

**TOWN OF FRYE ISLAND
FINANCIAL REPORT**



DECEMBER 31, 2006

TOWN OF FRYE ISLAND, MAINE
DECEMBER 31, 2006

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
Statement of Departmental Operations	Schedule 3



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, as of and for the year ended December 31, 2006, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town'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.

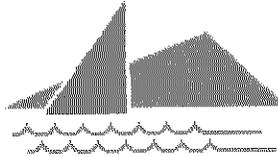
In our opinion, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Frye Island, Maine as of December 31, 2006 and the respective changes in financial position and, where applicable, cash flows 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
May 31, 2007



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, 2006. This is the Town's third 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 in the financial statements should be considered when reading the Town's financial statements.

2006 Financial Highlights

The assets of the Town of Frye Island are divided into two (2) basic groups. The "Governmental Funds" groups the activities that deal with the operation of the municipality. These include Administration, Public Works, Public Safety, Recreation, School, County and other activities approved by the Town. These activities are supported, primarily, from revenues received from taxes and fees. The "Enterprise Fund" groups the business-type activities which includes the ferry service, the golf operation and the marinas. Total Net Assets for the governmental activities for the year ending on December 31, 2006 were \$2,516,335, an increase of \$169,771 over 2005. Total Net assets for the business type activities for the year ending on December 31, 2006 were \$2,873,319, a decrease of \$1,462. This decrease was due to the depreciation of the existing assets.

The total fund balance for the year ending December 31, 2006 was \$575,867, an increase of \$143,009 over the previous year. Of this balance, \$279,622 is designated for specific capital expenditures, including ferry projects, water system renovations, island improvement projects, etc. This leaves an undesignated balance of \$296,245 which provides the Town with an adequate surplus for unexpected expenses.

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 2006 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, 2006**

	Governmental Activities	Business-type Activities	Total
Current & Other Assets	\$ 1,432,941	\$ 258,000	\$ 1,690,941
Capital Assets, net	<u>2,353,711</u>	<u>2,628,439</u>	<u>4,982,150</u>
Total Assets	<u>3,786,652</u>	<u>2,886,439</u>	<u>6,673,091</u>
Non-current Liabilities	432,563	5,470	438,033
Current Liabilities	<u>837,754</u>	<u>7,650</u>	<u>845,404</u>
Total Liabilities	<u>1,270,317</u>	<u>13,120</u>	<u>1,283,437</u>
Net Assets:			
Invested in Capital Assets, net of related debt	1,896,881	2,617,499	4,514,380
Unrestricted	<u>619,454</u>	<u>255,820</u>	<u>875,274</u>
Total Net Assets	<u>\$ 2,516,335</u>	<u>\$ 2,873,319</u>	<u>\$ 5,389,654</u>

The assets of the Town of Frye Island exceeded its liabilities at the close of the most recent fiscal year by \$5,389,654 per Statement 1 (Statement of Net Assets). Of this amount, \$875,274 (unrestricted net assets) may be used to meet the Town's ongoing obligations to citizens and creditors. The total net assets of Frye Island increased by \$168,309 over the previous year.

As of the close of the current fiscal year, the Town of Frye Island reported combined ending fund balances of \$575,867 an increase of \$143,009. Approximately 50% of this total amount, \$296,245 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, 2006**

	Governmental Activities	Business-type Activities	Total
<i>Revenues</i>			
Program revenues:			
Charges for services	\$ 101,540	\$ 723,718	\$ 825,258
Operating grants & contributions	4,000	0	4,000
General revenues:			
Property and excise taxes	1,585,418	0	1,585,418
Intergovernmental	11,622	0	11,622
Contributions	50,131	3,129	53,260
Transfers	70,165	(70,165)	0
Total Revenues	<u>1,822,876</u>	<u>656,682</u>	<u>2,479,558</u>
<i>Expenses</i>			
Administration	364,195	0	364,195
Public Works and Sanitation	326,667	0	326,667
Public Safety	75,217	0	75,217
Recreation	29,201	0	29,201
Education	776,952	0	776,952
Fixed Expenses	80,873	0	80,873
Program Expenditures	<u>0</u>	<u>658,144</u>	<u>658,144</u>
Total Expenses	<u>1,653,105</u>	<u>658,144</u>	<u>2,311,249</u>
Change in Net Assets	<u>\$ 169,771</u>	<u>\$ (1,462)</u>	<u>\$ 168,309</u>

Analysis of Significant General Fund Budget Variances

Total revenues came in \$19,253 more than expected, a 1.10% variance. The actual expenditures were \$143,906 less than the projected budget, an 7.81 % variance (Statement 6).

