

**TOWN OF WOLFEBORO,
NEW HAMPSHIRE**

ANNUAL FINANCIAL REPORT

**AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2005**

TOWN OF WOLFEBORO, NEW HAMPSHIRE
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

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AS OF AND FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005*

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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Selectmen
Town of Wolfeboro
Wolfeboro, New Hampshire

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 Wolfeboro as of and for the year ended December 31, 2005, 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 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 Wolfeboro, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 9 and 35 are not a required part of the basic financial statements, but are supplementary information required by 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 required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2006 on our consideration of the Town of Wolfeboro's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Wolfeboro's basic financial statements. The combining and individual fund statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Town of Wolfeboro. The combining and individual fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 15, 2006

Gregory A. Colby, CPA

PLODZIK & SANDERSON
Professional Association

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Wolfeboro's financial performance provides an overview of the Town's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the Town's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended December 31, 2005, the Town's total assets exceeded liabilities by \$36,483,449, an increase from the prior year of \$1,599,621.
- At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,049,998. This represents a decrease from the close of the prior fiscal year of \$150,975, or 7%.
- The total long-term debt of all funds for the Town at the close of the fiscal year was \$12,629,099. This represents an increase in debt from the close of the prior fiscal year of \$1,172,548. The Town exercised \$2,046,525 in bonds for water system improvements and road improvements approved at the 2004 and 2005 annual meetings. The net change is impacted by reductions, mainly based on annual payments of outstanding debt.
- The Town's proprietary funds (i.e. enterprise funds) had a resulting net income of \$921,910 for the fiscal year ending December 31, 2005. This is a decrease in net income from the prior fiscal year of \$84,767.
- In the Town's proprietary funds, operating revenues decreased by \$493,273, or 5.5%, while operating expenses increased \$263,742, or 3.3%. The major influence on the decrease in operating revenues was a reduction in the Electric Utility user fees effective January 1, 2005.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. Government-wide financial statements provide information about the activities of the Town as a whole, and present a longer-term view of the Town's finances. Fund Financial statements start on page 12. For governmental activities, these statements tell how these services were financed in the short term as well as what is remaining for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside the government.

REPORTING THE TOWN AS A WHOLE

Government-wide financial statements

The Statement of Net Assets and the Statement of Activities are designed to provide readers with an overview of the results of the Town's financial activities in a manner similar to private-sector companies. These statements include all assets and liabilities using the accrual basis of accounting, thereby reporting all current year revenues and expenses regardless of when cash is paid or received.

These two statements report the Town's net assets and changes in them. Over time, increases or decreases in net assets may serve as one useful indicator of whether the financial health of the Town is improving or deteriorating.

The Statement of Net Assets and the Statement of Activities distinguish the Town by these activities:

- **Governmental activities** – Most of the Town's basic services are reported in this section. They include general government, police, fire, public works, culture and recreation, and health and welfare. These activities are supported primarily by property taxes, motor vehicle permits, and intergovernmental revenues.
- **Business-type activities** – The Town charges a user fee to customers to cover all or most of the cost for certain services provided. The water, sewer, electric, and ice arena are reported here.

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements begin on page 12, and provide information on the Town's most significant funds; not the Town as a whole. A fund is a grouping of accounts, each of which is considered a separate accounting entity. The following fund types are utilized by the Town.

- **Governmental Funds:** This fund type is used to account for essentially the same governmental services as those presented as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, these funds are reported using an accounting method called modified accrual accounting. This method of accounting measures cash and all other financial assets that can readily be converted to cash.

The governmental fund financial statements provide a short-term view of the Town's general government operations. It is useful to compare this information to similar information on the government-wide financial statements to gain a better understanding of the long-term impact of the Town's near term financial decisions.

- Proprietary Funds: These funds are more commonly referred to as Enterprise Funds. Proprietary funds are presented in the same format as all funds are presented in the government-wide financial statements.

The proprietary funds are the same as the business-type activities in the government-wide financial statements, simply in more detail. They separate the information for the water, sewer, electric, and ice arena operations.

- Fiduciary Funds: Fiduciary funds account for assets held by the Town as a trustee or agent for individuals, groups, private organizations, or other units of government. These funds are not reflected in the government-wide financial statements, because these assets are unavailable to finance the Town's operations.
- Notes to the Financial Statements: The notes to the Financial Statements provide additional information that is essential to an overall comprehension of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

The following is a summary of the government-wide financial data for the fiscal year ended December 31, 2005.

Town of Wolfeboro						
Summary of Net Assets as of December 31, 2005						
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$11,224,694	\$12,009,017	\$ 4,492,710	\$ 5,805,919	\$15,717,404	\$17,814,936
Net Capital Assets	<u>19,401,001</u>	<u>18,359,554</u>	<u>20,493,743</u>	<u>18,583,054</u>	<u>39,894,744</u>	<u>36,942,608</u>
Total Assets	<u>30,625,695</u>	<u>30,368,571</u>	<u>24,986,453</u>	<u>24,388,973</u>	<u>55,612,148</u>	<u>54,357,544</u>
Long-term Liabilities	1,666,958	1,389,619	10,361,899	9,210,425	12,028,857	10,600,044
Other Liabilities	<u>5,646,122</u>	<u>6,344,048</u>	<u>1,453,720</u>	<u>2,929,624</u>	<u>7,099,842</u>	<u>9,273,672</u>
Total Liabilities	<u>7,313,080</u>	<u>7,733,667</u>	<u>11,815,619</u>	<u>12,140,049</u>	<u>19,128,699</u>	<u>19,873,716</u>
Net Assets						
Invested in capital assets	18,215,890	17,442,458	12,241,468	11,316,671	30,457,359	28,759,129
Restricted (principal and interest)	714,465	709,570	-	-	714,464	709,570
Unrestricted	<u>4,382,260</u>	<u>4,482,876</u>	<u>929,366</u>	<u>932,253</u>	<u>5,311,625</u>	<u>5,415,129</u>
Total net assets	<u>\$ 23,312,615</u>	<u>\$22,634,904</u>	<u>\$ 13,170,834</u>	<u>\$12,248,924</u>	<u>\$36,483,449</u>	<u>\$34,883,828</u>

- Investment in Net Assets: The largest portion of the Town's net assets of 83% reflects its inventory in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, etc.); less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to the citizens; consequently, those assets are not available for future spending.
- Restricted Net Assets: Approximately 2% of the Town's net assets represent resources that are subject to external restrictions on how they may be used.
- Unrestricted Net Assets: The Town's unrestricted net assets may be used to meet the Town's ongoing obligations. At year end, the Town is reporting positive balance in all three categories of net assets.

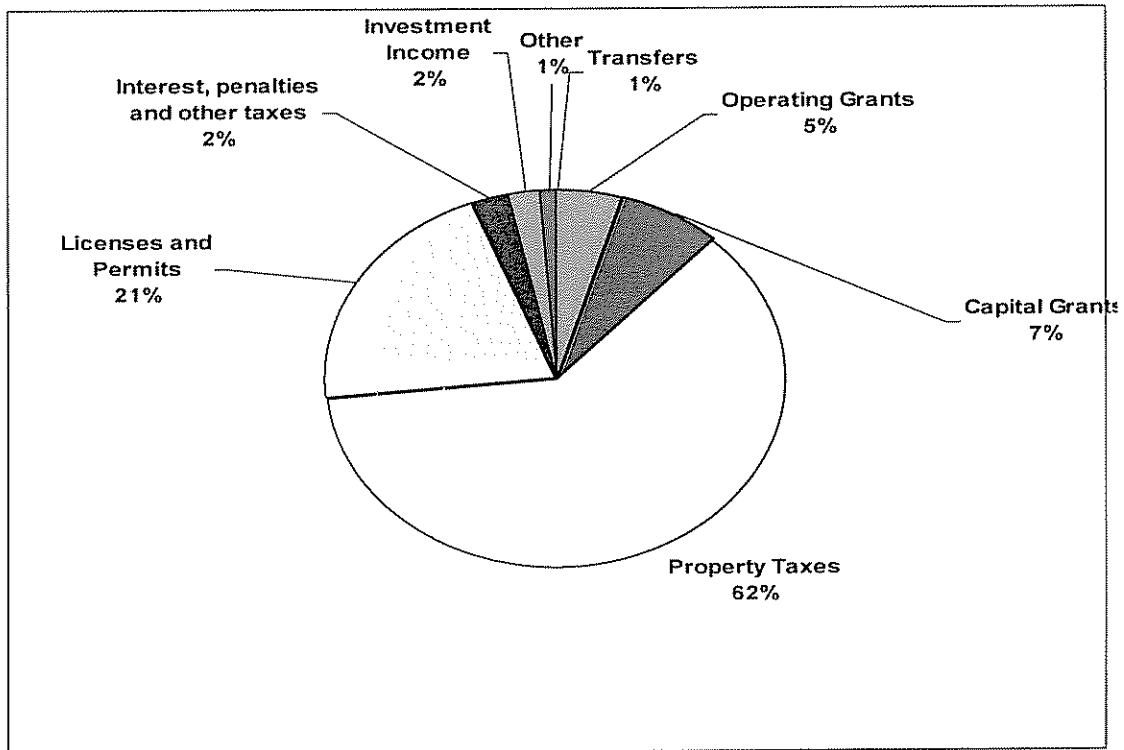
The following is a summary of the Statement of Activities presented on page 11.

