<u><u>\$ 10,848</u></u>	<u><u>\$ 42,649</u></u>
 LIABILITIES AND FUND BALANCE			
Liabilities:			
Accrued Expenses	\$ 1,494	\$ 0	\$ 1,494
Deferred Revenues	<u>0</u>	<u>2,700</u>	<u>2,700</u>
	1,494	2,700	4,194
 Restricted Fund Balance	 <u>30,307</u>	 <u>8,148</u>	 <u>38,455</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 31,801</u></u>	<u><u>\$ 10,848</u></u>	<u><u>\$ 42,649</u></u>

TOWN OF FRYE ISLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
SPECIAL REVENUE FUNDS
YEAR ENDED DECEMBER 31, 2003

	<u>Golf Club</u>	<u>Yacht Club</u>	<u>Total</u>
REVENUES:			
Memberships and Fees	\$ 98,651	\$ 0	\$ 98,651
Lounge and Pro Shop Sales	53,814	0	53,814
Equity Fees	0	16,770	16,770
Rental Fees	0	37,700	37,700
Miscellaneous	<u>24,227</u>	<u>0</u>	<u>24,227</u>
	176,692	54,470	231,162
 EXPENDITURES	 <u>146,385</u>	 <u>13,612</u>	 <u>159,997</u>
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 30,307	 40,858	 71,165
 OTHER FINANCING SOURCES (USES):			
Transfer Out	<u>0</u>	<u>(32,710)</u>	<u>(32,710)</u>
 EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	 30,307	 8,148	 38,455
 FUND BALANCE - BEGINNING OF YEAR	 <u>0</u>	 <u>0</u>	 <u>0</u>
 FUND BALANCE - END OF YEAR			
Restricted for Capital Improvements	20,364	0	20,364
Restricted for Inventory	9,943	0	9,943
Restricted for Marina Improvements	<u>0</u>	<u>8,148</u>	<u>8,148</u>
TOTAL RESTRICTED FUND BALANCE	<u><u>\$ 30,307</u></u>	<u><u>\$ 8,148</u></u>	<u><u>\$ 38,455</u></u>

FIDUCIARY FUNDS

Fiduciary Funds account for assets held by the Town in a trustee or agent capacity. These include Expendable Trust, NonExpendable Trust and Agency Funds. NonExpendable Trust Funds are accounted for in essentially the same manner as Proprietary Funds, since capital maintenance is necessary. Expendable Trust Funds are accounted for in the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not measure the results of operations.

TOWN OF FRYE ISLAND
 COMBINING BALANCE SHEET - AGENCY FUNDS
 DECEMBER 31, 2003

	Agency		
	Ballfields	Cookbooks	Totals
ASSETS:			
Due from General Fund	\$ 1,174	\$ 1,720	\$ 2,894
 LIABILITIES:			
Due to Other Groups	\$ 1,174	\$ 1,720	\$ 2,894

The following schedules are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Town of Frye Island. Such information in these schedules have been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

TOWN OF FRYE ISLAND
COMBINING STATEMENT OF GENERAL FUND RESERVES
YEAR ENDED DECEMBER 31, 2003

	Capital Funds Reserve	Ferry Dock and Ferry Reserve	Water System Reserve	Recreation Reserve	Equipment Reserve	Fire and Safety Reserve	Island Improvement Reserve	Revaluation Reserve	Total
APPROPRIATIONS:	\$ 0	\$ 33,238	\$ 0	\$ 0	\$ 0	\$ 12,500	\$ 0	\$ 0	\$ 45,738
REVENUES:									
Interest	333	132	433	102	210	49	1,110	175	2,544
Other	0	0	0	0	0	0	32,710	0	32,710
	<u>333</u>	<u>132</u>	<u>433</u>	<u>102</u>	<u>210</u>	<u>49</u>	<u>33,820</u>	<u>175</u>	<u>33,254</u>
EXPENDITURES FOR DESIGNATED PURPOSES	0	14,580	8,329	6,443	0	1,560	40,222	14,360	85,494
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	333	18,790	(7,896)	(6,341)	210	10,989	(6,402)	(14,185)	(4,502)
BALANCE - BEGINNING OF YEAR	25,866	5,232	33,146	7,953	16,335	4,113	58,366	16,139	167,150
BALANCE - END OF YEAR	<u>\$ 26,199</u>	<u>\$ 24,022</u>	<u>\$ 25,250</u>	<u>\$ 1,612</u>	<u>\$ 16,545</u>	<u>\$ 15,102</u>	<u>\$ 51,964</u>	<u>\$ 1,954</u>	<u>\$ 162,648</u>

TOWN OF FRYE ISLAND
VALUATION, ASSESSMENT AND COLLECTION OF TAXES
YEAR ENDED DECEMBER 31, 2003

VALUATION AND ASSESSMENT

Real Property		\$ 32,306,100
Personal Property		326,800
		32,632,900
Tax Rate per Thousand		38.60
TAX COMMITMENT		\$ 1,259,630

APPROPRIATIONS

Municipal Functions		\$ 949,223
MSAD 6		650,276
County Tax		44,512
Overlay		6,000
		1,650,011
Less: Estimated Revenues		390,381
TAX COMMITMENT		\$ 1,259,630

COLLECTION OF 2003 TAXES

Original Commitment			\$ 1,259,630
Less: Collections	\$ 1,237,281		
Abatements	1,579		1,238,860
BALANCE OUTSTANDING AT DECEMBER 31, 2003			\$ 20,770