Significant Capital Asset and Long-Term Debt Activity

- Capital assets totaling \$4,982,150 (Statement 1) are being reported as of December 31, 2006. This represents a decrease of \$65,719 over the previous year. The decrease is primarily due to the depreciation of existing capital assets.

By State law, the Town may have a debt service not to exceed 15% of the total State assessed valuation of the Town which was \$111,900,000 in 2006. This creates a maximum allowed debt service of \$16,785,000. The actual long-term debt as of December 31, 2006 was \$455,216 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, as such, 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 required expenses which include payments to Maine School Administration District #6, Cumberland County and the Maine Municipal Bond Bank for the loan for improvements made to the water system. In 2006, these expenses totaled \$870,436. The largest contributor to these required 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 2006, the State assessed value for Frye Island was \$111,900,000; for 2007 the State assessed value increases to \$141,600,000; and we know that for 2008 the State assessed value increases again to \$179,100,000. Frye Island's State assessed value has increased at a rate of approximately 26% for the past few years. During this same time frame, the other communities within the School District and Cumberland County have an average increase of 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 increasing trend is expected to continue for the near future. I anticipate that by the 2008 budget period, Frye Island will be facing approximately \$1,000,000 in these required expenses. The Town 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. This suit remains undecided in the court.

In addition to the general operation of the Town, we must also wrestle with the fact that our public water system is in need of upgrading and the existing ferries are 40 years old and the operation of the entire ferry service must be addressed. Both of these systems are in need of upgrading to accommodate the existing population and expansion to accommodate the growth expected as we build out to the 750 septic systems allowed by the court. In an effort to begin the process, the Board of Selectmen has authorized an engineering study of our water distribution system. Preliminary reports have been received which place a cost approaching \$3,000,000. In addition, they have also re-commissioned the Transportation Committee and charged them with the task of making specific recommendations to the ferry service, taking into account the need to plan for the build-out to 750 and the demographic changes anticipated in the future. No cost has been determined for modifications to the ferry service as yet.

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
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS:			
Cash/Investments	\$ 1,476,558	\$ 157,715	\$ 1,634,273
Receivables (Net of Allowance for Uncollectibles):			
Taxes	21,205	0	21,205
Liens	15,875	0	15,875
Accounts	0	23	23
Inventory	0	6,158	6,158
Internal Balances	(94,104)	94,104	0
Tax Acquired Property	13,407	0	13,407
Capital Assets:			
Land and Improvements	591,164	1,258,400	1,849,564
Other Capital Assets, Net of Depreciation	1,762,547	1,370,039	3,132,586
TOTAL ASSETS	<u>3,786,652</u>	<u>2,886,439</u>	<u>6,673,091</u>
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts Payable	122,880	0	122,880
Accrued Expenses	0	880	880
Accrued Interest Payable	1,614	0	1,614
Deferred Revenues	690,607	1,300	691,907
Long-Term Liabilities			
Due within One Year	22,653	5,470	28,123
Due in More Than One Year	432,563	5,470	438,033
Total Liabilities	<u>1,270,317</u>	<u>13,120</u>	<u>1,283,437</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,896,881	2,617,499	4,514,380
Unrestricted	619,454	255,820	875,274
TOTAL NET ASSETS	<u>\$ 2,516,335</u>	<u>\$ 2,873,319</u>	<u>\$ 5,389,654</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, 2006

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS						
Primary Government						
Governmental Activities						
General Government	\$ 364,195	\$ 79,180	\$ 0	\$ (285,015)	\$ 0	\$ (285,015)
Public Works and Sanitation	326,667	21,236	4,000	(301,431)	0	(301,431)
Public Safety	75,217	400	0	(74,817)	0	(74,817)
Recreation	29,201	724	0	(28,477)	0	(28,477)
Education	776,952	0	0	(776,952)	0	(776,952)
Fixed Expenses	80,873	0	0	(80,873)	0	(80,873)
Capital Outlay	0	0	0	0	0	0
Total governmental activities	<u>1,653,105</u>	<u>101,540</u>	<u>4,000</u>	<u>(1,547,565)</u>	<u>0</u>	<u>(1,547,565)</u>
Business-type activities						
Ferry	418,579	455,855	0	0	37,276	37,276
Golf Club	188,349	184,680	0	0	(3,669)	(3,669)
Yacht Club	51,216	83,183	0	0	31,967	31,967
Total business-type activities	<u>658,144</u>	<u>723,718</u>	<u>0</u>	<u>0</u>	<u>65,574</u>	<u>65,574</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 2,311,249</u>	<u>\$ 825,258</u>	<u>\$ 4,000</u>	<u>\$ (1,547,565)</u>	<u>\$ 65,574</u>	<u>\$ (1,481,991)</u>