	Governmental Activities 2005	Business-type Activities 2005	Total 2005	Total 2004
Revenues:				
Program revenues:				
Charges for services	\$1,093,505	\$8,642,098	\$ 9,735,603	\$10,135,327
Operating grants and contributions	348,670		348,670	224,561
Capital grants and contributions	527,456	859,597	1,387,053	686,360
General revenues:				
Property taxes	4,468,378		4,468,378	5,329,485
Licenses and permits	1,536,546		1,536,546	1,331,469
Interest, penalties and other taxes	168,796		168,796	157,916
Grants and contributions not restricted	289,622		289,622	284,771
Investment income	172,030	52,828	224,858	191,234
Other including Transfers	76,679	55,899	132,578	144,168
Total revenues	8,681,682	9,610,422	18,292,104	18,485,291
Expenses:				
General government	1,511,354		1,511,354	1,485,166
Public safety	2,664,634		2,664,634	2,608,023
Highways and streets	1,784,362		1,784,362	1,752,397
Sanitation	729,069		729,069	763,317
Health	107,309		107,309	115,725
Welfare	55,053		55,053	51,175
Economic development	6,000		6,000	6,000
Culture and recreation	932,988		932,988	941,147
Conservation	6,607		6,607	5,931
Interest on long-term debt	42,785		42,785	55,928
Capital Outlay	163,810		163,810	510,544

Expenses		<i>Continued from page 5</i>			
Water		1,255,629	1,255,629	1,030,660	
Sewer		1,220,444	1,220,444	1,044,785	
Electric		6,042,205	6,042,205	6,132,279	
Ice arena		170,234	170,234	183,401	
Total expenses		8,003,971	8,688,512	16,692,483	16,686,478
<hr/>					
Change in net assets		677,711	921,910	1,599,621	1,798,813
Beginning net assets		22,634,904	12,248,924	34,883,828	33,085,015
Ending net assets		\$23,312,615	\$13,170,834	\$36,483,449	\$34,883,828

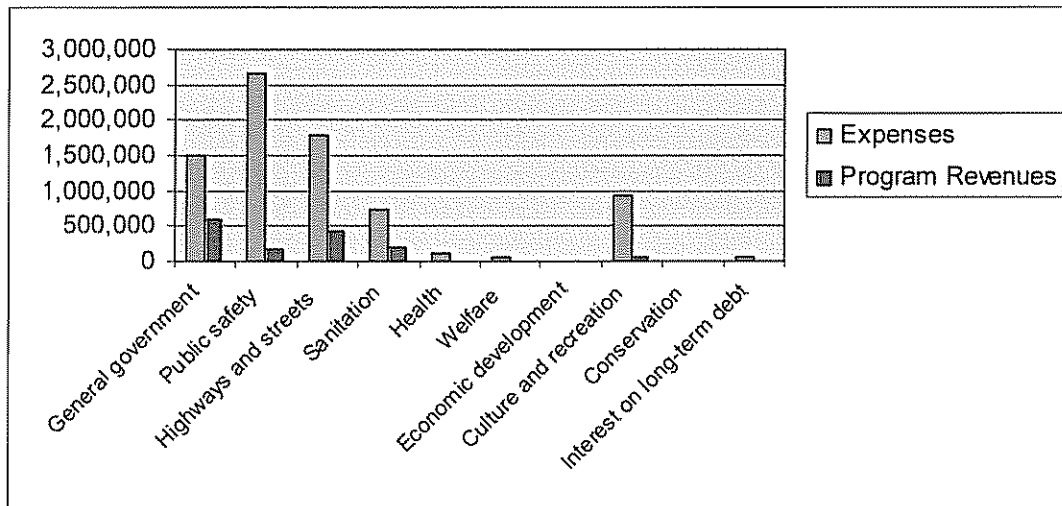
Governmental Activities: Revenues not specifically targeted for an activity are known as general revenues. Property taxes make up 62% of the Town's general revenues. Licenses and permits, mainly auto registrations, account for 21% of these revenues. All other miscellaneous revenues account for the final 17% of all revenues.

Revenue by Source – Governmental Activities



The largest expenses for the governmental activities were for Public Safety, which accounts for 33% of the total. Highways and streets account for 22%, general government 19%, sanitation 9%, and culture and recreation 12%.

Expense and Program Revenues – Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds: The fund financial statements for the Town are provided on pages 12 - 20. The focus of the governmental funds is to provide information on near-term inflows, outflows, and balance of resources. This information is most useful in assessing financing requirements. For example, unreserved fund balance may serve as a useful measure of a government's net resources available at year end.

During the fiscal year, the Town recognized \$ 8,495,112 in revenues and other financing sources in the General Fund, which is a decrease of 4.3% over the prior year. Additionally, the Town utilized \$755,421 of unreserved fund balance to reduce the tax rate, an increase of 102% of that available from the prior year.

The Town incurred \$8,498,301 in General Fund expenditures during the fiscal year, which represents a decrease of 6.8% from the prior year. Included in the total expenditures are prior year's encumbrances carried forward in the amount of \$195,525.

The Town finished the fiscal year with unreserved undesignated fund balance in the amount of \$2,049,998, a decrease from the prior year of 6.9%.

- Proprietary Funds: Proprietary funds provide the same type of information found in the business type activities reported in the government wide financial statements, only in more detail.

The proprietary funds reported an overall net income of \$921,910 which is a decrease of \$84,767 from the prior fiscal year. Net income reported in the Electric Utility was down due to a decrease in rates of 5% effective January 1, 2005. The water utility reported an increase in net income due to receipts of a federal grant.

GENERAL FUND BUDGETARY HIGHLIGHTS

- The overall Town of Wolfeboro Budget for the year ending December 31, 2005 was \$17,116,026. Of that total, \$501,420 was appropriated in special warrant articles. The balance of \$16,614,606 represents the Town's operating budget.
- The operating budget is the total of all general fund and proprietary fund activities. \$8,584,489 or 52% of the operating budget is supported by business type revenues such as utility fees and user fees. The balance of the budget, \$8,030,117 or 48% is supported by general fund type revenues such as motor vehicle permits, state and federal grants, and property taxes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

- Capital Assets: The total investment in capital assets is \$ 39,894,744, net of depreciation, for both the general and proprietary fund types.

Capital Assets as of December 31, 2005

	Governmental Activities	Business-Type Activities	Total
Land	\$ 5,839,095	\$ 65,005	\$ 5,904,100
Buildings & Systems	1,349,498	11,863,123	13,212,621
Improvements other than Bldgs	938,254		938,254
Machinery & Equipment	3,798,175	14,049,100	17,847,275
Infrastructure	15,695,419		15,695,419
Construction in Progress	96,963	2,473,317	2,570,280
Less: Allowance for Depreciation	<u>(8,316,093)</u>	<u>(7,956,802)</u>	<u>(16,272,895)</u>
Net Capital Assets	<u>\$19,401,001</u>	<u>\$20,493,743</u>	<u>\$39,894,744</u>

- **Non-Current Liabilities:** At the end of the current fiscal year, non-current liabilities outstanding were \$12,028,857. This includes the long-term portion of bonds payable, compensated absences payable, and an estimated amount of accrued landfill post closure monitoring.

ECONOMIC FACTORS AND THE 2006 BUDGET

New Hampshire Department of Employment Security reported the annual average unemployment rate for Carroll County at 3.3%. The State of New Hampshire annual average was reported at 3.6% and the National average was reported at 5.1%.

The Northeast Region Consumer Price Index increased 3.5% in 2005. The National CPI for the same period was reported at 3.4%.

At the 2006 Town Meeting, the legislative body approved total appropriations in the amount of \$21,491,670. The proposed operating budget was approved in the amount of \$17,967,930. Warrant articles approved by the legislative body totaled \$3,523,740 mainly for infrastructure improvements to the water and sewer systems.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Wolfeboro's finances for any party with an interest in the government's finances. Questions related to this financial statement, or request for additional information should be addressed to the following:

Town of Wolfeboro
Finance Department
PO Box 629
Wolfeboro, New Hampshire 03894
(603) 569-8168

BASIC FINANCIAL STATEMENTS

EXHIBIT A
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Statement of Net Assets
December 31, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 6,357,650	\$ 3,061,685	\$ 9,419,335
Investments	1,411,765		1,411,765
Taxes receivable, net of allowances for uncollectible	913,343		913,343
Other receivables, net of allowances for uncollectible	902,659	2,808,049	3,710,708
Inventory		215,388	215,388
Internal balances	1,592,412	(1,592,412)	
Prepaid items	46,865		46,865
Capital assets, not being depreciated:			
Land	5,839,095	65,005	5,904,100
Construction in progress	96,653	2,473,317	2,569,970
Capital assets, net of accumulated depreciation:			
Buildings and systems	699,923	10,035,842	10,735,765
Improvements other than buildings	182,388		182,388
Machinery, equipment and vehicles	1,483,196	7,919,579	9,402,775
Infrastructure	<u>11,099,746</u>		<u>11,099,746</u>
Total assets	<u>30,625,695</u>	<u>24,986,453</u>	<u>55,612,148</u>
LIABILITIES			
Accounts payable	226,620	438,155	664,775
Accrued payroll and benefits	58,691	15,727	74,418
Contracts payable		298,505	298,505
Intergovernmental payable	5,200,331	2,889	5,203,220
Accrued interest payable	17,972	77,311	95,283
Retainage payable	2,086	53,253	55,339
Unearned revenue	3,167	45,333	48,500
Other current liabilities	32,635	26,925	59,560
Noncurrent obligations:			
Due within one year:			
Bonds and notes	58,573	495,622	554,195
Compensated absences	35,547		35,547
Accrued landfill postclosure care costs	10,500		10,500
Due in more than one year:			
Bonds and notes	1,126,538	10,313,922	11,440,460
Compensated absences	319,920	47,977	367,897
Accrued landfill postclosure care costs	<u>220,500</u>		<u>220,500</u>
Total liabilities	<u>7,313,080</u>	<u>11,815,619</u>	<u>19,128,699</u>
NET ASSETS			
Invested in capital assets, net of related debt	18,215,890	12,241,468	30,457,359
Restricted for perpetual care	714,465		714,465
Unrestricted	<u>4,382,260</u>	<u>929,366</u>	<u>5,311,625</u>
Total net assets	<u>\$ 23,312,615</u>	<u>\$13,170,834</u>	<u>\$ 36,483,449</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT B
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Statement of Activities
For the Fiscal Year Ended December 31, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities:							
General government	\$ (1,511,354)	\$ 570,706	\$ 10,043	\$	\$ (930,605)	\$	\$ (930,605)
Public safety	(2,664,634)	53,978	127,960		(2,482,696)		(2,482,696)
Highways and streets	(1,784,362)	218,404	200,226		(1,365,732)		(1,365,732)
Sanitation	(729,069)	183,434	10,350		(535,285)		(535,285)
Health	(107,309)				(107,309)		(107,309)
Welfare	(55,053)				(55,053)		(55,053)
Culture and recreation	(932,988)	66,983			(866,005)		(866,005)
Conservation	(6,607)		91		(6,516)		(6,516)
Economic development	(6,000)				(6,000)		(6,000)
Interest on long-term debt	(42,785)				(42,785)		(42,785)
Capital outlay	(163,810)			527,456	363,646		363,646
Total governmental activities	<u>(8,003,971)</u>	<u>1,093,505</u>	<u>348,670</u>	<u>527,456</u>	<u>(6,034,340)</u>		<u>(6,034,340)</u>
Business-type activities:							
Water department	(1,255,629)	1,154,920		845,086	744,377		744,377
Sewer department	(1,220,444)	769,604		14,511	(436,329)		(436,329)
Electric department	(6,042,205)	6,531,693			489,488		489,488
Culture and recreation	(170,234)	185,881			15,647		15,647
Total business-type activities	<u>(8,688,512)</u>	<u>8,642,098</u>		<u>859,597</u>	<u>813,183</u>		<u>813,183</u>
Total primary government	<u>\$(16,692,483)</u>	<u>\$ 9,735,603</u>	<u>\$ 348,670</u>	<u>\$ 1,387,053</u>	<u>(6,034,340)</u>		<u>(5,221,157)</u>
General revenues:							
Property taxes					4,468,378		4,468,378
Interest, penalties and other taxes					168,796		168,796
Motor vehicle permit fees					1,378,061		1,378,061
All other permits and fees					158,485		158,485
Grants and contributions not restricted to specific programs					289,622		289,622
Miscellaneous					304,608		304,608
Transfers					(55,899)		(55,899)
Total general revenues and transfers					<u>6,712,051</u>		<u>6,820,778</u>
Change in net assets					677,711		1,599,621
Net assets, beginning					22,634,904		34,883,828
Net assets, ending					<u>\$ 23,312,615</u>		<u>\$ 36,483,449</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-1
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Balance Sheet
Governmental Funds
December 31, 2005

