TOWN OF FREEPORT, MAINE

Annual Financial Report

June 30, 2006

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Independent Auditors' Report

Town Council
Town of Freeport
Freeport, 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 Freeport, Maine, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed on the table of contents. These financial statements are the responsibility of the Town of Freeport'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Freeport, Maine, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2007, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Freeport's basic financial statements. The combining and individual nonmajor fund statements on pages 42 through 68 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The prior year summarized comparative information has been derived from the Town's 2005 financial statements and, in our report dated November 30, 2005, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. 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 basic financial statements taken as a whole.

Macdonald Page & Co LLC

South Portland, Maine
January 25, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

TOWN OF FREEPORT FISCAL YEAR 2006 AUDIT

As the management of the Town of Freeport, Maine, we are pleased to provide this Management Discussion and Analysis as part of our annual financial statements. We offer readers of the financial statements this narrative overview and analysis of the financial activities of the Town of Freeport for the year ended June 30, 2006. It is the belief of management that all the information contained herein is accurate in all material respects and reflects fairly the financial position and operations of the Town. This Management Discussion and Analysis is designed to offer further explanation of the information contained herein. We encourage readers to consider the information that we have furnished in the Town's basic financial statements that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Freeport's basic financial statements. The Town's financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The Table of Contents in the front section of the audit provides the specific pages where the various statements and exhibits can be found.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Freeport's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Freeport that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The Town currently reports the activities of the Nonemergency Transportation Program (NET Program) as a business-type activity. The governmental activities of the Town include general government, public safety, public works, education, and community services.

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 Freeport, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Town. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town of Freeport's own programs.

Governmental Funds

For the reporting period, the Town had an increase in fund balance for total governmental funds (from statement 4) of $238,130. The General Fund's fund balance increased by approximately $488,668. A large portion of the increase in fund balance was due to higher than expected General Fund revenues, which exceeded estimated revenues by approximately $966,000. Revenue surpluses and unspent appropriations exceeded the planned use of fund balance for capital reserves of $350,000, capital project authorizations of $225,000 and the budget use of surplus to reduce the tax rate of $405,000. Offsetting those increases was the expenditure of various capital projects and various other factors in several of the non-major governmental funds.

ENTITY WIDE CONDENSED PRESENTATION OF NET ASSETS

Net Assets over time will serve as a useful indicator of a government's financial position. The following information is condensed from Statement 1, Statement of Net Assets for Fiscal 2006. It distinguishes between capital and other assets, notes the Town's general liabilities and debt service, and shows the Town's net assets by restricted and unrestricted amounts. This information is for the Town's Governmental Activities and Business-type Activities as of June 30:

	Governmental Activities		Business-type Activities		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
ASSETS						
Cash and cash equivalents	$5,656,144	7,012,563	-	-	5,656,144	7,012,563
Investments	10,626,094	8,911,224	-	-	10,626,094	8,911,224
Receivables	996,436	972,130	101,182	90,303	1,097,618	1,062,433
Internal balances	114,733	157,671	(114,733)	(157,671)	-	-
Inventory	39,257	38,072	-	-	39,257	38,072
Capital assets, net	29,351,299	27,942,333	32,677	25,129	29,383,976	27,967,462
Total assets	46,783,963	45,033,991	19,126	(42,239)	46,803,089	44,991,752
LIABILITIES						
Current liabilities	1,503,519	1,535,576	7,264	3,667	1,510,783	1,539,243
Noncurrent liabilities	14,613,241	16,055,361	-	-	14,613,241	16,055,361
Total liabilities	16,116,761	17,590,937	7,264	3,667	16,124,024	17,594,604
NET ASSETS						
Invested in capital assets, net of debt	15,856,049	12,834,433	32,677	25,129	15,888,726	12,859,562
Restricted	2,780,781	3,317,472	-	-	2,780,781	3,317,472
Unrestricted	12,030,373	11,291,150	(20,815)	(71,035)	12,009,558	11,220,115
Total net assets	**$ 30,667,203**	**27,443,054**	**11,862**	**(45,906)**	**30,679,065**	**27,397,148**

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 those 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 are 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 all infrastructure assets at this time. Such assets are being compiled and will be added to the Town's presentation in future years as further discussed in the footnotes to the financial statements. An additional portion of the Town's net assets represents resources that are subject to external 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.

ENTITY WIDE CONDENSED PRESENTATION OF CHANGES IN NET ASSETS

Our next analysis focuses on changes in net assets of the Town's governmental and business type activities. Governmental activities increased the Town of Freeport's net assets by $3,224,000 during the year ended June 30, 2006. The following analysis provides the key elements of the increases.

