

MOORS & CABOT, INC.
Banking & Advisory Group

NEW ISSUE

Moody's: Aaa (Aa3)
S & P: AAA (AA-)

In the opinion of Bond Counsel, under existing statutes and court decisions, and assuming compliance with certain covenants, interest on the Bonds will be excludable from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and such interest will not be treated as a preference item to be included in calculating alternative minimum taxable income under the Code with respect to individuals and corporations; however, such interest will be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the alternative minimum tax and the foreign branch profits tax. Bond Counsel is also of the opinion that the interest paid on the Bonds is exempt from income tax imposed upon individuals by the State of Maine (the "State") under existing statutes, regulations and judicial decisions. **The Town will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.** See "THE BONDS—TAX MATTERS" and "APPENDIX B" herein.

TOWN OF SCARBOROUGH, MAINE
\$7,014,000

2006 GENERAL OBLIGATION BONDS

Dated: May 15, 2006

Due: November 1, as shown below

<u>Year of</u> <u>Maturity</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield or</u> <u>Price</u>	<u>Year of</u> <u>Maturity</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield or</u> <u>Price</u>
2006	\$479,000	4.00%	3.50	2014	\$530,000	4.00%	3.85
2007	665,000	4.00	3.55	2015	505,000	4.00	3.90
2008	690,000	4.00	3.60	2016	185,000	4.00	3.95
2009	805,000	4.00	3.60	2017	190,000	4.00	100
2010	835,000	4.00	3.625	2018	195,000	4.00	4.05
2011	480,000	4.00	3.65	2019	210,000	4.05	4.08
2012	510,000	4.00	3.70	2020	220,000	4.10	100
2013	515,000	4.00	3.80				

The Bonds will be issued as fully-registered certificates without coupons and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof and with one denomination of \$4,000 that will mature on November 1, 2006. Purchasers will not receive certificates representing their interest in Bonds purchased. See "THE BONDS—BOOK-ENTRY-ONLY SYSTEM" herein. Principal and interest on the Bonds will be paid to DTC by The Bank of New York Trust Company, N.A., Boston, Massachusetts, as Paying Agent. Interest on the Bonds will be payable on November 1, 2006 and semi-annually on each May 1 and November 1 thereafter until maturity or redemption prior to maturity. Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

Ambac

The legal opinion of Bernstein, Shur, Sawyer & Nelson, Portland, Maine, Bond Counsel, will be provided to the original purchaser and will indicate that the Bonds are valid general obligations of the Town of Scarborough, Maine and unless paid from other sources, are payable as to both principal and interest from ad valorem taxes that are subject to limitation unless certain procedural requirements under Title 30-A, Section 5721-A of the Maine Revised Statutes, as amended, are met, in which case such ad valorem taxes may then be levied without limit as to rate or amount upon all the property within the territorial limits of the Town and taxable by it except to the extent that the Town may enter into an agreement under Title 30-A, Chapter 223, Subchapter V as amended, to share its assessed valuation with another municipality and except to the extent that the Town establishes or has established either municipal development districts as tax increment financing districts or municipal affordable housing development districts pursuant to Title 30-A, Chapters 206 and former 207 of the Maine Revised Statutes, as amended, the captured tax increment of which may not be available for payment of debt service on the Bonds. The \$1,592,884 of Bonds issued for the School Department are not subject to the property tax limit set forth in Section 5721-A. See "THE BONDS—SOURCE OF PAYMENTS AND REMEDIES-Limitation on Municipal Property Tax" herein. The Town has established tax increment financing districts and has elected to retain portions of the tax increment on the captured assessed values of the properties in the districts to pay costs of the development project within the districts. See "TOWN FINANCES—TAX INCREMENT FINANCING DISTRICTS" herein. Within the limits established by statute, the Town has the right to designate additional municipal development districts or affordable housing development districts pursuant to Chapter 206 & 207 of Title 30-A of the Maine Revised Statutes, as amended. The opinion will indicate that the enforceability of the obligations of the Town, including the Bonds, is subject to and may be limited by bankruptcy, insolvency, moratorium and other laws affecting the rights and remedies of creditors generally, and are subject to general principles of equity. The opinion will be dated and given on and will speak as of the date of original delivery of the Bonds to the original purchasers.

Bonds maturing on and before November 1, 2016 are not subject to redemption prior to their stated dates of maturity. The Bonds maturing after November 1, 2016 are subject to redemption prior to maturity, at the option of the Town, on and after November 1, 2016 as more fully set forth herein. See "THE BONDS—OPTIONAL REDEMPTION PRIOR TO MATURITY" herein.

The Bonds are offered when, as and if issued, subject to the approval of legality by Bernstein, Shur, Sawyer & Nelson of Portland, Maine, Bond Counsel. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York City, New York on or about May 15, 2006.

Morgan Keegan & Company, Inc.

No dealer, broker, salesman or other person has been authorized by the Issuer or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Issuer and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, any party other than the Issuer. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition or affairs of the Issuer since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS ANY INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NONE OF THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

TABLE OF CONTENTS

CERTIFICATE CONCERNING OFFICIAL STATEMENT

1

THE BONDS

Description of the Bonds	2
Optional Redemption Prior to Maturity	2
General Provisions Regarding Redemption of the Bonds	3
Record Date; Payment	4
Authorization and Purpose	4
The Projects	5
Amortization of the Bonds	6
Source of Payment and Remedies	6
Bond Insurance	8
Tax Matters	10
Book-Entry-Only System	11
Ratings	13
Continuing Disclosure	13
CUSIP Identification Numbers	14
Financial Advisor	14
Statutory References	14
Conditions Precedent to Delivery	14

TOWN OF SCARBOROUGH

General	16
Government	17
Municipal Services	17
The Scarborough Public Library	19
Employment	20
Retail Trade	21
Building Permits	21
Economic Characteristics	22

TOWN FINANCES

Budgetary Process	23
Capital Improvement Plan	24
Subsequent Property Tax Limit	25
Investment Policy	25
Fund Balance Policy	25
Financial Statements	26
Funds	26
Comparative Balance Sheet	28
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances	29
Property Taxation	30
Largest Taxpayers	30
Current Tax Base and Tax Base Growth	31
Tax Increment Financing Districts and Affordable Housing Districts	31
State Aid	32

INDEBTEDNESS

Limitations and Exclusions	32
Debt Summary	33
Debt Ratios	24
Debt Service Component of Operating Expenses	24
Projected Debt Service Requirements	35
Projected Principal Payments, by Issue	36
Overlapping Debt	37
Contingent Debt	37
Total General Obligation, Overlapping and Contingent Debt	38
Future Financing	38

RETIREMENT

A. Defined Benefit Pension Plan	39
B. Defined Benefit Pension Plan – Teachers Group	40
C. Defined Contribution Plan	40
D. Deferred Compensation Plan	41

ENVIRONMENTAL MATTERS

41

LITIGATION

41

APPENDIX A: FINANCIAL STATEMENTS

APPENDIX B: PROPOSED FORM OF LEGAL OPINION

APPENDIX C: PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX D: FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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**CERTIFICATE
CONCERNING OFFICIAL STATEMENT**

The information contained herein has been prepared by the Town of Scarborough, Maine with the assistance of Moors & Cabot, Inc., its Financial Advisor, from the records of the Town of Scarborough, Maine and from various other public documents and sources which are believed to be reliable. There has been no independent investigation of such information by its Financial Advisor or by Bernstein, Shur, Sawyer & Nelson, Bond Counsel, and such information is not guaranteed as to accuracy or completeness and is not intended to be a representation by the Financial Advisor or Bond Counsel.

This Official Statement is not to be construed as a contract or agreement between the Town of Scarborough, Maine and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Town of Scarborough, Maine or its agencies and authorities, since the date hereof.

To the best of the knowledge and belief of the Finance Director, this Official Statement does not contain any untrue statement of a material fact and does not omit to state any material fact necessary to make the statements made herein, in the light of the circumstances under which they were made, not misleading, subject to the condition that while information in the Official Statement obtained from sources other than the Town of Scarborough, Maine is not guaranteed as to accuracy, completeness or fairness, she has no reason to believe that such information is materially inaccurate or misleading. A certificate to this effect, with such if any corrections, changes and additions as may be necessary, will be signed by the Finance Director and furnished at the closing.

This Official Statement is in a form "deemed final" by the issuer for purposes of Securities and Exchange Commission's Rule 15c2-12(b) [17 C.F.R. §240.15c2-12(b)].

Ruth D. Porter
Finance Director
Town of Scarborough, Maine

OFFICIAL STATEMENT

TOWN OF SCARBOROUGH, MAINE \$7,014,000 2006 GENERAL OBLIGATION BONDS

This Official Statement is provided for the purpose of presenting certain information relating to the Town of Scarborough, Maine (the "Town" or "Scarborough") in connection with the sale of its 2006 General Obligation Bonds (the "Bonds" or the "2006 Bonds").

THE BONDS

DESCRIPTION OF THE BONDS

The Bonds will be issued in fully-registered form without coupons, one certificate per maturity, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York City, New York ("DTC"). DTC will act as the securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof and with one denomination of \$4,000 that will mature on November 1, 2006. The Bonds will be dated May 15, 2006 and will bear interest, payable on November 1, 2006, and semi-annually thereafter on May 1 and November 1 of each year until maturity or redemption prior to maturity. The Bonds will mature annually as follows:

<u>Amount</u>	<u>Nov. 1,</u>	<u>CUSIP</u>	<u>Amount</u>	<u>Nov. 1,</u>	<u>CUSIP</u>
\$479,000	2006	806075RR0	\$530,000	2014	806075RZ2
665,000	2007	806075RS8	505,000	2015	806075SA6
690,000	2008	806075RT6	185,000	2016	806075SB4
805,000	2009	806075RU3	190,000	2017	806075SC2
835,000	2010	806075RV1	195,000	2018	806075SD0
480,000	2011	806075RW9	210,000	2019	806075SE8
510,000	2012	806075RX7	220,000	2020	806075SF5
515,000	2013	806075RY5			

It is expected that the Bonds will be available for delivery at DTC on or about May 15, 2006.

Principal of and interest on the Bonds will be payable in Clearing House Funds to DTC, or its nominee, as registered owner of the Bonds by The Bank of New York Trust Company, N.A., Boston, Massachusetts, as paying agent (the "Paying Agent"). Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC. Transfer of principal and interest payments to Beneficial Owners (as hereinafter defined) will be the responsibility of such Participants and other nominees of Beneficial Owners. The Town will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein.

OPTIONAL REDEMPTION PRIOR TO MATURITY

Bonds maturing on or before November 1, 2016 are not subject to redemption prior to their stated dates of maturity. Bonds maturing after November 1, 2016 are subject to redemption prior to their stated dates of maturity, at the option of the Town, on and after November 1, 2016, as a whole or in part at any time, in such order of maturity as the Town, in its discretion, may determine at the respective redemption price

(expressed as percentages of the principal amount of Bonds to be redeemed) set forth in the following table, together with interest accrued and unpaid to the redemption date:

<u>Redemption Period</u>	<u>Redemption Price</u>
November 1, 2016 and thereafter	100%

GENERAL PROVISIONS REGARDING REDEMPTION OF THE BONDS

Notice of Redemption

In the case of every redemption of the Bonds, the Town shall cause notice of such redemption to be given to the registered owner of any Bonds designated for redemption in whole or in part, at his or her address as the same shall last appear upon the registration books kept by the Paying Agent by mailing a copy of the redemption notice by first class mail not less than thirty (30) days prior to the redemption date. Any notice mailed shall be conclusively presumed to have been duly given, whether or not the Bondholder actually receives notice. The failure of the Town to give notice to a Bondholder or any defect in such notice shall not affect the validity of the redemption of any Bond of any other owner.

Each notice of redemption shall specify the date fixed for redemption, the place or places of payment, that payment will be made upon presentation and surrender of the Bonds to be redeemed, that interest, if any, accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue. If less than all the Bonds outstanding are to be redeemed, the notice of redemption shall specify the numbers of the Bonds or portions thereof (in denominations of \$5,000 or any integral multiple thereof) to be redeemed.

The Town shall notify the Securities Depository (see "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein) in the same manner as the Bondholders, with a request that the Securities Depository notify its Participants who in turn notify the beneficial owners of such Bonds. Any failure on the part of the Securities Depository, or failure on the part of a nominee of a Beneficial Owner (having received notice from the Town, a Participant or otherwise) to notify the Beneficial Owner so affected, shall not affect the validity of the redemption of such Bond.

Bonds Due and Payable on Redemption Date; Interest Ceases to Accrue

On any redemption date, the principal amount of each Bond to be redeemed, together with the premium, if any, and accrued interest thereon to such date, shall become due and payable. Funds shall be deposited with the Paying Agent to pay, and the Paying Agent is authorized and directed to apply such funds to the payment of the Bonds called for redemption, together with accrued interest thereon to the redemption date and redemption premium, if any. After such redemption date, notice having been given in the manner described above, then, notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any of such Bonds. From and after such date of redemption (such notice having been given), the Bonds to be redeemed shall not be deemed to be outstanding.

Cancellation

All Bonds that have been redeemed shall be canceled by the Paying Agent and either destroyed by the Paying Agent with counterparts of a certificate of destruction evidencing such destruction furnished by the Paying Agent to the Town or returned to the Town at its request.

Partial Redemption of Bonds

Bonds or portions of Bonds to be redeemed in part shall be selected by the Town by lot or in such other manner, as the Town in its discretion may deem appropriate.

RECORD DATE; PAYMENT

The principal of the Bonds is payable upon surrender thereof at the principal corporate trust office of the Paying Agent. Payment of the interest on the Bonds will be made to the person appearing on the registration books of the Paying Agent as the registered owner thereof at the close of business on the fifteenth day of the month preceding each interest payment date for the Bonds, and if such day is not a regular business day of the Paying Agent the next day preceding which is a regular business day of the Paying Agent, by check, wire or draft mailed to each registered owner at such person's address as it appears on the registration books, or at another address as is furnished to the Paying Agent in writing by the owner. Interest which is not timely paid or provided for shall cease to be payable to the registered owner as of the regular record date and shall be payable to the registered owner at the close of business on a special record date to be fixed by the Paying Agent.

AUTHORIZATION AND PURPOSE

The authority to issue the Bonds is granted under Title 30-A, Section 5772 of the Maine Revised Statutes, as amended, and Sections 204.3, 901.3 and 905 of the Town's Charter (the "Charter"). Section 204.3 of the Charter authorizes the Town Council to make ordinances. Section 901.3 of the Charter provides for a petition for overrule of Council action of orders or resolves authorizing bond issues of \$100,000 or more for a single capital improvement or capital equipment, by the initiative and referendum provisions of Article IX of the Town's Charter providing that the procedure is within twenty days following the enactment of such ordinance. Section 905 of the Town's Charter requires voter referendum approval for bond issues of \$400,000 or more for a single capital improvement or capital equipment. The Bonds of this financing comply with the provisions of the Charter.

The Bonds are being issued pursuant to orders adopted by the Town Council at its meetings held on February 16, 2005, March 1, 2006 and March 15, 2006 (the "Orders") in order to provide funds to finance various capital improvement programs of the Town. The various projects being financed by the Bonds are itemized in the following table, "THE BONDS - THE PROJECTS".

Abandoned Projects or Excess Bond Proceeds

In the event that any proceeds of the Bonds remain unspent upon completion of the Projects, or the Town abandons any portion of the Projects, the Town reserves the right to reallocate unspent proceeds to the costs of other qualified projects approved, or to be approved, by the Town Council, or to apply unspent proceeds to the payment of debt service on the Bonds.

THE PROJECTS

	Bond	Authorized		2006	Years
	Order	Current Yr	Prior Yrs	Bonds	to Bond
2005-2006 Municipal Equip					
MIS Town Wide Integrated Phone System	06-18	\$67,500		\$67,500	5
Fire Dept Defibrillators	06-18	82,000		82,000	5
Pub Wks Plow Truck	06-18	153,000		153,000	5
Pub Wks Generator 300 KW	06-18	78,500		78,500	5
Land Purchase near Dunstan Engine 6	06-30	140,000		140,000	10
Total 2005-2006 Muni Equip CIP		521,000	0	521,000	
2005-2006 Municipal Projects					
MIS Townwide Phone Fiber	06-18	113,000		113,000	5
CS Drive In Property Trails and Parking	06-18	75,000		75,000	5
CS Defosses Eastern Trail	06-18	275,009		275,002	10
Fire Dept Tank/Brush Truck T4	06-18	120,000		120,000	5
Fire Dept Replace Pumper Truck E-4	06-18	382,500		382,500	9
Pub Wks Ash Swamp Rd Reclamation	06-18	109,000		109,000	10
Pub Wks Berry Rd Reclamation	06-18	49,045		49,045	5
Pub Wks Willowdale Rd Reclamation	06-18	111,562		111,562	10
Pub Wks Old Blue Point Rd/BRdturn Rd/Rt 1	06-18	550,000		550,000	10
Pub Wks Green Acres Drainage	06-18	1,800,000		1,800,000	10
Pub Wks Schooner Rd Drainage	06-18	30,000		30,000	5
Total 2005-2006 Muni Projects CIP		3,615,116	0	3,615,109	
2005-2006 School Projects					
High Sch Parking Expansion	06-19	265,000		265,000	10
WW Modulers	06-19	350,000		291,800	10
System Wide Roofing	06-19	30,000		30,000	5
District Wide-Flooring	06-19	60,000		60,000	5
Building Envelope	06-19	30,000		30,000	5
Athletic Field Site Improv	06-19	35,000		35,000	5
High Sch Lockers	06-19	80,000		80,000	10
High Sch Locker Room Ceramic Floors	06-19	50,000		50,000	5
District Wide Long Range Planning	06-19	300,000		150,200	5
Information Systems Technology Replac	06-19	281,884		281,884	3
Total 2005-2006 School CIP		1,481,884	0	1,273,884	
2004-2005 Municipal Equip					
Fire Dept. Squad Truck/Heavy Rescue SQ7	05-7	0	395,000	395,000	10
PW Additional Pick Up Truck	05-7	0	20,000	20,000	2
Total 2004-2005 Muni Equip CIP		0	415,000	415,000	
2004-2005 Municipal Projects					
Municipal Storage Building	05-7	0	250,000	250,000	10
PW Reclamation-Ash Swamp Rd	05-7	0	260,000	260,000	10
PW Green Acres Storm Drain Project	05-7	0	205,007	205,007	10
Total 2004-2005 Muni Projects CIP		0	715,007	715,007	
2004-2005 School Projects					
Information Systems-Capital Equip	05-8		319,000	319,000	5
Total 2004-2005 School CIP		0	319,000	319,000	
2002-2003 Municipal Projects					
Minor Collector Program (U.R.I.P.)	06-18	155,000	0	155,000	10
Total 2002-2003 Muni Projects CIP		155,000	0	155,000	
				\$7,014,000	