	<u>General</u>	<u>Expendable Trust</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 5,322,106	\$ 751,758	\$ 283,786	\$ 6,357,650
Investments		390,165	1,021,600	1,411,765
Receivables, net of allowances for uncollectible:				
Taxes	913,343			913,343
Accounts	10,989			10,989
Intergovernmental			495,145	495,145
Bonds	396,525			396,525
Interfund receivable	2,086,755		739	2,087,494
Prepaid items	46,865			46,865
Total assets	<u>\$ 8,776,583</u>	<u>\$ 1,141,923</u>	<u>\$ 1,801,270</u>	<u>\$ 11,719,776</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 226,620	\$	\$	\$ 226,620
Accrued payroll and benefits	58,691			58,691
Interfund payable		7,858	487,224	495,082
Intergovernmental payable	5,200,331			5,200,331
Deferred revenue	608,257			608,257
Retainage payable			2,086	2,086
Escrow deposits	32,635			32,635
Total liabilities	<u>6,126,534</u>	<u>7,858</u>	<u>489,310</u>	<u>6,623,702</u>
Fund balances:				
Reserved for encumbrances	343,311			343,311
Reserved for special purposes		1,134,065	1,144,346	2,278,411
Unreserved:				
Designated for special purposes	256,740			256,740
Designated, reported in:				
General fund	2,049,998			2,049,998
Capital project fund			(939)	(939)
Special revenue funds			168,553	168,553
Total fund balances	<u>2,650,049</u>	<u>1,134,065</u>	<u>1,311,960</u>	<u>5,096,074</u>
Total liabilities and fund balances	<u>\$ 8,776,583</u>	<u>\$ 1,141,923</u>	<u>\$ 1,801,270</u>	<u>\$ 11,719,776</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-2
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Reconciliation of Total Governmental Fund Balances to the Statement of Net Assets
December 31, 2005

Total fund balances of governmental funds (Exhibit C-1)		\$ 5,096,074
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.		
Cost	\$ 27,717,094	
Less accumulated depreciation	<u>(8,316,093)</u>	19,401,001
Interfund receivables and payables between governmental funds are eliminated on the statement of net assets.		
Receivables	\$ (495,082)	
Payables	<u>495,082</u>	-0-
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Deferred taxes		605,090
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(17,972)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the funds.		
Long-term bonds and notes	\$ (1,185,111)	
Compensated absences payable	(355,467)	
Accrued landfill postclosure care costs	<u>(231,000)</u>	<u>(1,771,578)</u>
Total net assets of governmental activities (Exhibit A)		<u>\$23,312,615</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT C-3
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
For the Fiscal Year Ended December 31, 2005

	<u>General</u>	<u>Expendable Trust</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 4,590,089	\$	\$	\$ 4,590,089
Licenses and permits	1,536,546			1,536,546
Intergovernmental	628,292		527,456	1,155,748
Charges for services	506,529		16,270	522,799
Miscellaneous	<u>793,878</u>	<u>29,301</u>	<u>62,135</u>	<u>885,314</u>
Total revenues	<u>8,055,334</u>	<u>29,301</u>	<u>605,861</u>	<u>8,690,496</u>
EXPENDITURES				
Current:				
General government	1,473,610		28,670	1,502,280
Public safety	2,525,969			2,525,969
Highways and streets	1,464,505			1,464,505
Sanitation	793,145			793,145
Health	107,309			107,309
Welfare	55,053			55,053
Culture and recreation	546,120		362,636	908,756
Conservation			5,341	5,341
Economic development	6,000			6,000
Debt service	176,608			176,608
Capital outlay	<u>909,491</u>	<u>53,511</u>	<u>733,818</u>	<u>1,696,820</u>
Total expenditures	<u>8,057,810</u>	<u>53,511</u>	<u>1,130,465</u>	<u>9,241,786</u>
Deficiency of revenues under expenditures	<u>(2,476)</u>	<u>(24,210)</u>	<u>(524,604)</u>	<u>(551,290)</u>
Other financing sources (uses):				
Transfers in	109,012		345,809	454,821
Transfers out	(506,250)		(4,470)	(510,720)
Debt issued	<u>396,525</u>			<u>396,525</u>
Total other financing sources and uses	<u>(713)</u>		<u>341,339</u>	<u>340,626</u>
Net change in fund balances	(3,189)	(24,210)	(183,265)	(210,664)
Fund balances, beginning	<u>2,653,238</u>	<u>1,158,275</u>	<u>1,495,225</u>	<u>5,306,738</u>
Fund balances, ending	<u>\$ 2,650,049</u>	<u>\$ 1,134,065</u>	<u>\$ 1,311,960</u>	<u>\$ 5,096,074</u>

The notes to the basic financial statements are an integral part of this statement.

*EXHIBIT C-4
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended December 31, 2005*

Net change in fund balances of governmental funds (Exhibit C-3)		\$ (210,664)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. 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 capitalized capital outlay exceeded depreciation expense in the current period.		
Capitalized capital outlay expenditure	\$ 1,533,010	
Depreciation expense	<u>(491,563)</u>	1,041,447
Revenues in the governmental activities that do not provide current financial resources are not reported as revenues in the funds.		
Increase in deferred tax revenue		47,085
Transfers in and out between governmental funds are eliminated on the operating statement.		
Transfers in	\$ (454,821)	
Transfers out	<u>454,821</u>	-0-
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Proceeds of long-term debt	\$ (396,525)	
Repayment of principal of long-term debt	<u>128,510</u>	(268,015)
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.		
Accrued interest expense decrease	\$ 5,313	
Compensated absences payable increase	(5,455)	
Accrued landfill postclosure care costs decrease	<u>68,000</u>	<u>67,858</u>
Changes in net assets of governmental activities (Exhibit B)		<u>\$ 677,711</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D-1
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Statement of Net Assets
Proprietary Funds
December 31, 2005

	Business-Type Activities				Total
	Enterprise Funds				
	Water Department	Sewer Department	Electric Department	Pop Whalen Ice Arena	
ASSETS					
Current assets:					
Cash and cash equivalents	\$	\$	\$ 2,938,300	\$ 123,385	\$ 3,061,685
Receivables, net of allowances for uncollectible:					
Accounts	254,436	197,670	508,159	1,450	961,715
Special assessments		6,624			6,624
Bonds	1,650,000				1,650,000
Intergovernmental	189,710				189,710
Inventory	8,971	757	205,660		215,388
Total current assets	<u>2,103,117</u>	<u>205,051</u>	<u>3,652,119</u>	<u>124,835</u>	<u>6,085,122</u>
Capital assets:					
Land	12,772	5,500	46,733		65,005
Buildings and system	10,912,067		209,777	741,279	11,863,123
Accumulated depreciation:					
Buildings and system	(1,629,950)		(55,129)	(142,202)	(1,827,281)
Machinery and equipment	3,394,237	4,619,296	5,745,750	289,817	14,049,100
Accumulated depreciation:					
Machinery and equipment	(1,192,194)	(1,515,513)	(3,292,466)	(129,348)	(6,129,521)
Construction in progress	49,372	294,617	2,129,328		2,473,317
Capital assets, net of accumulated depreciation	<u>11,546,304</u>	<u>3,403,900</u>	<u>4,783,993</u>	<u>759,546</u>	<u>20,493,743</u>
Total assets	<u>\$13,649,421</u>	<u>\$3,608,951</u>	<u>\$8,436,112</u>	<u>\$ 884,381</u>	<u>\$26,578,865</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 11,193	\$ 10,525	\$ 410,662	\$ 5,775	\$ 438,155
Accrued payroll and benefits	7,183	2,412	5,492	640	15,727
Contracts payable	157,317	88,133	53,055		298,505
Intergovernmental payable			2,889		2,889
Interfund payable	1,220,665	371,747			1,592,412
Accrued interest payable	60,668	7,681	7,486	1,476	77,311
Retainage payable	39,568	13,685			53,253
Deferred revenue	7,999	9,787	22,851	4,696	45,333
Customer deposits			26,925		26,925
General obligation debt payable - current	179,195	26,427	265,000	25,000	495,622
Total current liabilities	<u>1,683,788</u>	<u>530,397</u>	<u>794,360</u>	<u>37,587</u>	<u>3,046,132</u>
Noncurrent liabilities:					
General obligation debt payable	5,408,936	369,986	4,485,000	50,000	10,313,922
Compensated absences	21,559	6,314	20,104		47,977
Total noncurrent liabilities	<u>5,430,495</u>	<u>376,300</u>	<u>4,505,104</u>	<u>50,000</u>	<u>10,361,899</u>
Total liabilities	<u>7,114,283</u>	<u>906,697</u>	<u>5,299,464</u>	<u>87,587</u>	<u>13,408,031</u>
Net assets:					
Invested in capital assets, net of related debt	5,958,173	3,007,490	2,591,259	684,546	12,241,468
Unrestricted	576,965	(305,236)	545,389	112,248	929,366
Total net assets	<u>\$ 6,535,138</u>	<u>\$ 2,702,254</u>	<u>\$ 3,136,648</u>	<u>\$ 796,794</u>	<u>\$13,170,834</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D-2
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended December 31, 2005