General revenues:

Taxes - Property	\$ 1,570,503	\$ 0	\$ 1,570,503
Taxes - Excise	14,915	0	14,915
Intergovernmental	11,622	0	11,622
Miscellaneous	0	0	0
Investment Earnings	50,131	3,129	53,260
Total General Revenues, Special Items	<u>1,647,171</u>	<u>3,129</u>	<u>1,650,300</u>
Change in Net Assets	99,606	68,703	168,309
Net Assets - January 1, 2006	2,346,564	2,874,781	5,221,345
Transfers	70,165	(70,165)	0
Net Assets - December 31, 2006	<u>\$ 2,516,335</u>	<u>\$ 2,873,319</u>	<u>\$ 5,389,654</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, 2006

	<u>Total Governmental Funds</u>
	<u>General Fund</u>
ASSETS:	
Cash/Investments	\$ 1,476,558
Receivables (Net of Allowance for Uncollectibles):	
Taxes	21,205
Liens	15,875
Tax Acquired Property	13,407
TOTAL ASSETS	<u>1,527,045</u>
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Accounts Payable	122,880
Due to Other Funds	94,104
Deferred Revenues	734,194
Total Liabilities	<u>951,178</u>
Fund Balances:	
Reserved:	
For Specific Purposes	279,622
Unreserved:	
Designated for Subsequent Years Expenditures	38,184
Undesignated	258,061
Total Fund Balances	<u>575,867</u>
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.	2,353,711
Long-term liabilities, including leases payable, are not due and payable in the current period and therefore are not reported in the funds.	
Bonds Payable	(455,216)
Accrued Interest	<u>(1,614)</u>
Funds are not available to pay for current period expenditures and therefore are deferred in the funds.	<u>43,587</u>
Net Assets of Governmental Activities	<u>\$ 2,516,335</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, 2006

		<u>Total Governmental Funds</u>
		<u>General Fund</u>
REVENUES:		
Taxes	\$ 1,587,003	
Licenses and Permits	37,846	
Intergovernmental	8,285	
Charges for Services	72,125	
Miscellaneous	54,769	
Total Revenues		<u>1,760,028</u>
 EXPENDITURES:		
General Government	360,321	
Public Works and Sanitation	296,830	
Public Safety	75,217	
Recreation	29,201	
Education	776,952	
Fixed Expenses	103,334	
Capital Outlay	45,329	
Total Expenditures		<u>1,687,184</u>
 EXCESS OF REVENUES UNDER EXPENDITURES		72,844
 OTHER FINANCING SOURCES (USES)		<u>0</u>
 EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES		72,844
 FUND BALANCES - JANUARY 1, 2006		432,858
 TRANSFER FROM ENTERPRISE FUND		<u>70,165</u>
 FUND BALANCES - DECEMBER 31, 2006		<u><u>\$ 575,867</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, 2006

Net change in fund balances - total governmental funds (from Statement 4) \$ 72,844

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	52,450	
Depreciation	<u>(49,278)</u>	3,172

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	617	
Bond Repayments	22,403	
Accrued Interest	<u>58</u>	23,078

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

512

Change in net assets of governmental activities (see Statement 2) \$ 99,606

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND
BUDGETARY BASIS
YEAR ENDED DECEMBER 31, 2006

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES:				
Taxes	\$ 1,585,758	\$ 1,585,758	\$ 1,587,003	\$ 1,245
Licenses and Permits	25,426	29,170	37,846	8,676
Intergovernmental	4,046	4,046	8,285	4,239
Charges for Services	94,925	94,925	72,125	(22,800)
Other	20,004	20,004	47,897	27,893
TOTAL REVENUES	<u>1,730,159</u>	<u>1,733,903</u>	<u>1,753,156</u>	<u>19,253</u>
EXPENDITURES:				
General Government	458,045	458,045	360,321	97,724
Public Works and Sanitation	329,073	329,073	316,830	12,243
Public Safety	77,027	77,027	75,217	1,810
Recreation	37,207	37,207	29,201	8,006
Education	783,762	783,762	776,952	6,810
Fixed Expenses	100,647	100,647	103,334	(2,687)
Capital Outlay	0	65,329	45,329	20,000
TOTAL EXPENDITURES	<u>1,785,761</u>	<u>1,851,090</u>	<u>1,707,184</u>	<u>143,906</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(55,602)	(117,187)	45,972	163,159
OTHER FINANCING SOURCES (USES):	<u>(4,400)</u>	<u>(4,400)</u>	<u>(3,833)</u>	<u>567</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER(UNDER) EXPENDITURES AND OTHER USES	<u>\$ (60,002)</u>	<u>\$ (121,587)</u>	<u>\$ 42,139</u>	<u>\$ 163,726</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, 2006