AMORTIZATION OF THE BONDS

Nov. 1,	Municipal			School			2006 Bonds		
	Equip	Projects	Total	Equip	Projects	Total	Equip	Projects	Total
2006	119,200	192,200	311,400	0	167,600	167,600	119,200	359,800	479,000
2007	120,200	285,716	405,916	0	259,084	259,084	120,200	544,800	665,000
2008	112,200	316,750	428,950	0	261,050	261,050	112,200	577,800	690,000
2009	113,200	418,750	531,950	0	273,050	273,050	113,200	691,800	805,000
2010	114,200	435,700	549,900	0	285,100	285,100	114,200	720,800	835,000
2011	40,000	376,000	416,000	0	64,000	64,000	40,000	440,000	480,000
2012	42,000	401,000	443,000	0	67,000	67,000	42,000	468,000	510,000
2013	43,000	403,000	446,000	0	69,000	69,000	43,000	472,000	515,000
2014	45,000	413,000	458,000	0	72,000	72,000	45,000	485,000	530,000
2015	47,000	383,000	430,000	0	75,000	75,000	47,000	458,000	505,000
2016	0	185,000	185,000	0	0	0	0	185,000	185,000
2017	0	190,000	190,000	0	0	0	0	190,000	190,000
2018	0	195,000	195,000	0	0	0	0	195,000	195,000
2019	0	210,000	210,000	0	0	0	0	210,000	210,000
2020	0	220,000	220,000	0	0	0	0	220,000	220,000
Totals	796,000	4,625,116	5,421,116	0	1,592,884	1,592,884	796,000	6,218,000	7,014,000

SOURCE OF PAYMENT AND REMEDIES

The Bonds are general obligations of the Town and their payment is not limited to a particular fund or revenue source. Municipalities in the State of Maine (the “State” or “Maine”) have the right to tax their inhabitants to pay municipal indebtedness. The Bonds are payable as to both principal and interest from limited ad valorem property taxes unless the Town follows certain procedural requirements under Title 30-A, Section 5721-A of the Maine Revised Statutes, as revised, in which case the Town has the power to levy such ad valorem taxes which may be levied, subject to certain procedural limitations under Section 5721-A of the Maine Revised Statutes as amended and supplemented to date, without limit as to rate or amount upon all the property located within the territorial limits of the Issuer and taxable by it, except to the extent that the Town may enter into an agreement under Title 30-A, Chapter 223, Subchapter V of the Maine Revised Statutes, as amended, to share its assessed valuation with another municipality, and except to the extent that the Town establishes or has established municipal development districts as either tax increment financing districts or municipal affordable housing development districts pursuant to Title 30-A, Chapters 206 and former 207 of the Maine Revised Statutes, as amended, the captured tax increment of which may not be available for payment of debt service on the Bonds. The \$1,592,884 portion of Bonds issued for the School Department are not subject to the property tax limit set forth in Section 5721-A. The Finance Director has certified that a tax base sharing agreement does not now exist. The Town has established certain tax increment financing districts and elected to retain a portion of the tax increment on the captured assessed value of the property in these districts to pay costs of the development project within the districts (see “TOWN FINANCES - TAX INCREMENT FINANCING DISTRICTS AND AFFORDABLE HOUSING DEVELOPMENT DISTRICTS” section herein). Within the limits established by statute, the Town has the right to designate additional municipal development districts or municipal affordable housing development districts pursuant to Chapter 206 of Title 30-A of the Maine Revised Statutes, as amended. There is no statutory provision for a lien on any portion of the tax levy to secure bonds or notes, or judgments thereon, in priority to other claims.

In the opinion of Bond Counsel, the Town is subject to suit on the Bonds. The Maine statutes provide that executions against a town shall be issued against the personal property of the residents of that town

and real estate within its boundaries, whether or not owned by the town. Only town real estate not used for public purposes, however, is subject to such execution. In addition, the Maine statutes provide that the personal property of the residents and the real estate within the boundaries of any town may be taken to pay any debt of the town. There has been no judicial determination as to whether the statutory remedy of taking property to satisfy debts or judgments is constitutional under current due process and equal protection standards and Bond Counsel expresses no opinion thereon.

Funds to meet Town expenses, including debt service, are not included in the tax levy to the extent they are expected to be met with other non-tax revenues. Amounts necessary to repay sums borrowed temporarily in anticipation of bonds or grants are similarly excluded because they would normally be expected to be paid from the anticipated bond proceeds or grants. Enforcement of a claim for payment of principal of or interest on bonds or notes would be subject to the applicable provisions of federal bankruptcy laws and to the provisions of statutes, if any, hereafter enacted by the Congress or the State Legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. The Bonds are not guaranteed by the State of Maine.

Limitation on Municipal Property Tax Levy

Effective July 1, 2005, the Legislature enacted LD 1, codified in part as Title 30-A, Section 5721-A of the Maine Revised Statutes, as amended, which, subject to certain procedural overrides, establishes a limit on municipal property tax levies. This limit is referred to as "Property Tax Levy Limit". With certain exceptions, a municipality may not increase its Property Tax Levy Limit from one year to the next by more than a specified growth limitation factor.

The growth limitation factor is: (a) the 10-year average real personal income growth (but no more than 2.75%) plus a property growth factor (when, as currently is the case, the state and local tax burden ranks in the highest 1/3 of all states); or (b) the 10-year average real personal income growth plus forecasted inflation plus a property growth factor (when the state and local tax burden ranks in the middle 1/3 of all states). In addition, a municipality is required to lower its property tax levy limit in any year by an amount equal to net new funds provided by the State for existing services funded in whole or in part by the property tax levy.

However, the Town may increase the property tax levy limit by a majority vote of the entire Town Council on a separate article that specifically identifies the intent to exceed the property tax levy limit. This action, however, is subject to override by initiative upon a petition signed by at least 10% of the number of voters voting in the last gubernatorial election in the municipality submitted within 30 days of the council's vote.

In lieu of increasing the Property Tax Levy Limit, the Town Council may vote to exceed the Property Tax Levy Limit for extraordinary circumstances. Exceeding the Property Tax Levy Limit permits the property tax levy to exceed the Property Tax Levy Limit only for the year in which the extraordinary circumstance occurs and does not increase the base for purposes of calculating the Property Tax Levy Limit for future years. Extraordinary circumstances include:

- (1) Catastrophic events such as natural disaster, terrorism, fire, war or riot;
- (2) Unfunded or underfunded state or federal mandates;
- (3) Citizens' initiatives or other referenda;
- (4) Court orders or decrees; or
- (5) Loss of state or federal funding.

Extraordinary circumstances do not include changes in economic conditions, revenue shortfalls, increases in salaries or benefits, new programs or program expansions that go beyond existing program criteria and operation.

Section 5721-A does not limit the amount of taxes which may be raised by a municipality to pay items included in the school budget, appropriated in accordance with Title 20-A, Chapter 606-B of the Maine Revised Statutes, as amended. The debt service of the School Department portion of the Bonds will be included in the school budget and the Town is therefore able to levy ad valorem property taxes without limit as to rate or amount to pay the debt service on that portion of the Bonds.

BOND INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to

permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,994,000,000 (unaudited) and statutory capital of approximately \$5,649,000,000 (unaudited) as of December 31, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a Bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such Bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds. Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE BONDS – Bond Insurance".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following document filed by the Company with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement:

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

TAX MATTERS

In the opinion of Bernstein, Shur, Sawyer & Nelson, Bond Counsel, based on existing statutes, regulations and court decisions interest on the Bonds is not includable in the gross income of the owners of the Bonds for purposes of federal income taxation. Interest on the Bonds will not be treated as a preference item in calculating alternative minimum taxable income of individuals; however, interest on the Bonds will be includable in the adjusted net book income or adjusted current earnings of a corporation for purposes of calculation of the alternative minimum tax upon corporations and will be taken into account in the computation of the foreign branch profits tax. In addition, interest payable on the Bonds is not subject to Maine income taxes imposed upon individuals under existing statutes, regulations and decisions.

Bond Counsel's opinion will state that the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements regarding use, expenditure and investment of the proceeds of the Bonds and the timely payment of certain investment earnings to the U.S. Treasury that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excludable from gross income for federal income tax purposes pursuant to Section 103 of the Code. Noncompliance with such requirements may cause interest on the Bonds to be included in the gross income of the owner thereof retroactive to the date of issuance of the Bonds, regardless of when such noncompliance occurs.

The opinion will further state that Bond Counsel has examined the Arbitrage and Use of Proceeds Certificate and the General Certificate of the Finance Director of the Town delivered concurrently with the Bonds, which will contain provisions and procedures regarding compliance with the requirements of the Code. The Town, in executing the Arbitrage and Use of Proceeds Certificate and the General Certificate of the Finance Director, will certify to the effect that the Town will comply with the provisions and procedures set forth therein and do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall not be included in the gross income of the owner thereof for federal income tax purposes. In rendering its opinion Bond Counsel will rely upon the representations of the Town set forth in the Arbitrage and Use of Proceeds Certificate and the General Certificate of the Finance Director and assume that the Town will comply with the provisions and procedures set forth in the Arbitrage and Use of Proceeds Certificate.

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The Town will designate the Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

Original Issue Discount/Premium

For federal income tax purposes, original issue discount with respect to a bond is equal to the excess, if any, of the stated redemption price at maturity of such bond over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all substantially identical Bonds were sold. Original issue discount accrues over the term of a bond in accordance with Section 1272 of the Code. Purchasers of the Bonds should consult their own tax advisers with respect to the computation of original issue discount on such accruals of interest during the period in which any such Bond is held.

The excess, if any, of the tax basis of the Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is “bond premium.” For federal income tax purposes, bond premium is amortized over the term of such Bonds, is not deductible and reduces the purchaser’s adjusted tax basis. Bond purchasers should consult their own tax advisors with respect to the tax consequences of bond premium.

Bond Counsel will not express an opinion regarding the treatment of original issue discount or bond premium for federal income tax purposes.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York City, NY will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered certificate will be used for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchase of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent to vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of securities held by it as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the issuer of its securities or its paying agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuer or the Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the issuer of its securities or its paying agent. Under such circumstances, in the event that a successor securities depository is not obtained, physical certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

DTC Practices

The Town can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Bonds will act in a manner described in this Official Statement. DTC is required to act according to rules and procedures established by DTC and its participants which are on file with the Securities and Exchange Commission.

RATINGS

The Town has applied to Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Corporation ("S&P") for ratings on the Bonds. The Town has furnished the rating agencies certain information and materials, some of which may not have been included in this Official Statement. The ratings, if obtained, will reflect only the view of Moody's or S&P and will be subject to revision or withdrawal, which could affect the market price of the Bonds. Moody's or S&P should be contacted directly for its rating on the Bonds and their explanation of such rating.

CONTINUING DISCLOSURE

In order to assist the underwriter in complying with the Securities Exchange Commission's Rule 15c2-12 (the "Rule") the Town will covenant for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the Rule by not later than 270 days after the end of each fiscal year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The covenants will be contained in a "Continuing Disclosure Certificate" (the "Certificate"), the proposed form of which is provided in APPENDIX C. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds.

Town's Compliance

Except for a late filing for fiscal year ended June 30, 2003, due to its initial compliance with GASB Rule 34, the Town has never failed to comply in all material respects with any previous undertakings to provide financial information or notices of material events in accordance with the Rule. Recognizing the importance of the Rule, and prompt compliance thereon, the Town amended Section 215.1 of its Charter on November 2, 2004, effective December 1, 2004, such that "The audit shall be completed and delivered to the Town Council not later than December 30th following the end of the municipal year of the subject audit".

NRMSIRs Apparent Non-compliance

The above notwithstanding, the Town has sent its other annual financial filings to the NRMSIRs each year from 1999. However, with the exception of its filing of fiscal years ended June 30, 2005, 2004 and 2003 there these filings do not appear to be posted on the NRMSIRs' sites. Therefore, in complying with the Town's undertaking pursuant to the Securities Exchange Commission's Rule 15c2-12 (the "Rule"), on January 31, 2006 the Town sent each NRMSIR, via receipted overnight mail, Annual Financial Reports

that include the respective fiscal years' financial statements for the fiscal years ended June 30, 1999, 2000, 2001 and 2002. This was not to be construed as "late filings" but rather to bring the Town into recognized compliance with its undertaking under the Rule. Subsequent to this action, the Town's Financial Advisor has received receipt copies from the NRMSIRs that the above information was received by them; however the respective information continues to be absent from their sites.

CUSIP IDENTIFICATION NUMBERS

It is anticipated that CUSIP numbers will be printed on the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds will be paid for by the Town provided, however, that the Town assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers.

FINANCIAL ADVISOR

Moors & Cabot, Inc. has acted as Financial Advisor to the Town of Scarborough, Maine with respect to the issuance of the Bonds pursuant to Municipal Securities Rulemaking Board Rule G-23. Moors & Cabot, Inc. does not intend to submit its bid or participate in the public bidding for the Bonds.

STATUTORY REFERENCES

All quotations from and summaries and explanations of laws herein do not purport to be complete, and reference is made to said laws for full and complete statements of their provisions.

CONDITIONS PRECEDENT TO DELIVERY

The following, among other things, are conditions precedent to the delivery of the Bonds to the original purchasers thereof.

No Litigation

Upon delivery of the Bonds, the Town shall deliver or cause to be delivered a certificate of the Finance Director, and attested to by the Town Clerk, dated the date of delivery, to the effect that there is no litigation pending or, to the knowledge of such officers, threatened, affecting the validity of the Bonds or the power of the Town to levy and collect taxes to pay them, and that neither the corporate existence nor boundaries of the Town, nor the title of any of said officers to their respective offices, is being contested.

Approval of Legality

The legality of the Bonds will be approved by Bernstein, Shur, Sawyer & Nelson of Portland, Maine, Bond Counsel. The unqualified approving opinion of such counsel with respect to the Bonds will be delivered at the time of original delivery of the Bonds and a copy of the opinion will be provided to the original purchasers. Bond Counsel are not passing upon and do not assume responsibility for the accuracy or adequacy of the statements made in this Official Statement (other than matters expressly set forth as their opinion) and make no representations that they have independently verified the same. See also "PROPOSED FORM OF LEGAL OPINION" in APPENDIX B herein.

Certification of the Bonds

The Bonds will be certified as to their genuineness by The Bank of New York Trust Company, N.A., Boston, Massachusetts, which certificate will appear on the Bonds.

Certificate With Respect to Debt Limits

At the time of the original delivery of and payment for the Bonds, the Town will deliver a certificate of the Finance Director of the Town which certifies that the Town has not exceeded its debt limitations and that issuance of the Bonds will not cause the Town to exceed the debt limit.

Certificate With Respect to Finance Director

At the time of the original delivery of and payment for the Bonds, the Town will deliver a certificate of the Finance Director of the Town which certifies that no agreements under Title 30-A, Chapter 223, Subchapter V of the Maine Revised Statutes, as amended, to share its assessed valuation with another municipality, now exist.

Certificate With Respect to Official Statement

At the time of the original delivery of and payment for the Bonds, the Town will deliver a certificate of the Finance Director to the effect that she has examined this Official Statement and the financial and other data contained therein and that, to the best of her knowledge and belief, both as of its date and as of the date of delivery of the Bonds, the Official Statement does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, subject to the condition that while information in the Official Statement obtained from sources other than the Town is not guaranteed as to accuracy, completeness or fairness, she has no reason to believe that such information is materially inaccurate or misleading.

TOWN OF SCARBOROUGH

GENERAL

The Town of Scarborough is located on the southern coast of the State of Maine in the southeastern most section of the County of Cumberland, the State's most populous county, and is approximately seven miles southeast of Portland, the State's largest city. The shape of the Town is nearly square. Scarborough's entire eastern width is on Spurwink River and on the Atlantic Ocean; its northeastern border is formed by the cities of South Portland, Westbrook and the Town of Cape Elizabeth; the towns of Gorham and Buxton are contiguous on its northwest; and its southwest boundaries align the City of Saco and Town of Old Orchard Beach. Sections of the Town include, North Scarborough, Oak Hill, Black Point, Pleasant Hill, Higgins Beach, Pine Point (first called Blue Point) and Prouts Neck. Originally known as Libby's Neck, Prouts Neck is a broadening point of land extending into the sea. On the outer northeastern side of Prouts Neck the Town's oceanfront begins with Scarborough Beach, about 2 miles in length, going north to Higgins Beach which succeeds and continues to the Spurwink River at the Town's line. On the western side of Prouts Neck, is a small harbor facing Pine Point and Ferry Rock, nearly enclosing from the sea a considerable basin into which waters of the several streams are discharged.

Access to Scarborough is provided by US Route 1 (also forming a portion of State Route 9) and, running on a parallel to the US Route 1's northwest, US Interstate Route 95 (the Maine Turnpike) each bisecting the Town throughout its interior from northeast to southwest. State Route 77 follows the Town's oceanfront, then continuing as State Route 207. At Dunstan, State Route 9 splits off from US Route 1 and traverses southeasterly to the ocean border. State Route 114 starts at the Oak Hill section of the Town, at its north-center, from US Route 1 and then northwesterly along Scarborough's northern line to Gorham. The Portland International Jetport, located in Portland, provides convenient air travel for the region. Bus transit by major carriers operate from terminals in Portland, providing regularly scheduled inter and intra-state transportation. The Maine Central Railroad, Boston & Maine Corporation and the St. Lawrence & Atlantic Railroad Company provide the area with rail links to the United States and Canada.

A 1,500-acre tract of land between Prouts Neck, then called Black Point, and the Spurwink River was granted to Capt. Thomas Cammock, a nephew of the English Earl of Warwick. The Indian name for the area was "Owascoag" which signifies the place of much grass. In 1633, Thomas Cammock and his wife moved from Richmond's Island to Prouts Neck and was the first legal proprietor in Scarborough. In the course of a few years other settlers joined Cammock, mostly as tenants. By 1650 there were 50 homes at the Black Point settlement. In 1651 there developed a further principal settlement inland, as Dunstan. The Town was incorporated as the 6th town in the Province of Maine on July 14, 1658 named for Old Scarborough, England. By October, 1676 Scarborough, comprised three settlements of more than 100 houses. In 1681 a strong fortification was erected at Black Point, but the inhabitants were so harassed by the attacks of Native Americans that, in 1690, the town was wholly abandoned. A resettlement appears to have been in 1702, by a band of seven persons who came in a sloop from Lynn, Massachusetts. Scarborough is the birthplace of William King (1768-1852), the State of Maine's first governor. The studio and home of the famous artist Winslow Homer are located at Prouts Neck. The Black Point Inn, built by the Kaler family in 1878 and originally known as "The Southgate", is also located at Prouts Neck and is included in the National Registry of Historic Hotels of America. The Scarborough Marsh, a great salt marsh in the Town encompassing approximately 3,100 acres, is Maine's largest tidal marsh.

Scarborough is an affluent suburban coastal community beautifully situated on the Maine Coast. The Town has primarily single family dwellings, of which 63.4% are owner occupied. The land area of the Town is comprised of residential, local business, industrial, commercial and resource protection zones, as well as recreation, oceanfront, open space, farmland and woodland areas. The area of the Town totals 27,919 acres or approximately 54 square miles.

GOVERNMENT

The Town operates under a charter first adopted on October 7, 1969, (the "Charter"), providing for a Council-Manager form of government with a seven-member Town Council, elected at-large who serve for three-year staggered terms. The Charter grants to the Town Council all powers to enact, amend, or repeal rules, ordinances and resolutions relating to the Town's property, affairs and government, to preserve the public peace, health and safety, to establish personnel policies, giving effect to any vote of the Town authorizing the issuance of debt, and providing for an annual audit of the Town's accounts. Voter approval is required for a single capital improvement that requires the issuance of \$400,000 or more issuance of debt. The Town Manager is the chief administrative officer of the Town.