	Business-Type Activities				Total
	Enterprise Funds				
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Pop Whalen</u>	
	<u>Department</u>	<u>Department</u>	<u>Department</u>	<u>Ice Arena</u>	
Operating revenues:					
Charges for sales and services:					
User charges	\$ 1,144,294	\$ 746,499	\$ 6,444,329	\$ 177,480	\$ 8,512,602
Miscellaneous	10,626	23,105	87,364	8,401	129,496
Total operating revenues	<u>1,154,920</u>	<u>769,604</u>	<u>6,531,693</u>	<u>185,881</u>	<u>8,642,098</u>
Operating expenses:					
Cost of sales and services	742,731	1,052,679	1,321,429	123,809	3,240,648
Cost of power			4,330,753		4,330,753
Depreciation	295,665	137,103	227,429	43,190	703,387
Total operating expenses	<u>1,038,396</u>	<u>1,189,782</u>	<u>5,879,611</u>	<u>166,999</u>	<u>8,274,788</u>
Operating income (loss)	<u>116,524</u>	<u>(420,178)</u>	<u>652,082</u>	<u>18,882</u>	<u>367,310</u>
Nonoperating revenues (expenses):					
Interest revenue			52,828		52,828
Interest expense	(217,233)	(30,662)	(162,594)	(3,235)	(413,724)
Total nonoperating revenues (expenses)	<u>(217,233)</u>	<u>(30,662)</u>	<u>(109,766)</u>	<u>(3,235)</u>	<u>(360,896)</u>
Income (loss) before contributions and transfers	<u>(100,709)</u>	<u>(450,840)</u>	<u>542,316</u>	<u>15,647</u>	<u>6,414</u>
Capital contributions	845,086	14,511			859,597
Transfers:					
In		161,899			161,899
Out			(106,000)		(106,000)
Total contributions and transfers	<u>845,086</u>	<u>176,410</u>	<u>(106,000)</u>	<u>-</u>	<u>915,496</u>
Net income (loss)	744,377	(274,430)	436,316	15,647	921,910
Total net assets, beginning	5,790,761	2,976,684	2,700,332	781,147	12,248,924
Total net assets, ending	<u>\$ 6,535,138</u>	<u>\$ 2,702,254</u>	<u>\$ 3,136,648</u>	<u>\$ 796,794</u>	<u>\$ 13,170,834</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT D-3
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2005

	Business-Type Activities				Total
	Enterprise Funds				
	Water Department	Sewer Department	Electric Department	Pop Whalen Ice Arena	
Cash flows from operating activities:					
Receipts from customers and users	\$ 1,141,709	\$ 747,550	\$ 6,690,661	\$ 185,921	\$ 8,765,841
Payments to suppliers and employees	(740,141)	(1,050,302)	(5,379,461)	(122,589)	(7,292,493)
Net cash provided (used) by operating activities	<u>401,568</u>	<u>(302,752)</u>	<u>1,311,200</u>	<u>63,332</u>	<u>1,473,348</u>
Cash flows from noncapital financing activities:					
Transfers in	1,220,665	533,646			1,754,311
Transfers out			(111,875)		(111,875)
Net cash provided (used) by noncapital financing activities	<u>1,220,665</u>	<u>533,646</u>	<u>(111,875)</u>		<u>1,642,436</u>
Cash flows from capital and related financing activities:					
Principal payments of bonds	(1,542,242)	(120,177)	(265,000)	(30,000)	(1,957,419)
Capital contributions	835,328	14,511			849,839
Acquisition and construction of fixed assets	(1,000,607)	(189,933)	(1,783,268)		(2,973,808)
Interest paid	(216,789)	(22,696)	(163,012)	(3,824)	(406,321)
Net cash used by capital and related financing activities	<u>(1,924,310)</u>	<u>(318,295)</u>	<u>(2,211,280)</u>	<u>(33,824)</u>	<u>(4,487,709)</u>
Cash flows from investing activities:					
Interest received			52,828		52,828
Net increase (decrease) in cash	(302,077)	(87,401)	(959,127)	29,508	(1,319,097)
Cash, beginning	302,077	87,401	3,897,427	93,877	4,380,782
Cash, ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,938,300</u>	<u>\$ 123,385</u>	<u>\$ 3,061,685</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 116,524	\$ (420,178)	\$ 652,082	\$ 18,882	\$ 367,310
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	295,665	137,103	227,429	43,190	703,387
(Increase) decrease in accounts receivable	(15,373)	(40,560)	137,957	(250)	81,774
Decrease in special assessments receivable		17,073			17,073
(Increase) decrease in inventory	1,845	(158)	(50,608)		(48,921)
Increase in accounts payable	65	576	323,355	1,296	325,292
Increase (decrease) in accrued payroll and benefits	3,198	1,427	967	(76)	5,516
Decrease in intergovernmental payable			(75)		(75)
Increase in customer deposits			2,755		2,755
Increase in deferred revenue	2,162	1,433	18,256	290	22,141
Increase (decrease) in compensated absences payable	(2,518)	532	(918)		(2,904)
Total adjustments	<u>285,044</u>	<u>117,426</u>	<u>659,118</u>	<u>44,450</u>	<u>1,106,038</u>
Net cash provided (used) by operating activities	<u>\$ 401,568</u>	<u>\$ (302,752)</u>	<u>\$ 1,311,200</u>	<u>\$ 63,332</u>	<u>\$ 1,473,348</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-1
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

	<u>Private Purpose Trust</u>	<u>Agency</u>
ASSETS		
Cash and cash equivalents	\$ 8,352	\$ 282,788
Investments	640,171	
Due from other governments		<u>3,429</u>
Total assets	<u>648,523</u>	<u>286,217</u>
LIABILITIES		
Due to others		<u>286,217</u>
NET ASSETS		
Held in trust for specific purposes	<u>\$ 648,523</u>	<u>\$ -0-</u>

The notes to the basic financial statements are an integral part of this statement.

EXHIBIT E-2
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended December 31, 2005

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
New funds	\$ 35,550
Investment earnings:	
Interest	18,205
Net increase in fair market value	<u>1,468</u>
Total additions	55,223
 Deductions:	
Scholarships and other distributions	<u>5,811</u>
 Change in net assets	49,412
Net assets, beginning	<u>599,111</u>
Net assets, ending	<u>\$ 648,523</u>

The notes to the basic financial statements are an integral part of this statement.

TOWN OF WOLFEBORO, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2005

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TOWN OF WOLFEBORO, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to the governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

1-A Reporting Entity

The Town of Wolfeboro, New Hampshire, is a municipal corporation governed by an elected 5-member Board of Selectmen and Town Manager. The reporting entity is comprised of the primary government and any other organizations that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board, and (1) the Town is able to significantly influence the programs or services performed or provided by the organization; or (2) the Town is legally entitled to or can otherwise access the organization's resources; the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Town is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Town's financial reporting entity.

1-B Basis of Presentation

The Town's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities; and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Town as a whole. Fiduciary activities are not included at the government-wide reporting level. Individual funds are not displayed at this reporting level as all individual governmental funds are consolidated.

The statement of net assets presents the financial position of the governmental and business-type activities of the Town at year-end. This statement includes all of the Town's assets, liabilities and net assets.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental and business-type activities. Direct expenses are those that are specifically associated with the function and therefore, clearly identifiable to that particular function.

The statement of activities reports the expenses of a given function offset by program revenues directly related to that functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with the functional activity. Program revenues include: (1) charges for services, which include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to the program uses.

For identifying to which function program revenue pertains, the determining factor for *charges for services* is which functions generate the revenue. For *grants and contributions*, the determining factor is to which functions the revenues are *restricted*.

Fund Financial Statements - During the year, the Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level.

Fund Accounting - The Town uses funds to maintain its financial records during the year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Town uses three categories of funds: governmental, proprietary and fiduciary.

TOWN OF WOLFEBORO, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2005

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The Town reports the difference between governmental fund assets and liabilities as fund balance. The following are the Town's major governmental funds:

General Fund - The general fund is the primary operating fund of the Town. All taxes and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, the fixed charges, and the capital improvement costs that are not reported in other funds.

Expendable Trust Fund - The expendable trust fund is used to account for funds established by Town Meeting for future, specific purposes as allowed by New Hampshire statutes.

The Town also reports seven nonmajor governmental funds.

Proprietary Funds - Proprietary funds account for those activities that are similar to activities that may be performed by a commercial enterprise. These funds cover activities that generally charge a fee in order to recover operational costs. The Town reports the difference between proprietary fund assets and liabilities as net assets. All of the Town's proprietary funds are in the following category:

Enterprise Funds - Enterprise funds are used to report activities for which a fee is charged to external users for goods or services. The Town reports four major enterprise funds.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets. The Town's fiduciary funds consist of two types: private purpose trust and agency funds. The private trust fund accounts for funds held by the trustees of trust funds for the benefit of other governments, organizations, or individuals. The agency funds are custodial in nature (assets equal liabilities), and do not involve the measurement of results of operations.