	<u>Enterprise Funds</u>			<u>Totals</u>
	<u>Ferry Service</u>	<u>Golf Course</u>	<u>Marina</u>	<u>2006</u>
ASSETS:				
Current Assets				
Cash	\$ 76,586	\$ 65,696	\$ 15,433	\$ 157,715
Accounts Receivable	0	23	0	23
Inventory	0	6,158	0	6,158
Capital Assets, Net of Depreciation	951,871	868,633	807,935	2,628,439
Due from Other Funds	<u>68,655</u>	<u>10,387</u>	<u>15,062</u>	<u>94,104</u>
TOTAL ASSETS	<u>1,097,112</u>	<u>950,897</u>	<u>838,430</u>	<u>2,886,439</u>
LIABILITIES:				
Current Liabilities:				
Accrued Expenses	0	880	0	880
Leases Payable	0	10,940	0	10,940
Deferred Revenues	0	0	1,300	1,300
Total Current Liabilities	<u>0</u>	<u>11,820</u>	<u>1,300</u>	<u>13,120</u>
NET ASSETS:				
Invested in Capital Assets, Net of Related Debt	951,871	857,693	807,935	2,617,499
Unrestricted Net Assets	<u>145,241</u>	<u>81,384</u>	<u>29,195</u>	<u>255,820</u>
TOTAL NET ASSETS	<u>\$ 1,097,112</u>	<u>\$ 939,077</u>	<u>\$ 837,130</u>	<u>\$ 2,873,319</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, 2006

	<u>Enterprise Fund</u>			<u>Totals</u>
	<u>Ferry Service</u>	<u>Golf Course</u>	<u>Marina</u>	<u>2006</u>
OPERATING REVENUES:				
Memberships and Fees	\$ 0	\$ 110,733	\$ 0	\$ 110,733
Lounge and Pro Shop Sales	0	51,669	0	51,669
Equity Fees	0	0	16,525	16,525
Rental Fees	0	0	62,825	62,825
Charges for Services	448,026	0	0	448,026
Miscellaneous	7,829	22,278	0	30,107
	<u>455,855</u>	<u>184,680</u>	<u>79,350</u>	<u>719,885</u>
OPERATING EXPENDITURES	<u>418,579</u>	<u>188,349</u>	<u>51,216</u>	<u>658,144</u>
OPERATING INCOME (LOSS)	37,276	(3,669)	28,134	61,741
NON-OPERATING REVENUES				
Interest Income	<u>1,485</u>	<u>1,315</u>	<u>329</u>	<u>3,129</u>
INCOME (LOSS) BEFORE TRANSFERS	38,761	(2,354)	28,463	64,870
OTHER FINANCING SOURCES (USES):				
Transfers from General Fund Reserve	0	0	3,833	3,833
Transfers to General Fund Reserve	(31,536)	0	(38,629)	(70,165)
	<u>(31,536)</u>	<u>0</u>	<u>(34,796)</u>	<u>(66,332)</u>
CHANGE IN NET ASSETS	7,225	(2,354)	(6,333)	(1,462)
NET ASSETS - JANUARY 1,	<u>1,089,887</u>	<u>941,431</u>	<u>843,463</u>	<u>2,874,781</u>
NET ASSETS - DECEMBER 31,	<u>\$ 1,097,112</u>	<u>\$ 939,077</u>	<u>\$ 837,130</u>	<u>\$ 2,873,319</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, 2006