MUNICIPAL SERVICES

The Town provides general governmental services for the territory within its boundaries, including police and fire protection, emergency medical services, solid waste disposal, maintenance of highways, sewers, streets, sidewalks, parks, recreation and coastal areas, and a library. Public education is provided for grades Kindergarten ("K") through 12.

The Scarborough Sanitary District, a wholly separate quasi-municipal entity whose operation and obligations are not part of the Town, provides wastewater treatment service for portions of the Town that are sewered. The Portland Water District, also a quasi-municipal entity, and the Biddeford-Saco Water Company, a wholly separate privately-owned water utility whose operation and obligations are not part of the Town, provide water service to the Town's inhabitants (see "INDEBTEDNESS - CONTINGENT DEBT - Portland Water District" herein).

Public Safety

The Police Department is staffed by employees which include a Police Chief, two Captains, six Sergeants, two detectives and 21 patrol officers and three full-time personnel. In addition, the Town employs a Marine Resource Officer/Harbor Master, an Animal Control Officer, ten Dispatchers, and 69 part-time personnel. The Police Department maintains 19 vehicles, which are in excellent repair.

The Fire Department operates from one central fire station and five sub-stations lead by a Fire Chief, a Deputy Fire Chief and approximately 140 per diem and call Firefighters. Under the Fire Department, the Town's Rescue Service consists of a Deputy Rescue Chief of Emergency Rescue Service, nine full-time Paramedics and approximately 50 per diem and call personnel. Through its Fire Department, the Town operates two Marine Units, on a seasonal basis.

Public Works

The Public Works Department is comprised of divisions managed by a Director of Publics Works. The Operations Division is comprised of a manager and 17 crew members and is responsible for maintenance of Town-owned roads, sidewalks, beaches, boat landings, cemeteries, trees and for waste collection and recycling. The Operations Division processes "Excavator Licenses," "Street Opening Permits," and "Building Permit Coordination Forms." The Vehicle Maintenance Division consists of a manager and ten mechanics and parts department crew and is responsible for the maintenance of all Town-owned vehicles including Fire Trucks, Rescue Vehicles, Police Cruisers, School Buses, Public Works equipment, Electrical Department trucks, Code Enforcement vehicles, Community Services and Harbormaster equipment.

In 1996 the Town ceased using its landfill and has closed the site in conformance with the State of Maine Department of Environmental Protection procedures. The Town began transporting its solid waste to the Regional Waste Systems, Inc. ("RWS") waste-to-energy plant in Portland in September 1988. RWS, a Maine Corporation with 21 member municipalities ("Member Municipalities"), including the Town, maintains a waste-to-energy resource recovery system ("RRS") for which the Member Municipalities are obligated severally to deliver certain of the solid waste produced within each such Member Municipality to RWS for processing. In 1991, six participating municipalities ("Participating Municipalities") entered into an agreement with RWS, along with its Member Municipalities, to establish a Material Recycling Facility ("MRF") at RWS's demolition debris and recycling facility in Gorham. See "INDEBTEDNESS – CONTINGENT DEBT – Regional Waste Systems, Inc." herein.

Public Education

The Town operates its educational program for grades K through 12 under its own supervision. Article IV of the Town's Charter, as amended, provides that the Department of Education for the Town be administered by a Board of Education (the "School Board") comprised of seven members, who are elected by the voters of the Town at-large for three-year staggered terms. The School Board performs all duties and functions in regard to the care and management of the public schools of the Town. The School Board prepares and submits its budget to the Town Manager, who includes it in the budget process. See also "TOWN FINANCES - BUDGETARY PROCESS" section herein. The School's staff consists of a Superintendent, an Assistant Superintendent one Business Manager, one Director of Special Education, 10 full-time equivalent Principals or Assistant Principals, 475 teachers and various other professional and non-professional staff.

Schools	Grade	Estimated Capacity	Enrollment ⁽²⁾
Blue Point School	K-2	250 ⁽¹⁾	286
Eight Corners School	K-2	250 ⁽¹⁾	225
Pleasant Hill School	K-2	200 ⁽¹⁾	207
Benjamin Wentworth Intermediate	3-5	750 ⁽¹⁾	787
Scarborough Middle	6-8	800 ⁽¹⁾	815
Scarborough High	9-12	1,200	979

NOTE: ⁽¹⁾ Does not include Portable Classrooms. ⁽²⁾ "Previous Year Pupils" from *Maine Educational Directory, School Year 2004-2005*, State of Maine, Department of Education, dated August 8, 2005.

School Enrollments

April 1,	Grades					Total Enrollment
	K-2	3-5	6-8	9-12	Other	
2005	727	799	805	977	0	3,308
2004	723	777	811	923	0	3,234
2003	715	789	754	850	102	3,210
2002	724	754	782	785	92	3,137
2001	746	736	729	749	77	3,037
2000	728	702	658	721	84	2,893
1999	709	699	633	692	52	2,785
1998	674	681	597	668	56	2,676
1997	679	621	590	590	67	2,547
1996	654	578	550	579	60	2,421

SOURCE: State of Maine, Department of Education, "April 1 Census of Students Educated at Public Expense".

NOTE: "Other" includes: Elementary Special, Pre-Kindergarten, Secondary Special and Post-Graduate Students.

Labor Relations

The Town employs approximately 665 full-time and various part-time personnel, and approximately 738 employees who are employed by the School Department. The following lists the various bargaining units that are represented by a union, and the status of its current contract. Town employees not included in the below table are not represented by unions. The various contracts for employees represented by unions are effective and expire as follows:

Labor Contracts

Union ⁽¹⁾	Bargaining Unit	Members	Date of Contract	
			Effective	Expiration
SPBA	Police	29	July 1, 2005	June 30, 2008
SPSDA	Dispatchers	7	July 1, 2005	June 30, 2008
SPA	Paramedics	7	July 1, 2003	June 30, 2006 ⁽²⁾
SEA	Teachers	289	Sept 1, 2003	Aug 31, 2006 ⁽²⁾
SEAA	School Administrators	11	July 1, 2003	June 30, 2006 ⁽²⁾
SESA	School Staff and Teacher's Aids	131	July 1, 2005	June 30, 2008
SEA	School Custodians	26	July 1, 2004	June 30, 2007
SEA	Bus Drivers	25	July 1, 2003	June 30, 2006 ⁽²⁾
SEA	Maintenance Workers	6	July 1, 2004	June 30, 2007
SEA	Food Service Workers	28	Sept 1, 2005	Aug 31, 2007

NOTE: ⁽¹⁾ "SPBA" indicates the Scarborough Police Benevolent Association, and "SPSDA" indicates the Scarborough Public Safety Dispatchers Association, as respective unaffiliated local associations operating as separate bargaining units; "SPA" indicates Scarborough Paramedics Association, affiliated with the International Association of Firefighters ("IAFF") affiliate of the American Federation of Labor & Congress of Industrial Organizations ("AFL/CIO") as a separate bargaining unit; "SEA" indicates the Scarborough Educators Association, "SEAA" indicates the Scarborough Educational Administrators Association, and "SESA" indicates the Scarborough Educational Support Association, of which the various components are affiliated with the Maine Teachers Association s ("MEA"), as separate bargaining units.

⁽²⁾ Although contracts that expire on June 30, 2006 have not as yet been renegotiated or ratified, the Town has provided in its budget amounts that it expects the Town would incur.

THE SCARBOROUGH PUBLIC LIBRARY

Inspired by a group of women of the First Parish Church on the Black Point Road in Scarborough who collected and shared books, on August 2, 1899 a first meeting was held of people desiring to become incorporated as proprietors of a social library. Appearing before a Justice of the Peace, the Scarborough Public Library Corporation was organized and recorded. By-laws were drawn up, officers elected and, on December 6, 1899, it was voted to build a library building for use by the corporation. Architect Fred A. Thompson, donating his time, drew up plans for a one room building. On August 28, 1900, the first meeting of trustees was held in the new library building. Annie Louise Cary, world famous Metropolitan Opera singer and summer patroness of the Atlantic House, established the Atlantic House Fund for the benefit of the library. Following her death, in 1921, a trust fund was left for the library. On April 29, 1919, in memory of his son who was killed in World War One, Chas E. Libby donated \$1,000 to be expended for books for the library. Another guest of the Atlantic House, Margaret Jewell, gave generously to the building fund, and upon her death, in 1970, she left an endowment fund to the library.

Since 1934, the Town has included the library in its budget, appropriating funds at its pleasure. In 1937, the Town purchased land on the south side of the corporation's building and, with a gift of two additional parcels of land on the north and west sides of the building, an addition to the one-room library was planned. The north wing, known as the Fiction Room, was completed in 1938. Another building fund, starting in 1947, led to a south wing completion in October 1951, to become the Reference Room. In 1976, the library underwent extensive renovation including an addition to the rear of the building for an expansion of the children's section, added office space and moving the circulation desk to a central location. Additionally, a public meeting room was built and storage space provided. Finally, a new one-floor 12,000 square foot library building, located in the central Oak Hill area, opened in 1990 after a successful community-wide fundraising drive.

The Scarborough Public Library operates as a private, non-profit, tax-exempt corporation. A 14-member Board of Trustees (comprised of Town residents including one member of the Town Council and the President of the Friends of the Library) is responsible for policy, planning and fiscal control of the corporation. Funds to operate the library come primarily, but not exclusively, from the Town. Each year, a library budget is presented to the Town Council using the same procedures required of town departments. The library's current collection exceeds 55,500 items of print and audiovisual materials. Averages of 2,000 visitors per week circulate approximately 152,000 items per year. The Library Director oversees a staff of five full-time and 16 part-time employees and various volunteers.

EMPLOYMENT

The following table displays the residential component of the Town's workforce, the respective component of its workers as a percentage of their local (i.e., home) workforce; and the geographic place of employment for the Town's residents:

People who work in Scarborough, but live in:	Number of Workers	% Scarborough Workforce	People who live in Scarborough, but work in:	Number of Workers	% Scarborough Workers
Scarborough	2,387	24.52%	Portland	2,709	31.05%
Portland	1,061	10.90	Scarborough	2,387	27.36
South Portland	649	6.67	South Portland	1,410	16.16
Saco	525	5.39	Westbrook	380	4.36
Biddeford	448	4.60	Gorham	223	2.56
Old Orchard Beach	414	4.25	Saco	220	2.52
Westbrook	389	4.00	Freeport	119	1.36
Gorham	338	3.47	Falmouth	116	1.33
Buxton	311	3.20	Biddeford	115	1.32
Windham	246	2.53	Cape Elizabeth	106	1.22
Cape Elizabeth	224	2.30	Yarmouth	101	1.16
Standish	224	2.30	Old Orchard Beach	68	0.78
All Other	2,517	25.86	All Other	770	8.83
	<u>9,733</u>	<u>100.00%</u>		<u>8,724</u>	<u>100.00%</u>

SOURCE: State of Maine, Department of Labor, Labor Market Information Services; U.S. Department of Commerce, Bureau of Census - 2000 data.

Representative Employers

Representative Employer	Type of Business	Approximate Number of Employees
Hannaford Brothers	Supermarket Chain, Corporate Office	967
NorDx	Laboratory	250
Wal-Mart	Retail Department Store	243
Shaw's	Supermarket	195
R.C. Moore Trucking	Trucking	150
Sam's Wholesale Club	Wholesale Department Store	135
RTS Packaging	Packaging Materials	98
Rich Tool & Die	Metals Fabrication	94

SOURCE: Scarborough Economic Development Corporation.

RETAIL TRADE

Retail Sales by Product Group and Consumer Sales (\$/000)

	Business/ Operating	Building Supply	Food Store	General Mdse.	Other Retail	Auto/ Transp.	Rest. & Lodging	Group Total	Consumer Sales
2005	68,185	27,150	18,506	126,793	15,588	28,556	40,234	325,012	256,827
2004	62,321	23,339	17,834	132,900	14,943	28,496	39,085	318,919	256,598
2003	51,560	19,497	16,803	128,069	14,519	29,183	36,786	296,416	244,856
2002	48,284	18,740	15,445	122,010	13,074	24,926	37,267	279,747	231,462
2001	55,189	18,181	15,819	115,495	12,988	21,018	35,720	274,410	219,221
2000	66,947	18,406	17,990	102,166	12,338	20,615	34,305	272,766	205,820

SOURCE: State of Maine, Department of Taxation, Sales Tax Section. The State Department of Taxation cautions that the 2003 statistics are correcting for an overstatement in 2002 on a statewide basis.

BUILDING PERMITS

Year Ended Dec. 31,	Commercial (\$/000)				Residential (\$/000)				Total (\$/000)	
	New Construction		Alterations		New Construction		Alterations		Permits	Cost
	Permits	Cost	Permits	Cost	Permits	Cost	Permits	Cost		
2005	6	2,495.0	298	5,637.5	95	25,000.0	300	10,086.7	711	44,366.1
2004	14	26,077.8	222	11,033.8	120	32,104.1	286	10,286.1	642	79,501.8
2003	10	8,210.0	61	6,770.5	169	36,338.5	243	7,717.7	483	59,036.7
2002	7	5,357.0	214	5,037.8	147	30,400.4	366	6,697.9	734	47,493.1
2001	7	2,318.0	261	6,048.2	214	38,743.1	309	6,869.3	791	53,978.6
2000	13	42,617.0	270	1,030.9	263	45,594.7	289	4,715.1	835	93,957.8
1999	16	38,450.0	259	2,736.4	201	29,769.7	325	5,238.3	801	76,194.4
1998	12	7,639.0	315	6,137.1	203	28,816.2	338	4,562.3	868	47,154.5

SOURCE: Town of Scarborough, Maine, Code Enforcement Office

ECONOMIC CHARACTERISTICS

	-----% Change-----			
Population	Town of Scarborough	Town	State	USA
1960	6,418	NA	6.1%	18.5%
1970	7,845	22.2	2.4	13.4
1980	11,347	44.6	13.4	11.4
1990	12,518	10.3	9.2	9.8
2000	16,970	35.6	3.8	13.2
2005	18,812	10.9	-	-

Population Characteristics	Town of Scarborough	Cumberland County	State of Maine	USA
Median age (years)	38.8	37.6	38.6	35.3
% School age	19.1%	17.5%	18.1%	18.9%
% Working age	61.0%	63.4%	62.0%	61.9%
% 65 and over	12.0%	13.3%	14.4%	12.4%
Persons/household	2.59	2.38	2.39	2.59

Income	Town of Scarborough	Cumberland County	State of Maine	USA
Median family income	\$65,137	\$54,485	\$45,179	\$50,046
% Below poverty level (individuals)	4.0%	7.9%	10.9%	12.4%
Per capita income	\$26,321	\$23,949	\$19,533	\$21,587

Housing	Town of Scarborough	Cumberland County	State of Maine	USA
% Owner occupied	68.4%	52.2%	49.2%	52.3%
% Built 1939 or earlier	16.1%	29.0%	29.1%	15.0%
% Built since 1990	25.6%	13.7%	14.6%	17.0%
Owner occupied med. value	\$159,800	\$131,200	\$98,700	\$119,600
Median gross rent	\$804	\$615	\$497	\$602
Occupied housing units	6,462	107,989	518,200	-

SOURCE: 2000 Census, U.S. Department of Commerce, Bureau of the Census.

Unemployment	Town of Scarborough	Cumberland County	State of Maine	USA
2005	3.0%	3.6%	4.8%	5.1%
2004	2.9	3.3	4.6	5.5
2003	2.2	3.0	5.1	6.0
2002	2.0	2.8	4.4	5.8
2001	1.8	2.3	4.0	4.8
2000	1.4	2.0	3.5	4.0
1999	1.8	2.3	4.1	4.2
1998	1.9	2.4	4.4	4.5
1997	2.2	2.9	5.4	4.9

SOURCE: State of Maine, Department of Labor, Division of Economic Analysis and Research.

TOWN FINANCES

BUDGETARY PROCESS

Article V of the Town's Charter provides for a budget process. The fiscal year (or "budget year") of the Town begins on the first day of July and ends on the thirtieth day of June of the following year. The Charter provides that the Town Manager submit a budget to the Council at least 60 days prior to the beginning of each budget year. The budget is compiled from detailed information furnished by the School Committee, administrative officers and boards designated by the Town Manager. The proposed budget is reviewed by the Council, with the prerogative of amendment (except the Council has only total, not line item, appropriation authority for the Department of Education). The Council orders a public hearing with prior public notification. The Charter directs the Council to adopt their budget prior to the first day of the next budget year. If the Council fails to adopt the budget no later than 60 days of its submission to the Council, the budget as presented by the Town Manager and the Board of Education automatically becomes the budget for the fiscal year. If the Appropriation Resolve establishes a property tax levy that exceeds the Property Tax Levy Limit, then the excess of the appropriation must be approved in a separate article by a majority of the entire Town Council (i.e., a "super majority"). The Property Tax Levy Limit of one year may not exceed the Property Tax Levy Limit from the prior year by more than a specified Growth Limitation Factor (see "THE BONDS – SOURCE OF PAYMENT AND REMEDIES - Limitation on Municipal Property Tax" herein). Upon adoption of the budget, a property tax levy is then established and filed with the Town Assessor. The following table sets forth the trends in the General Fund's budgets for the Town for the last four fiscal years and for the current fiscal year.