1-C Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Town are included on the statement of net assets. The statement of activities reports revenues, expenses and changes in net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

All proprietary funds are accounted for using the accrual basis of accounting. Using this basis of accounting, revenues are recognized when they are earned, and expenses are recognized when they are incurred (flow of economic resources measurement focus).

The fiduciary funds are also accounted for using an economic resources measurement focus. These funds report all assets and liabilities on the statement of fiduciary net assets. The statement of changes in fiduciary net assets reports additions and deductions to net assets of the private purpose trust funds.

1-D Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, governmental funds use the modified accrual basis of accounting, and proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of some deferred revenue, and in the presentation of expenses versus expenditures. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

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Revenues - Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year, generally within sixty days of year-end.

Revenues - Non-exchange Transactions - Nonexchange transactions, in which the Town receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Town must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available (i.e., collected within 60 days) before it can be recognized, with the exception of property taxes which are recognized if expected to be collected in time to be used to pay the liability to the school district which is due over the next six months.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: taxes, charges for services, interest, and federal and state grants.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements (i.e., on the modified accrual basis), receivables that will not be collected within the available period have been reported as deferred revenue (i.e., they are measurable, but not available) rather than as revenue.

Grants and entitlements received before the eligibility requirements are met (e.g., cash advances) also are recorded as deferred revenue in the governmental funds, and as unearned revenue on the government-wide financial statements.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1-E Assets, Liabilities and Net Assets or Fund Equity

1-E-1 Cash, Cash Equivalents and Investments

Cash and Cash Equivalents - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Town.

New Hampshire statutes require that the Town treasurer have custody of all moneys belonging to the Town and pay out the same only upon orders of the Town Manager. The treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to N.H. RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

Investments - Wherever the treasurer has in custody an excess of funds, which are not immediately needed for the purpose of expenditure, the treasurer shall, with the approval of the Town Manager, invest the excess funds.

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New Hampshire law authorizes the Town to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the state treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the Town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Investments are stated at fair value based on quoted market prices.

1-E-2 Receivables

Tax revenue is recorded when a warrant for collection is committed to the tax collector. Taxes receivable are reported net of an allowance established for taxes where collection is in doubt. As prescribed by law, the tax collector executes a lien on properties for all uncollected property taxes in the following year after taxes are due. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed within the 2-year redemption period, the property is tax-deeded to the Town.

Accounts receivable include various service charges which are recorded as revenue for the period when service was provided. These receivables are reported net of any allowances for uncollectible amounts.

1-E-3 Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated on the statement of net assets. Balances between governmental and proprietary funds are eliminated on the line "internal balances."

1-E-4 Inventory and Prepaid Items

All inventory is valued at cost using the first-in, first-out method. The consumption method is used to account for inventory. Under the consumption method, inventory is recorded when materials are consumed, rather than when purchased.

Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid items using the consumption method, by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

1-E-5 Capital Assets

Capital assets are those assets of a capital nature which the Town owns. The proprietary funds' capital assets are reported in both the business-type activities section of the government-wide statements and in the fund statements. General government capital assets are reported only in the governmental activities column of the government-wide statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$5,000 - \$50,000 depending on the type of asset and more than one year of estimated life. Improvements to capital assets are capitalized; the costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life are expensed.

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All reported capital assets are depreciated over their estimated useful lives. Deprecation is computed using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings	50
Infrastructure	75
Water, sewer and electric mains and lines	15 - 50
Structures	20 - 50
Hydrants	40
Services and meters	28 - 33
Computer and lab equipment	5 - 20
Other equipment	5 - 50
Furniture and fixtures	10
Improvements	20
Other assets	10 - 20

1-E-6 Compensated Absences

It is the Town's policy to permit employees to accumulate earned, but unused vested benefits. All vested benefits are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

1-E-7 Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of these funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are "due for payment" during the current year.

1-E-8 Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net assets."

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources, and therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods. Designations are management's intent to set aside these resources for specific purposes.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

1-E-9 Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement of repayment are reported as interfund transfers. At the fund reporting level, interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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At the government-wide financial reporting level, transfers between funds that would be reported only in the governmental activities column or the business-type activities column are eliminated.

1-E-10 Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - DETAILED NOTES ON ALL FUNDS AND GOVERNMENT-WIDE STATEMENTS

2-A Custodial Credit Risk for Deposits and Investment Risks

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of December 31, 2005, \$842,353 of the government's bank balance of \$7,559,439 was exposed to custodial credit risk as uninsured and uncollateralized.

As of December 31, 2005, the Town had the following investments:

Certificates of deposit	\$ 771,823
Stocks	150,973
Corporate bonds	84,026
Mutual funds	956,576
New Hampshire Public Deposit Investment Pool	88,538
Total	<u>\$ 2,051,936</u>

Interest Rate Risk – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments to those described in Note 1-E-1. The Town has no investment policy that would further limit its investment choices.

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Of the Town's \$2,051,936 of investments, \$1,191,575 is subject to custodial credit risk because the securities are held by the counterparty's trust department or agent, not in the Town's name. The Town does not have policies for custodial credit risk.

Concentration of Credit Risk – The Town places no limit on the amount it may invest in any one issuer. More than five percent of the Town's investments are in Income Fund of America, Capital Income Builder Fund and Vanguard Wellington Fund. These investments are 15.03%, 14.42% and 9.10%, respectively, of the Town's total investments.

2-B Taxes Receivable

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2005, upon which the 2005 property tax levy was based is:

For the New Hampshire education tax	\$1,516,947,790
For all other taxes	\$1,517,046,390

The Town subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Under this method, tax bills are due on or around July 1 and December 1 of each year, with interest accruing at a rate of 12% on bills outstanding after the due date. The first billing is considered an estimate only and is one half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the Town's tax rate for the fiscal year.

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In connection with the setting of the tax rate, Town officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for abatements and refunds of property taxes, known as overlay. This amount is reported as a reduction in tax revenue and is adjusted by management for any tax allowances at year-end. The property taxes collected by the Town include taxes levied for the State of New Hampshire, Governor Wentworth Regional School District and Carroll County, which are remitted as required by law. The ultimate responsibility for the collection of taxes rests with the Town.

The tax rates and amounts assessed for the year ended December 31, 2005, were as follows:

	<u>Per \$1,000 of Assessed Valuation</u>	<u>Property Taxes Assessed</u>
Municipal portion	\$ 3.19	\$ 4,853,964
School portion:		
State of New Hampshire	\$ 2.99	4,533,887
Local	\$ 3.87	5,863,650
County portion	\$ 92	<u>1,390,204</u>
Total property taxes assessed		<u>\$ 16,641,705</u>

During the current fiscal year, the tax collector executed a lien on April 22 for all uncollected 2004 property taxes

Taxes receivable at December 31, 2005, are as follows:

Property:	
Levy of 2005	\$ 752,105
Unredeemed (under tax lien):	
Levy of 2004	128,266
Levy of 2003	81,813
Levy of 2002	370
Levy of 2000	4,205
Yield	2,078
Less: allowance for estimated uncollectible taxes	<u>(55,494)</u>
Total	<u>\$ 913,343</u>

2-C Other Receivables

Other receivables at December 31, 2005, consisted of accounts (reimbursements, water, sewer, other user charges and miscellaneous fees), and intergovernmental amounts arising from grants.

Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectibility.

Amounts receivable at December 31, 2005 are as follows:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Total</u>
Accounts	\$ 10,989	\$ 1,132,419	\$ 1,143,408
Intergovernmental	495,145	189,710	684,855
Bonds	396,525	1,650,000	2,046,525
Special assessments		6,624	6,624
Less: allowance for uncollectible amounts		<u>(170,704)</u>	<u>(170,704)</u>
Net receivables	<u>\$ 902,659</u>	<u>\$ 2,808,049</u>	<u>\$ 3,710,708</u>

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2-D Capital Assets

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

	<u>Balance, beginning</u>	<u>Changes</u>	<u>Balance, ending</u>
Governmental activities:			
At cost:			
Not being depreciated:			
Land	\$ 5,839,095	\$	\$ 5,839,095
Construction in progress	405,086	(308,433)	96,653
Total capital assets not being depreciated	<u>6,244,181</u>	<u>(308,433)</u>	<u>5,935,748</u>
Being depreciated:			
Buildings and systems	1,295,928	53,570	1,349,498
Improvements other than buildings	791,441	146,813	938,254
Machinery, equipment and vehicles	3,706,449	91,726	3,798,175
Infrastructure	14,146,085	1,549,334	15,695,419
Total capital assets being depreciated	<u>19,939,903</u>	<u>1,841,443</u>	<u>21,781,346</u>
Total all capital assets	<u>26,184,084</u>	<u>1,533,010</u>	<u>27,717,094</u>
Less accumulated depreciation:			
Buildings and systems	(622,725)	(26,850)	(649,575)
Improvements other than buildings	(747,831)	(8,035)	(755,866)
Machinery, equipment and vehicles	(2,053,075)	(261,904)	(2,314,979)
Infrastructure	(4,400,899)	(194,774)	(4,595,673)
Total accumulated depreciation	<u>(7,824,530)</u>	<u>(491,563)</u>	<u>(8,316,093)</u>
Net book value, capital assets being depreciated	<u>12,115,373</u>	<u>1,349,880</u>	<u>13,465,253</u>
Net book value, all capital assets	<u>\$ 18,359,554</u>	<u>\$ 1,041,447</u>	<u>\$ 19,401,001</u>
Business-type activities:			
At cost:			
Not being depreciated:			
Land	\$ 65,005	\$	\$ 65,005
Construction in progress	1,057,461	1,415,856	2,473,317
Total capital assets not being depreciated	<u>1,122,466</u>	<u>1,415,856</u>	<u>2,538,322</u>
Being depreciated:			
Buildings and systems	11,093,680	769,443	11,863,123
Machinery, equipment and vehicles	13,768,291	280,809	14,049,100
Total capital assets being depreciated	<u>24,861,971</u>	<u>1,050,252</u>	<u>25,912,223</u>
Total all capital assets	<u>25,984,437</u>	<u>2,466,108</u>	<u>28,450,545</u>
Less accumulated depreciation:			
Buildings and systems	(1,693,296)	(133,985)	(1,827,281)
Machinery, equipment and vehicles	(5,708,087)	(421,434)	(6,129,521)
Total accumulated depreciation	<u>(7,401,383)</u>	<u>(555,419)</u>	<u>(7,956,802)</u>
Net book value, capital assets being depreciated	<u>17,460,588</u>	<u>494,833</u>	<u>17,955,421</u>
Net book value, all capital assets	<u>\$ 18,583,054</u>	<u>\$ 1,910,689</u>	<u>\$ 20,493,743</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 4,971
Public safety	133,600
Highways and streets	324,854
Sanitation	3,045
Culture and recreation	25,093
Total depreciation expense - governmental activities	<u>\$ 491,563</u>
Business-type activities:	
Water department	\$ 295,665
Sewer department	137,103
Electric department	227,429
Ice arena	43,190
Total depreciation expense - business-type activities	<u>\$ 703,387</u>