	<u>Enterprise Fund</u>			<u>Totals</u>
	<u>Ferry Service</u>	<u>Golf Course</u>	<u>Marina</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 455,855	\$ 184,657	\$ 83,083	\$ 723,595
Payments to Suppliers	(254,827)	(84,590)	(27,526)	(366,943)
Payments to Employees	(132,617)	(85,764)	0	(218,381)
Other Receipts (Payments)	11,633	8,364	(43,099)	(23,102)
Net Cash Provided by Operating Activities	<u>80,044</u>	<u>22,667</u>	<u>12,458</u>	<u>115,169</u>
CASH FLOWS (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisitions and Construction of Operating Property	<u>(54,088)</u>	<u>(5,000)</u>	<u>(7,665)</u>	<u>(66,753)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(54,088)</u>	<u>(5,000)</u>	<u>(7,665)</u>	<u>(66,753)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	<u>1,485</u>	<u>1,315</u>	<u>329</u>	<u>3,129</u>
NET INCREASE IN CASH	<u>27,441</u>	<u>18,982</u>	<u>5,122</u>	<u>51,545</u>
CASH - AT BEGINNING OF YEAR	<u>49,145</u>	<u>46,714</u>	<u>10,311</u>	<u>106,170</u>
CASH - AT END OF YEAR	<u>\$ 76,586</u>	<u>\$ 65,696</u>	<u>\$ 15,433</u>	<u>\$ 157,715</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 37,276	\$ (3,669)	\$ 28,134	\$ 61,741
Transfers to General Fund Reserves	(31,536)	0	(38,629)	(70,165)
Adjustments not affecting cash:				
Depreciation Expense	87,594	24,360	23,690	135,644
Change in Assets and Liabilities				
(Increase) Decrease in:				
Accounts and Notes Receivable	0	(23)	0	(23)
Inventory	0	3,892	0	3,892
Due to/from Other Funds	50,998	8,364	(637)	58,725
(Decrease) Increase in:				
Accounts Payable	(56,459)	(10,140)	0	(66,599)
Accrued Expenses	0	(117)	0	(117)
Deferred Revenues	0	0	(100)	(100)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 87,873</u>	<u>\$ 22,667</u>	<u>\$ 12,458</u>	<u>\$ 122,998</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash	<u>\$ 76,586</u>	<u>\$ 65,696</u>	<u>\$ 15,433</u>	<u>\$ 157,715</u>

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

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

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, 2006

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, 2006

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, 2006

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, 2006, 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, 2006

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, 2006, none of the Town's bank balance of \$1,572,055 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, 2006, investments consisted of the following:

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

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

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, 2005. 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, 2006 was based, was \$92,328,200. Interest was charged at 6.50% on all unpaid taxes from January 1, 2006, and July 1, 2006. The following summarizes the levy:

Valuation and Assessment		
Real Property		\$ 92,273,200
Personal Property		<u>55,000</u>
Total Valuation		92,328,200
Tax Rate per Thousand		<u>17.01</u>
Tax Commitment		<u>\$ 1,570,503</u>
Collection of 2006 Taxes		
Original Commitment		\$ 1,570,503
Less: Collection in Current Year	\$ 1,545,195	
Abatements	9,850	
Transferred to Liens	<u>13,625</u>	<u>1,568,670</u>
Taxes Receivable		<u>\$ 1,833</u>

Taxes receivable at December 31, 2006 are as follows:

	<u>General</u>
Taxes - Current Year	\$ 1,833
Taxes - Prior Year	<u>19,372</u>
	<u>\$ 21,205</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 \$7,847 for the year ended December 31, 2006. 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, 2006 are recognized as revenues. The remaining receivables estimated to be collectible subsequent to the sixty (60) day period are recorded as deferred revenues.

The 2006 property taxes were committed November 1, 2005, were due and payable on January 1 and July 1, 2006, and have been recorded as revenues. The 2007 property taxes were levied November 1, 2006, and are due and payable January 1, and July 1, 2007. The payments collected in 2006 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, 2006

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, 2006, the balances due to and due from accounts were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 0	\$ 94,104
Enterprise		
Ferry	68,655	0
Golf Club	10,387	0
Yacht Club	<u>15,062</u>	<u>0</u>
	<u>\$ 94,104</u>	<u>\$ 94,104</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 \$28,000, 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, 2006

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, 2006, was as follows:

	Balance December 31, <u>2005</u>	<u>Additions</u>	Balance December 31, <u>2006</u>
Governmental Activities:			
Cost of Assets:			
Land and Land Improvements	\$ 591,164	\$ 0	\$ 591,164
Buildings and Building Improvements	756,220	0	756,220
Equipment and Vehicles	<u>1,065,968</u>	<u>52,450</u>	<u>1,118,418</u>
Total	<u>2,413,352</u>	<u>52,450</u>	<u>2,465,802</u>
Accumulated Depreciation:			
Land and Land Improvements	0	0	0
Buildings and Building Improvements	18,547	13,859	32,406
Equipment and Vehicles	<u>44,266</u>	<u>35,419</u>	<u>79,685</u>
Total	<u>62,813</u>	<u>49,278</u>	<u>112,091</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,350,539</u>	<u>\$ 3,172</u>	<u>\$ 2,353,711</u>

Depreciation was charged to functions as follows:

General Government	\$ 4,491
Public Works and Sanitation	<u>44,787</u>
	<u>\$ 49,278</u>