Budgets for Fiscal Year Ending June 30,

	2002	2003	2004	2005	2006
EXPENDITURES					
General government	\$3,563,437	\$3,327,474	\$3,451,097	\$3,728,756	\$3,759,665
Public services	2,404,011	2,346,363	2,425,129	2,593,119	2,685,032
Public safety	4,836,751	5,261,532	5,779,263	5,904,193	6,361,045
Public works	4,238,519	4,929,598	5,256,770	5,516,714	5,683,601
Education	23,337,456	24,993,542	27,358,715	28,741,171	30,745,456
County Tax	1,061,578	1,306,425	1,441,610	1,519,714	1,584,344
Debt service	3,062,715	3,192,192	3,775,731	4,309,239	4,098,398
CIP	1,019,765	1,286,555	329,946	1,741,927	596,200
TOTAL EXPENDITURES	43,524,232	46,643,681	49,818,261	54,054,833	55,513,741
REVENUES					
Taxes	32,010,175	34,084,632	36,815,070	39,968,877	41,182,213
Licenses and permits	413,100	376,800	397,595	495,949	536,235
Intergovernmental	7,346,349	7,778,714	7,600,966	7,149,779	8,562,141
Interest earned	160,000	120,000	120,000	120,000	130,000
Other	2,125,162	2,964,123	3,221,163	2,996,528	3,035,745
TOTAL REVENUES	42,054,786	45,324,269	48,154,794	50,731,133	53,446,334
OTHER SOURCES					
Operating transfers	(236,314)	291,801	892,492	1,687,259	1,580,562
Prior year fund balance	1,241,818	0	730,000	478,840	475,000
Overlay	(390,966)	(99,039)	(121,025)	(74,899)	(369,155)
Bond and note proceeds	854,908	1,126,650	162,000	1,232,500	381,000
TOTAL OTHER	1,469,446	1,319,412	1,663,467	3,323,700	2,067,407
TOTAL BUDGET	\$43,524,232	\$46,643,681	\$49,818,261	\$54,054,833	\$55,513,741

CAPITAL IMPROVEMENT PLAN

The Town forms a Capital Improvement Program ("CIP"). The CIP includes a Capital Budget for the current year and the next five years that includes funds, and financing sources, necessary to acquire or improve buildings, lands, major equipment and other commodities that are of significant value and have a useful life of several years. The Town Manager prepares and submits a five-year capital program which includes a list of all capital improvements proposed over the next five fiscal years. This includes costs, methods of financing and time schedules as well as the annual cost to operate and maintain the proposed improvement. The CIP is reviewed by the Council who adopt the program, as amended if necessary, following a public hearing. The following page displays the current capital improvements schedule:

Current Capital Improvement Plan Fiscal Year Ending June 30,

	2006	2007	2008	2009	2010	Total
Community Services						
Capital Projects	\$350,000	\$0	\$135,000	\$350,000	\$528,000	\$1,363,000
Equipment	0	0	25,000	0	30,000	55,000
Municipal Building						
Capital Projects	0	0	0	0	0	0
Equipment	30,000	0	0	0	0	30,000
Administration						
Capital Projects	0	0	0	0	0	0
Equipment	5,900	2,900	0	0	0	8,800
MIS						
Capital Projects	113,000	115,000	0	0	0	228,000
Equipment	67,500	0	0	0	0	67,500
Public Safety						
Capital Projects	31,100	395,000	4,336,500	0	30,000	4,792,600
Equipment	60,300	57,900	47,000	47,000	47,000	259,200
Fire Department						
Capital Projects	652,500	50,000	0	415,000	0	1,117,500
Equipment	123,000	312,802	312,454	278,000	197,000	1,223,256
Public Works						
Capital Projects	2,649,607	1,070,000	5,210,000	0	0	8,929,607
Equipment	287,500	183,000	187,000	191,000	185,000	1,033,500
Library						
Capital Projects	4,989,000	72,600	0	0	0	5,061,600
Equipment	22,000	18,000	9,000	16,000	12,000	77,000
Total Town						
Capital Projects	8,785,207	1,702,600	9,681,500	765,000	558,000	21,492,307
Equipment	596,200	574,602	580,454	532,000	471,000	2,754,256
Total Town	9,381,407	2,277,202	10,261,954	1,297,000	1,029,000	24,246,563
School						
Technology	281,884	345,000	316,000	316,000	336,000	1,594,884
Facilities	703,000	972,000	530,000	530,000	605,000	3,340,000
Wentworth Intern.	0	0	0	1,890,000	0	1,890,000
New facilities	650,000	12,000,000	0	25,000,000	9,300,000	46,950,000
Total School	1,634,884	13,317,000	846,000	27,736,000	10,241,000	53,774,884
Total CIP	\$11,016,291	\$15,594,202	\$11,107,954	\$29,033,000	\$11,270,000	\$78,021,447

SUBSEQUENT PROPERTY TAX LEVY LIMIT

As previously discussed, unless the Town follows certain procedural requirements under Title 30-A, Section 5721-A of the Maine Revised Statutes, as amended the Town is limited to an increase in the Town's property tax levy from one year to the next to an amount not more than its Property Tax Levy Limit (see "THE BONDS - SOURCE OF PAYMENT AND REMEDIES - Limitation on Municipal Property Tax Levy" herein). The Property Tax Limit for subsequent fiscal years is the Property Tax Levy Limit for the preceding year multiplied by the Growth Limitation Factor. Therefore, in cases where the amount of the prior year's Property Tax Levy Limit exceeds the amount of the Town's actual property tax levy ("Property Tax Levy"), the Town may carry-forward that difference in establishing its future years' property tax levy.

The State's Personal Income Factor for fiscal year 2005/2006 is 2.58%; the Town's Property Growth Factor for 2005/2006 is 2.73% for a 2005/2006 Growth Limitation Factor of 5.31%. The Town's 2005/2006 Property Tax Levy Limit is \$10,831,236; the Town's 2005/2006 Property Tax Levy is \$10,564,959; or \$266,277 below the Property Tax Levy Limit. This allows the Town to establish next year's Property Tax Levy based on this year's \$10,831,236 Property Tax Levy Limit times the next year's Growth Limitation Factor.

INVESTMENT POLICY

While the Town has not established a formal Investment Policy, pursuant to applicable Maine law [Title 30-A, Section 5706 et seq. of the Maine Revised Statutes, as amended (the "Act")] all investments of the Town must be made with the judgment and care that persons of prudence, discretion and intelligence, under circumstances then prevailing, exercise in the management of their own affairs, not for speculation but for investment considering (i) safety of principal and maintenance of capital, (ii) maintenance of sufficient liquidity to meet all operating and cash requirements with which a fund is charged, that is reasonably expected, and (iii) return of income commensurate with avoidance of unreasonable risk. Under its policy, the Town's investment practice is to maintain a cash and investment pool that is available for use by all funds and consists of short-term investments. The Town is invested principally in direct obligations of the United States government and its agencies. The Town is not invested in any obligations typically referred to as derivatives, meaning obligations created from, or whose value depends on or is derived from the value of one or more underlying assets or indexes of asset values in which the municipality owns no direct interest. For further information regarding the Town's investments see "APPENDIX A – FINANCIAL STATEMENTS – Notes to Basic Financial Statements – DEPOSITS AND INVESTMENTS" herein.

FUND BALANCE POLICY

The Town has established, and follows, a formal Fund Balance Policy that recognizes the importance of maintaining an appropriate level of undesignated fund balance. After evaluating the Town's operating characteristics, property tax base, reliability of non-property tax revenue sources, working capital needs, state and local economic outlooks, emergency and disaster risks, and other contingent issues, the Town establishes goals regarding to the undesignated fund balances of the General Fund of the Town. This policy has been established to recognize the importance of a stable and sufficient level of undesignated fund balance. However, the Council reserves the right to re-appropriate funds from undesignated fund balance for emergencies and other items it feels necessary to be of the Town's best interest.

The Town's goal is to maintain, as undesignated, a level of fund balance in an amount equal to 8.3% (or 1/12th) of its annual Operating Budget. Once the Town achieves an undesignated fund balance equal to 8.3% of the Town's Operating Budget, any excess is to be designated for capital needs of the Town;

thereby, reducing amounts required to be financed and in turn, the related interest costs. At year-end, capital and certain other budget items, in which appropriated amounts exceed actual expenditures, are reviewed to determine if they should be designated to be carried over to the next year. Annually, the Finance Director presents to the Town Manager a list of items for approval to be designated to be carried forward.

Fund Balance as % Revenues

	Fiscal Year Ended June 30,				
	2001	2002	2003	2004	2005
Unreserved General Fund Balance	\$3,668,750	\$5,752,698	\$6,211,542	\$5,918,858	\$7,062,882
Total Revenues (Current Year)	42,284,942	45,131,670	48,313,362	50,509,302	54,158,598
Fund Bal as % Revenues	8.7%	12.7%	12.9%	11.7%	13.0%
Undesignated General Fund Balance	\$2,425,517	\$4,064,287	\$4,669,251	\$4,693,564	\$4,366,474
Total Revenues (Current Year)	42,284,942	45,131,670	48,313,362	50,509,302	54,158,598
Fund Bal as % Revenues	5.7%	9.0%	9.7%	9.3%	8.1%

FINANCIAL STATEMENTS

Title 30-A, Chapter 223, Subchapter VIII of the Maine Revised Statutes, as amended, and Article II, Section 215 of the Town's Charter provide for independent annual audits of the Town's accounts and establishes procedures for such audits. The Town, in conformance with this statute and its Charter currently engages the services of Runyon Kersteen Ouelette, Certified Public Accountants for this review.

In order to ensure timely review of the Town's financial position, on November 2, 2004, and effective December 1, 2004, the Town amended Section 215.1 of its Charter such that "The audit shall be completed and delivered to the Town Council not later than December 30th following the end of the municipal year of the subject audit".

The Town's fiscal year 2005 Annual Financial Report, audited by Runyon Kersteen Ouelette, Certified Public Accountants, is presented as APPENDIX A to this Official Statement. The Town has not requested the consent of Runyon Kersteen Ouelette for the incorporation of the Financial Statements included in APPENDIX A, nor has it been received.

FUNDS

The accounts of the Town are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The Town has the following fund types and account groups:

Governmental Fund Types

Governmental Funds are those through which most governmental functions of the Town are financed. The acquisition, use, and balances of the Town's expendable financial resources and the related liabilities. (except those that would be accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Town's Governmental Fund Types:

General Fund - This fund accounts for all financial transactions except those required to be accounted for in another fund.

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

Capital Project Funds - Capital Project Funds are used to account for financial resources segregated for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

Fiduciary Funds

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

The Town reports on both the private purpose trust fund and the agency fund. Private purpose trust funds are used to report all of the Scarborough School Department's scholarship programs. Student Activity Funds are recorded as Agency funds and are used to account for funds raised by and on behalf of the various student groups organized within the Scarborough School Department.

Permanent Funds.

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town's programs, that is, for the benefit of the government or its citizenry. Permanent funds are established by the Town for the following purposes: Scarborough Memorial Cemetery Perpetual Care, Dunstan Cemetery Perpetual Care and Mary A. Tucker Perpetual Care.

**TOWN OF SCARBOROUGH
COMPARATIVE BALANCE SHEET
GENERAL FUND
(As of June 30,)**

	2005	2004	2003	2002	2001
ASSETS					
Cash and cash equivalents	\$9,421,858	\$6,885,074	\$9,194,945	\$3,965,364	\$3,083,887
Investments	533,400	2,692,139	907,364	2,654,419	4,983,726
Receivables:					
Taxes receivable	60,561	75,740	71,205	111,882	103,003
Tax liens	421,274	364,515	359,964	658,429	825,269
Accounts receivable	472,345	535,740	414,811	1,523,279	256,202
Due from State		52,814	26,087	40,573	142,531
Interfund receivable	265,420	1,438,719	1,172,604	1,811,384	0
Tax acquired property	7,231	7,231	7,231	3,030	3,030
TOTAL ASSETS	11,182,089	12,051,972	12,154,211	10,768,360	9,397,648
LIABILITIES					
Accounts payable	586,549	809,838	666,405	501,795	708,680
Accrued wages	2,419,588	2,274,593	2,187,754	1,960,455	1,803,424
Accrued absences		375,384	341,810	288,388	365,570
Interfund payable		1,526,628	1,575,276	288,754	659,098
Taxes collected in advance	15,944	36,187	19,582	31,806	8,061
Deferred tax revenue	400,000	400,000	400,000	717,000	878,000
Performance bond		0	0	427,149	416,686
TOTAL LIABILITIES	3,422,081	5,422,630	5,190,827	4,215,347	4,839,519
EQUITY					
Fund balances:					
Reserved	697,126	710,484	751,842	800,315	889,379
Unreserved:					
Undesignated	4,366,474	4,693,564	4,669,251	4,064,287	2,425,517
Designated	2,696,408	1,225,294	1,542,291	1,688,411	1,243,233
TOTAL EQUITY	7,760,008	6,629,342	6,963,384	6,553,013	4,558,129
TOTAL LIABILITIES AND EQUITY	\$11,182,089	\$12,051,972	\$12,154,211	\$10,768,360	\$9,397,648

Prepared from Audited Financial Statements.

TOWN OF SCARBOROUGH
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GENERAL FUND
(For the Years Ended June 30,)

	2005	2004	2003	2002	2001
REVENUES					
Taxes	\$40,003,836	\$37,104,562	\$34,581,649	\$32,380,000	\$29,311,032
Licenses and permits	566,483	480,440	428,593	412,845	432,830
Intergovernmental	10,242,806	9,756,365	7,622,220	9,805,334	10,180,585
Interest earned	159,450	105,034	123,995	157,722	301,979
Other	3,186,023	3,062,901	3,036,510	2,375,769	2,058,516
TOTAL REVENUES	54,158,598	50,509,302	45,792,967	45,131,670	42,284,942
EXPENDITURES					
General government	3,727,031	3,568,303	3,422,319	3,041,249	2,923,128
Public services	2,642,914	2,572,389	2,653,341	2,325,304	2,503,686
Public safety	5,921,309	5,933,594	5,277,917	4,705,436	4,464,600
Public works	5,370,322	4,877,211	4,767,202	4,108,009	4,103,021
Education	30,919,216	28,862,018	24,171,344	25,091,349	22,901,339
County tax	1,519,714	1,441,610	1,306,425	1,061,578	933,364
Other	40,638	0	148,018	102,550	56,665
Debt service	4,304,201	5,046,242	3,192,012	3,039,920	3,046,310
Capital improvements	1,119,917	653,352	1,209,004	1,233,457	0
TOTAL EXPENDITURES	55,565,262	52,954,719	46,147,582	44,708,852	40,932,113
EXCESS OF REVENUES OVER EXPENDITURES	(1,406,664)	(2,445,417)	(354,615)	422,818	1,352,829
OTHER FINANCING SOURCES:					
Operating transfers in	2,086,828	1,304,889	640,584	1,430,397	658,463
Operating transfers out	(795,906)	(755,514)	(897,846)	(1,049,986)	(1,166,433)
Prior year designated funds	0	0	2,066,352	1,241,818	1,261,150
Bond or note proceeds	870,175	1,562,000	1,210,085	1,191,655	0
TOTAL OTHER FINANCING:	2,161,097	2,111,375	3,019,175	2,813,884	753,180
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	754,433	(334,042)	2,664,560	3,236,702	2,106,009
Reconciliation to GAAP		0	(187,837)	0	0
FUND BALANCE, BEGINNING OF YEAR (or as restated)	7,005,575	6,963,384	6,553,013	4,558,129	3,713,270
(Less prior year designated funds)	0	0	(2,066,352)	(1,241,818)	(1,261,150)
FUND BALANCE, END OF YEAR	\$7,760,008	\$6,629,342	\$6,963,384	\$6,553,013	\$4,558,129

Prepared from Audited Financial Statements.

PROPERTY TAXATION

Fiscal Yr. End June 30,	Equalized State Valuation (000)	Assessed Valuation (000)	Tax Rate (000)	Tax Levy (000)	Collections (after Supplements and Abatements)		
					Year End (000)	% of Levy	% of Levy A/O 8/31/05
2006	\$2,873,200	\$3,310,799	\$11.30	\$36,802	---- In Process ----		
2005	2,538,800	2,057,589	17.34	35,678	\$36,367	99.13%	99.27%
2004	2,158,300	2,002,987	16.46	32,969	32,747	99.33	99.75
2003	1,864,800	1,930,576	15.70	30,311	30,104	99.20	99.96
2002	1,571,700	1,858,345	15.30	28,433	28,121	98.84	99.97
2001	1,374,950	1,313,684	19.60	25,748	25,339	98.35	99.97
2000	1,253,450	1,259,330	19.20	24,179	23,716	98.06	99.97
1999	1,155,300	1,206,144	18.40	22,193	21,746	97.68	99.97
1998	1,109,500	1,186,155	18.40	21,825	21,382	97.68	99.98
1997	1,060,350	1,138,964	18.20	20,729	20,114	96.92	99.98
1996	1,037,050	1,096,685	17.90	19,631	18,997	96.61	99.98

The principal tax of the Town is the tax on real and personal property. A single tax applies for each fiscal year to the assessed value of the taxable real or personal property. The Town's Tax Collector receives the tax commitment from the Town Assessor, with assessed values as of April 1 of each year, after which time the tax bills are mailed. For fiscal 2005/2006 the tax due dates are October 17, 2005 and March 15, 2006. All taxes paid after the due date will be subject to interest, at the rate of 7.75% per annum.

Collection of real estate taxes is ordinarily enforced in the Town by the "tax lien" procedure as provided in the Maine Revised Statutes, as amended, to the collection of delinquent real estate taxes. Real Estate Tax Liens are recorded against the individual property at the County Registry of Deeds. This lien has priority over all mortgages, liens, attachments and encumbrances of any nature, subject to any paramount federal tax lien and subject to bankruptcy and insolvency laws. If the account is not satisfied within 18 months, the property becomes tax acquired and may be disposed of by the Town. However, Article 3 of the Town's *Policy for Disposition of Tax Acquired Property*, adopted October 16, 2003, provide for the Town and the property owner of a single residence property to enter into a plan and an installment sales contract in order to waive the foreclosure process and to secure prompt payment of outstanding and current taxes, related interest and costs.

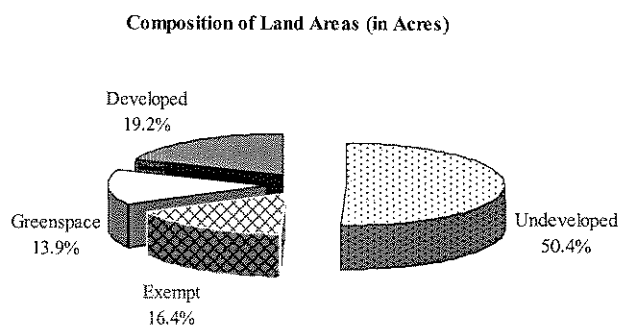
LARGEST TAXPAYERS

Taxpayer	Business	As of April 1, 2005				
		Real Estate	Personal Property	Assessed Total	Property Tax	% of Levy
Maine Life Care	Senior Housing	\$59,119,500	\$2,510,000	\$61,629,500	\$696,413	1.89%
Hannaford Brothers	Supermarket, Corp Office	15,643,200	14,771,100	30,414,300	343,682	0.93
Wal-Mart/Sam's Club	Wholesale Retail	24,695,900	1,721,000	26,416,900	298,511	0.81
Black Point Inn	Hotel	15,332,500	1,073,900	16,406,400	185,392	0.50
MMC Realty	Medical	12,084,900	2,386,600	14,471,500	163,528	0.44
Gavin Ruotolo	Commercial Leases	12,628,700	12,800	12,641,500	142,849	0.39
ERP Operating L.P.	Residential Apartments	11,747,600	175,000	11,922,600	134,725	0.37
Shaw's	Supermarket	8,162,800	1,296,100	9,458,900	106,886	0.29
Davric Maine Corp	Harness Racing/OTB	9,097,500	350,000	9,447,500	106,757	0.29
Central Maine Power	Electric Transmission	8,622,800	0	8,622,800	97,438	0.26
Top Ten Taxpayers as % of Total						6.17

CURRENT TAX BASE AND TAX BASE GROWTH

The Town's land area is comprised of 28,133 acres. The below table and chart displays the composition of land area available for tax base, and the potential for future tax base by the conversion of land from undeveloped to developed.

By Land Area (acres)	2005
Undeveloped ⁽¹⁾	14,189
Exempt	4,620
Greenspace ⁽²⁾	3,921
Developed	5,403
Total	28,133



NOTE: ⁽¹⁾ May include an undetermined amount of land that cannot be developed.

⁽²⁾ Includes Resource Protection; Parks & Open Space; and Stream Protection, which land is not currently viewed as developable by the Town.