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2-E Interfund Balances and Transfers

Interfund balances are comprised of overdrafts in the pooled cash and investments, and budgetary transfers that had not been paid as of year-end. The composition of interfund balances as of December 31, 2005 is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental funds:		
General	\$ 2,086,755	\$
Expendable trust		7,858
Nonmajor:		
Special revenue:		
Public library		4,253
Conservation commission	739	2,273
Capital project:		
Whitten Neck Road bridge		479,673
Permanent		3,298
Proprietary funds:		
Water department		1,220,665
Sewer department		371,747
Totals	<u>\$ 2,087,494</u>	<u>\$ 2,087,494</u>

Interfund transfers consist of appropriated transfers and administrative costs, and are comprised as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General	\$ 109,012	\$ 506,250
Nonmajor:		
Special revenue:		
Public library	337,457	
Conservation commission	8,352	
Permanent		4,470
Proprietary funds:		
Sewer department	161,899	
Electric department		106,000
Totals	<u>\$616,720</u>	<u>\$616,720</u>

Eliminations of interfund balances and activities between governmental funds have been made on the government-wide statements.

2-F Intergovernmental Payables

Amounts due to other governments at December 31, 2005 consist of:

Governmental activities:		
Town clerk fees due to the State of New Hampshire	\$ 1,563	
Balance of 2005-2006 district assessment due to the Governor Wentworth Regional School District	<u>5,198,768</u>	\$ 5,200,331
Business-type activities:		
Consumption taxes due to the State of New Hampshire from the electric department		2,889
Total		<u>\$ 5,203,220</u>

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2-G Deferred/Unearned Revenue

Deferred revenue at December 31, 2005 consists of \$605,090 of property taxes not collected timely enough to be used to pay liabilities of the current year, \$2,967 of property tax overpayments to be applied to subsequent levies, and \$200 of miscellaneous amounts related to the Libby Museum. The latter two amounts are reported as unearned revenue on the government-wide statements.

2-H Long-Term Liabilities

The following is a summary of changes in the Town's long-term liabilities for the fiscal year ended December 31, 2005:

	<u>Balances, Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances, Ending</u>
Governmental activities:				
Bonds/notes	\$ 917,096	\$ 396,525	\$ 128,510	\$ 1,185,111
Compensated absences	350,012	5,455		355,467
Accrued landfill postclosure care costs	299,000		68,000	231,000
Business-type activities:				
Bonds/notes	9,839,562	1,650,000	680,018	10,809,544
Compensated absences	50,881	532	3,436	47,977
Totals	<u>\$ 11,456,551</u>	<u>\$ 2,052,512</u>	<u>\$ 879,964</u>	<u>\$ 12,629,099</u>

Long-term liabilities payable are comprised of the following:

	<u>Original Amount</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Outstanding at December 31, 2005</u>	<u>Current Portion</u>
Governmental activities:						
General obligation bonds/notes payable:						
Landfill closure	\$600,000	1997	2017	5.80	\$ 360,000	\$ 30,000
Public bonds	\$578,500	2000	2020	5.125-5.500	428,586	
Friend Street	\$396,525	2005	2016	4.0-4.3	<u>396,525</u>	<u>28,573</u>
					1,185,111	58,573
Compensated absences payable					355,467	35,547
Accrued landfill postclosure care costs					<u>231,000</u>	<u>10,500</u>
Total governmental activities					<u>\$ 1,771,578</u>	<u>\$ 104,620</u>

	<u>Original Amount</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Outstanding at December 31, 2005</u>	<u>Current Portion</u>
Business-type activities:						
Water department:						
Water bond	\$3,000,000	1996	2025	4.5	\$ 2,068,959	\$ 103,449
Water system improvements	\$450,000	1996	2021	4.5	334,032	15,307
Water system improvements	\$550,000	1997	2025	4.5	392,856	19,643
Water system improvements	\$1,183,080	2004	2033	4.25	1,142,284	40,795
Water system improvements	\$1,650,000	2005	2016	4.0-4.5	<u>1,650,000</u>	
Total bonds/notes improvements					5,588,131	179,194
Compensated absences					<u>21,559</u>	
Total water department					<u>5,609,690</u>	<u>179,194</u>
Sewer department:						
Sewer improvements bond	\$535,000	2000	2020	5.125-5.500	396,413	26,428
Compensated absences					<u>6,314</u>	
Total sewer department					<u>402,727</u>	<u>26,428</u>
Electric department:						
Bonds	\$5,281,000	2003	2023	2.25-4.25	4,750,000	265,000
Compensated absences					<u>20,104</u>	
Total electric department					<u>4,770,104</u>	<u>265,000</u>
Pop Whalen Ice Arena bonds	\$138,865	2002	2008	4.25	<u>75,000</u>	<u>25,000</u>
Total business-type activities					<u>\$ 10,857,521</u>	<u>\$ 495,622</u>

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The annual requirements to amortize all general obligation debt outstanding as of December 31, 2005, including interest payments, are as follows:

Annual Requirements To Amortize Governmental Activities Bonds/Notes Payable

<u>Fiscal Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 58,573	\$ 51,557	\$ 110,130
2007	95,098	55,964	151,062
2008	98,573	51,292	149,865
2009	98,573	46,498	145,071
2010	98,573	41,706	140,279
2011-2015	492,865	136,382	629,247
2016-2020	<u>242,856</u>	<u>30,264</u>	<u>273,120</u>
Totals	<u>\$ 1,185,111</u>	<u>\$ 413,663</u>	<u>\$ 1,598,774</u>

Annual Requirements To Amortize Business-Type Activities Bonds/Notes Payable

<u>Fiscal Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 495,622	\$ 387,051	\$ 882,673
2007	576,321	402,370	978,691
2008	577,048	382,394	959,442
2009	552,809	362,641	915,450
2010	553,605	343,048	896,653
2011-2015	2,781,293	1,398,811	4,180,104
2016-2020	2,822,380	837,328	3,659,708
2021-2025	2,039,101	285,292	2,324,393
2026-2030	288,980	49,508	338,488
2031-2033	<u>122,384</u>	<u>8,687</u>	<u>131,071</u>
Totals	<u>\$ 10,809,543</u>	<u>\$ 4,457,130</u>	<u>\$ 15,266,673</u>

All debt is general obligation debt of the Town, which is backed by its full faith and credit. Business-type activities debt will be funded through user fees. All other debt will be repaid from general governmental revenues of the general fund.

The vast majority of the compensated absences of governmental activities have typically been paid by the general fund.

Accrued Landfill Postclosure Care Costs

The Town landfill has been closed in prior years. Federal and State laws and regulations require that the Town continue to perform certain maintenance and monitoring functions at the landfill site. A liability of \$231,000 is being recognized for the estimated future postclosure care costs. This estimate has been calculated at \$10,500 per year for twenty-two years and is based on the amount that would be paid if all equipment and services required to monitor and maintain the landfill were acquired as of December 31, 2005. However, the actual cost of postclosure care may be higher or lower due to inflation, changes in technology, or changes in laws and regulations. The Town expects to finance the postclosure care costs by annual appropriation.

State Aid to Water Pollution Projects

Under N.H. RSA Chapter 486, the Town receives from the State of New Hampshire a percentage of the annual amortization charges on the original costs resulting from the acquisition and construction of sewage disposal facilities. The Town is due to receive \$14,511 to offset debt payments in fiscal year 2006.

TOWN OF WOLFEBORO, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2005

Water Filtration Grant

The Town is due to receive from the State of New Hampshire a percentage of the annual charges on the original costs resulting from the construction of water treatment facilities. The Town is due to receive the following annual amounts to offset debt payments in the water department fund:

<u>Fiscal Year Ending December 31,</u>	<u>Amount</u>
2006	\$ 58,966
2007	57,569
2008	56,173
2009	54,776
2010	53,379
2011-2025	<u>633,097</u>
Totals	<u>\$ 913,960</u>

NOTE 3 - OTHER MATTERS

3-A Pensions

Plan Description and Provisions

The Town of Wolfeboro participates in the New Hampshire Retirement System (The System) which consists of a cost-sharing, multiple-employer contributory pension plan and trust established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Provisions for benefits and contributions are established and can be amended by the New Hampshire State Legislature. The System issues a publicly available financial report that may be obtained by writing the New Hampshire Retirement System, 4 Chenell Drive, Concord, NH 03301.

Description of Funding Policy

The System is financed by contributions from both the employees and the Town. Member contribution rates are established and may be amended by the State legislature while employer contribution rates are set by the System trustees based on an actuarial valuation. All employees except police officers and firefighters are required to contribute 5% of earnable compensation. Police officers and firefighters are required to contribute 9.3% of gross earnings. For the first six months of 2005, the Town contributed 7.87% for police officers, 13.44% for firefighters and 5.90% for other employees, and for the last six months of the year, the rate increased to 9.68% for police officers, 14.36% for firefighters and 6.81% for other employees. The contribution requirements for the Town of Wolfeboro for the fiscal years 2003, 2004, and 2005 were \$172,822, \$233,708 and \$260,654, respectively, which were paid in full in each year.

