

**TOWN OF FRYE ISLAND
FINANCIAL REPORT**



DECEMBER 31, 2005

TOWN OF FRYE ISLAND, MAINE
DECEMBER 31, 2005

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIC FINANCIAL STATEMENTS

Statement of Net Assets	Statement 1
Statement of Activities	Statement 2
Balance Sheet - Governmental Funds	Statement 3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	Statement 4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	Statement 5
Statement of Revenues and Expenditures - Budget and Actual - General Fund - Budgetary Basis	Statement 6
Statement of Net Assets - Proprietary Funds	Statement 7
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	Statement 8
Statement of Cash Flows - Proprietary Funds	Statement 9
Notes to Basic Financial Statements	

SUPPLEMENTAL DATA

General Fund:

Balance Sheet	Exhibit 1-1
Statement of Revenues and Expenditures - Budget and Actual - Budgetary Basis	Exhibit 1-2
Statement of Changes in Fund Balance	Exhibit 1-3

Other:

Combining Statement of General Fund Reserves	Schedule 1
Valuation, Assessment and Collection of Taxes	Schedule 2



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Frye Island, Maine, which collectively comprise the Town's basic financial statements, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Frye Island, Maine as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

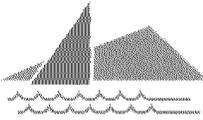
The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures,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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Frye Island, Maine's basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Berry, Fowles & Co.

Certified Public Accountants
June 12, 2006

6 FUNDY ROAD * SUITE 100 * FALMOUTH, MAINE 04105
TELEPHONE NO. (207) 781-3445 * FAX NO. (207) 781-3578



FRYE ISLAND

Management's Discussion and Analysis

As management of the Town of Frye Island, Maine, we present this narrative to provide you with an overview and analysis of our annual financial statements for the year ended December 31, 2005. This is the Town's second year after implementation of Statement No. 34 of the Governmental Accounting Standards Board (GASB) *Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments*. This information in conjunction with the notes to the financial statements should be considered when reading the Town's financial statements.

2005 Financial Highlights

Total assets of the Town of Frye Island exceed its liabilities by \$5,221,345. The governmental activities statement shows an increase in net assets of \$118,582 for the fiscal year.

The ending fund balance for the general fund is \$432,858, a decrease of \$203,052 from the previous year. Of this balance, \$219,757 is designated for specific capital expenditures, including ferry projects, water system renovations, island improvement projects, equipment purchases / replacements, Town property maintenance, and revaluation reserve. The reduction in the General Fund Balance is due to the two expenditures approved at recent town meetings. One is \$275,000 for the purchase of the Willis property on Raymond Cape Road. The second is \$40,000 for legal fees in the Town's law suit with the State of Maine regarding the constitutionality of the legislative action prohibiting the withdrawal of Frye Island from SAD 6, and the exemption from LD-1. This leaves an undesignated balance of \$213,101 which provides an adequate surplus.

Overview of Financial Statements

The Town of Frye Island's basic financial statements are composed of three components:

1. Government-wide financial statements
2. Fund financial statements, and
3. Notes to the financial statements

Other supplemental information to the basic financial statement is also provided.

Government-wide Financial Statements

The government-wide financial statements provide a broad overview of the Town of Frye Island's finances. Financial information is presented in two statements - *Statement of Net Assets* and *Statement of Activities*.

The **Statement of Net Assets** presents information about the Town's assets and liabilities with the difference between the two reported as net assets. Over time, changes in net assets (increases or decreases) may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Frye Island's fiscal 2005 Statement of Net Assets does not reflect a value assigned to infrastructure which will be included in subsequent years.

The **Statement of Activities** presents information about how the Town's net assets have changed during the fiscal year. All changes in net assets are reported as soon as the underlying change or event occurs, regardless of the timing of the related cash flows. This means that revenues and expenses are reported in this statement even if the related cash movement does not occur until future fiscal periods (e.g. uncollected taxes and accounts payable).

In the government-wide financial statements, the Town's basic services are reported as **Governmental Activities** as they are principally supported by taxes and intergovernmental revenues, rather than recovering all, or a significant portion of their costs through user fees and charges. Governmental activities include general administration, public safety (law enforcement, fire protection), public works (roads, water, and waste management), recreation, education, debt service, and capital planning expenses.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Frye Island, like other state and local governments, uses fund accounting to insure and demonstrate compliance with finance-related legal requirements. The Town's two kinds of funds - governmental, and enterprise (proprietary) - use different accounting methods:

Governmental funds are used to report most of the Town's basic operational services. Operating expenses and revenues are recorded and the cumulative leftover balance of these activities, which is available for spending in future years, is reported here. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information can help to determine what financial resources are available in the near future to finance the Town's activities.

Business-type Activities - Enterprise Funds are used to account for the Town's activities that are intended to recover all or a significant portion of their costs through user fees and charges. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. Activities in the Enterprise Fund include the Ferry Service, the Golf Course and the Marina.

Statement of Net Assets Information:

The following information is condensed version of the Statement of Net Assets.

**Table 1 - Statement of Net Assets
Year Ended December 31, 2005**

	Governmental Activities	Business-type Activities	Total
Current & Other Assets	\$ 1,333,578	\$ 256,940	\$ 1,590,518
Capital Assets, net	<u>2,350,539</u>	<u>2,697,330</u>	<u>5,047,869</u>
Total Assets	<u>3,684,117</u>	<u>2,954,270</u>	<u>6,638,387</u>
Non-current Liabilities	455,197	5,470	460,667
Current Liabilities	<u>882,356</u>	<u>74,019</u>	<u>956,375</u>
Total Liabilities	<u>1,337,553</u>	<u>79,489</u>	<u>1,417,042</u>
Net Assets:			
Invested in Capital Assets, net of related debt	1,870,631	2,686,390	4,557,021
Unrestricted	<u>475,933</u>	<u>188,391</u>	<u>664,324</u>
Total Net Assets	<u>\$ 2,346,564</u>	<u>\$ 2,874,781</u>	<u>\$ 5,221,345</u>

The assets of the Town of Frye Island exceeded its liabilities at the close of the most recent fiscal year by \$5,221,345 per Statement 1 (Statement of Net Assets). Of this amount, \$664,324 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors. The total net assets of the Town increased by \$262,522 over last year.