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

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>2005</u>	<u>Additions</u>	Balance December 31, <u>2006</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>1,439,434</u>	<u>66,753</u>	<u>1,506,187</u>
Total	<u>2,998,114</u>	<u>66,753</u>	<u>3,064,867</u>
Accumulated Depreciation:			
Land and Land Improvements	38,100	19,050	57,150
Buildings and Building Improvements	13,342	6,632	19,974
Equipment and Vehicles	<u>249,342</u>	<u>109,962</u>	<u>359,304</u>
Total	<u>300,784</u>	<u>135,644</u>	<u>436,428</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,697,330</u>	<u>\$ (68,891)</u>	<u>\$ 2,628,439</u>
Depreciation was charged to functions as follows:			
Ferry	\$ 87,594		
Golf Course	24,360		
Marina	<u>23,690</u>		
	<u>\$ 135,644</u>		

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 7 - LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The following is a summary of long-term debt transactions of the Town for the year ended December 31, 2006:

	General Long-Term Debt
Long-Term Debt Payable at December 31, 2005	\$ 477,619
Debt Retired	<u>(22,403)</u>
Long-Term Debt Payable at December 31, 2006	<u>\$ 455,216</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. \$ 455,216

The annual requirements to amortize debts outstanding as of December 31, 2006, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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	23,687	5,423	29,110
2012 – 2016	123,015	22,540	145,555
2017 – 2021	131,986	13,569	145,555
2022 – 2025	<u>84,419</u>	<u>2,952</u>	<u>87,371</u>
	<u>\$ 455,216</u>	<u>\$ 68,815</u>	<u>\$ 524,031</u>

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

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

Capital Lease Obligations

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, 2006:

	<u>Capital Lease Obligations</u>
Capital Lease Obligations Payable at December 31, 2005	\$ 10,940
Less Debt Retired (The Town has paid in advance)	<u> (0)</u>
Capital Lease Obligations Payable at December 31, 2006	<u>\$ 10,940</u>

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.	<u>\$ 10,940</u>
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The annual requirement for capital lease obligations outstanding as of December 31, 2006 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 5,470	\$ 0	\$ 5,470
2008	<u>5,470</u>	<u>0</u>	<u>5,470</u>
	<u>\$ 10,940</u>	<u>\$ 0</u>	<u>\$ 10,940</u>

Note 8 - 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, 2006. 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, 2006

Note 8 - 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 9 - 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 .33% (\$34,385) of Cumberland County's outstanding debt of \$10,560,000, and 5.06% (\$510,986) of Maine School Administrative District No. 6's outstanding bonded debt of \$10,098,535. In addition, the Town is contracted to pay subsidy to MSAD No. 6 until June 30, 2007, totaling \$409,093.

Note 10 - 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)	\$ 42,139
Interest and Other Income from Reserve Funds	23,833
Budgeted transfers to reserves	<u>6,872</u>
Excess of revenues over(under) expenditures (Statement 4)	<u>\$ 72,844</u>

TOWN OF FRYE ISLAND, MAINE
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

Note 11 - 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, 2006, are as follows:

Capital Funds	\$ 19,194
Water System Improvements	792
Recreation	1,926
Equipment	8
Fire and Safety	30,302
Island Improvement	225,321
Revaluation	<u>2,079</u>
	<u>\$ 279,622</u>

Schedule 1 summarizes the activity in 2006.

Note 12 - 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, 2006 was approximately \$11,218. 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 \$38,413 for the year ended December 31, 2006.

TOWN OF FRYE ISLAND, MAINE
DECEMBER 31, 2006

SUPPLEMENTAL DATA

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, 2006
(With Comparative Totals for the Year ended December 31, 2005)

	<u>2006</u>	<u>2005</u>
ASSETS:		
Cash/Investments	\$ 1,476,558	\$ 1,289,836
Receivable:		
Taxes	21,205	17,469
Tax Liens	15,875	16,723
Accounts	0	300
Tax Acquired Property	<u>13,407</u>	<u>9,250</u>
TOTAL ASSETS	<u><u>\$ 1,527,045</u></u>	<u><u>\$ 1,333,578</u></u>
 LIABILITIES AND FUND BALANCES:		
Liabilities:		
Accounts Payable	\$ 122,880	\$ 88,644
Due to Other Funds	94,104	140,720
Deferred Revenue	<u>734,194</u>	<u>671,356</u>
	<u>951,178</u>	<u>900,720</u>
 Fund Balances:		
Reserved:		
For Specific Purposes	279,622	219,757
Unreserved:		
Designated for Subsequent Years Expenditures	38,184	73,337
Undesignated	<u>258,061</u>	<u>139,764</u>
	<u>575,867</u>	<u>432,858</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 1,527,045</u></u>	<u><u>\$ 1,333,578</u></u>