The State of New Hampshire funds 35% of employer costs for police officers and firefighters employed by the Town. The State does not participate in funding the employer costs of other Town employees. This amount \$65,759 has been included as a revenue and expense on the statement of activities, and also as a revenue and expenditure on the governmental funds operating statement.

3-B Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During 2005, the Town was a member of The New Hampshire Public Risk Management Exchange (Primex) Workers' Compensation and Property/Liability Programs which are pooled risk management programs under RSAs 5-B and 281-A. The workers' compensation and employer's liability policy provides statutory coverage for workers' compensation and up to \$2,000,000 of employer's liability coverage. Primex retained \$500,000 per occurrence for workers' compensation and liability, and \$200,000 per occurrence for property. The combined liability package includes coverage for property, auto, liability, errors and omissions, crime, and boiler and machinery. The membership and coverage run from January 1 through December 31. The estimated net contribution from the Town of Wolfeboro billed and paid for the year ended December 31, 2005 was \$70,852 for workers' compensation and \$91,166 for property/liability. The member participation agreements permit Primex to make additional assessments to members, should there be a deficiency in contributions for any member year, not to exceed the member's annual contribution. At this time, Primex foresees no likelihood of any additional assessment for this or any prior year.

TOWN OF WOLFEBORO, NEW HAMPSHIRE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2005

3-C Contingent Liabilities

There are various claims and suits pending against the Town which arose in the normal course of the Town's activities. In the opinion of management, the ultimate disposition of these various claims and suits will not have a material effect on the financial position of the Town.

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement from the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the Town believes such disallowances, if any, will be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT F
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Non GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2005

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Taxes	\$ 4,640,286	\$ 4,590,089	\$ (50,197)
Licenses and permits	1,440,570	1,536,546	95,976
Intergovernmental	500,333	562,533	62,200
Charges for services	360,500	506,529	146,029
Miscellaneous	<u>729,902</u>	<u>793,878</u>	<u>63,976</u>
Total revenues	<u>7,671,591</u>	<u>7,989,575</u>	<u>317,984</u>
Expenditures:			
Current:			
General government	1,397,417	1,459,754	(62,337)
Public safety	2,598,345	2,454,295	144,050
Highways and streets	1,382,319	1,458,105	(75,786)
Sanitation	789,568	793,145	(3,577)
Health	108,626	107,309	1,317
Welfare	57,680	55,053	2,627
Culture and recreation	572,035	541,614	30,421
Economic development	6,000	6,000	
Debt service	176,608	176,608	
Capital outlay	<u>1,336,920</u>	<u>1,087,954</u>	<u>248,966</u>
Total expenditures	<u>8,425,518</u>	<u>8,139,837</u>	<u>285,681</u>
Deficiency of revenues under expenditures	<u>(753,927)</u>	<u>(150,262)</u>	<u>603,665</u>
Other financing sources (uses):			
Transfers in	108,000	109,012	1,012
Transfers out	(506,019)	(506,250)	(231)
General obligation debt issued	<u>396,525</u>	<u>396,525</u>	
Total other financing sources and uses	<u>(1,494)</u>	<u>(713)</u>	<u>781</u>
Net change in fund balances	(755,421)	(150,975)	604,446
Unreserved fund balances, beginning	<u>2,457,713</u>	<u>2,457,713</u>	
Unreserved fund balances, ending	<u>\$ 1,702,292</u>	<u>\$ 2,306,738</u>	<u>\$ 604,446</u>

See accompanying notes to the required supplementary information.

TOWN OF WOLFEBORO, NEW HAMPSHIRE
Notes to Required Supplementary Information
As Of And For The Fiscal Year Ended December 31, 2005

Budgetary Information	
General Budget Policies	1
Budgetary Reconciliation	2

TOWN OF WOLFEBORO, NEW HAMPSHIRE
Notes to Required Supplementary Information
As Of And For The Fiscal Year Ended December 31, 2005

1. General Budget Policies

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. At its annual meeting, the Town adopts a budget for the current year for the general fund, as well as some of the nonmajor funds. Except as reconciled below, the budget was adopted on a basis consistent with U.S. generally accepted accounting principles.

Management may transfer appropriations between operating categories as deemed necessary, but expenditures may not legally exceed budgeted appropriations in total. All annual appropriations lapse at year-end unless encumbered.

Encumbrance accounting, under which purchase orders, contracts, and continuing appropriations (certain projects and specific items not fully expended at year-end) are recognized, is employed in the governmental funds. Encumbrances are not the equivalent of expenditures, and are therefore, reported as part of the fund balance at year-end and are carried forward to supplement appropriations of the subsequent year.

State statutes require balanced budgets, but provide for the use of beginning unreserved fund balance to achieve that end. In the fiscal year 2005, \$755,421 of the beginning general fund fund balance was applied for this purpose.

2. Budgetary Reconciliation

The following reconciles the general fund budgetary basis to the GAAP basis.

Revenues and other financing sources:	
Per Exhibit F (budgetary basis)	\$ 8,495,112
Adjustment:	
Basis difference:	
On-behalf retirement contribution payments made by the State of New Hampshire recognized as revenue on the GAAP basis, but not on the budgetary basis	<u>65,759</u>
Per Exhibit C-3 (GAAP basis)	<u>\$ 8,560,871</u>
Expenditures and other financing uses:	
Per Exhibit F (budgetary basis)	\$ 8,646,087
Adjustments:	
Basis differences:	
Encumbrances, beginning	195,525
Encumbrances, ending	(343,311)
On-behalf retirement contribution payments made by the State of New Hampshire recognized as expenditures on the GAAP basis, but not on the budgetary basis	<u>65,759</u>
Per Exhibit C-3 (GAAP Basis)	<u>\$ 8,564,060</u>

COMBINING AND INDIVIDUAL FUND STATEMENTS

SCHEDULE 1
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Major General Fund
Statement of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2005

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Taxes:			
Property	\$ 4,469,813	\$ 4,421,293	\$ (48,520)
Land use change	9,000	9,000	
Timber	31,000	33,698	2,698
Excavation	500	68	(432)
Payment in lieu of taxes	14,973	14,997	24
Interest and penalties on taxes	<u>115,000</u>	<u>111,033</u>	<u>(3,967)</u>
Total taxes	<u>4,640,286</u>	<u>4,590,089</u>	<u>(50,197)</u>
Licenses, permits and fees:			
Business licenses and permits	3,050	3,965	915
Motor vehicle permit fees	1,300,000	1,378,061	78,061
Building permits	67,300	76,100	8,800
Other	<u>70,220</u>	<u>78,420</u>	<u>8,200</u>
Total licenses, permits and fees	<u>1,440,570</u>	<u>1,536,546</u>	<u>95,976</u>
Intergovernmental:			
State:			
Shared revenue block grant	289,622	289,622	
Highway block grant	156,252	156,252	
State and federal forest land reimbursement	91	91	
Other	10,393	24,381	13,988
Federal	<u>43,975</u>	<u>92,187</u>	<u>48,212</u>
Total intergovernmental	<u>500,333</u>	<u>562,533</u>	<u>62,200</u>
Charges for services:			
Income from departments	<u>360,500</u>	<u>506,529</u>	<u>146,029</u>
Miscellaneous:			
Sale on municipal property	1,000	2,019	1,019
Interest on investments	130,000	172,030	42,030
Rent of property	57,550	57,010	(540)
Fines and forfeits		6,792	6,792
Administrative contributions	506,904	506,904	
Insurance dividends and reimbursements	6,000	10,878	4,878
Other	<u>28,448</u>	<u>38,245</u>	<u>9,797</u>
Total miscellaneous	<u>729,902</u>	<u>793,878</u>	<u>63,976</u>
Other financing sources:			
General obligation bonds issued	396,525	396,525	
Transfers in:			
Proprietary fund:			
Sewer department	106,000	106,000	
Nonmajor governmental fund:			
Permanent	<u>2,000</u>	<u>3,012</u>	<u>1,012</u>
Total transfers in	<u>108,000</u>	<u>109,012</u>	<u>1,012</u>
Total other financing sources	<u>504,525</u>	<u>505,537</u>	<u>1,012</u>
Total revenues and other financing sources	8,176,116	<u>\$ 8,495,112</u>	<u>\$ 318,996</u>
Unreserved fund balance used to reduce tax rate	755,421		
Total revenues, other financing sources and use of fund balance	<u>\$ 8,931,537</u>		

SCHEDULE 2
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Major General Fund
Statement of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2005

	Encumbered From <u>2004</u>	Appropriations 2005	Expenditures Net of <u>Refunds</u>	Encumbered To 2006	Variance Positive (Negative)
Current:					
General government:					
Executive	\$ 10,150	\$ 409,311	\$ 463,709	\$	\$ (44,248)
Election and registration		195,830	190,903		4,927
Financial administration		632,393	656,820		(24,427)
Planning and zoning	3,706	107,961	109,226		2,441
General government buildings		45,942	47,298		(1,356)
Cemeteries		5,980	5,654		326
Total general government	<u>13,856</u>	<u>1,397,417</u>	<u>1,473,610</u>		<u>(62,337)</u>
Public safety:					
Police department		951,383	926,448	1,241	23,694
Ambulance		133,247	113,423		19,824
Fire department	16,500	1,050,939	973,403	14,144	79,892
Building inspection		133,408	124,579		8,829
Emergency management		1,000			1,000
Other	4,800	328,368	322,357		10,811
Total public safety	<u>21,300</u>	<u>2,598,345</u>	<u>2,460,210</u>	<u>15,385</u>	<u>144,050</u>
Highways and streets:					
Administration		152,636	149,680		2,956
Highways and streets		868,369	935,485		(67,116)
Public works garage		292,068	320,762		(28,694)
Buildings and grounds	6,400	69,246	58,578		17,068
Total highways and streets	<u>6,400</u>	<u>1,382,319</u>	<u>1,464,505</u>		<u>(75,786)</u>
Sanitation:					
Solid waste disposal		789,568	793,145		(3,577)
Health:					
Administration		4,928	4,697		231
Animal control		18,014	16,928		1,086
Health agencies and hospitals		85,684	85,684		
Total health		<u>108,626</u>	<u>107,309</u>		<u>1,317</u>