	Governmental Activities	Business-type Activities	2006 Total Primary Government	2005 Total Primary Government
Program revenues:				
Charges for Services	$ 2,429,426	365,960	2,795,386	2,373,895
Operating grants and contributions	3,846,441	-	3,846,441	3,571,048
Capital grants and contributions	625,372	-	625,372	293,765
General revenues:				
Property taxes	18,525,125	-	18,525,125	18,380,367
Motor vehicle excise taxes	1,365,683	-	1,365,683	1,386,431
Interest and lien costs	51,714	-	51,714	48,268
State Revenue Sharing	691,097	-	691,097	685,760
Homestead exemption	171,441	-	171,441	154,806
Other State aid	47,882	-	47,882	82,185
Unrestricted investment earnings	805,092	-	805,092	488,477
Miscellaneous revenues	728,361	-	728,361	697,588
Total revenues	29,287,636	365,960	29,653,595	28,162,589
Program expenses:				
General government	1,528,013	-	1,528,013	1,434,087
Public safety	2,457,607	308,191	2,765,798	2,704,473
Public works	2,043,013	-	2,043,013	2,103,179
Community services	811,668	-	811,668	782,254
Education	15,758,120	-	15,758,120	14,829,197
County tax	736,850	-	736,850	735,177
Unclassified	1,649,364	-	1,649,364	1,287,443
Interest on debt	927,692	-	927,692	1,015,300
Capital maintenance expenses	151,160	-	151,160	345,258
Total expenses	26,063,488	308,191	26,671,679	25,236,368
Change in net assets	3,224,148	57,768	3,281,917	2,926,221
Net assets – beginning	27,443,054	(45,906)	27,397,148	24,470,927
Net assets – ending	$ 30,667,202	11,862	30,679,065	27,397,148

It should be noted that this presentation is prepared on an entity wide condensed net assets presentation and not prepared on a basis consistent with the budget. A detailed budgetary presentation can be found in the basic financial statements in Exhibit A-2.

ANALYSIS OF TOWN POSITION AND OPERATIONS –GOVERNMENTAL FUNDS BUDGETARY BASIS

In Freeport, the Town has managed over the past several years to build its general fund undesignated fund balance (the equivalent of a savings account) to $3.3 million. The Town Council established a figure of $1.92 million (one twelfth of the annual budget) as a minimum level of fund balance to maintain. Under the Town's fund balance policy, amounts in excess of one twelfth of the annual budget can be used to set aside additional reserves for capital needs, used to reduce property taxes for subsequent years' budgets or be used for immediate operational or capital needs. The Town Council modified its fund balance policy three years ago, establishing a Tax Rate Stabilization Account. The Council has funded this stabilization account, each of the past three years for a total in the account at year-end of $1,000,000. During periods of low, new valuation or extraordinary unpredicted increases in costs, up to fifty (50) percent of the Tax Rate Stabilization Account may be used annually to offset the municipal tax rate.

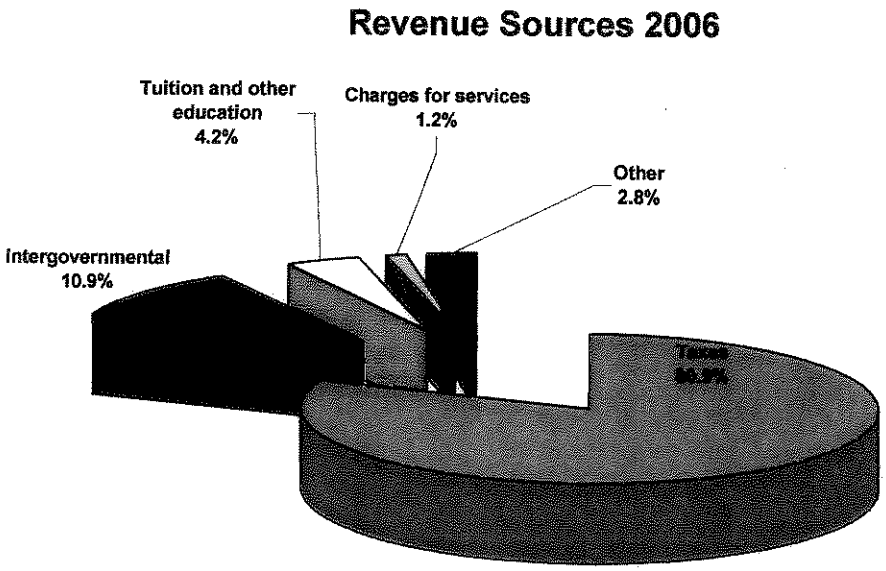
For the fiscal year ended June 30, 2006, the Town managed to increase its total fund balance once again. General fund undesignated fund balance maintained its current strong position basically unchanged at $3,270,000 while increasing funding to the tax rate stabilization account and other reserved and designated balances. In addition, over the years, the Town has established various capital and other reserves. For the year ended June 30, 2006, the Town's reserves decreased very slightly as a result of a larger than normal funding of capital projects. In addition to the normal annual projects, the Town Council authorized an appropriation of $800,000 to aid in the funding of the Community Center project. This funding will act as working capital for the project and will allow the building fund raising committee additional time to collect donations for the project. The Town anticipates donations will be collected over the next five years replenishing the $800,000 to the reserves. At June 30, 2006, the Town's reserved funds totaled $4,640,000 as compared to the prior years $4,660,000 while School Capital reserves decreased to a balance of approximately $198,000.