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:			
Taxes:			
Property	\$ 1,570,503	\$ 1,570,503	\$ 0
Change in Deferred Property Revenues	0	(512)	(512)
Excise	11,810	13,380	1,570
Interest and Lien costs on Taxes	3,445	3,632	187
	<u>1,585,758</u>	<u>1,587,003</u>	<u>1,245</u>
Licenses and Permits:			
Boat and Vehicle Registrations	1,150	1,542	392
Building Permits	25,000	32,030	7,030
Plumbing and Electrical Permits	2,000	2,649	649
Other Permits and Fines	900	1,423	523
Hunting/Fishing	120	202	82
	<u>29,170</u>	<u>37,846</u>	<u>8,676</u>
Intergovernmental:			
DOT Grant	3,383	3,383	0
Homestead Exemptions	663	592	(71)
Miscellaneous	0	4,310	4,310
	<u>4,046</u>	<u>8,285</u>	<u>4,239</u>
Charges for Services:			
Water Hook-up Fees	3,750	6,500	2,750
Solid Waste Fee	10,950	13,736	2,786
Septic Waste Fee	200	330	130
Management Fee	78,295	49,300	(28,995)
EMS Fees	0	400	400
Other Fees	1,730	1,859	129
	<u>94,925</u>	<u>72,125</u>	<u>(22,800)</u>
Other:			
Interest Earnings	12,000	39,477	27,477
Lease	8,004	7,978	(26)
Miscellaneous	0	442	442
	<u>20,004</u>	<u>47,897</u>	<u>27,893</u>
TOTAL REVENUES	<u>1,733,903</u>	<u>1,753,156</u>	<u>19,253</u>

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES:			
General Government:			
Administration	\$ 458,045	\$ 360,321	\$ 97,724
Public Works and Sanitation:			
Public Works	198,622	198,958	(336)
Roads	31,150	30,269	881
Water	53,301	47,945	5,356
Solid Waste	46,000	39,658	6,342
	<u>329,073</u>	<u>316,830</u>	<u>12,243</u>
Public Safety:			
Fire and Safety	32,133	32,133	0
Police	38,894	37,629	1,265
Emergency Medical	6,000	5,455	545
	<u>77,027</u>	<u>75,217</u>	<u>1,810</u>
Recreation:	<u>37,207</u>	<u>29,201</u>	<u>8,006</u>
Education:			
School Administrative District 6	<u>783,762</u>	<u>776,952</u>	<u>6,810</u>
Fixed Expenses:			
County Tax	62,200	62,884	(684)
Overlay	7,847	9,850	(2,003)
Debt Service	30,600	30,600	0
	<u>100,647</u>	<u>103,334</u>	<u>(2,687)</u>
Capital Outlay:			
Capital Acquisition	<u>65,329</u>	<u>45,329</u>	<u>20,000</u>
TOTAL EXPENDITURES	<u>1,851,090</u>	<u>1,707,184</u>	<u>143,906</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(117,187)</u>	<u>45,972</u>	<u>163,159</u>
OTHER FINANCING SOURCES (USES):			
Carryforward from 2005	73,337	0	(73,337)
Budgeted Use of Surplus	150	0	(150)
Budgeted Use of Reserves	48,100	0	(48,100)
Transfer to Enterprise Fund	(4,400)	(3,833)	567
	<u>117,187</u>	<u>(3,833)</u>	<u>(121,020)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>\$ 0</u>	<u>\$ 42,139</u>	<u>\$ 42,139</u>

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - BUDGETARY BASIS - GENERAL FUND
YEAR ENDED DECEMBER 31, 2006

	<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>\$ 42,139</u>	<u>\$ 42,139</u>
RECONCILIATION TO MODIFIED ACCRUAL BASIS			
Transfers to Reserves		23,833	
Interest and Other Income to Reserves		<u>6,872</u>	
		<u>30,705</u>	
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES		<u>\$ 72,844</u>	

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF CHANGES IN FUND BALANCE - GENERAL FUND
YEAR ENDED DECEMBER 31, 2006

	<u>Reserved</u>	<u>Unreserved</u>		
	Specific Purpose (Schedule 1)	Designated for Subsequent Years' Expenditures	Undesignated	<u>Total</u>
FUND BALANCE - JANUARY 1, 2006	\$ 219,757	\$ 73,337	\$ 139,764	\$ 432,858
TRANSFER FROM CURRENT OPERATIONS OF ENTERPRISE FUND	70,165	0	0	70,165
EXCESS OF ACTUAL REVENUES AND OTHER SOURCES OVER (UNDER) ACTUAL EXPENDITURES AND OTHER USES	<u>(10,300)</u>	<u>(35,153)</u>	<u>118,297</u>	<u>72,844</u>
FUND BALANCE - DECEMBER 31, 2006	<u>\$ 279,622</u>	<u>\$ 38,184</u>	<u>\$ 258,061</u>	<u>\$ 575,867</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, 2006