As of the close of the current fiscal year, the Town of Frye Island funds reported combined ending fund balances of \$432,858 a decrease of \$203,052. Approximately 50% of this total amount, \$213,101 is available for spending at the Town's discretion (unreserved fund balance).

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

**Table 2 - Changes in Net Assets
Year Ended December 31, 2005**

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues:			
Charges for services	\$ 114,032	\$ 732,269	\$ 846,301
Operating grants & contributions	27,327	0	27,327
General revenues:			
Property and excise taxes	1,522,518	0	1,522,518
Intergovernmental	549	0	549
Contributions	27,830	3,186	31,016
Miscellaneous	65,000	0	65,000
Transfers	<u>99,875</u>	<u>(99,875)</u>	<u>0</u>
Total Revenues	<u>1,857,131</u>	<u>635,580</u>	<u>2,492,711</u>
Expenses			
Administration	408,148	0	408,148
Public Works and Sanitation	336,719	0	336,719
Public Safety	68,512	0	68,512
Recreation	29,169	0	29,169
Education	732,400	0	732,400
Fixed Expenses	63,726	0	63,726
Program Expenditures	<u>0</u>	<u>591,515</u>	<u>591,515</u>
Total Expenses	<u>1,638,674</u>	<u>591,515</u>	<u>2,230,189</u>
Change in Net Assets	<u>\$ 218,457</u>	<u>\$ 44,065</u>	<u>\$ 262,522</u>

Analysis of Significant General Fund Budget Variances

Total revenues came in \$70,389 more than expected, a 4.3% variance. The actual expenditures were \$73,633 less than the projected budget, a 3.4 % variance (Statement 6).

Significant Capital Asset and Long-Term Debt Activity

Capital assets totaling \$5,047,869 (Statement 1) are being reported as of December 31, 2005. This represents an increase of \$383,630 over the previous year. The following acquisitions / improvements contributed to the increase in Capital Assets.

- Repairs / Improvements to the Ferry Ramp and Gantry system \$ 116, 806
- Purchase of Willis property 263,164
- Purchase of a Caterpillar Skid Steer for the PWD 16,300

By State law, the Town may have a debt service not to exceed 7.5% of the total State assessed valuation of the Town which was \$90,600,000 in 2005. This creates a maximum allowed debt service of \$6,795,000. The actual long-term debt as of December 31, 2005 was \$477,619 which is the loan from the Maine Bond Bank for the improvements to the water treatment system. The final payment on this loan is due on October 1, 2024.

Economic Factors and Next Year’s Budgets and Rates

The Town of Frye Island is a seasonal community and has no commercial or industrial sector to support the cost of municipal government. In addition, unlike most communities, Frye Island derives very little revenue from excise taxes because most property owners register their vehicles in the community of their winter address. Therefore, the vast majority of the revenues needed for general operation of the Municipal government must come from residential property taxes. A major expense for the Town continues to be the fixed expenses which include MSAD #6, Cumberland County and the Maine Municipal Bond Bank loan for improvements to the water system. In 2005, these expenses totaled \$816,635. The largest contributor to these fixed expenses is our payment to MSAD 6. Frye Island’s payment to the School District is based on the total State assessed value of all of the property on Frye Island relative to the other communities within the District. In 2005, the State assessed value for Frye Island was \$90,600,000; for 2006 the State assessed value is \$111,900,000; and we know that for the 2007 year our State assessed value will be \$141,600,000. Frye Island’s State assessed value increased at a rate of approximately 23% to 26% over the past few years. During this same time frame, the other communities within the School District and Cumberland County have averaged 13% to 15%. This means that the proportion of the taxes that Frye Island pays is increasing relative to the other communities. The State assessed value is based on “fair market value” and is determined by reviewing the selling price of recently sold improved properties. This trend is expected to continue for the near future. I anticipate that by the 2007-2008 budget cycle, Frye Island will be facing approximately \$1,000,000 in these fixed expenses. Frye Island has filed suit in Superior Court against The State of Maine challenging the constitutionality of the legislation prohibiting Frye Island from withdrawing from SAD 6 and exempting Frye Island from the school tax formulas identified in LD-1.

Contacting the Town’s Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town’s finances and to show the Town’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Selectmen’s Office at One Sunset Road, Frye Island, ME 04071, or by phone at (207) 655-4551.