General Fund Revenues Budget to Actual Summary

For FY 06, revenues exceeded estimated revenues by approximately $966,000. The major reasons were a large overlay, $355,000, as a result of final valuation numbers coming in greater than expected, strong vehicle excise tax collections with collections exceeding budget by $128,000 and much higher investment earnings due to improved interest rates resulting in earnings exceeding estimates by approximately $200,000. For FY 2007, $385,000 has been budgeted from the fund balance to reduce property taxes. The property tax collection rate for the year decreased slightly to 96.45% from the previous year's collection rate of 96.98%.

General Fund Revenues Budget to Actual Summary

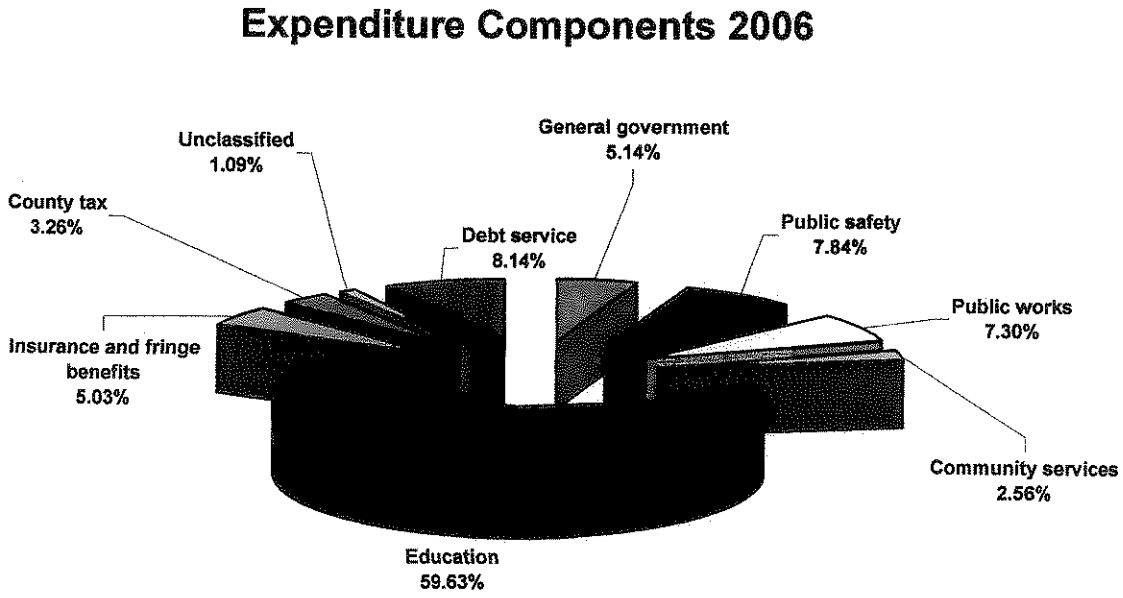
	Budget	Actual	Variance
Revenues:			
Taxes	$ 18,389,727	18,817,428	427,701
Licenses and permits	155,200	297,973	142,773
Intergovernmental	2,520,631	2,543,311	22,680
Tuition and other charges for services – education	899,917	972,732	72,815
Charges for services	196,500	283,024	86,524
Fees and fines	49,500	54,458	4,958
Unclassified	8,650	17,740	9,090
Investment earnings	80,000	279,911	199,911
Total revenues	$ 22,300,125	23,266,576	966,451