The following table displays the changes in the Town's tax base over the last decade, by valuation of class of property:

	1995		2000		2005	
	Value (\$)	% Total	Value (\$)	% Total	Value (\$)	% Total
Commercial	189,525,000	17.27%	204,136,700	15.93%	425,931,300	13.08%
Industrial	67,125,300	6.12%	65,155,000	5.08%	133,337,500	4.09%
Residential	813,984,700	74.17%	929,093,200	72.51%	2,508,175,200	77.01%
Undeveloped	Included in Residential		60,606,400	4.73%	100,424,700	3.08%
Other	26,793,100	2.44%	22,379,300	1.75%	88,973,200	2.73%
Assessed Value	1,097,428,100	100.00%	1,281,372,600	100.00%	3,256,841,900	100.00%

NOTE: "Other" includes tax-exempt properties, greenspace, wetlands or non-developable property.

TAX INCREMENT FINANCING DISTRICTS AND AFFORDABLE HOUSING DISTRICTS

Chapter 206 and former 207 of Title 30-A of the Maine Revised Statutes, as amended, enables a municipality to finance qualified development by borrowing against the future increased property tax receipts attributable to that development. Under the statutory framework, the municipality designates a tax increment financing ("TIF") district or an affordable housing development district (a "housing district") and adopts a development program (the "Development Program") stating the means and objectives for the development of that district. The municipality may designate, or "capture", all or a portion of the increase in assessed value resulting from development within the district and dedicates the increased property taxes it receives in future years generated by the "captured" assessed value to payment of the costs of the Development Program, which may include debt service on borrowing to fund such costs. Such districts are subject to statutory limits on their size, including the following limitations: (a) the total area of a single district may not exceed 2% of the total acreage of the municipality, (b) the total area of all TIF districts or housing districts within a municipality each may not exceed 5% of the total acreage of the municipality, and (c) the aggregate equalized value of property of all the districts and all

housing districts within the municipality as of the April 1st preceding the date of designation of each such district cannot each exceed 5% of the municipality's total value of equalized taxable property. Excluded from this limit as applicable to TIF districts is any district involving project costs in excess of \$10,000,000, the geographic area of which consists entirely of contiguous property owned by a single taxpayer with an assessed value in excess of 10% of the municipality's total assessed value. The increase in assessed value captured by the municipality is excluded from the municipality's equalized just value for each year's State valuation filed with the Secretary of State in accordance with Title 36, Sections 208 and 305 of Maine Revised Statutes, as amended, and is therefore not included in calculating that municipality's share of State educational aid, State municipal revenue sharing, the county tax or the 15% debt limitation for the municipality pursuant to Title 30-A, Section 5257 of the Maine Revised Statutes, as amended.

The Town has designated TIF districts and is actively considering proposals for other districts on an ongoing basis. All districts will be evaluated based upon the Town's comprehensive plan for economic development, which includes TIF as one of its aspects. In no event will the Town's districts exceed the statutory limitation of total area to not more than 5% of the Town's acreage, and aggregate equalized value within all districts (not otherwise exempt from this calculation), determined as of their date of designation, of not more than 5% of the Town's total equalized value of taxable property.

STATE AID

The State of Maine provides aid to the Town in a number of areas including education, welfare assistance, road maintenance and revenue sharing. The amount of aid in each category is based upon a number of formulas, many of which change annually, and dependent upon provisions of State law and/or appropriation by the State legislature. Educational subsidies include general purpose aid, financing costs relating to certain school construction projects and categorical aid. The State annually estimates State aid but actual payments may vary from the estimate. The following table displays State aid received by Scarborough for the last five fiscal periods:

Fiscal Yr. End June 30,	State Revenue Sharing	School Aid	Homestead Exemption	General Assistance	Other State Aid	Total From State
2005	\$1,341,589	\$4,503,857	\$300,361	\$7,868	\$274,000	\$6,427,675
2004	1,358,586	4,669,174	341,272	2,657	315,470	6,687,159
2003	1,347,996	5,352,036	453,515	3,563	552,062	7,709,172
2002	1,362,254	5,104,603	443,988	7,253	410,628	7,328,726
2001	1,398,451	4,969,769	566,158	10,711	813,795	7,758,884
2000	1,330,916	4,580,823	559,418	10,107	454,441	6,935,705

INDEBTEDNESS

LIMITATIONS AND EXCLUSIONS

In accordance with Title 30-A, Section 5702 of the Maine Revised Statutes, as amended, "No municipality shall incur debt which would cause its total debt outstanding at any time, exclusive of debt incurred for school purposes, for storm or sanitary sewer purposes, for energy facility purposes or for municipal airport purposes to exceed 7 ½% of its last full state valuation, or any lower percentage or amount that a municipality may set. A municipality may incur debt for school purposes to an amount outstanding at any time not exceeding 10% of its last full state valuation, or any lower percentage or amount that a municipality may set, for storm and sewer purposes to an amount outstanding at any time not exceeding 7 ½% of its last full state valuation, or any lower percentage or amount that a municipality

may set, and for municipal airport and special district purposes to an amount outstanding at any time not exceeding 3% of its last full state valuation, or any lower percentage or amount that a municipality may set; provided, however, that in no event shall any municipality incur debt which would cause its total debt outstanding at any time to exceed 15% of its last full state valuation, or any lower percentage or amount that a municipality may set.”

Title 30-A, Section 5703 of the Maine Revised Statutes, as amended, provides that the limitations on municipal debt contained in Section 5702 do not apply “... to any funds received in trust by any municipality, any loan which has been funded or refunded, notes issued in anticipation of federal or state aid or revenue sharing money, tax anticipation loans, notes maturing in the current municipal year, indebtedness of entities other than municipalities, indebtedness of any municipality to the Maine School Building Authority, debt issued under Chapter 235 and Title 10, chapter 110, subchapter IV, obligations payable from revenues of the current municipal year or from other revenues previously appropriated by or committed to the municipality, and the state reimbursable portion of school debt.”

On January 1, 2006 the Town’s equalized state valuation (“equalized State Valuation”) was reported to be \$2,873,200,000. The 15% debt limit is \$430,980,000. As of June 30, 2005 the Town’s long-term debt was \$67,737,433 or 2.36% of the equalized State Valuation. The Town will certify on the date of issue of the Bonds that the Town has not exceeded the foregoing debt limits and that issuance of the Bonds will not cause the Town to exceed such debt limits.

DEBT SUMMARY

The Town’s general obligation bonds payable at June 30, 2005 (audited) and projected for June 30, 2006 (unaudited) are comprised of the following individual issues:

Series	Date of Issue	Issue Amount	Date of Final Mat	FY End 06/30/05	Payments 2005/2006	FY End 06/30/06
1987	10/25/87	3,300,000	10/25/07	375,000	(125,000)	250,000
1988	04/25/88	6,615,000	10/25/08	1,100,000	(275,000)	825,000
1989	12/15/89	2,300,000	12/15/08	430,000	(110,000)	320,000
1990	11/01/90	7,415,000	11/01/10	1,970,000	(335,000)	1,635,000
1993	05/01/93	1,135,000	11/01/12	200,000	(25,000)	175,000
1994	10/15/94	6,775,000	10/15/14	2,300,000	(230,000)	2,070,000
1995A	07/15/95	97,000	07/15/05	12,433	(12,433)	0
1995B	12/15/95	6,160,000	11/01/15	2,955,000	(305,000)	2,650,000
1997	04/15/97	4,230,000	11/01/16	1,510,000	(205,000)	1,305,000
1998	02/15/98	1,475,000	11/01/07	285,000	(100,000)	185,000
1999	06/15/96	6,493,000	11/01/18	2,290,000	(400,000)	1,890,000
2000	06/15/00	4,770,000	12/15/19	2,190,000	(210,000)	1,980,000
2001	06/15/01	4,932,000	11/01/20	2,575,000	(510,000)	2,065,000
2002	06/15/02	4,000,000	11/01/06	1,695,000	(850,000)	845,000
2003	06/01/03	24,579,000	06/01/34	23,380,000	(1,070,000)	22,310,000
2004	03/15/04	14,628,000	11/01/33	13,805,000	(830,000)	12,975,000
2005	03/15/05	10,665,000	11/01/34	10,665,000	(315,000)	10,350,000
	Sub-total			67,737,433	(5,907,433)	61,830,000
2006	05/15/06	7,014,000	11/01/20			7,014,000
	Projected Total June 30, 2006					68,844,000

DEBT RATIOS

The following table sets forth the ratio of bonded debt to equalized State Valuation and per capita debt ratios for the end of the nine most recent fiscal years and projected for the current fiscal year:

Fiscal Yr. End June 30,	Population ⁽¹⁾	Equalized State Val. (000)	Assessed Valuation (000)	Total Debt	Debt as % Eq. Val.	Per Capita Debt
2006	18,812	\$2,873,200	\$3,310,799	\$68,844,000	2.40%	\$3,659.58
2005	18,812	2,538,800	2,057,589	67,737,433	2.67	3,600.76
2004	16,970	2,158,300	2,023,583	62,952,163	2.92	3,709.61
2003	16,970	1,864,800	1,959,463	54,759,228	2.94	3,226.83
2002	16,970	1,571,700	1,858,345	35,095,667	2.23	2,068.10
2001	16,970	1,374,950	1,313,684	35,787,515	2.60	2,108.87
2000	16,970	1,253,450	1,259,330	35,059,806	2.80	2,065.99
1999	12,518	1,155,300	1,206,144	34,071,571	2.95	2,721.81
1998	12,518	1,109,500	1,186,155	31,531,840	2.84	2,518.92
1997	12,518	1,060,350	1,138,964	32,499,641	3.06	2,596.23
1996	12,518	1,037,050	1,096,685	31,042,000	2.99	2,479.79

SOURCE: ⁽¹⁾ U.S. Department of Commerce, Bureau of the Census.

DEBT SERVICE COMPONENT OF OPERATING EXPENSES

	Audited					Budgeted
	2001	2002	2003	2004	2005	2006
Total Current Year Debt Service:	\$6,062,165	\$6,458,394	\$6,549,468	\$7,443,062	\$8,513,265	\$8,753,803
(less Subsidized School Debt):	(679,260)	(631,119)	(615,031)	(271,119)	(180,726)	(61,556)
Net Tax-backed Debt:	5,382,905	5,827,275	5,934,437	7,171,943	8,332,539	8,692,247
Budgeted Operating Expense:	39,247,620	43,524,232	46,665,834	49,818,261	54,054,833	55,513,741
Debt Service as % Oper. Expense:	13.72%	13.39%	12.72%	14.40%	15.41%	15.66%

PROJECTED DEBT SERVICE REQUIREMENTS

Fiscal Yr. End June 30,	Prior Debt			Projected Debt (This Issue)			Projected Total Debt
	Principal	Interest	Total Debt	(Pro Forma)		Total Debt ⁽¹⁾	
				Principal	Interest		
2006	\$5,907,433	\$2,846,370	\$8,753,803	\$0	\$0	\$0	\$8,753,803
2007	5,520,000	2,560,541	8,080,541	479,000	260,382	739,382	8,819,923
2008	4,815,000	2,347,666	7,162,666	665,000	248,425	913,425	8,076,091
2009	4,270,000	2,155,995	6,425,995	690,000	221,325	911,325	7,337,320
2010	3,285,000	1,997,614	5,282,614	805,000	191,425	996,425	6,279,039
2011	3,135,000	1,863,304	4,998,304	835,000	158,625	993,625	5,991,929
2012	2,845,000	1,738,036	4,583,036	480,000	132,325	612,325	5,195,361
2013	2,940,000	1,616,084	4,556,084	510,000	112,525	622,525	5,178,609
2014	2,360,000	1,501,598	3,861,598	515,000	92,025	607,025	4,468,623
2015	2,120,000	1,400,684	3,520,684	530,000	71,125	601,125	4,121,809
2016	1,930,000	1,308,945	3,238,945	505,000	50,425	555,425	3,794,370
2017	1,760,000	1,227,419	2,987,419	185,000	36,625	221,625	3,209,044
2018	1,790,000	1,150,094	2,940,094	190,000	29,125	219,125	3,159,219
2019	1,940,000	1,069,290	3,009,290	195,000	21,425	216,425	3,225,715
2020	2,035,000	983,076	3,018,076	210,000	13,273	223,273	3,241,349
2021	2,100,000	894,426	2,994,426	220,000	4,510	224,510	3,218,936
2022	2,180,000	803,423	2,983,423				2,983,423
2023	2,395,000	705,004	3,100,004				3,100,004
2024	1,050,000	630,241	1,680,241				1,680,241
2025	1,100,000	583,200	1,683,200				1,683,200
2026	1,150,000	533,344	1,683,344				1,683,344
2027	1,200,000	481,184	1,681,184				1,681,184
2028	1,260,000	426,439	1,686,439				1,686,439
2029	1,315,000	368,758	1,683,758				1,683,758
2030	1,375,000	308,265	1,683,265				1,683,265
2031	1,440,000	244,153	1,684,153				1,684,153
2032	1,505,000	176,278	1,681,278				1,681,278
2033	1,575,000	105,298	1,680,298				1,680,298
2034	960,000	46,500	1,006,500				1,006,500
2035	480,000	12,000	492,000				492,000
TOTAL	\$67,737,433	\$32,085,226	\$99,822,659	\$7,014,000	\$1,643,564	\$8,657,564	\$108,480,223

NOTE: ⁽¹⁾ Less Bond Premium of \$31,937.56

PROJECTED PRINCIPAL PAYMENTS, BY ISSUE

(\$/000)

Yr. End June 30,	1987	1988	1989	1990	1993	1994	1995A	1995B	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Total Debt
2006	125	275	110	335	25	230	12	305	205	100	400	210	510	850	1,070	830	315	0	5,907
2007	125	275	110	335	25	230		265	205	100	400	210	190	845	890	975	340	479	5,999
2008	125	275	110	325	25	230		265	110	85	395	210	180		995	975	510	665	5,480
2009		275	100	325	25	230		265	110		395	205	180		655	985	520	690	4,960
2010				325	25	230		265	110		70	205	180		685	665	525	805	4,090
2011				325	25	230		265	110		70	115	180		750	680	385	835	3,970
2012					25	230		265	110		70	115	120		840	680	390	480	3,325
2013					25	230		265	110		70	115	115		925	690	395	510	3,450
2014						230		265	110		70	115	115		595	555	305	515	2,875
2015						230		265	110		70	115	115		685	215	315	530	2,650
2016								265	110		70	115	115		780	225	250	505	2,435
2017									110		70	115	115		885	235	230	185	1,945
2018											70	115	115		1,005	245	240	190	1,980
2019											70	115	115		1,135	255	250	195	2,135
2020												115	115		1,280	265	260	210	2,245
2021													115		1,435	280	270	220	2,320
2022															1,610	290	280		2,180
2023															1,800	305	290		2,395
2024															430	320	300		1,050
2025															450	335	315		1,100
2026															475	350	325		1,150
2027															495	365	340		1,200
2028															520	385	355		1,260
2029															545	400	370		1,315
2030															570	420	385		1,375
2031															595	440	405		1,440
2032															625	460	420		1,505
2033															655	480	440		1,575
2034																500	460		960
2035																480	480		480
Totals	375	1,100	430	1,970	200	2,300	12	2,955	1,510	285	2,290	2,190	2,575	1,695	23,380	13,805	10,665	7,014	74,751
pd 2006	(125)	(275)	(110)	(335)	(25)	(230)	(12)	(305)	(205)	(100)	(400)	(210)	(510)	(850)	(1,070)	(830)	(315)	0	(5,907)
07/01/06	250	825	320	1,635	175	2,070	0	2,650	1,305	185	1,890	1,980	2,065	845	22,310	12,975	10,350	7,014	68,844

OVERLAPPING DEBT

County of Cumberland

The Town is subject to an annual assessment of its proportional share of the County of Cumberland's (the "County") expenses, including debt repayment, as determined by the percentage of the Town's equalized State Valuation to the County's equalized State Valuation. At January 1, 2006 the Town's equalized State Valuation of \$2,873,200,000 was 8.36% of the County's equalized State Valuation of \$34,366,000,000. The Town's share is 8.36%, or \$1,025,008, of the County's \$12,260,000 long-term debt projected to be outstanding as of December 31, 2005.

CONTINGENT DEBT

Portland Water District

The Water Division of the PWD also provides water to the inhabitants of ten cities and towns within the Greater Portland Area (the "PWD Municipalities"), including the Town. The Water Division's debt is not a debt or obligation of the Town. However, under Title 35-A, Section 6103 of the Maine Revised Statutes, as amended (the "Act"), and pursuant to an agreement with nine of the ten PWD Municipalities, the exception being the Town of Standish (the "Section 6103 Members"), in compliance with subsection 6 of the Act, the PWD possesses authority for taxation in the event of default in the payment of the indebtedness of the PWD incurred for water purposes (the "Water Fund Debt"). In the event of a default by PWD in the payment of the principal of, or interest on, its Water Fund Debt, the Trustees of the PWD have the authority to issue a warrant for payment of amounts necessary to cure the default to the assessors in each Section 6103 Member municipality within the PWD, including the Town. Such assessment is allocated, pro-rata, to each Section 6103 Member municipality based upon 100% of its respective equalized State Valuation. On this basis, at January 1, 2006 the Town was responsible for 12.93%, or \$2,588,614, of the PWD's \$20,025,000 Water System Debt projected to be outstanding as of December 31, 2005.

Regional Waste Systems, Inc.

Regional Waste Systems, Inc. (the "RWS"), a Maine Corporation with 21 participating municipalities ("Member Municipalities"), including the Town, has issued debt to fund a resource recovery system ("RRS") (the "RRS Debt"). The RRS Debt is a special revenue obligation of RWS, payable from and secured by a pledge of RWS revenues. The debt does not constitute a debt or liability within the meaning of any constitutional or statutory provision, or a pledge of the full faith and credit of any political subdivision of the State of Maine. RWS has no taxing power. Notwithstanding the foregoing, pursuant to the Waste Handling Agreements, the participating municipalities are obligated severally to deliver certain of the solid waste produced within each such participating municipality to RWS for processing and to make service payments and pay tipping fees for such processing in amounts which, when added to other available monies, will be at least equal required debt service on the RRS Debt. The obligations of the Member Municipalities under the Waste Handling Agreements are secured by the full faith and credit of the participating municipalities subject to certain limitations. On June 30, 2005, outstanding RRS Debt of RWS totaled \$50,092,000, of which the Town's share, based on estimated tonnage to be delivered, amounts to 8.11% or \$4,062,150.

The Town has also entered into an agreement with Regional Waste Systems, Inc., as one of 21 RWS original Member Municipalities along with an additional six Participating Municipalities, to establish a Material Recycling Facility ("MRF") at RWS's demolition debris and recycling facility in Gorham. In June 1993, the MRF Board voted not to proceed as planned with the development of the demolition

debris and recycling facility project on the RWS approved site in Gorham. Therefore, the costs associated with the development of the facility through June 30, 2005 (the latest audited data available) aggregate \$8,049,467 and have been reported as an idle asset. RWS continues to hold the property and the associated improvements. Permitting for the facility has expired and the MRF Board has indicated its willingness to sell the site to a third party. Therefore, at June 30, 2005 the reported costs of this property have been written down to its estimated fair market value of 2,230,000. At June 30, 2005 the Town's share is 6.30% or \$352,359 of RWS's outstanding MRF debt of \$5,593,000. Payments for the MRF debt are included in the RWS per tonnage RRS tipping fees.