TOWN OF FRYE ISLAND, MAINE
DECEMBER 31, 2005

BASIC FINANCIAL STATEMENTS

Berry, Fowles & Co., Falmouth, Maine

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS:			
Cash/Investments	\$ 1,289,836	\$ 106,170	\$ 1,396,006
Receivables (Net of Allowance for Uncollectibles):			
Taxes	17,469	0	17,469
Liens	16,723	0	16,723
Accounts	300	0	300
Inventory	0	10,050	10,050
Due from Other Funds	0	140,720	140,720
Tax Acquired Property	9,250	0	9,250
Capital Assets:			
Land and Improvements	591,164	1,258,400	1,849,564
Other Capital Assets, Net of Depreciation	1,759,375	1,438,930	3,198,305
TOTAL ASSETS	<u>3,684,117</u>	<u>2,954,270</u>	<u>6,638,387</u>
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts Payable	88,644	66,599	155,243
Accrued Expenses	0	550	550
Due to Other Funds	140,720	0	140,720
Accrued Interest Payable	1,672	0	1,672
Deferred Revenues	628,281	1,400	629,681
Long-Term Liabilities			
Due within One Year	23,039	5,470	28,509
Due in More Than One Year	455,197	5,470	460,667
Total Liabilities	<u>1,337,553</u>	<u>79,489</u>	<u>1,417,042</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,870,631	2,686,390	4,557,021
Unrestricted	475,933	188,391	664,324
TOTAL NET ASSETS	<u>\$ 2,346,564</u>	<u>\$ 2,874,781</u>	<u>\$ 5,221,345</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Net (Expense) Revenue and Changes in Net Assets					
	Program Revenues		Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS						
Primary Government						
Governmental Activities	\$ 408,148	\$ 92,609	\$ 0	\$ (315,539)	\$ 0	\$ (315,539)
General Government	336,719	20,765	10,417	(305,537)	0	(305,537)
Public Works and Sanitation	68,512	0	16,910	(51,602)	0	(51,602)
Public Safety	29,169	638	0	(28,511)	0	(28,511)
Recreation	732,400	0	0	(732,400)	0	(732,400)
Education	63,726	0	0	(63,726)	0	(63,726)
Fixed Expenses	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0
Total governmental activities	<u>1,638,674</u>	<u>114,032</u>	<u>27,327</u>	<u>(1,497,315)</u>	<u>0</u>	<u>(1,497,315)</u>
Business-type activities						
Ferry	357,902	472,281	0	0	114,379	114,379
Golf Club	190,689	183,346	0	0	(7,343)	(7,343)
Yacht Club	42,924	76,642	0	0	33,718	33,718
Total business-type activities	<u>591,515</u>	<u>732,269</u>	<u>0</u>	<u>0</u>	<u>140,754</u>	<u>140,754</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 2,230,189</u>	<u>\$ 846,301</u>	<u>\$ 27,327</u>	<u>\$ (1,497,315)</u>	<u>\$ 140,754</u>	<u>\$ (1,356,561)</u>
General revenues:						
Taxes - Property				\$ 1,506,798	\$ 0	\$ 1,506,798
Taxes - Excise				15,720	0	15,720
Intergovernmental				549	0	549
Miscellaneous				65,000	0	65,000
Investment Earnings				27,830	3,186	31,016
Total General Revenues, Special Items				<u>1,615,897</u>	<u>3,186</u>	<u>1,619,083</u>
Change in Net Assets				118,582	143,940	262,522
Net Assets - January 1, 2005				2,128,107	2,830,716	4,958,823
Transfers				99,875	(99,875)	0
Net Assets - December 31, 2005				<u>\$ 2,346,564</u>	<u>\$ 2,874,781</u>	<u>\$ 5,221,345</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

Berry, Fowles & Co., Falmouth, Maine

TOWN OF FRYE ISLAND, MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	Total Governmental Funds
	General Fund
ASSETS:	
Cash/Investments	\$ 1,289,836
Receivables (Net of Allowance for Uncollectibles):	
Taxes	17,469
Liens	16,723
Accounts	300
Tax Acquired Property	9,250
TOTAL ASSETS	1,333,578
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Accounts Payable	88,644
Due to Other Funds	140,720
Deferred Revenues	671,356
Total Liabilities	900,720
Fund Balances:	
Reserved:	
For Specific Purposes	219,757
Unreserved:	
Designated for Subsequent Years Expenditures	73,337
Undesignated	139,764
Total Fund Balances	432,858

Amounts reported for governmental activities in the Statement of Net Assets (Statement 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,350,539
Long-term liabilities, including leases payable, are not due and payable in the current period and therefore are not reported in the funds.	
Leases Payable	(617)
Bonds Payable	(477,619)
Accrued Interest	(1,672)
Funds are not available to pay for current period expenditures and therefore are deferred in the funds.	43,075
Net Assets of Governmental Activities	<u>\$ 2,346,564</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Total Governmental Funds
	General Fund
REVENUES:	
Taxes	\$ 1,522,357
Licenses and Permits	56,418
Intergovernmental	33,516
Charges for Services	36,567
Miscellaneous	<u>104,171</u>
Total Revenues	<u>1,753,029</u>
EXPENDITURES:	
General Government	414,315
Public Works and Sanitation	447,196
Public Safety	85,477
Recreation	29,169
Education	732,400
Fixed Expenses	84,235
Capital Outlay	<u>263,164</u>
Total Expenditures	<u>2,055,956</u>
EXCESS OF REVENUES UNDER EXPENDITURES	(302,927)
FUND BALANCES - JANUARY 1, 2005	635,910
TRANSFER FROM ENTERPRISE FUND	<u>99,875</u>
FUND BALANCES - DECEMBER 31, 2005	<u><u>\$ 432,858</u></u>

The reconciliation of the net change in fund balances of governmental funds to the change in net assets in the statement of activities is presented on a separate schedule on the next page.

The Accompanying Notes are an Integral Part of these Financial Statements.

TOWN OF FRYE ISLAND, MAINE
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balances - total governmental funds (from Statement 4) \$ (302,927)

Amounts reported for governmental activities in the statement of activities (Statement 2) are different because (see Note 1, also):

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which depreciation exceeded capital outlay in the current period is as follows:

Capital Outlay	425,499	
Depreciation	<u>(36,185)</u>	389,314

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond or capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount by which bond proceeds exceeded bond repayments is as follows:

Capital Lease Repayments	7,459	
Bond Repayments	22,181	
Accrued Interest	<u>(1,672)</u>	27,968

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statement.