General Fund Expenditures Budget to Actual Summary

General Fund expenditure budgets are approved by the Town Council at the departmental level, with charter budgetary limits at the function level. Expenditures were less than appropriations throughout the budget resulting in approximately $295,000 of savings. A few departments exceeded their authorized level by small amounts as a result of wage accrual adjustments. A negative variance is noted in unclassified due to higher than expected tax abatements. Abatements are not subject to charter limits as they are corrections to valuation calculations on the commitment. All charter function levels were significantly within budget limits. The following summarizes the Town of Freeport's General Fund budgeted appropriations to actual by function for the year ended June 30, 2006 (see Exhibit A-2 for a more detailed presentation):

		Budget	Actual	Variance Positive (Negative)
Expenditures:				
General government	$	1,196,158	1,163,170	32,988
Public safety		1,819,151	1,773,089	46,062
Public works		1,732,907	1,651,548	81,359
Community services		618,461	578,601	39,860
Education		13,416,283	13,483,277	(66,994)
Insurance and fringe benefits		1,255,000	1,137,721	117,279
County tax		736,850	736,850	-
Unclassified		254,000	246,359	7,641
Debt service		1,878,242	1,841,519	36,723
Total expenditures	$	22,907,052	22,612,135	294,917



SUMMARY OF CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

CAPITAL ASSETS

The Town has developed and maintained a five-year and a twenty-year Capital Improvement Plan (CIP) for over twenty years. This plan is updated annually as part of the budget cycle. The plan is for equipment, building and Town wide infrastructure needs. Additionally, the Town has a street paving account in the Public Works budget for ongoing street paving. The Town's 2006 capital budget that was approved in April of 2006 included $516,500 for school capital needs and $655,500 for various departmental equipment and Town improvement projects. No borrowing was required as all of these projects were funded from existing capital reserves ($947,000) and General Fund Fund Balance ($225,000). A summary of the Town's capital assets at June 30, 2006 and 2005 are as follows:

General fixed assets:	2006	2005
Land	$1,850,869	1,850,869
Land improvements	1,257,016	1,147,756
Buildings and improvements	26,760,292	26,598,591
Machinery, equipment and other	4,235,794	3,712,217
Vehicles	3,885,671	3,830,218
Infrastructure	2,561,419	2,225,402
Construction in process	1,862,817	491,640
Total governmental fund capital assets	$42,413,878	39,856,693

LONG-TERM DEBT

The State allows municipalities to borrow up to 15% of their total valuation. Since the Town's State Valuation was $1,337,850,000 for 2006, the debt limit would be over $200,500,000. Our current debt is $13,495,250, or slightly less than 1.01% of State Valuation or approximately 6.73% of the Town's debt limit. Another measure of a municipalities debt load is debt per capita. As of June 30, 2006, the Town of Freeport's debt per capita was $1,687 as compared to the prior year of $1,937.

The following is a summary of bond and note transactions of the Town for the year ended June 30, 2006:

Bonds and notes payable at June 30, 2005	$ 15,107,900
Principal additions	-
Principal payments	(1,612,650)
Bonds and notes payable at June 30, 2006	**$ 13,495,250**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Freeport and its vibrant downtown continue to experience economic growth from business development, considerable residential construction growth and stable employment levels. Both commercial and residential development in Freeport has increased considerably over the past several years. Last year the Town's largest employer, LL Bean, received approval for a 335,000 sq. ft. expansion at their Order Fulfillment Center on Desert Road. Construction is underway with completion expected this spring. Additionally, the Town entered into a partnership with Berenson Associates and LL Bean for the development of $45 million parking garage and retail complex in the downtown village. The project would include a two-story 529 space parking structure topped with a third story of retail. It is anticipated that the project will have an additional 118,500 s.f. of retail space which will include state of the art retailers and restaurants. LL Bean will lease the land to Berenson Associates who will develop the project. The Town will provide assistance through a Tax Increment Financing District over the next 20 years with potential funding towards the garage portion of the project not to exceed $17,500,000. Several other LL Bean projects have been recently approved or are currently under review. This includes the construction of a new maintenance facility, a new Outlet Store, addition to the Hunting and Fishing Store, and a new 19,600 s.f. data center. The company also recently opened a Boat, Bike, and Ski Store in downtown Freeport.
Other commercial proposals were significant, with development taken place in 2006 on US Route One. The types of commercial uses remained diverse and for many, construction has recently been completed or is well underway. Three new office buildings are being constructed for a total of 15,000 sq. ft. of new office space. The uses will include a medical office, a plumbing/electrical company, and a testing laboratory. A new building containing nine thousand square feet of retail space has been constructed and will accommodate two retail tenants. A new 5,000 sq.ft. restaurant is also currently under construction. Additionally, in 2006, the Freeport Project Review Board approved seven (7) single-family residential developments with a total of 43 new house lots being created. The Board also approved a large increase in condominium developments, with four (4) developments approved with a total of 20 new units, for which much of the construction is already underway.