RWS operates a licensed balefill and ashfill site for which projected landfill closure and postclosure care costs approximate \$19,953,270 at June 1, 2004 (the latest audited data available). The Town's proportionate share of these estimated landfill closure and postclosure care costs is 7.92%, or \$1,581,199.

TOTAL GENERAL OBLIGATION, OVERLAPPING AND CONTINGENT DEBT

	Direct Debt	Overlapping	Contingent	Total Debt
Town of Scarborough	\$67,737,433			\$67,737,433
County of Cumberland ⁽¹⁾		\$1,025,008		1,025,008
Portland Water District			\$2,588,614	2,588,614
RWS (RRS)			4,062,150	4,062,150
RWS (MRF)			352,359	352,359
RWS (Landfill)			1,581,199	1,581,199
Total A/O June 30, 2005	<u>\$67,737,433</u>	<u>\$1,025,008</u>	<u>\$8,584,322</u>	<u>\$77,346,763</u>

NOTE: ⁽¹⁾ As of fiscal year ended December 31, 2005.

FUTURE FINANCING

The Town Manager develops a formal Capital Improvement Program that is submitted to the Town Council (see "TOWN FINANCES - CAPITAL IMPROVEMENT PROGRAM" herein). The CIP includes an inventory of possible capital projects, some of which may ultimately be included in the CIP, and is be an indication of future projects that may be financed through the issuance of debt. Council orders or resolves authorizing bond issues of \$100,000 or more for a single capital improvement or capital equipment are subject to a petition for overrule of Council action, by the initiative and referendum provisions of Article IX of the Town's Charter. Further, Section 905 of the Town's Charter requires voter referendum approval for bond issues of \$400,000 or more for a single capital improvement or capital equipment.

The following are projects that have been authorized but, following the financing of the Bonds, will remain unissued:

Parks and Conservation Lands

By referendum on November 7, 2000 and November 4, 2003, the voters of the Town authorized the issue of bonds in an amount not to exceed \$1,500,000 and \$2,500,000, respectively, to provide funds to finance purchase of parks and conservation lands. A portion of the proceeds of the Town's 2004 Bonds, in the amount of \$1,000,000, were used to purchase parcels identified by the Town; and a portion of the proceeds of the Town's 2005 Bonds, in the amount of \$197,496, were used to purchase parcels identified by the Town for this purpose. As the Town identifies, and successfully negotiates the purchase price of,

suitable properties it plans to finance such purchase(s) through the issuance on its bonds. At this time the Town has not identified further imminent purchases that will utilize the remaining \$2,802,504 of authorized but unissued debt for this purpose.

Additional CIP

The Town has a variety of CIP projects, in a consolidated amount of \$324,000, that have been authorized by the Council but the projects have not matured to the extent that significant funds need be available over the next several months. These may be financed, if completed, by future bond issues, as follows:

Authorized Projects but Unissued Debt

<u>Project</u>	<u>Order #</u>	<u>Authorized</u>
Fire Dept Training Building	06-18	\$150,000
School HVAC/Wall	06-19	30,000
School Maintenance-Security System	06-19	25,000
School System Wide ADA	05-8	119,000

School Projects

The Town continues to evaluate its school building infrastructure that includes the potential to consolidate or replace certain schools. The Town's School Building Committee, currently comprised of the members of the School Board and members of the Town Council, is evaluating options of improvements to or replacement of the Wentworth Intermediate School and expansion of the Scarborough Middle School. Preliminary estimates for the projects are projected to be in a consolidated amount of approximately \$50 million. The Town's Charter requires voter referendum approval for bond issues in excess of \$400,000. The Town contemplates placing the question(s) of the above proposed school projects before its voters in the November 2006 referendum election. If approved, the Town expects to finance and construct portions of the projects over a period of five to seven years, starting after calendar year 2007.

Other than the above discussions, the Town has no authorized but unissued debt that it expects to finance through bond issues over the next year.

RETIREMENT

A. DEFINED BENEFIT PENSION PLAN

Description of the Plan

The Town contributes to the Maine State Retirement System ("MSRS") Consolidated Plan ("CRP"), a cost sharing multiple-employer retirement system established by the Maine State legislature. The MSRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State legislature. The MSRS issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained by writing to Maine State Retirement, 46 State House Station, Augusta, ME 04333-0046 or by calling 1-800-451-9800.

Funding Policy

Plan members are required to contribute 6.5% of their annual covered salary and the Town is required to contribute an actuarially determined rate. These rates are designed to accumulate sufficient assets to pay benefits, when due. Normal cost employer contributions are calculated using the entry age normal actuarial cost method. Additionally, upon entering the CRP, the School had its separate, individual existing unfunded actuarial liability calculated. The School will pay this initial unpooled unfunded liability ("IUUAL") on a scheduled basis, in addition to making the normal contribution to the plan. The IUUAL is being amortized over nineteen years. The current rate is 2.8% of annual covered payroll for School employees participating in the District Plan and 2.8% for Town employees and 4.0% for Police. The contribution rates of plan members and the Town are established and may be amended by the Maine State Retirement Board of Trustees. The Town's contributions to the MSRS-CRP for the year ended June 30, 2005 were \$48,877 including IUUAL payments of \$14,376.

B. DEFINED BENEFIT PENSION PLAN – TEACHERS GROUP

Description of the Plan

All schoolteachers, plus other qualified educators, participate in the MSRS's teacher group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State legislature. The MSRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State legislature. The MSRS issues a publicly available financial report that includes financial statements and required supplementary information for the Teacher's Group. That report may be obtained by writing to Maine State Retirement System, 46 State House Station, Augusta, ME 04333-0046 or by calling 1-800-451-9800.

Funding Policy

Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education is required, by the same statute, to contribute the employer contribution which amounts to \$2,575,202 (17.77%) for the fiscal year 2005. This amount has been reported as an intergovernmental revenue and retirement expenditure in the Town's GAAP basis financial statements.

C. DEFINED CONTRIBUTION PLAN

The Town has instituted a contributory Internal Revenue Code Section 401(a) plan which is available to all eligible employees of the Town. The Town contributes to the International City Manager's Association ("ICMA") Money Purchase Plan, which is a defined contribution pension plan administered by the ICMA. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account. All municipal employees of the Town have the option of participating in the plan or the MSRS. Contributions made by the employer vest upon completion of three years of service. An employee who leaves the employment of the Town is entitled to all contributions and earned income in his account at that time. Each employee must contribute a minimum of 6% of his or her gross earnings to the pension plan, while the Town is required to contribute an amount equal to 6% of the employee's gross earnings.

During the year, the Town's required and actual contributions amounted to \$346,160, which was 6% of its current year covered payroll. The covered payroll amounted to \$5,769,330 while the Town's total payroll was \$8,217,962. Employee's required contributions amounted to \$346,160, which was 6% of the Town's current year covered payroll. No pension provision changes occurred during the year that affected the required contributions to be made by the Town or its employees. The ICMA Money Purchase Plan held no securities of the Town or other related parties during the year or as of the close of the fiscal year.

D. DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Section 457(k) of the Internal Revenue Code, as amended. The plan, available to all Town employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. In applying the provisions of Governmental Accounting Standards Board Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the Town has determined that effective July 1, 1997 it is no longer required to record assets and associated liability of the plan.

ENVIRONMENTAL MATTERS

The Town is subject to a wide variety of federal and State laws and regulations relating to land use, water resources, sewage disposal, the use, storage, discharge, emission and disposal of wastes and other environmental matters. While the Town believes that its properties and operations are presently in material compliance with all land use and environmental laws, failure to comply with such laws could result in the imposition of severe penalties on operations by government agencies or courts that could adversely affect the Town. The Town is not aware of any environmental conditions or non-compliance, the remediation or correction of which the Town believes would have a material adverse impact on the financial condition of the Town. The Town is not subject to any pending or threatened proceedings or actions involving environmental matters that, if adversely decided, would have a material adverse impact upon the Town's financial condition or ability to pay debt service on the Bonds as and when due. While not having a material adverse impact upon the Town's financial condition, or its ability to meet its debt service obligations, the Town is voluntarily making the following disclosure with respect to environmental liabilities: The Town is not subject to any pending legal proceedings involving environmental matters that would require disclosure under the Regulation were the Town subject to its provisions.

LITIGATION

In the opinion of Town officials there is no litigation pending against the Town which, either individually or in the aggregate, would result in judgments that would have a materially adverse effect on the Town's financial position or its ability to meet its debt service obligations.

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APPENDIX A

**TOWN OF SCARBOROUGH, MAINE
ANNUAL FINANCIAL STATEMENTS
AND SUPPORTING SCHEDULES
FOR THE
YEAR ENDED JUNE 30, 2005**

(With Report of Independent Auditors' Thereon)

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Independent Auditor's Report

Town Council
Town of Scarborough, Maine

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Scarborough, Maine, as of and for the year ended June 30, 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 of Scarborough, Maine'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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Scarborough, Maine, as of June 30, 2005, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2005 on our consideration of the Town of Scarborough, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Scarborough, Maine's basic financial statements. The introductory section, combining statements and individual fund schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and individual fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rumyon Kerateen Ouellette

December 5, 2005
South Portland, Maine

TOWN OF SCARBOROUGH, MAINE
Management Discussion and Analysis
June 30, 2005

As management of the Town of Scarborough, we are presenting a narrative overview and analysis of the Town's financial activities during the fiscal year ended June 30, 2005. For the fiscal year ending June 30, 2005, the Town of Scarborough has prepared the financial statements based on the guidelines provided in Governmental Accounting Standards Board (GASB) Statement No. 34. Please consider this information in conjunction with the transmittal letter at the front of this report and the Town's basic financial statements following this section. All dollar amounts are expressed in thousands of dollars unless otherwise indicated.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Scarborough exceeded liabilities at the close of the 2005 fiscal year by \$47,389 (net assets).
- The Town's total net assets increased by \$3,419.
- The changes in beginning net assets occurred due to GASB Statement No. 34 which requires government-wide financial results to be reported on a full-accrual basis compared to modified accrual basis. Full accrual accounting measures resources on a long-term economic basis, whereas, modified accrual accounting measures near-term changes in resources.
- As of June 30, 2005, the Town's governmental funds reported combined fund balances of \$19,313, a decrease of \$11,506 compared with the prior year as restated. Of the approximately \$18,499 reported as unreserved fund balance, \$4,403 are special revenue funds authorized for specific projects, \$6,963 are for major capital construction projects and \$70 is for maintenance of the town's cemeteries. The remaining amount of \$7,063 is available for the discrete purposes for which these funds are collected.
- As of June 30, 2005, unreserved undesignated fund balance for the general fund was \$4,366 or 7.86% of the total general fund expenditures of \$55,565. The Town of Scarborough's Fund Balance policy calls for 8.33% of the total operating budget or \$4,629.
- The Town of Scarborough's total debt increased by \$4,785 from the prior year. Total debt retired was \$5,880. Total debt issued was \$10,665 in general obligation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town of Scarborough's basic financial statements. The Town of Scarborough's basic financial statements comprise three components; 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. Government-wide financial statements are designed to provide readers with a broad overview of Town finances, in a manner similar to a private-sector business.

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

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

TOWN OF SCARBOROUGH, MAINE
Management Discussion and Analysis, Continued

Both of the government-wide financial statements distinguish functions of the Town of Scarborough that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Scarborough include general government, public service (recreation, library, economic development), public safety, public works (highways, streets, and solid waste disposal), capital improvements, education and county tax.

The government-wide financial statements include not only the Town of Scarborough (known as the *primary government*), but also the legally separate public library for which the Town of Scarborough is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the Town of Scarborough itself. The Scarborough Economic Development Corporation, although also legally separate, functions for all practical purposes as a department of the Town of Scarborough, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 31-32 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Scarborough, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds in the Town of Scarborough are divided into two categories, governmental funds and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financial decisions. Both the governmental fund balance sheet (Statement 3) and the governmental fund statement of revenues, expenditures, and changes in fund balances (Statements 4 and 5) provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Scarborough maintains 31 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, General Town Improvements, and the General School Improvements all of which are considered to be major funds. Data from the remaining 23 funds (Special Revenue, Capital Projects, and Permanent) are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental funds financial statements can be found on pages 33-34 of this report.

Capital Projects Funds. The Capital Projects Fund was established to account for resources obtained and expended for the acquisition and improvement of major capital facilities and land improvements and purchases. The Town of Scarborough's individual capital projects funds were established for the following purposes:

- The Municipal Building Fund was established to account for grants, awards, and money appropriated by the Town Council for a study, development, and the related tax increment financing district for the construction of a Town Center facility.

TOWN OF SCARBOROUGH, MAINE
Management Discussion and Analysis, Continued

- The General Town Improvements Account was established to account for grants, awards, and money appropriated by the Town Council or approved by voter referendum for major municipal capital projects.
- The General School Improvements Account was established to account for grants, awards and money appropriated by the Town Council or approved by voter referendum for major school capital projects.

The Municipal Building Fund is not considered a major fund and is provided in the form of combining statements elsewhere in this report.

The capital projects fund financial statements can be found on pages 81-82 of this report.

Permanent Funds. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Town of Scarborough's programs, that is, for the benefit of the government or its citizenry. Permanent funds are established by the Town of Scarborough for the following purposes:

- Scarborough Memorial Cemetery Perpetual Care
- Dunstan Cemetery Perpetual Care
- Mary A. Tucker Perpetual Care

The Permanent Fund is not considered a major fund and the fund data for this fund is provided in the form of combining statements elsewhere in this report.

The permanent fund financial statements can be found on pages 85-86 of this report.

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

The Town of Scarborough reports on both the private purpose trust fund and the agency fund. Private purpose trust funds are used to report all of the Scarborough School Department's scholarship programs. Student Activity Funds are recorded as Agency funds and are used to account for funds raised by and on behalf of the various student groups organized within the Scarborough School Department.

The basic fiduciary fund financial statements can be found on pages 89-91 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-57.

Other Information. The combining statements referred to earlier in conjunction with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 61-96 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the third year the Town has implemented GASB Statement No. 34. As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Town of Scarborough, assets exceeded liabilities by \$47,389 as of June 30, 2005.

TOWN OF SCARBOROUGH, MAINE
Management Discussion and Analysis, Continued

Town of Scarborough's Net Assets

Governmental Activities

	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 25,832	36,704
Capital Assets not depreciated	37,629	14,896
Capital assets	<u>60,136</u>	<u>54,953</u>
Total assets	<u>123,597</u>	<u>106,553</u>
Long term liabilities outstanding	62,352	57,664
Other liabilities	<u>13,857</u>	<u>13,159</u>
Total liabilities	<u>76,209</u>	<u>70,823</u>
Net assets		
Invested in capital assets, net of related debt	29,885	6,689
Restricted	7,629	19,331* <i>restated for 2005</i>
Unrestricted	<u>9,875</u>	<u>9,710* <i>restated for 2005</i></u>
Total Net Assets	<u>\$47,389</u>	<u>35,730* <i>restated for 2005</i></u>

Approximately 63.06% of the Town of Scarborough's net assets reflect its investment in capital assets (e.g., land, building, machinery, and equipment), less any related debt, still outstanding that is used to acquire those assets. Approximately 15% of the \$11,659 increase in net assets is due to the inclusion of certain Town roads previously considered State owned. The Town of Scarborough uses these capital assets to provide services to the citizens; consequently, these assets are *not* available for future spending. Although the Town of Scarborough's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities.

16.10% of the Town of Scarborough's net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, in the amount of \$9,875, may be used to meet the Town of Scarborough's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Town of Scarborough is able to report positive balances for its net assets.

TOWN OF SCARBOROUGH, MAINE
Management Discussion and Analysis, Continued

GOVERNMENTAL ACTIVITIES. All of the increase pertaining to the Town of Scarborough's net assets, of \$3,419, is due to the governmental activities of the Town. Key components of this increase are shown below:

Town of Scarborough's Changes in Net Assets

Governmental Activities

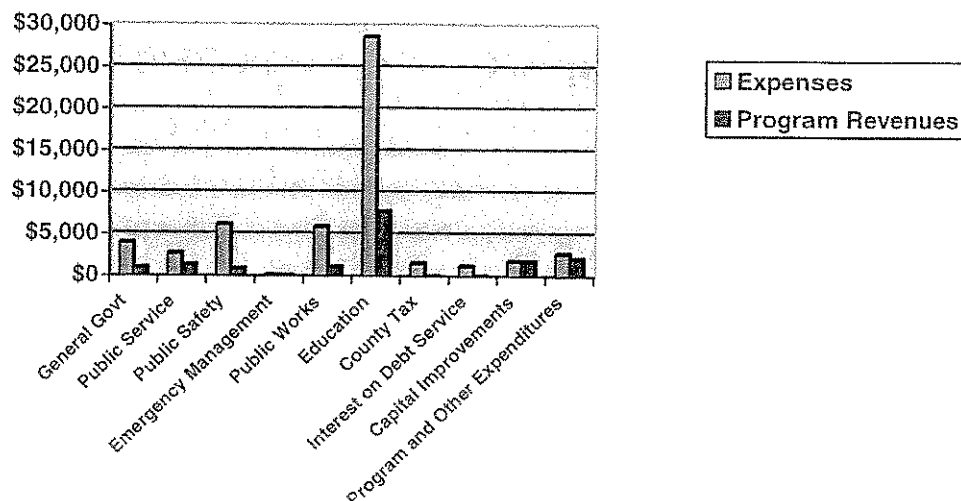
	<u>2005</u>	<u>2004</u>
Revenues:		
Program Revenues:		
Charge for services	\$ 6,488	5,238
Operating grants and contributions	9,297	8,744
Capital grants and contributions	--	--
General Revenues:		
Property and excise taxes, levied for general purposes	39,932	37,182
Franchise Fees	143	125
Grants and contributions not restricted to specific programs:	1,850	2,015
Unrestricted investment earnings	160	106
Other	101	80
Total Revenues	\$ 57,971	53,490
Expenses:		
General government	\$ 3,984	3,772
Public Services	2,658	2,597
Public Safety	6,153	6,127
Emergency Management	41	--
Public Works	5,883	5,266
Education	28,695	25,442
County Tax	1,520	1,442
Interest on Debt Service	1,168	2,610
Capital Improvements	1,770	1,303
Program and Other Expenditures	2,680	2,105
Total Expenses	54,552	50,664
Increase (decrease) in net assets	3,419	2,826
Net Assets Beginning	43,969	32,904
Net Assets Ending	\$ 47,388	35,730 *

* Net Assets Ending June 30, 2004 was restated in the June 30, 2005 financial statements. The change is due to the inclusion of certain Town roads previously considered State owned.

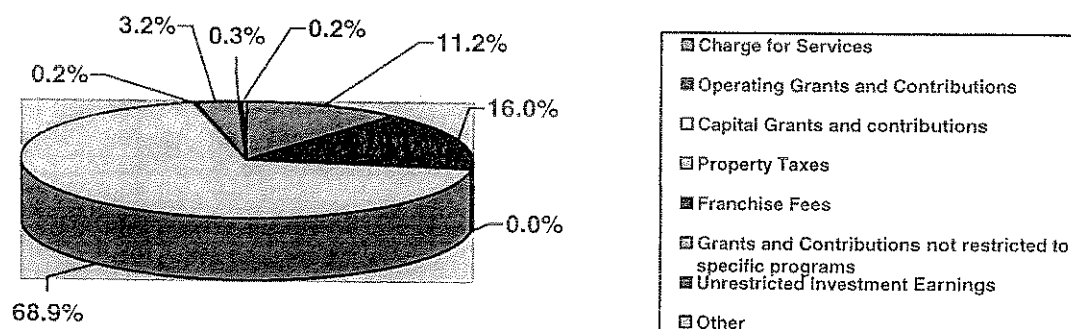
TOWN OF SCARBOROUGH, MAINE

Management Discussion and Analysis, Continued

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



FINANCIAL ANALYSIS OF THE TOWN'S FUNDING

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

Governmental Funds. The general government functions are contained in the General, Special Revenue, Capital Project and Permanent Funds. The focus of the Town's *governmental funds* is to provide information on near term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town of Scarborough's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year.