4,227

Change in net assets of governmental activities (see Statement 2) \$ 118,582

The Accompanying Notes are an Integral Part of these Financial Statements.

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
BUDGETARY BASIS
YEAR ENDED DECEMBER 31, 2005

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES:				
Taxes	\$ 1,523,549	\$ 1,523,549	\$ 1,522,357	\$ (1,192)
Licenses and Permits	22,307	22,307	56,418	34,111
Intergovernmental	7,637	24,547	33,516	8,969
Charges for Services	34,935	34,935	36,567	1,632
Other	9,812	9,812	36,681	26,869
TOTAL REVENUES	<u>1,598,240</u>	<u>1,615,150</u>	<u>1,685,539</u>	<u>70,389</u>
EXPENDITURES:				
General Government	386,634	435,228	416,315	18,913
Public Works and Sanitation	297,373	451,949	467,196	(15,247)
Public Safety	73,884	90,794	85,477	5,317
Recreation	34,216	36,806	29,169	7,637
Education	783,762	783,762	732,400	51,362
Fixed Expenses	78,049	78,050	84,235	(6,185)
Capital Outlay	0	275,000	263,164	11,836
TOTAL EXPENDITURES	<u>1,653,918</u>	<u>2,151,589</u>	<u>2,077,956</u>	<u>73,633</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (55,678)</u>	<u>\$ (536,439)</u>	<u>\$ (392,417)</u>	<u>\$ 144,022</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005

	<u>Enterprise Funds</u>			<u>Totals</u>
	<u>Ferry Service</u>	<u>Golf Course</u>	<u>Marina</u>	<u>2005</u>
ASSETS:				
Current Assets				
Cash	\$ 49,145	\$ 46,714	\$ 10,311	\$ 106,170
Accounts Receivable	0	0	0	0
Inventory	0	10,050	0	10,050
Capital Assets, Net of Depreciation	985,377	887,993	823,960	2,697,330
Due from Other Funds	<u>111,824</u>	<u>18,304</u>	<u>10,592</u>	<u>140,720</u>
TOTAL ASSETS	<u>1,146,346</u>	<u>963,061</u>	<u>844,863</u>	<u>2,954,270</u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	56,459	10,140	0	66,599
Accrued Expenses	0	550	0	550
Leases Payable	0	10,940	0	10,940
Deferred Revenues	<u>0</u>	<u>0</u>	<u>1,400</u>	<u>1,400</u>
Total Current Liabilities	<u>56,459</u>	<u>21,630</u>	<u>1,400</u>	<u>79,489</u>
NET ASSETS:				
Invested in Capital Assets, Net of Related Debt	985,377	877,053	823,960	2,686,390
Unrestricted Net Assets	<u>104,510</u>	<u>64,378</u>	<u>19,503</u>	<u>188,391</u>
TOTAL NET ASSETS	<u>\$ 1,089,887</u>	<u>\$ 941,431</u>	<u>\$ 843,463</u>	<u>\$ 2,874,781</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Enterprise Fund</u>			<u>Totals</u>
	<u>Ferry Service</u>	<u>Golf Course</u>	<u>Marina</u>	<u>2005</u>
OPERATING REVENUES:				
Memberships and Fees	\$ 0	\$ 99,082	\$ 0	\$ 99,082
Lounge and Pro Shop Sales	0	49,283	0	49,283
Equity Fees	0	0	16,011	16,011
Rental Fees	0	0	60,631	60,631
Charges for Services	472,281	0	0	472,281
Miscellaneous	0	34,981	0	34,981
	<u>472,281</u>	<u>183,346</u>	<u>76,642</u>	<u>732,269</u>
OPERATING EXPENDITURES	<u>357,902</u>	<u>190,689</u>	<u>42,924</u>	<u>591,515</u>
OPERATING INCOME (LOSS)	114,379	(7,343)	33,718	140,754
NON-OPERATING REVENUES				
Interest Income	<u>1,438</u>	<u>708</u>	<u>1,040</u>	<u>3,186</u>
INCOME (LOSS) BEFORE TRANSFERS	115,817	(6,635)	34,758	143,940
TRANSFERS TO GENERAL FUND RESERVE	<u>(57,064)</u>	<u>0</u>	<u>(42,811)</u>	<u>(99,875)</u>
CHANGE IN NET ASSETS	58,753	(6,635)	(8,053)	44,065
NET ASSETS - JANUARY 1,	<u>1,031,134</u>	<u>948,066</u>	<u>851,516</u>	<u>2,830,716</u>
NET ASSETS - DECEMBER 31,	<u>\$ 1,089,887</u>	<u>\$ 941,431</u>	<u>\$ 843,463</u>	<u>\$ 2,874,781</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Enterprise Fund			Totals
	Ferry Service	Golf Course	Marina	2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 472,281	\$ 184,146	\$ 70,642	\$ 727,069
Payments to Suppliers	(70,870)	(66,795)	(26,834)	(164,499)
Payments to Employees	(147,252)	(80,608)	0	(227,860)
Other Receipts (Payments)	(89,646)	(2,714)	(59,843)	(152,203)
Net Cash Provided (Used) by Operating Activities	164,513	34,029	(16,035)	182,507
CASH FLOWS (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisitions and Construction of Operating Property	(116,806)	0	(7,400)	(124,206)
Repayment of Capital Leases	0	(5,470)	0	(5,470)
Net Cash (Used) by Capital and Related Financing Activities	(116,806)	(5,470)	(7,400)	(129,676)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	1,438	708	1,040	3,186
NET INCREASE (DECREASE) IN CASH	49,145	29,267	(22,395)	56,017
CASH - AT BEGINNING OF YEAR	0	17,447	32,706	50,153
CASH - AT END OF YEAR	\$ 49,145	\$ 46,714	\$ 10,311	\$ 106,170
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 114,379	\$ (7,343)	\$ 33,718	\$ 140,754
Transfers to General Fund Reserves	(57,064)	0	(42,811)	(99,875)
Adjustments not affecting cash:				
Depreciation Expense	83,321	30,479	16,090	129,890
Change in Assets and Liabilities				
(Increase) Decrease in:				
Accounts and Notes Receivable	0	800	0	800
Inventory	0	3,782	0	3,782
Due to/from Other Funds	(32,582)	(2,714)	(20,032)	(55,328)
(Decrease) Increase in:				
Accounts Payable	56,459	10,140	0	66,599
Accrued Expenses	0	(1,115)	0	(1,115)
Deferred Revenues	0	0	(3,000)	(3,000)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 164,513	\$ 34,029	\$ (16,035)	\$ 182,507
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash	\$ 49,145	\$ 46,714	\$ 10,311	\$ 106,170