The Freeport Project Review Board is currently reviewing two applications for retirement communities. Both communities will have a variety of housing types including independent living cottages, assisted living apartments and will have a lodge or community buildings to provide services to residents. Between the two developments, a total of 313 living units are proposed.

The Town of Freeport is within a 25 mile radius of the Brunswick U.S. Naval Air Station. The base is scheduled for closure in 2011 as part of the 2005 Base Realignment and Closure decision. However, The Town anticipates fairly limited impact on its housing stock due to its close proximity to the City of Portland, its coastal location and availability of land which has made it very attractive to residential development for the Portland market. Freeport has seen substantial residential construction for several years and anticipates a continuation of this trend for the near future.

New Fiscal Year Budget

In adopting the budget for the ensuing fiscal year 2007, the Town officials considered many factors in making judgments and estimates about the finances for the upcoming year. A primary objective was to continue to provide basic town services to the citizens while attempting to keep the property tax rate low. For the new fiscal year (2007) the Town underwent a market update to its valuation of all real and personal property as of April 1st 2006. It had been several years since the last revaluation and the Town's valuation ratios were getting very low as compared to market for certain types of property and areas of the Town. Overall valuation increased by approximately 33% as a result of the market update.

The budget for the fiscal year starting July 1, 2006 was approved by the Town Council with a tax rate of 12.50 mils, for a decrease over the prior year's rate of 17.90 mils primarily the result of the market update of valuations.

The following summarizes the major components of the FY 2006 and FY 2007 budgets:

	FY 2006 Appropriation	FY 2007 Appropriation	Variance
REVENUES:			
School	$ 2,442,898	2,680,574	237,676
Town Non-Property Tax	3,126,177	3,282,937	156,760
Property Tax	17,112,227	17,430,260	318,033
Fund Balance	405,000	385,000	(20,000)
TOTALS	$ 23,086,302	23,778,771	692,469
EXPENDITURES:			
Municipal	$ 6,970,677	7,239,779	269,102
School	13,065,877	13,588,512	522,635
County Tax	736,850	751,831	14,981
Capital Reserves	50,000	75,000	25,000
Debt Services	2,262,898	2,123,649	(139,249)
TOTALS	$ 23,086,302	23,778,771	692,469
Tax Mil Rate	17.90	12.50	(5.40)
(Decrease) in Tax Rate			(30.10)%

In terms of the future, while we are in good financial shape at this time, with revenues starting to level off, we need to be alert to the public benefit versus the costs of the services we provide. We need to be careful of our spending so that we do not find ourselves in the position of expenditures outpacing revenues.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Freeport's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town of Freeport, 30 Main Street, Freeport, Maine 04032.

Respectfully submitted,

Dale C. Olmstead Jr.
Town Manager

Gregory N. L'Heureux
Finance Director

BASIC FINANCIAL STATEMENTS

Statement 1

TOWN OF FREEPORT, MAINE
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 5,656,144	-	5,656,144
Investments	10,626,094	-	10,626,094
Receivables:			
Accounts, net	58,414	101,182	159,596
Intergovernmental	42,385	-	42,385
Taxes receivable	663,918	-	663,918
Tax liens	231,719	-	231,719
Internal balances	114,733	(114,733)	-
Inventory	39,257	-	39,257
Capital assets, net	29,351,299	32,677	29,383,976
Total assets	46,783,963	19,126	46,803,089
LIABILITIES			
Accounts payable and other current liabilities	1,142,689	4,697	1,147,386
Accrued wages and benefits payable	38,809	2,567	41,376
Compensated absences payable	179,000	-	179,000
Accrued interest	143,022	-	143,022
Noncurrent liabilities:			
Other long-term liabilities	1,117,991		1,117,991
Bonds due within one year	1,542,650	-	1,542,650
Bonds due in more than one year	11,952,600	-	11,952,600
Total liabilities	16,116,761	7,264	16,124,024
NET ASSETS			
Invested in capital assets, net of related debt	15,856,049	32,677	15,888,726
Restricted for:			
Special revenues	740,551	-	740,551
Capital projects	280,815	-	280,815
Nonexpendable trust principal	1,007,270	-	1,007,270
Other purposes	752,145	-	752,145
Unrestricted	12,030,373	(20,815)	12,009,558
Total net assets	**$ 30,667,203**	**11,862**	**30,679,065**

See accompanying notes to financial statements.