At June 30, 2005, the Town of Scarborough's governmental funds reported combined ending fund balances of \$19,313, a decrease of \$11,506 in comparison with the prior year. This decrease is the result of the ongoing high school construction project and the Haigis Parkway infrastructure project utilization of the bond proceeds.

TOWN OF SCARBOROUGH, MAINE
Management Discussion and Analysis, Continued

Governmental Fund Balance Comparison

	<u>2005</u>	<u>2004</u>
General Fund	\$ 7,760	6,629
Special Revenue Funds	4,418	5,035
Capital Project Funds	6,963	18,611
Permanent Funds	172	168
Total	\$ 19,313	30,443

As noted earlier, governmental funds reported combined fund balances of \$19,313 a decrease of \$11,506 compared with the prior year. Of the \$18,499 reported as unreserved fund balance, \$4,403 are special revenue funds authorized for specific projects, \$6,963 are for major capital construction projects and \$70 is for maintenance of the town's cemeteries. The remaining amount of \$7,063 is available for the discrete purposes for which these funds are collected.

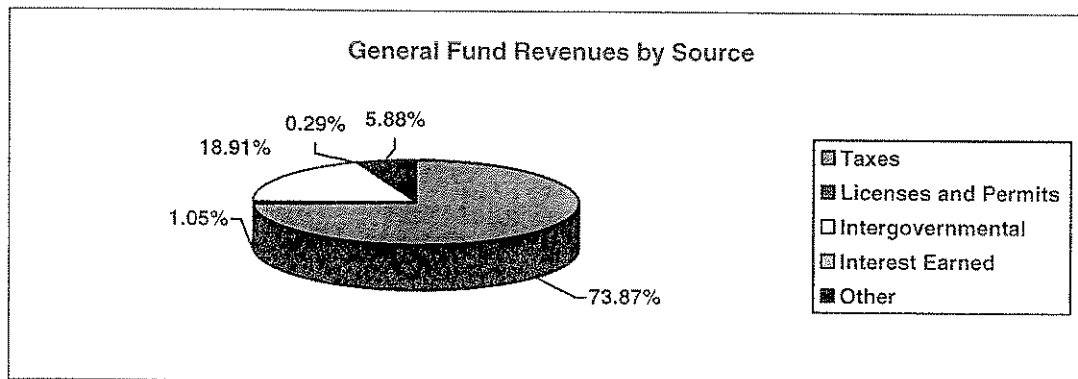
The remaining \$814 of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

\$697	Non-current Fund Balances in the Special Revenue and Capital Projects Fund
102	Perpetual Care of Municipal Cemeteries
2	Industrial Park Non Current Notes Receivables
<u>13</u>	Food Service Inventory
<u>\$814</u>	Total Governmental Fund Reserved Fund Balance

General Fund Highlights

The General Fund is the chief operating fund of the Town of Scarborough. As of June 30, 2005, unreserved fund balance in the General Fund was \$7,063 compared to total fund balance of \$7,760. As a measure of the General Fund's liquidity, we believe it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 12.71% of total general fund expenditures, while total fund balance represents 13.97% of the same amount. Thus, the year-end fund balance is in compliance with the Town's policy of maintaining a minimum fund balance of 8.33% of the total operating budget for the General Fund.

Current fiscal year revenues by source for the General Fund are as follows:

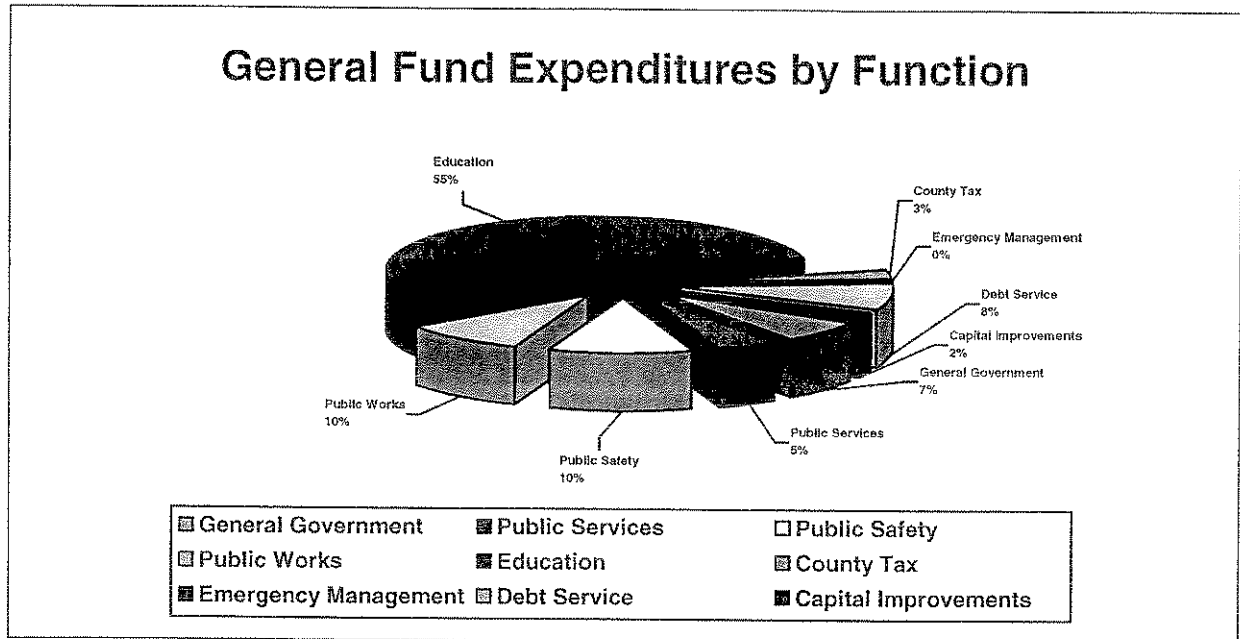


TOWN OF SCARBOROUGH, MAINE
Management Discussion and Analysis, Continued

Property Tax revenues increased \$2,687 from 2004 to 2005.

A comparison of the actual revenues to estimated revenues can be found on page 36 of the financial statements.

Current fiscal year expenditures by function for the General Fund are as follows:



Total general fund expenditures increased \$2,561 or 5.1%. Some of the key factors in this increase are:

- County Tax increased 5.42%
- Solid Waste increased 18.72%
- Public Works increased 10.11%
- Education increased 7.64%
- General Fund Capital Equipment increased 71.41%

Capital Projects Fund Highlights

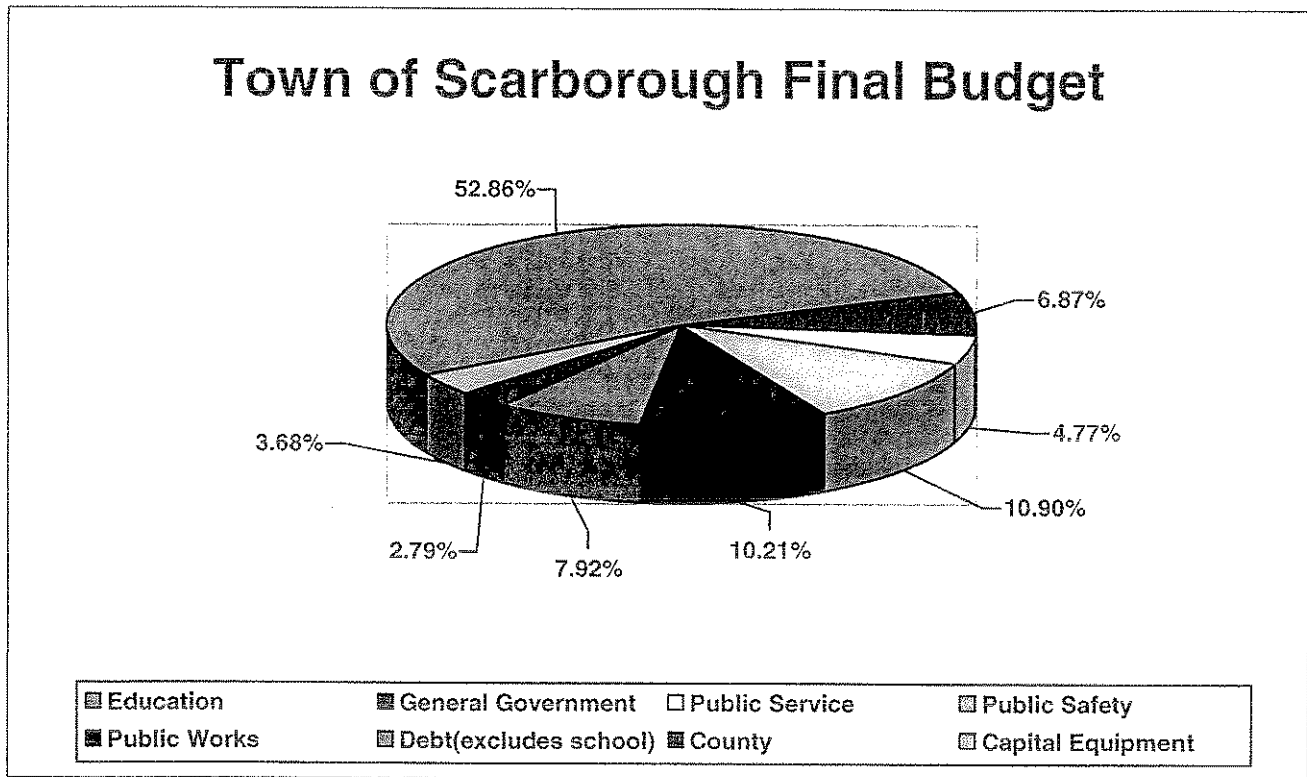
During this fiscal year, the Town of Scarborough's fund balances for Capital Projects decreased from \$18,611 in 2004 to \$6,963 in 2005. Expenditures increased from \$15,026 in 2004 to \$21,699 in 2005 due to the continuing high school construction project expected to be completed in December 2006.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final budget for the Town's General Fund represents the original budget plus any previously appropriated funds set aside for the purpose of honoring legally incurred obligations (prior year encumbrances and commitments) plus any supplementary appropriations that may occur during the fiscal year. In fiscal year 2005, a total of \$2,696 has been set aside for prior year encumbrances and commitments. Differences between the original budget and the final amended budget amounted to an increase of \$1,346. The original General Fund budget for fiscal year 2005 was \$53,034.

TOWN OF SCARBOROUGH, MAINE
Management Discussion and Analysis, Continued

Below is the allocation of the Town of Scarborough's budget by department:



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The Town's investment in capital assets for its governmental fund, as of June 30, 2005, amounts to \$97,765 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, improvements, machinery, equipment, and roads. The total increase in the Town's investment in capital assets for the current fiscal year was 25% taking into account the beginning balance restatement.

Town of Scarborough's Capital Assets
(net of depreciation)

Governmental Activities

	<u>2005</u>	<u>2004</u>
Land	\$ 3,625	3,685
Buildings	32,766	33,210
Vehicles	4,705	3,610
Equipment & Furniture	1,281	1,007
Infrastructure	21,384	13,441 <i>*restated in June 2005</i>
Construction in Progress	34,004	14,896
Total	\$ 97,765	69,849

The Town's infrastructure assets are recorded at historical or estimated historical costs in the government-wide financial statements as required by GASB Statement No. 34.

TOWN OF SCARBOROUGH, MAINE
Management Discussion and Analysis, Continued

Additional information on the Town of Scarborough's capital assets can be found in Notes to the Basic Financial Statements on pages 46-47 of this report.

Long-Term Debt. As of June 30, 2005, the Town had long-term bonds outstanding of \$67,737 compared to \$62,952 in the prior year. This debt is backed by the full faith and credit of the Town of Scarborough.

Outstanding Debt
General Obligation Bonds

	<u>2005</u>	<u>2004</u>
Municipal	\$ 15,552	16,684
Education	41,204	34,829
Sewer	10,981	11,439
Total Debt	\$ 67,737	62,952

Moody's Investors Service has affirmed a bond rating of "Aa3" and an "AA- (Stable)" rating was assigned from Standard and Poor's (S&P) to the Town of Scarborough, Maine's debt. Moody's prior assignment of "A1", first assigned in 1975, was upgraded in 2002 to an assignment of "AA3". S&P's "AA- (Stable)" was an "initial" rating for the Town of Scarborough in 2003.

These ratings reflect: "Strong continuing growth in the Town's tax base, favorable wealth levels, satisfactory operations and a manageable debt position". Moody's expects the Town's affluent tax base to continue to grow at a strong pace, given recent trends and room for continued development, citing evidence of the opportunities for development within the Town. Moody' believes the Town of Scarborough will continue to maintain satisfactory financial operations, supported by increasing reserves.

Note: Definitions of above ratings

Moody's definition of "AA" ratings: Assigned for issues judged to be of high quality by all standards and, together with "AAA", comprise what are generally known as "high grade" bonds.

S&P's definition "AA" ratings: indicates a very strong capacity to pay interest and repay principal and differs from the highest rated issues ("AAA") only in a small degree.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town of Scarborough continually monitors trends and emerging policies from the State of Maine with a prudent eye to any potential impact to Scarborough's local economy. In addition, both management and elected officials are involved and serve on committees that pro-actively follow state legislative policies and work closely with the local representatives in our State's Capitol.

In adopting the budget for the ensuing fiscal year, the Town of Scarborough's officials considered may factors in making judgments and estimates about the finances of the upcoming year. A primary objective is to continue to provide level services to the citizens in the Town of Scarborough while keeping any increase in the property tax rate between three and five percent.

The Town of Scarborough in cooperation with its school department has worked to develop a five-year capital budget plan to manage and plan for the long term capital needs of our community. Additionally, the Town also works collaboratively, not only within the Town's departments, but also with several neighboring communities and agencies to improve mutual operations and efficiencies and to reduce expenses where possible.

TOWN OF SCARBOROUGH, MAINE
Management Discussion and Analysis, Continued

Below is a comparison of the 2005 budget with the 2006 budget.

Appropriation Summary

	2005	2006
	<u>Budget</u>	<u>Budget</u>
Departments:		
Legislative	\$ 11,573	\$11,573
Administration	1,557,195	1,635,485
Finance Department	965,156	998,095
Information Systems	471,303	492,515
Planning Department	729,963	721,819
Community Services	1,738,270	1,810,742
Library	629,939	645,679 (shown as a component unit on financials)
Economic Development	208,225	208,082
General Assistance/Affordable Housing	16,685	15,185
Fire/Rescue/EMA Department	2,335,352	2,918,455
Public Safety Department	3,591,661	3,872,848
Public Works Department	5,551,927	5,718,671
Debt Service	4,309,239	4,098,398
Capital Equipment	<u>2,002,275</u>	<u>1,006,648</u>
Total Municipal Operating	24,118,763	24,154,195
Education	28,741,171	30,745,456
County Tax	<u>1,519,714</u>	<u>1,584,344</u>
Total Operating Budget	54,379,648	56,483,995
School Special Revenues	762,900	--
School Food Services	1,053,580	1,065,279
350 th Celebration	15,000	20,000
Capital Improvement-Municipal	2,118,542	9,874,800
Capital Improvement-School	1,535,845	1,707,144
TIFs and Overlay	<u>870,805</u>	<u>959,142</u>
Total Budget	\$ <u>60,736,320</u>	<u>70,110,360</u>

Additionally, the Town of Scarborough recognizes the importance of maintaining an appropriate level of undesignated fund balance. As stated earlier, the Town Council has adopted a fund balance policy. Once the fund balance level is achieved, the intent is to dedicate any excess balances towards major capital improvements and purchases.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Scarborough's finances for everyone interested in Scarborough's finances. Questions concerning any of the information provided in this report or the requests for additional financial information should be addressed to the Office of the Finance Director, Town of Scarborough, Maine P.O. Box 360, Scarborough, Maine 04070-0360, phone 207-730-4081 or e-mail rporte@ci.scarborough.me.us.

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BASIC FINANCIAL STATEMENTS

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TOWN OF SCARBOROUGH, MAINE
Statement of Net Assets
June 30, 2005

	Governmental Activities	Component Unit
ASSETS		
Cash and cash equivalents	\$ 11,474,353	120,561
Investments	13,335,396	402,313
Receivables:		
Accounts	496,842	34,298
Intergovernmental	2,911	-
Taxes receivable	60,561	-
Tax liens	421,274	-
Notes	21,520	-
Tax acquired property	7,231	-
Inventory	12,558	1,708
Prepaid items	-	3,938
Capital assets, not being depreciated	37,628,956	-
Capital assets, net	60,135,692	919,921
Total assets	123,597,294	1,482,739
LIABILITIES		
Accounts payable and other current liabilities	3,630,754	25,875
Accrued payroll and other related liabilities	2,571,977	11,745
Compensated absences payable	1,138,318	13,471
Taxes collected in advance	15,944	-
Accrued interest	522,685	-
Noncurrent liabilities:		
Due within one year	5,976,867	-
Due in more than one year	62,352,174	-
Total liabilities	76,208,719	51,091
NET ASSETS		
Invested in capital assets, net of related debt	29,885,241	919,921
Restricted for:		
Nonexpendable trust principal	116,775	747,303
Capital projects	7,514,539	-
Unrestricted	9,872,020	(235,576)
Total net assets	\$ 47,388,575	1,431,648

See accompanying notes to financial statements.

TOWN OF SCARBOROUGH, MAINE
Statement of Activities
For the year ended June 30, 2005

Functions/programs	Program revenues			Net (expense) revenue and changes in net assets	
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Component unit
					Primary government activities
Primary government:					
Governmental activities:					
General government	\$				
Public services	3,984,107	970,370	-	-	(3,013,737)
Public safety	2,657,867	1,320,470	1,169	-	(1,336,228)
Public works	6,153,444	641,510	188,607	-	(5,323,327)
Education	5,882,495	602,086	441,604	-	(4,838,805)
County tax	28,694,859	70,488	7,689,668	-	(20,934,703)
Emergency management	1,519,714	-	-	-	(1,519,714)
Interest on debt service	40,638	-	-	-	(40,638)
Capital maintenance expenses	1,168,204	-	-	-	(1,168,204)
Program expenses	1,770,394	1,776,965	-	-	6,571
Other	2,181,712	1,102,836	976,280	-	(102,596)
	498,713	3,445	-	-	(495,268)
Total governmental activities	54,552,147	6,488,170	9,297,328	-	(38,766,649)
Total primary government	\$ 54,552,147	6,488,170	9,297,328	-	(38,766,649)
Component unit:					
Scarborough Public Library	\$ 798,513	753,415	-	-	(45,098)

General revenues:					
Property taxes, levied for general purposes	\$				35,548,830
Excise taxes					4,253,930
Payments in lieu of taxes					71,450
Interest and costs on taxes					57,852
Cable franchise fees					143,224
Grants and contributions not restricted to specific programs:					
Homestead exemption					300,361
Other State aid					100,806
State Revenue Sharing					1,449,141
Unrestricted investment earnings					159,450
Other					16,286
Total general revenues					7,651
					42,185,816
Change in net assets					3,419,167
Net assets - beginning, restated					43,969,408
Net assets - ending	\$				47,388,575
					1,431,648

See accompanying notes to financial statements.