The Accompanying Notes are an Integral Part of these Financial Statements.

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 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 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 financial statements.

The accounting policies of the Town of Frye Island conform to generally accepted accounting principles as applicable to governmental units, except where indicated. The following is a summary of the more significant policies.

The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow 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 more significant accounting policies established in GAAP and used by the Town are discussed below.

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements, comprised of the statement of net assets and the statement of activities, report information on all of the non-fiduciary activities of the Town. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds (if any) are reported as separate columns in the fund financial statements. GASB 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements.

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 1 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

Governmental Activities

Governmental funds are identified as general, special revenue, capital projects, or permanent funds based upon the following guidelines.

The *General Fund* is the operating fund of the Town and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific sources (other than major capital projects or expendable trusts) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Permanent Funds are used to account for assets held by the Town pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Business-type activities

Proprietary Funds - Proprietary funds are used to account for the Town's ongoing activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following is the Town's proprietary fund type:

Enterprise Fund - The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs, including depreciation, of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 funds 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. These funds are not incorporated into the Government-wide statements.

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 1 - SUMMARY OF ACCOUNTING POLICIES (Continued)

Basis of Accounting

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.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

Governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or 60 days thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, as well as certain compensated absences, claims and judgments, are recorded only when the payment is due.

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. *Unreserved: Designated for Subsequent Years Expenditures*, represents encumbrances under which purchase orders, contracts, and other commitments for the expenditure of funds are utilized in the governmental funds in order to reserve that portion of the applicable appropriations. Outstanding encumbrances are reported as a component of unreserved fund balance and do not constitute expenditures or liabilities since the commitments will be honored during the subsequent year.

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2005, are recorded as prepaid expenses.

Fixed Assets

General fixed assets purchased or acquired are reported at cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets, other than land, is provided on the straight-line basis over the estimated useful lives.

Land Improvements - 40 years
Buildings and Building Improvements - 20 to 60 years
Vehicles and Equipment - 5 to 77 years

Infrastructure such as streets, bridges, and traffic lights has yet to be capitalized. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal year beginning July 1, 2006. The Town has elected to report infrastructure assets during fiscal year 2007.

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

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.

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, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 2 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Town will not be able to recover the value of its deposits and investments that are in the possession of an outside party.

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 Town has a deposit policy for custodial credit risk. As of December 31, 2005, none of the Town's bank balance of \$1,320,487 was exposed to custodial credit risk.

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 had a small insurance policy that was converted to stocks by the investment company.

At December 31, 2005, investments consisted of the following:

	Carrying <u>Value</u>	Market <u>Value</u>
Stocks	<u>\$ 6,281</u>	<u>\$ 6,281</u>

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

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, 2004. 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, 2005 was based, was \$88,483,100. Interest was charged at 6.50% on all unpaid taxes from January 1, 2005, and July 1, 2005. The following summarizes the levy:

Valuation and Assessment		
Real Property		\$ 88,394,300
Personal Property		<u>57,300</u>
Total Valuation		88,451,600
Tax Rate per Thousand		<u>17.04</u>
Tax Commitment		<u>\$ 1,507,215</u>
Collection of 2005 Taxes		
Original Commitment		\$ 1,507,215
Less: Collection in Current Year	\$ 1,489,124	
Abatements	479	
Transferred to Liens	<u>13,228</u>	
		<u>1,502,831</u>
Taxes Receivable		<u>\$ 4,384</u>

Taxes receivable at December 31, 2005 are as follows:

	<u>General</u>
Taxes - Current Year	\$ 4,384
Taxes - Prior Year	<u>13,085</u>
	<u>\$ 17,469</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 \$452 for the year ended December 31, 2005. 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, 2005 are recognized as revenues. The remaining receivables estimated to be collectible subsequent to the sixty (60) day period are recorded as deferred revenues.

The 2005 property taxes were committed November 1, 2004, were due and payable on January 1 and July 1, 2005, and have been recorded as revenues. The 2006 property taxes were levied November 1, 2005, and are due and payable January 1, and July 1, 2006. The payments collected in 2005 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, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

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, 2005, the balances due to and due from accounts were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 0	\$ 140,720
Enterprise		
Ferry	111,824	0
Golf Club	18,304	0
Yacht Club	<u>10,592</u>	<u>0</u>
	<u>\$ 140,720</u>	<u>\$ 140,720</u>

Note 5 - OPERATING LEASE

The Town of Frye Island has entered into a one year lease agreement with Frye Island, Inc. (FII). For a net annual fee of \$31,000, the Town leases from FII the following: Various Island Buildings, and Recreational Facilities.

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 6 - FIXED ASSETS

Contributed assets are reported at fair market value and recorded as revenues as of the date received.