TOWN OF FREEPORT, MAINE
Statement of Activities
For the Year Ended June 30, 2006

Functions/programs	Expenses	Program Revenues: Charges for services	Program Revenues: Operating grants and contributions	Program Revenues: Capital grants and contributions	Net (expense) revenue and changes in net assets: Primary Government: Governmental activities	Net (expense) revenue and changes in net assets: Primary Government: Business-type activities	Net (expense) revenue and changes in net assets: Primary Government: Total
Primary government:							
Governmental activities:							
General government	$ 1,528,013	327,616	-	-	(1,200,397)	-	(1,200,397)
Public safety	2,457,607	253,371	21,725	-	(2,182,511)	-	(2,182,511)
Public works	2,043,013	192,630	170,268	-	(1,680,115)	-	(1,680,115)
Community services	811,668	140,572	9,360	-	(661,736)	-	(661,736)
Education	14,332,120	972,732	2,091,778	-	(11,267,609)	-	(11,267,609)
Maine State Retirement on behalf payments	1,426,000	-	1,426,000	-	-	-	-
County tax	736,850	-	-	-	(736,850)	-	(736,850)
Unclassified	1,649,364	542,505	127,310	-	(979,549)	-	(979,549)
Interest on debt	927,692	-	-	-	(927,692)	-	(927,692)
Capital maintenance expenses	151,160	-	-	625,372	474,212	-	474,212
Total governmental activities	26,063,488	2,429,426	3,846,441	625,372	(19,162,248)	-	(19,162,248)
Business-type activities:							
Nonemergency Transportation	308,191	365,960	-	-	-	57,768	57,768
Total business-type activities	308,191	365,960	-	-	-	57,768	57,768
Total primary government	**$ 26,371,679**	**2,795,385**	**3,846,441**	**625,372**	**(19,162,248)**	**57,768**	**(19,104,480)**
General revenues:							
Property taxes, levied for general purposes					$ 18,525,125	-	18,525,125
Motor vehicle excise taxes					1,365,683	-	1,365,683
Interest and lien costs					51,714	-	51,714
Grants and contributions not restricted to specific programs:							
Homestead exemption					171,441	-	171,441
Other State aid					47,882	-	47,882
State Revenue Sharing					691,097	-	691,097
Unrestricted investment earnings					805,092	-	805,092
Miscellaneous revenues					728,361	-	728,361
Total general revenues and transfers					22,386,397	-	22,386,397
Change in net assets					3,224,148	57,768	3,281,917
Net assets - beginning					27,443,054	(45,906)	27,397,148
Net assets - ending					**$ 30,667,203**	**11,862**	**30,679,065**

See accompanying notes to financial statements.

TOWN OF FREEPORT, MAINE
Balance Sheet
Governmental Funds
June 30, 2006

		General	Town Reserve Funds	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets:					
Cash	$	4,723,416	479,614	453,114	5,656,144
Investments		4,206,108	4,529,427	1,890,559	10,626,094
Receivables:					
Accounts		23,862	-	34,551	58,414
Intergovernmental		-	-	42,385	42,385
Taxes receivable		663,918	-	-	663,918
Tax liens		231,719	-	-	231,719
Interfund loans receivable		118,191	-	3,689,093	3,807,284
Inventory		17,523	-	21,734	39,257
Total assets	**$**	**9,984,737**	**5,009,041**	**6,131,436**	**21,125,214**
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$	339,352	-	508,136	847,488
Accrued wages and benefits		38,809	-	-	38,809
Compensated absences payable		179,000	-	-	179,000
Taxes collected in advance		15,739	-	-	15,739
Interfund loans		3,097,084	369,485	225,981	3,692,550
Development escrows		173,965	-	-	173,965
Deferred tax revenues		651,000	-	-	651,000
Other deferred revenues		105,497	-	-	105,497
Total liabilities		4,600,446	369,485	734,117	5,704,048
Fund balances:					
Reserved for:					
Encumbrances		555,588	-	-	555,588
Nonexpendable trust principal		-	-	1,007,270	1,007,270
Future retirement pay		157,300			157,300
Inventory		17,523	-	21,734	39,257
Unreserved, reported in:					
Designated		1,385,000	-	294,331	1,679,331
Undesignated:					
General fund		3,268,880	-	-	3,268,880
Special revenue funds		-	4,639,556	1,572,433	6,211,989
Capital project funds		-	-	2,488,697	2,488,697
Permanent funds		-	-	12,854	12,854
Total fund balances		5,384,291	4,639,556	5,397,319	15,421,166
Total liabilities and fund balances	**$**	**9,984,737**	**5,009,041**	**6,131,436**	**21,125,214**
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					29,351,299
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds.					651,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.					(14,756,263)
Net assets of governmental activities					**30,667,202**

See accompanying notes to financial statements.