SCHEDULE 2 (Continued)
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Major General Fund
Statement of Appropriations, Expenditures and Encumbrances (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended December 31, 2005

	Encumbered From 2004	Appropriations 2005	Expenditures Net of Refunds	Encumbered To 2006	Variance Positive (Negative)
Welfare:					
Administration		19,180	18,969		211
Direct assistance		<u>38,500</u>	<u>36,084</u>		<u>2,416</u>
Total welfare		<u>57,680</u>	<u>55,053</u>		<u>2,627</u>
Culture and recreation:					
Parks and recreation	3,558	509,679	490,211		23,026
Patriotic purposes		16,747	15,183		1,564
Other	<u>4,800</u>	<u>45,609</u>	<u>40,726</u>	3,852	5,831
Total culture and recreation	<u>8,358</u>	<u>572,035</u>	<u>546,120</u>	<u>3,852</u>	<u>30,421</u>
Economic development		<u>6,000</u>	<u>6,000</u>		
Debt service:					
Principal of long-term debt		128,510	128,510		
Interest on long-term debt		<u>48,098</u>	<u>48,098</u>		
Total debt service		<u>176,608</u>	<u>176,608</u>		
Capital outlay	<u>145,611</u>	<u>1,336,920</u>	<u>909,491</u>	<u>324,074</u>	<u>248,966</u>
Other financing uses:					
Transfers out:					
Proprietary fund:					
Sewer department		161,899	161,899		
Nonmajor governmental funds:					
Public library		335,999	335,999		
Conservation commission		<u>8,121</u>	<u>8,352</u>		(231)
Total other financing uses		<u>506,019</u>	<u>506,250</u>		<u>(231)</u>
Total appropriations, expenditures, other financing uses and encumbrances	<u>\$ 195,525</u>	<u>\$8,931,537</u>	<u>\$ 8,498,301</u>	<u>\$ 343,311</u>	<u>\$ 285,450</u>

SCHEDULE 3
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Major General Fund
Statement of Changes in Unreserved - Undesignated Fund Balance (Non-GAAP Budgetary Basis)
For the Year Ended December 31, 2005

Unreserved, undesignated fund balance, beginning		\$ 2,200,973
Changes:		
Unreserved fund balance used to reduce 2005 tax rate		(755,421)
2005 Budget summary:		
Revenue surplus (Schedule 1)	\$ 318,996	
Unexpended balance of appropriations (Schedule 2)	<u>285,450</u>	
2005 budget surplus		<u>604,446</u>
Unreserved, undesignated fund balance, ending		<u>\$ 2,049,998</u>

SCHEDULE 4
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Nonmajor Governmental Funds
Combining Balance Sheet
December 31, 2005

	<u>Special Revenue Funds</u>		<u>Capital Project Funds</u>			<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Public Library</u>	<u>Conservation Commission</u>	<u>Josiah Brown</u>	<u>Whitten Neck Road Bridge</u>	<u>Public Improve- ments</u>		
ASSETS							
Cash and cash equivalents	\$ 169,382	\$ 5,040	\$ 13,802	\$	\$ 1,147	\$ 19,700	\$ 283,786
Investments	234,999	88,538				698,063	1,021,600
Intergovernmental receivable		739		495,145			495,145
Interfund receivable							739
Total assets	<u>\$404,381</u>	<u>\$ 94,317</u>	<u>\$ 13,802</u>	<u>\$ 495,145</u>	<u>\$ 1,147</u>	<u>\$ 717,763</u>	<u>\$ 1,801,270</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Interfund payable	\$ 4,253	\$	\$	\$ 479,673	\$	\$ 3,298	\$ 487,224
Retainage payable					2,086		2,086
Total liabilities	<u>4,253</u>			<u>479,673</u>	<u>2,086</u>	<u>3,298</u>	<u>489,310</u>
Fund balances:							
Reserved for special purposes	339,694			15,472		714,465	1,144,346
Undesignated	60,434	94,317	13,802		(939)		167,614
Total fund balances	<u>400,128</u>	<u>94,317</u>	<u>13,802</u>	<u>15,472</u>	<u>(939)</u>	<u>714,465</u>	<u>1,311,960</u>
Total liabilities and and fund balances	<u>\$404,381</u>	<u>\$ 94,317</u>	<u>\$ 13,802</u>	<u>\$ 495,145</u>	<u>\$ 1,147</u>	<u>\$ 717,763</u>	<u>\$ 1,801,270</u>

SCHEDULE 5
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Nonmajor Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended December 31, 2005

	Special Revenue Funds			Capital Projects Funds			Permanent	Total
	Public Library	Conservation Commission	Josiah Brown	Whitten Neck Road Bridge	Public Improvements	Bay Street Bridge	Fund	Nonmajor Governmental Funds
Revenues:								
Intergovernmental	\$	\$	\$	\$	\$		\$	\$
Charges for services	16,270			527,456			26,335	527,456
Miscellaneous	23,226	2,284	10,290	26,335			26,335	16,270
Total revenues	<u>39,496</u>	<u>2,284</u>	<u>10,290</u>	<u>527,456</u>			<u>26,335</u>	<u>62,135</u>
								<u>605,861</u>
Expenditures:								
Current:								
General government			11,700				16,970	28,670
Culture and recreation	362,636	5,341						362,636
Conservation				659,320	65,313	9,185		5,341
Capital outlay	<u>362,636</u>	<u>5,341</u>	<u>11,700</u>	<u>659,320</u>	<u>65,313</u>	<u>9,185</u>	<u>16,970</u>	<u>733,818</u>
Total expenditures	<u>(323,140)</u>	<u>(3,057)</u>	<u>(1,410)</u>	<u>(131,864)</u>	<u>(65,313)</u>	<u>(9,185)</u>	<u>9,365</u>	<u>(524,604)</u>
Excess (deficiency) of revenues over (under) expenditures								
Other financing sources (uses):								
Transfers in	337,457	8,352					(4,470)	345,809
Transfers out							(4,470)	(4,470)
Total other financing sources and uses	<u>337,457</u>	<u>8,352</u>					<u>(4,470)</u>	<u>341,339</u>
Net change in fund balances	14,317	5,295	(1,410)	(131,864)	(65,313)	(9,185)	4,895	(183,265)
Fund balances, beginning	385,811	89,022	15,212	147,336	64,374	83,900	709,570	1,495,225
Fund balances, ending	<u>\$ 400,128</u>	<u>\$ 94,317</u>	<u>\$ 13,802</u>	<u>\$ 15,472</u>	<u>\$ (939)</u>	<u>\$ 74,715</u>	<u>\$ 714,465</u>	<u>\$ 1,311,960</u>



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

***REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

To the Members of the Board of Selectmen
Town of Wolfeboro
Wolfeboro, New Hampshire

We have audited the accompanying financial statements of the Town of Wolfeboro as of and for the year ended December 31, 2005, and have issued our report thereon dated May 15, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Wolfeboro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Wolfeboro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of selectmen, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gregory A. Colby, CPA

May 15, 2006

PLODZIK & SANDERSON
Professional Association



PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

193 North Main Street • Concord • New Hampshire • 03301-5063 • 603-225-6996 • FAX-224-1380

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Members of the Board of Selectmen
Town of Wolfeboro
Wolfeboro, New Hampshire

Compliance

We have audited the compliance of the Town of Wolfeboro with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2005. The Town of Wolfeboro's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Town of Wolfeboro's management. Our responsibility is to express an opinion on the Town of Wolfeboro's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Wolfeboro's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Wolfeboro's compliance with those requirements.

In our opinion, the Town of Wolfeboro complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the Town of Wolfeboro is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Wolfeboro's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the board of selectmen, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Margaret A. Colby, CPA

PLODZIK & SANDERSON
Professional Association

May 15, 2006

SCHEDULE I
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended December 31, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

A. *Financial Statements*

1. The auditor's report expresses an unqualified opinion on the financial statements
2. There were no material weaknesses identified relating to the internal control over financial reporting
3. There were no reportable conditions identified which were not considered material weaknesses relating to the internal control over financial reporting.
4. There were no instances of noncompliance material to the financial statements identified.

B. *Federal Awards*

1. There were no material weaknesses identified relating to the internal control over major programs.
2. There were no reportable conditions identified which were not considered material weaknesses relating to the internal control over major programs.
3. The auditor's report on compliance for major programs expresses an unqualified opinion
4. There are no audit findings required to be reported in accordance with Circular A-133.
5. The program tested as a major program is CFDA No. 10.760: Water and Waste Disposal Systems for Rural Communities.
6. The threshold for distinguishing between Types A and B programs was \$300,000.
7. The Town of Wolfeboro was determined not to be a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SCHEDULE II
TOWN OF WOLFEBORO, NEW HAMPSHIRE
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended December 31, 2005

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through the State of New Hampshire			
<u>Bureau of Emergency Management</u>			
<u>Disaster Grants – Public Assistance</u>			
Snow Emergency	97.036	FEMA-3207-DR-NH	\$ 9,199
Snow Emergency	97.036	FEMA-3208-DR-NH	20,377
Snow Emergency	97.036	FEMA-3211-DR-NH	<u>14,398</u>
<i>PROGRAM TOTAL</i>			<u>43,974</u>
DIRECT FUNDING			
U.S. DEPARTMENT OF AGRICULTURE			
Water and Waste Disposal Systems for Rural Communities	10.760		784,724
U.S. DEPARTMENT OF HOMELAND SECURITY			
Assistance to Firefighters Grant	97.044		<u>48,213</u>
Total direct funding			<u>832,937</u>
<i>GRAND TOTAL</i>			<u>\$ 876,911</u>

The note to the schedule of expenditures of federal awards is an integral part of this schedule.

TOWN OF WOLFEBORO, NEW HAMPSHIRE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF AND FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting, whereby transactions are presented in the same way as they are included in the fund financial statements.