Capital Asset activity for the town's general fund operations for the year ended December 31, 2005, was as follows:

	Balance December 31, <u>2004</u>	<u>Additions</u>	Balance December 31, <u>2005</u>
Governmental Activities:			
Cost of Assets:			
Land and Land Improvements	\$ 328,000	\$ 263,164	\$ 591,164
Buildings and Building Improvements	389,384	366,836	756,220
Equipment and Vehicles	831,845	234,123	1,065,968
Construction in Progress	<u>438,624</u>	<u>(438,624)</u>	<u>0</u>
Total	<u>1,987,853</u>	<u>425,499</u>	<u>2,413,352</u>
Accumulated Depreciation:			
Land and Land Improvements	0	0	0
Buildings and Building Improvements	7,745	10,802	18,547
Equipment and Vehicles	<u>18,883</u>	<u>25,383</u>	<u>44,266</u>
Total	<u>26,628</u>	<u>36,185</u>	<u>62,813</u>
Governmental Activities Capital			
Assets, Net	<u>\$ 1,961,225</u>	<u>\$ 389,314</u>	<u>\$ 2,350,539</u>
Depreciation was charged to functions as follows:			
General Government	\$ 3,632		
Public Works and Sanitation	<u>32,553</u>		
	<u>\$ 36,185</u>		

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 6 - FIXED ASSETS (Continued)

Property, plant and equipment maintained in the proprietary funds are valued at cost. Depreciation of all exhaustible fixed assets is charged as an expense against their operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Balance December 31, <u>2004</u>	<u>Additions</u>	Balance December 31, <u>2005</u>
Proprietary Funds:			
Cost of Assets:			
Land and Land Improvements	\$ 1,296,500	\$ 0	\$ 1,296,500
Buildings and Building Improvements	262,180	0	262,180
Equipment and Vehicles	<u>1,315,228</u>	<u>124,206</u>	<u>1,439,434</u>
Total	<u>2,873,908</u>	<u>124,206</u>	<u>2,998,114</u>
Accumulated Depreciation:			
Land and Land Improvements	19,050	19,050	38,100
Buildings and Building Improvements	6,710	6,632	13,342
Equipment and Vehicles	<u>145,134</u>	<u>104,208</u>	<u>249,342</u>
Total	<u>170,894</u>	<u>129,890</u>	<u>300,784</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,703,014</u>	<u>\$ (5,684)</u>	<u>\$ 2,697,330</u>
Depreciation was charged to functions as follows:			
Ferry	\$ 83,321		
Golf Course	30,479		
Marina	<u>16,090</u>		
	<u>\$ 129,890</u>		

Note 7 - LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

In September, 2004, the Town entered into a one year agreement with Keybank National Association to borrow, on an as needed basis, an amount not to exceed \$500,000 with an interest rate of 2.87% per annum on the unpaid balance for the purpose of upgrading the water system. In March, 2005, the Town issued bonds in the amount of \$499,800 with an interest rate of 4.452% on \$156,396 and 0% on \$343,404. This is equivalent to a blended effective rate of 2.05%. The proceeds were used to pay the existing short-term loan and unpaid interest.

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 7 - LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (Continued)

The following is a summary of long-term debt transactions of the Town for the year ended December 31, 2005:

	General Long-Term Debt
Long-Term Debt Payable at December 31, 2004	\$ 499,800
Debt Retired	<u>(22,181)</u>
Long-Term Debt Payable at December 31, 2005	<u>\$ 477,619</u>

Long-term debt outstanding at year end are as follows:

Maine Municipal Bond Bank:

2005 General Obligation Bond dated March 2005. Blended interest rate of 2.05%; Variable annual principal plus semi-annual interest payments to October 1, 2024. \$ 477,619

The annual requirements to amortize debts outstanding as of December 31, 2005, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 22,422	\$ 6,688	\$ 29,110
2007	22,653	6,457	29,110
2008	22,896	6,214	29,110
2009	23,148	5,962	29,110
2010	23,412	5,698	29,110
2011 – 2015	121,443	24,111	145,554
2016 – 2020	130,033	15,521	145,554
2021 – 2025	<u>111,612</u>	<u>4,852</u>	<u>116,464</u>
	<u>\$ 477,619</u>	<u>\$ 75,503</u>	<u>\$ 553,122</u>

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 7 - LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (Continued)

Capital Lease Obligations

The following is a summary of capital-lease obligation transactions of the Town for the year ended December 31, 2005:

	<u>Capital Lease Obligations</u>
Capital Lease Obligations Payable at December 31, 2004	\$ 8,076
Less Debt Retired	<u>(7,459)</u>
Capital Lease Obligations Payable at December 31, 2005	<u>\$ 617</u>

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

IOS Capital, Inc.

2001 Ricoh Photocopier, maturing 11/5/2006, 3.21% interest rate, payable in installments of \$312. Quarterly. \$ 617

The annual requirement for capital lease obligations outstanding as of December 31, 2005 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>\$ 617</u>	<u>\$ 7</u>	<u>\$ 624</u>

The following is a summary of capital-lease obligation transactions as it relates to the Golf Course Department of the Town for the year ended December 31, 2005:

	<u>Capital Lease Obligations</u>
Capital Lease Obligations Payable at December 31, 2004	\$ 16,410
Less Debt Retired	<u>(5,470)</u>
Capital Lease Obligations Payable at December 31, 2005	<u>\$ 10,940</u>

TOWN OF FRYE ISLAND, MAINE
DECEMBER 31, 2005

SUPPLEMENTAL DATA

Berry, Fowles & Co., Falmouth, Maine

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 7 - LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS (Continued)

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

2004 Kubota Tractor, maturing 8/28/2007, 0.00%
interest rate, payable in annual payments of \$5,470. \$ 10,940

The annual requirement for capital lease obligations outstanding as of December 31, 2005 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 5,470	\$ 0	\$ 5,470
2007	<u>5,470</u>	<u>0</u>	<u>5,470</u>
	<u>\$ 10,940</u>	<u>\$ 0</u>	<u>\$ 10,940</u>

Note 8 - SHORT-TERM DEBT OBLIGATIONS

During a special town meeting of May 28, 2005, the town voted to purchase 25 acres of land on Raymond Cape Road and to borrow up to \$275,000 for the cost of the land and legal fees by issuing general obligation bonds. The land was purchased with interim financing through Key Bank.