TOWN OF FREEPORT, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

		General	Town Reserve Funds	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$	18,817,428	-	1,009,095	19,826,523
Licenses, permits and fees		297,973	81,933	-	379,906
Intergovernmental		2,543,311	-	1,369,318	3,912,628
Intergovernmental on behalf payments		1,426,000	-	-	1,426,000
Tuition and other charges for services - education		972,732	-	-	972,732
Charges for services		283,024	214,385	1,061,751	1,559,160
Fees and fines		54,458	-	-	54,458
Unclassified		17,740	110,703	106,694	235,137
Investment earnings		279,911	363,133	162,048	805,092
Total revenues		24,692,576	770,154	3,708,905	29,171,636
Expenditures:					
Current:					
General government		1,177,728	-	-	1,177,728
Public safety		1,723,977	-	10,509	1,734,485
Public works		1,488,692	-	5,000	1,493,692
Community services		572,347	-	-	572,347
Education		13,483,277	-	543,457	14,026,734
Maine State Retirement on behalf payments		1,426,000	-	-	1,426,000
Insurance and fringe benefits		1,135,221	2,029	-	1,137,250
County tax		736,850	-	-	736,850
Food services		-	-	452,224	452,224
Unclassified		244,352	30,260	889,887	1,164,500
Capital outlay		-	-	2,837,076	2,837,076
Debt service		1,841,519	-	333,100	2,174,619
Total expenditures		23,829,964	32,289	5,071,252	28,933,506
Excess (deficiency) of revenues over (under) expenditures		862,612	737,865	(1,362,347)	238,130
Other financing sources (uses):					
Operating transfers from other funds		381,177	1,259,750	1,840,250	3,481,177
Operating transfers to other funds		(755,121)	(2,018,500)	(707,556)	(3,481,177)
Total other financing sources (uses)		(373,944)	(758,750)	1,132,694	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses		488,668	(20,885)	(229,652)	238,130
Fund balances, beginning of year		4,895,622	4,660,442	5,626,972	15,183,036
Fund balances, end of year	**$**	**5,384,291**	**4,639,556**	**5,397,319**	**15,421,166**

See accompanying notes to financial statements.

TOWN OF FREEPORT, 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 June 30, 2006

Net change in fund balances - total governmental funds (from Statement 4)	$	238,130
Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:		
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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation and the loss from disposal of capital assets in the current period.		1,408,965
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		116,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(151,597)
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 principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.		1,612,650
Change in net assets of governmental activities (see Statement 2)	**$**	**3,224,148**

See accompanying notes to financial statements.

TOWN OF FREEPORT, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - All Budgeted Governmental Fund Types
General Fund
For the year ended June 30, 2006

	Budgeted amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues:				
Taxes	$ 18,389,727	18,389,727	18,817,428	427,701
Licenses, permits and fees	155,200	155,200	297,973	142,773
Intergovernmental	2,520,631	2,520,631	2,543,311	22,680
Tuition and other charges for services - education	899,917	899,917	972,732	72,815
Charges for services	196,500	196,500	283,024	86,524
Fees and fines	49,500	49,500	54,458	4,958
Unclassified	8,650	8,650	17,740	9,090
Investment earnings	80,000	80,000	279,911	199,911
Total revenues	22,300,125	22,300,125	23,266,576	966,451
Expenditures:				
Current:				
General government	1,196,158	1,196,158	1,163,170	32,988
Public safety	1,819,151	1,819,151	1,773,089	46,062
Public works	1,732,907	1,732,907	1,651,548	81,359
Community services	618,461	618,461	578,601	39,860
Education	13,416,283	13,416,283	13,483,277	(66,994)
Insurance and fringe benefits	1,255,000	1,255,000	1,137,721	117,279
County tax	736,850	736,850	736,850	-
Unclassified	254,000	254,000	246,359	7,641
Debt service	1,878,242	1,878,242	1,841,519	36,723
Total expenditures	22,907,052	22,907,052	22,612,135	294,917
Excess of revenues over expenditures	(606,927)	(606,927)	654,441	1,261,368
Other financing sources (uses):				
Use of undesignated fund balance - Town	350,000	575,000	-	(575,000)
Use of undesignated fund balance - School	55,000	55,000	-	(55,000)
Use of undesignated fund balance - Reserves	-	350,871	-	(350,871)
Operating transfers from other funds	381,177	381,177	381,177	-
Operating transfers to other funds	(179,250)	(755,121)	(755,121)	-
Total other financing sources (uses)	606,927	606,927	(373,944)	(980,871)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	-	-	280,497	280,497
Reconciliation to GAAP basis:				
Encumbrances			208,172	
Excess (deficiency) of revenues and other financing sources over (under) expenditures - GAAP basis			488,669	
Fund balance, beginning of year			4,895,622	
Fund balance, end of year	**$**		**5,384,291**	

See accompanying notes to financial statements.