	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	\$ 10,000	\$ 0	\$ 0	\$ 30,000
REVENUES:								
Interest	725	17	43	33	475	5,532	47	6,872
EXPENDITURES FOR DESIGNATED PURPOSES	<u>0</u>	<u>0</u>	<u>0</u>	<u>23,339</u>	<u>0</u>	<u>23,833</u>	<u>0</u>	<u>47,172</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	725	17	43	(3,306)	10,475	(18,301)	47	(10,300)
BALANCE - BEGINNING OF YEAR	18,469	775	1,883	3,314	19,827	173,457	2,032	219,757
TRANSFER FROM (TO) ENTERPRISE FUND	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>70,165</u>	<u>0</u>	<u>70,165</u>
BALANCE - END OF YEAR	<u>\$ 19,194</u>	<u>\$ 792</u>	<u>\$ 1,926</u>	<u>\$ 8</u>	<u>\$ 30,302</u>	<u>\$ 225,321</u>	<u>\$ 2,079</u>	<u>\$ 279,622</u>

TOWN OF FRYE ISLAND, MAINE
VALUATION, ASSESSMENT AND COLLECTION OF TAXES
YEAR ENDED DECEMBER 31, 2006

VALUATION AND ASSESSMENT

Real Property		\$ 92,273,200
Personal Property		55,000
		92,328,200
Tax Rate per Thousand		17.01
TAX COMMITMENT		\$ 1,570,503

APPROPRIATIONS

Municipal Functions		\$ 876,711
MSAD 6		783,762
County Tax		62,200
Overlay		7,848
		1,730,521
Less: Estimated Revenues		160,018
TAX COMMITMENT		\$ 1,570,503

COLLECTION OF 2006 TAXES

Original Commitment		\$ 1,570,503
Less: Collections	\$ 1,545,195	
Abatements	9,850	
Transferred to Liens	13,625	1,568,670
BALANCE OUTSTANDING AT DECEMBER 31, 2006		\$ 1,833

TOWN OF FRYE ISLAND, MAINE
STATEMENT OF DEPARTMENTAL OPERATIONS
YEAR ENDED DECEMBER 31, 2006

	Appropriation Balances Forward	Appropriations	Transfers and Other Credits	Total Available	Expenditures	Balances		
						Overdrawn	Lapsed	Unexpended
	\$	\$	\$	\$	\$	\$	\$	\$
GENERAL GOVERNMENT	\$ 37,490	\$ 420,555	\$ 0	\$ 458,045	\$ 360,321	\$ 0	\$ 79,540	\$ 18,184
PUBLIC WORKS AND SANITATION								
Public Works	0	198,622	0	198,622	198,958	0	(336)	0
Roads	0	31,150	0	31,150	30,269	0	881	0
Water	17,601	35,700	0	53,301	47,945	0	5,356	0
Solid Waste	0	46,000	0	46,000	39,658	0	6,342	0
	<u>17,601</u>	<u>311,472</u>	<u>0</u>	<u>329,073</u>	<u>316,830</u>	<u>0</u>	<u>12,243</u>	<u>0</u>
PUBLIC SAFETY								
Fire and Safety	0	32,133	0	32,133	32,133	0	0	0
Police	0	38,894	0	38,894	37,629	0	1,265	0
Emergency Medical	0	6,000	0	6,000	5,455	0	545	0
	<u>0</u>	<u>77,027</u>	<u>0</u>	<u>77,027</u>	<u>75,217</u>	<u>0</u>	<u>1,810</u>	<u>0</u>
RECREATION	0	37,207	0	37,207	29,201	0	8,006	0
EDUCATION	0	783,762	0	783,762	776,952	0	6,810	0
FIXED EXPENSES								
County Tax	0	62,200	0	62,200	62,884	0	(684)	0
Overlay	0	7,847	0	7,847	9,850	0	(2,003)	0
Debt Service	0	30,600	0	30,600	30,600	0	0	0
	<u>0</u>	<u>100,647</u>	<u>0</u>	<u>100,647</u>	<u>103,334</u>	<u>0</u>	<u>(2,687)</u>	<u>0</u>
CAPITAL OUTLAY	18,246	47,083	0	65,329	45,329	0	0	20,000
TOTAL	<u>\$ 73,337</u>	<u>\$ 1,777,753</u>	<u>\$ 0</u>	<u>\$ 1,851,090</u>	<u>\$ 1,707,184</u>	<u>\$ 0</u>	<u>\$ 105,722</u>	<u>\$ 38,184</u>