Short-term debt activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Short-term Loan	<u>\$ 0</u>	<u>\$ 250,782</u>	<u>\$ 250,782</u>	<u>\$ 0</u>

Note 9 - 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, 2005. Settled claims (if any) have not exceeded insurance coverage for any of the past three fiscal years.

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 9 - 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 financial statements for such contingencies.

Note 10 - 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% (\$36,657) of Cumberland County's outstanding debt of \$12,260,000, and 4.80% (\$416,551) of Maine School Administrative District No. 6's outstanding bonded debt of \$8,670,556. In addition, the Town is contracted to pay subsidy to MSAD No. 6 until June 30, 2006, totaling \$367,859.

Note 11 - BUDGET vs. MODIFIED ACCRUAL BASIS OF ACCOUNTING

Statement 4, Statement of Revenues, Expenditures, and Changes in Fund Balances, has been adjusted to add the effects of the activities in the general fund reserve. Statement 6, 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 Modified Accrual basis as presented in Statement 4:

Excess of revenues over(under) expenditures (Statement 6)	\$ (392,417)
Interest and Other Income from Reserve Funds	67,490
Budgeted transfers to reserves	<u>22,000</u>
Excess of revenues over(under) expenditures (Statement 4)	\$ <u>(302,927)</u>

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2005

Note 12 - FUND BALANCE - RESERVED FOR SPECIFIC PURPOSES

General fund reserves consist of funds set aside by vote of the Town. The purpose and balances at December 31, 2005, are as follows:

Capital Funds	\$ 18,469
Water System Improvements	775
Recreation	1,883
Equipment	3,314
Fire and Safety	19,827
Island Improvement	173,457
Revaluation	<u>2,032</u>
	<u>\$ 219,757</u>

Schedule 1 summarizes the activity in 2005.

Note 13 - 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, 2005 was approximately \$9,085. 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 \$40,005 for the year ended December 31, 2005.

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, MAINE
BALANCE SHEET - GENERAL FUND
DECEMBER 31, 2005

(With Comparative Totals for the Year ended December 31, 2004)

	<u>2005</u>	<u>2004</u>
ASSETS:		
Cash/Investments	\$ 1,289,836	\$ 1,256,378
Receivable:		
Taxes	17,469	18,318
Tax Liens	16,723	17,405
Accounts	300	81,578
Tax Acquired Property	<u>9,250</u>	<u>3,071</u>
TOTAL ASSETS	<u>\$ 1,333,578</u>	<u>\$ 1,376,750</u>
 LIABILITIES AND FUND BALANCES:		
Liabilities:		
Accounts Payable	\$ 88,644	\$ 18,728
Due to Other Funds	140,720	88,120
Deferred Revenue	<u>671,356</u>	<u>633,992</u>
	<u>900,720</u>	<u>740,840</u>
Fund Balances:		
Reserved:		
For Specific Purposes	219,757	136,777
Unreserved:		
Designated for Subsequent Years Expenditures	73,337	61,376
Undesignated	<u>139,764</u>	<u>437,757</u>
	<u>432,858</u>	<u>635,910</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,333,578</u>	<u>\$ 1,376,750</u>

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2005

	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
REVENUES:			
Taxes:			
Property	\$ 1,507,215	\$ 1,506,808	\$ (407)
Change in Deferred Property Revenues	0	(4,227)	(4,227)
Excise	11,584	14,305	2,721
Interest and Lien costs on Taxes	4,750	5,471	721
	<u>1,523,549</u>	<u>1,522,357</u>	<u>(1,192)</u>
Licenses and Permits:			
Boat and Vehicle Registrations	1,292	1,420	128
Building Permits	18,000	49,748	31,748
Plumbing and Electrical Permits	2,045	2,912	867
Other Permits	700	2,200	1,500
Hunting/Fishing	270	138	(132)
	<u>22,307</u>	<u>56,418</u>	<u>34,111</u>
Intergovernmental:			
DOT Grant	7,100	10,417	3,317
Homestead Exemptions	537	532	(5)
Miscellaneous	16,910	22,567	5,657
	<u>24,547</u>	<u>33,516</u>	<u>8,969</u>
Charges for Services:			
Water Hook-up Fees	3,750	3,750	0
Solid Waste Fee	10,950	12,136	1,186
Septic Waste Fee	500	0	(500)
Management Fee	8,025	7,000	(1,025)
EMS Fees	200	0	(200)
Marina Fees	11,000	12,950	1,950
Other Fees	510	731	221
	<u>34,935</u>	<u>36,567</u>	<u>1,632</u>
Other:			
Interest Earnings	2,000	19,738	17,738
Lease	7,312	7,311	(1)
Contributions - Fire Works	0	200	200
Miscellaneous	500	9,432	8,932
	<u>9,812</u>	<u>36,681</u>	<u>26,869</u>
TOTAL REVENUES	<u>1,615,150</u>	<u>1,685,539</u>	<u>70,389</u>