TOWN OF FREEPORT, MAINE
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Business-type Activities - Enterprise Funds	
		Nonemergency Transportation Program
ASSETS		
Current assets:		
Accounts receivable less allowance for uncollectibles of $116,000	$	101,182
Total current assets		101,182
Non-current assets:		
Property, plant, and equipment		107,272
Less accumulated depreciation		(74,595)
Total noncurrent assets		32,677
Total assets	**$**	**133,859**
LIABILITIES		
Current liabilities:		
Accounts payable		4,697
Interfund loans		114,733
Accrued wages and benefits payable		2,567
Total current liabilities		121,997
Total liabilities	**$**	**121,997**
NET ASSETS		
Invested in capital assets, net of related debt		32,677
Unrestricted		(20,815)
Total net assets (deficit)	**$**	**11,862**

See accompanying notes to financial statements.

TOWN OF FREEPORT, MAINE
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2006

Business-type Activities - Enterprise Funds		
		Nonemergency Transportation Program
Operating revenues:		
Charges for services (net uncollectibles)	$	365,960
Total operating revenues		365,960
Operating expenses:		
Wages and benefits		257,884
Operational costs		27,855
Depreciation and amortization		22,452
Total operating expenses		308,191
Operating income		57,768
Gain on sale of fixed assets		-
Change in net assets		57,768
Total net assets (deficit), beginning of year		(45,906)
Total net assets (deficit), end of year	**$**	**11,862**

See accompanying notes to financial statements.

TOWN OF FREEPORT, MAINE
Statement of Cash Flows - Proprietary Funds
For the year ended June 30, 2006

	Business-type Activities - Enterprise Funds	
		Nonemergency Transportation Program
Cash flows from operating activities:		
Receipts from customers and users	$	357,864
Payments to suppliers		(27,855)
Payments to employees		(257,070)
Net cash provided by (used in) operating activities		72,938
Cash flows from capital and related financing activities:		
Purchase of vehicle		(30,000)
Interfund borrowing		(42,938)
Net cash provided by (used in) financing activities		(72,938)
Decrease in cash		-
Cash, beginning of year		-
Cash, end of year	**$**	**-**
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$	57,768
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization		22,452
(Increase) decrease in operating assets:		
Accounts receivable		(10,879)
Increase (decrease) in operating liabilities:		
Accounts payable		2,783
Accrued wages and benefits payable		814
Net cash provided by (used in) operating activities		72,938

See accompanying notes to financial statements.

TOWN OF FREEPORT, MAINE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

		Agency Fund School Activity Fund
ASSETS		
Cash	$	165,527
Total assets		**165,527**
LIABILITIES AND FUND BALANCES		
Liabilities:		
Due to student groups		165,527
Total liabilities		165,527
Net assets:		
Held in trust	$	-

See accompanying notes to financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Freeport, Maine was incorporated as a Town in 1789 under the laws of the State of Massachusetts and later the State of Maine. The Town operates under a council-manager form of government. Freeport is located in Cumberland County approximately fifteen miles northeast of Portland along the southern Maine coast. The Council is comprised of seven members elected by district and at-large for staggered three-year terms.

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14 "The Financial Reporting Entity". The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. Based on the application of these criteria, the town has reported the following component unit:

Component Unit

Freeport Economic Development Corporation (FEDC) is a component unit of the Town and is governed by a Town appointed Board. Although it is legally separate from the Town, the FEDC is reported as if it were part of the primary government because its sole purpose is to attract new businesses to the Freeport area. There are no separately issued financial statements for this component unit and it is reported as a special revenue fund blended component unit.

As defined in GASB Statement #14, a joint venture is a legal entity or other organization that results from a contractual arrangement (or interlocal agreement) and that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain (a) an on-going financial interest or (b) an on-going financial responsibility. The Town participates in the following joint venture:

Joint Venture

Eastern Cumberland - Sagadahoc County Vocational Program-The Town shares the financial and governing responsibility of the Eastern Cumberland - Sagadahoc County Vocational Program for Maine Vocational Region #10 with Maine School Administrative District No. 75 and the Town of Brunswick, Maine. The entities fund the operations of the applied technology program through yearly assessments. Maine Vocational Region No. 10 had total net assets of $1,102,706 as of June 30, 2005. The financial statement of Maine Vocational Region No. 10 for the year ended June 30, 2005 and audit report dated November 17, 2005 are available from the Region in Topsham, Maine.