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2005

	Final Budget	Actual	Variance Positive (Negative)
EXPENDITURES:			
General Government:			
Administration	\$ 435,228	\$ 416,315	\$ 18,913
Public Works and Sanitation:			
Public Works	192,799	219,955	(27,156)
Roads	32,824	31,685	1,139
Water	182,926	176,312	6,614
Solid Waste	43,400	39,244	4,156
	<u>451,949</u>	<u>467,196</u>	<u>(15,247)</u>
Public Safety:			
Fire and Safety	49,043	40,943	8,100
Police	35,751	35,751	0
Emergency Medical	6,000	8,783	(2,783)
	<u>90,794</u>	<u>85,477</u>	<u>5,317</u>
Recreation:	<u>36,806</u>	<u>29,169</u>	<u>7,637</u>
Education:			
School Administrative District 6	<u>783,762</u>	<u>732,400</u>	<u>51,362</u>
Fixed Expenses:			
County Tax	53,598	56,539	(2,941)
Overlay	452	0	452
Debt Service	24,000	27,696	(3,696)
	<u>78,050</u>	<u>84,235</u>	<u>(6,185)</u>
Capital Outlay:			
Capital Acquisition	<u>275,000</u>	<u>263,164</u>	<u>11,836</u>
TOTAL EXPENDITURES	<u>2,151,589</u>	<u>2,077,956</u>	<u>73,633</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(536,439)</u>	<u>(392,417)</u>	<u>144,022</u>
OTHER FINANCING SOURCES (USES):			
Budgeted Use of Surplus	432,054	0	(432,054)
Budgeted Use of Reserves	104,385	0	(104,385)
	<u>536,439</u>	<u>0</u>	<u>(536,439)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 0</u>	<u>\$ (392,417)</u>	<u>\$ (392,417)</u>

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 0</u>	<u>\$ (392,417)</u>	<u>\$ (392,417)</u>
RECONCILIATION TO MODIFIED ACCRUAL BASIS			
Transfers to Reserves		22,000	
Interest and Other Income to Reserves		<u>67,490</u>	
		<u>89,490</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES		<u>\$ (302,927)</u>	

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF CHANGES IN FUND BALANCE - GENERAL FUND
YEAR ENDED DECEMBER 31, 2005

	<u>Reserved</u>	<u>Unreserved</u>		<u>Total</u>
	Specific Purpose (Schedule 1)	Designated for Subsequent Years' Expenditures	Undesignated	
FUND BALANCE - JANUARY 1, 2005	\$ 136,777	\$ 61,376	\$ 437,757	\$ 635,910
TRANSFER FROM CURRENT OPERATIONS OF ENTERPRISE FUND	99,875	0	0	99,875
EXCESS OF ACTUAL REVENUES AND OTHER SOURCES OVER (UNDER) ACTUAL EXPENDITURES AND OTHER USES	<u>(16,895)</u>	<u>11,961</u>	<u>(297,993)</u>	<u>(302,927)</u>
FUND BALANCE - DECEMBER 31, 2005	<u>\$ 219,757</u>	<u>\$ 73,337</u>	<u>\$ 139,764</u>	<u>\$ 432,858</u>

The following schedules are presented for purposes of additional analysis and are not a required part of the 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 financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

TOWN OF FRYE ISLAND, MAINE
COMBINING STATEMENT OF GENERAL FUND RESERVES
YEAR ENDED DECEMBER 31, 2005

	Capital Funds Reserve	Water System Reserve	Recreation Reserve	Equipment Reserve	Fire and Safety Reserve	Island Improvement Reserve	Revaluation Reserve	Total
APPROPRIATIONS:	\$ 0	\$ 0	\$ 0	\$ 20,000	\$ 0	\$ 0	\$ 0	\$ 20,000
REVENUES:								
Interest	436	395	140	323	303	846	47	2,490
Other	0	0	0	0	0	65,000	0	65,000
	<u>436</u>	<u>395</u>	<u>140</u>	<u>323</u>	<u>303</u>	<u>65,846</u>	<u>47</u>	<u>67,490</u>
EXPENDITURES FOR DESIGNATED PURPOSES	<u>6,688</u>	<u>25,000</u>	<u>0</u>	<u>18,207</u>	<u>0</u>	<u>54,490</u>	<u>0</u>	<u>104,385</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,252)	(24,605)	140	2,116	303	11,356	47	(16,895)
BALANCE - BEGINNING OF YEAR	24,721	25,380	1,743	1,198	19,524	62,226	1,985	136,777
TRANSFER FROM (TO) ENTERPRISE FUND	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>99,875</u>	<u>0</u>	<u>99,875</u>
BALANCE - END OF YEAR	<u>\$ 18,469</u>	<u>\$ 775</u>	<u>\$ 1,883</u>	<u>\$ 3,314</u>	<u>\$ 19,827</u>	<u>\$ 173,457</u>	<u>\$ 2,032</u>	<u>\$ 219,757</u>

Berry, Fowles & Co., Falmouth, Maine

TOWN OF FRYE ISLAND, MAINE
VALUATION, ASSESSMENT AND COLLECTION OF TAXES
YEAR ENDED DECEMBER 31, 2005

VALUATION AND ASSESSMENT

Real Property	\$	88,394,300
Personal Property		<u>57,300</u>
		88,451,600
Tax Rate per Thousand		<u>17.04</u>
TAX COMMITMENT	\$	<u>1,507,215</u>

APPROPRIATIONS

Municipal Functions	\$	1,168,538
MSAD 6		783,762
County Tax		53,598
Overlay		<u>452</u>
		2,006,350
Less: Estimated Revenues		<u>499,135</u>
TAX COMMITMENT	\$	<u>1,507,215</u>

COLLECTION OF 2005 TAXES

Original Commitment	\$	1,507,215
Less: Collections	\$	1,489,124
Abatements		479
Transferred to Liens		<u>13,228</u>
		1,502,831
BALANCE OUTSTANDING AT DECEMBER 31, 2005	\$	<u>4,384</u>