TOWN OF SCARBOROUGH, MAINE
Balance Sheet
Governmental Funds
June 30, 2005

	General	General Town Improvements	General School Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 9,421,858	1,754,921	40,074	257,500	11,474,353
Investments	533,400	399,407	6,263,715	6,138,874	13,335,396
Receivables:					
Accounts	472,345	-	-	24,497	496,842
Intergovernmental	-	-	-	2,911	2,911
Taxes receivable	60,561	-	-	-	60,561
Tax liens	421,274	-	-	-	421,274
Notes	-	-	-	21,520	21,520
Interfund loans receivable	265,420	40,000	-	1,345,552	1,650,972
Tax acquired property	7,231	-	-	-	7,231
Inventory	-	-	-	12,558	12,558
Total assets	\$ 11,182,089	2,194,328	6,303,789	7,803,412	27,483,618
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	586,549	211,795	651,366	75,774	1,525,484
Accrued payroll	2,419,588	-	-	53,088	2,472,676
Interfund loans payable	-	120,417	-	1,530,555	1,650,972
Taxes collected in advance	15,944	-	-	-	15,944
Deferred tax revenue	400,000	-	-	-	400,000
Performance bond deposits	-	-	-	2,105,270	2,105,270
Total liabilities	3,422,081	332,212	651,366	3,764,687	8,170,346
Fund balances:					
Reserved	697,126	-	-	116,775	813,901
Unreserved, reported in:					
General fund - undesignated	4,366,474	-	-	-	4,366,474
General fund - designated	2,696,408	-	-	-	2,696,408
Special revenue funds	-	-	-	4,403,374	4,403,374
Capital projects funds	-	1,862,116	5,652,423	(551,199)	6,963,340
Permanent funds	-	-	-	69,775	69,775
Total fund balances	7,760,008	1,862,116	5,652,423	4,038,725	19,313,272
Total liabilities and fund balances	\$ 11,182,089	2,194,328	6,303,789	7,803,412	

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.	97,764,648
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	400,000
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	
Bonds payable	(67,737,433)
Capital leases	(141,974)
Accrued interest	(522,685)
Landfill liability	(449,634)
LUNAL liability	(99,301)
Accrued compensated absences	(1,138,318)

Net assets of governmental activities	\$ 47,388,575
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See accompanying notes to financial statements.

TOWN OF SCARBOROUGH, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2005

	General	General	General	Other	Total
	Town	School	Improvements	Governmental	Governmental
	Improvements	Improvements	Improvements	Funds	Funds
Revenues:					
Taxes	\$ 40,003,836	61,717	-	-	40,065,553
Licenses and permits	566,483	-	-	-	566,483
Intergovernmental	10,242,806	-	-	976,280	11,219,086
Interest earned	159,450	106,487	113,791	62,751	442,479
Donations	-	-	-	88,097	88,097
Sale of lots	-	-	-	2,187	2,187
Assessments and impact fees	-	-	-	167,753	167,753
Other	3,186,023	-	-	2,233,653	5,419,676
Total revenues	54,158,598	168,204	113,791	3,530,721	57,971,314
Expenditures:					
Current:					
General government	3,727,031	-	-	-	3,727,031
Public services	2,642,914	-	-	-	2,642,914
Public safety	5,921,309	-	-	-	5,921,309
Public works	5,370,322	-	-	-	5,370,322
Education	30,919,216	-	-	-	30,919,216
County tax	1,519,714	-	-	-	1,519,714
Emergency management	40,638	-	-	-	40,638
Debt service	4,304,201	-	-	-	4,304,201
Capital improvements	1,119,917	5,628,245	16,071,253	554,836	23,374,251
Program expenditures	-	-	-	2,181,712	2,181,712
Other	-	-	-	140,615	140,615
Total expenditures	55,565,262	5,628,245	16,071,253	2,877,163	80,141,923
Excess (deficiency) of revenues over (under) expenditures	(1,406,664)	(5,460,041)	(15,957,462)	653,558	(22,170,609)
Other financing sources (uses):					
Operating transfers - in	2,086,828	40,000	-	795,906	2,922,734
Operating transfers - out	(795,906)	(43,241)	(67,654)	(2,015,933)	(2,922,734)
General obligation bonds	870,175	639,400	9,155,425	-	10,665,000
Total other financing sources (uses)	2,161,097	636,159	9,087,771	(1,220,027)	10,665,000
Net change in fund balances	754,433	(4,823,882)	(6,869,691)	(566,469)	(11,505,609)
Fund balances, beginning of year, as restated	7,005,575	6,685,998	12,522,114	4,605,194	30,818,881
Fund balances, end of year	\$ 7,760,008	1,862,116	5,652,423	4,038,725	19,313,272

See accompanying notes to financial statements.

TOWN OF SCARBOROUGH, MAINE
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2005

Net change in fund balances - total governmental funds (from Statement 4)	\$	(11,505,609)
---	----	--------------

Amounts reported for governmental activities in the statement of activities (Statement 2) are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlays	\$ 21,603,857	
Depreciation expense	(1,570,340)	
Loss on disposal of assets	(358,050)	19,675,467

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.	(31,891)
---	----------

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	66,470
---	--------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds (\$10,665,000) exceeded repayments (\$5,879,730).	(4,785,270)
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Change in net assets of governmental activities (see Statement 2)	\$	3,419,167
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See accompanying notes to financial statements.

TOWN OF SCARBOROUGH, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the year ended June 30, 2005

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 39,968,877	39,968,877	40,003,836	34,959
Licenses and permits	495,949	495,949	566,483	70,534
Intergovernmental	7,149,779	7,149,779	7,667,604	517,825
Interest earned	120,000	120,000	159,450	39,450
Unclassified	2,883,528	2,883,528	3,186,023	302,495
Total revenues	50,618,133	50,618,133	51,583,396	965,263
Expenditures:				
Current:				
General government	3,735,190	3,735,190	3,727,031	8,159
Public services	2,593,119	2,593,119	2,642,914	(49,795)
Public safety	5,927,013	5,927,013	5,921,309	5,704
Public works	5,551,927	5,551,927	5,370,322	181,605
Education	28,741,171	28,741,171	28,287,743	453,428
County tax	1,519,714	1,519,714	1,519,714	-
Emergency management	-	-	40,638	(40,638)
Debt service	4,309,239	4,309,239	4,304,201	5,038
Capital improvements	656,775	2,002,275	1,119,917	882,358
Total expenditures	53,034,148	54,379,648	52,933,789	1,445,859
Deficiency of revenues under expenditures	(2,416,015)	(3,761,515)	(1,350,393)	2,411,122
Other financing sources (uses):				
Operating transfers - in	2,483,165	2,483,165	2,086,828	(396,337)
Operating transfers - out	(795,906)	(795,906)	(795,906)	-
Utilization of surplus	803,655	803,655	-	(803,655)
Overlay	(74,899)	(74,899)	-	74,899
Proceeds from capital leases	-	113,000	-	(113,000)
General obligation bonds	-	1,232,500	870,175	(362,325)
Total other financing sources (uses)	2,416,015	3,761,515	2,161,097	(1,600,418)
Net change in fund balances	-	-	810,704	810,704
Reconciliation to GAAP:				
Change in accrued salaries			(56,271)	
Fund balance, beginning of year, as restated			7,005,575	
Fund balance, end of year	\$		7,760,008	

See accompanying notes to financial statements.

TOWN OF SCARBOROUGH, MAINE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

		Private-purpose Trust Funds (Scholarships)	Agency Funds	Totals
ASSETS				
Cash and cash equivalents	\$	-	193,461	193,461
Investments		246,742	-	246,742
Interfund loans receivable		1,000	-	1,000
Total assets		247,742	193,461	441,203
LIABILITIES				
Interfund loans		1,000	-	1,000
Accounts payable		1,950	-	1,950
Due to student groups		-	193,461	193,461
Total liabilities		2,950	193,461	196,411
NET ASSETS				
Held in trust	\$	244,792	-	244,792

See accompanying notes to financial statements.

TOWN OF SCARBOROUGH, MAINE
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2005

	Private-purpose Trust Funds (Scholarships)
Additions:	
Donations	\$ 27,124
Interest and dividends	4,196
Total additions	31,320
Deductions:	
School scholarships	4,150
Other	-
Total deductions	4,150
Change in net assets	27,170
Net assets, beginning of year	217,622
Net assets, end of year	\$ 244,792

See accompanying notes to financial statements.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Scarborough conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant of such policies:

A. Reporting Entity

The Town of Scarborough was incorporated in 1658 and operates under a Council-Manager form of government adopted by charter in 1969.

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit was made by applying the criteria set forth by accounting principles generally accepted in the United States of America. The criterion used defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. Based on application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity.

Scarborough Economic Development Corporation (SEDCO) encourages and assists the development of business in the Town of Scarborough. All of the financial activity of SEDCO has been reported with the Town's general fund.

Scarborough Public Library promotes and maintains library facilities in and for the Town of Scarborough. The Scarborough Public Library has been included as part of these financial statements, using the discrete presentation method.

Both of the above had positive responses to the reporting entity inclusion criteria set forth by accounting principles generally accepted in the United States of America. Financial statements for both entities can be obtained from the Town of Scarborough Finance Department, P.O. Box 360, Scarborough, Maine 04074.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The Town has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as certain compensated absences and claims and judgments, are recorded only when the payment is due.

Those revenues susceptible to accrual are property taxes, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the Town and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The Town reports the following major governmental funds:

The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The General School Improvements fund accounts for certain school capital improvements.

The General Town Improvements fund accounts for certain town capital improvements.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

D. Assets, Liabilities, and Equity

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits and time deposits. Investments are stated at fair value.

Interfund Loans Receivable/Payable - Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans or as interfund advances (i.e. the noncurrent portion of interfund loans).

Inventory - Inventory consists of the School Lunch Program food and supplies and is recorded at a lower of cost or market basis on a first-in, first-out basis. The cost of inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the asset's estimated useful lives ranging from 3 to 60 years.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Compensated Absences - Under terms of personnel policies and union contracts, vacation and sick leave are granted in varying amounts according to length of service and is accrued ratably over the year. In the fund financial statements, these amounts for accumulated vacation and vested sick leave are only recorded as a liability if they have matured, for example, as a result of employee resignations and retirements. All accumulated leave is accrued when incurred in the government-wide financial statements.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Long-term debt is recognized as a liability of a governmental fund when due. In the fund financial statements, for other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative plans for future use of financial resources.

Interfund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly chargeable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as operating transfers.

Use of Estimates - Preparation of the Town's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data/Reclassifications - Comparative data for the prior year have been presented only for certain funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

A budget is adopted on a basis consistent with generally accepted accounting principles (GAAP), except as described in the notes, for the General Fund and certain capital projects. The level of control (level at which expenditures may not exceed budget) is the Department. At year end, department administrators request to carry forward certain unexpended accounts with the Town Manager's approval, otherwise unexpended budgetary accounts lapse at the close of the fiscal year. Once adopted, the budget can only be amended by the Town Council.

The revised budget presented for the General Fund in the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Budgetary Basis - General Fund (Statement 6) includes various adjustments as follows:

	Revenues and other <u>sources</u>	Expenditures and other <u>uses</u>
2004 -2005 budget as adopted	\$ 56,354,522	56,354,522
Budgetary adjustments:		
Supplemental adjustments	1,349,840	1,349,840
Capital Improvement Projects - Capital Projects Fund	(2,778,724)	(2,778,724)
2004 designated carryforwards	324,815	324,815
Total adjusted budget	\$ 55,250,453	55,250,453

B. Excess of Expenditures over Appropriations

The over-expenditure of the Public Service department was offset by an excess of actual over estimated grant and fee revenues.

C. Deficit Fund Balance

At June 30, 2005, the following special revenue and capital projects funds had deficit fund balances:

The Recreational Development Fund (a special revenue fund) had a deficit of \$105,987. It is expected that the deficit will be adequately funded in future years through development and user fees.

The Boat Launch Fund (a special revenue fund) had a deficit of \$39,940. It is expected that this deficit will be adequately funded in future years through additional contributions and revenues.

The School Lunch Program (a special revenue fund) had a deficit of \$37,434. It is expected that this deficit will be adequately funded in future years through future program revenues.

The Municipal Building Fund (a capital project fund) had a deficit of \$551,199. This deficit is expected to be adequately funded in future years with TIF revenues.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk-Town Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal policy with respect to custodial credit risk because it was not covered by F.D.I.C. insurance or additional collateral. As of June 30, 2005, the Town reported deposits of \$11,667,814 with a bank balance of \$12,616,590. Of the Town's bank balances of \$12,616,590, \$1,578,928 was exposed to custodial credit risk. The remaining balance of \$11,037,662 was covered by the F.D.I.C. or by additional insurance purchased on behalf of the Town by the respective banking institutions.

Deposits have been reported as follows:

Reported in governmental funds	\$ 11,474,353
Reported in fiduciary funds	193,461
Total deposits	\$ 11,667,814

At June 30, 2005, the Scarborough Public Library's cash balance was \$120,561 with a bank balance of \$100,160 all of which was covered by F.D.I.C. insurance.

B. Investments

At June 30, 2005, the Town had the following investments and maturities:

	Fair value	Less than 1 year	1-5 years	More than 5 years
U. S. Government securities	\$ 7,427,101	7,427,101	-	-
Mutual funds (1)	6,155,037		not applicable	
Total investments	\$ 13,582,138	7,427,101	-	-

(1) Mutual funds are not considered securities and are exempt from credit risk disclosure noted below.

Investments have been reported as follows:

Reported in governmental funds	\$ 13,335,396
Reported in fiduciary funds	246,742
Total investments	\$ 13,582,138

Interest Rate Risk: The Town does not have a policy related to interest rate risk.

Credit Risk: Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certain corporate stocks and bonds. The Town does not have a formal policy related to credit risk.

Custodial Credit Risk-Town Investments: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal policy with respect to custodial credit risk. None of the Town's investments totaling \$13,582,138 was exposed to custodial credit risk.

At June 30, 2005, the Scarborough Public Library's investment balance was \$402,313, none of which was exposed to custodial credit risk.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

PROPERTY TAX

Property taxes for the current year were committed on August 27, 2004, on the assessed value listed as of the prior April 1 for all real and personal property located in the Town. These taxes were due in two installments, 50% on October 15, 2004 and 50% on March 15, 2005. Interest at the rate of 6.5% per annum was charged on any amounts remaining unpaid after these respective due dates. Assessed values are periodically established by the Town's Assessor at 100% of the assumed market value as of June 30, 2005 and the Town's value was 81% of the 2005 State valuation of \$2,538,800,000.

The Town is permitted by the laws of the State of Maine to levy up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$74,898 for the year ended June 30, 2005.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if the tax liens and associated costs remain unpaid.

Property taxes levied during the year were recorded as receivables at the time the levy was made. The receivables collected during the year and in the first sixty days following the end of the fiscal year have been recorded as revenues. The remaining receivables have been recorded as deferred revenues.

The following summarizes the June 30 levy:

	2005	<u>2004</u>
Assessed value	\$ 2,057,589,000	2,002,987,200
Tax rate (per \$1,000)	17.34	16.46
Commitment	35,678,593	32,969,169
Supplemental taxes assessed	56,975	-
	35,735,568	32,969,169
Less - collections and abatements	35,423,922	32,747,993
Receivable at June 30	311,646	221,176
Consisting of:		
Taxes	23,981	14,605
Liens	287,665	206,571
Receivable at June 30	\$ 311,646	221,176
Collection rate	99.13%	99.33%

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance June 30, <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2005</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,685,100	-	(60,000)	3,625,100
Construction in progress	14,896,375	19,107,481	-	34,003,856
Total capital assets, not being depreciated	18,581,475	19,107,481	(60,000)	37,628,956
Capital assets, being depreciated:				
Buildings	39,321,595	-	-	39,321,595
Vehicles	7,808,405	1,923,727	(622,349)	9,109,783
Equipment and furniture	2,518,700	572,649	(110,733)	2,980,616
Infrastructure (restated)	28,595,767	-	-	28,595,767
Total capital assets being depreciated	78,244,467	2,496,376	(733,082)	80,007,761
Less accumulated depreciation for:				
Buildings	6,111,865	443,686	-	6,555,551
Vehicles	4,198,329	620,371	(413,258)	4,405,442
Equipment and furniture	1,512,068	209,271	(21,774)	1,699,565
Infrastructure (restated)	6,914,499	297,012	-	7,211,511
Total accumulated depreciation	18,736,761	1,570,340	(435,032)	19,872,069
Total capital assets being depreciated, net	59,507,706	926,036	(298,050)	60,135,692
Governmental activities capital assets, net	\$ 78,089,181	20,033,517	(358,050)	97,764,648

Beginning balances have been restated for infrastructure and infrastructure accumulated depreciation by increases of \$9,724,166 and 1,484,355, respectively to account for certain roads that were previously considered State owned and therefore not recorded by the Town. They were subsequently determined to be Town owned roads.

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

Governmental activities:	
General government	\$ 257,076
Public services	14,953
Public safety	237,830
Public works, including depreciation of general infrastructure assets	512,173
Education	548,308
Total depreciation expense – governmental activities	\$ 1,570,340

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

CAPITAL ASSETS, CONTINUED

Capital assets for the Scarborough Public Library discretely presented component unit are as follows:

Buildings	\$ 1,268,766
Equipment, artwork and software	509,210
Books	692,386
Total	2,470,362
Less accumulated depreciation	1,550,441
<u>Property and equipment, net</u>	<u>\$ 919,921</u>
<u>Depreciation expense</u>	<u>\$ 88,459</u>

INTERFUND BALANCES

Interfund balances result from the sharing of pooled cash and investments. Individual interfund receivables and payables at June 30, 2005, were as follows:

	<u>Interfund receivables</u>	<u>Interfund payables</u>
<u>General Fund</u>	\$ 265,420	-
<u>General Town Improvements</u>	40,000	120,417
Other Governmental Funds:		
Nonmajor Special Revenue Funds:		
Ferry Beach	-	66,758
Recreational development	-	234,188
Unemployment compensation	8,503	-
Scarborough Memorial improvement	2,187	-
Hurd Park	68,340	-
Sewer expansion	704,352	-
Industrial Park	-	21,442
Payne Road improvements	-	53,936
Payne Road Impact Fees	26,854	-
Boat launch	-	39,940
Police asset forfeiture	56,550	-
Fire Dept Equipment	14,347	-
Hunnewell House	784	-
Performance bonds	3,500	507,152
Departmental grants and programs	57,581	15,569
School development impact fees	219,450	-
Computer replacement fund	5,013	40,000
Rescue equipment	175,878	-
<u>Total Nonmajor Special Revenue Funds</u>	<u>1,343,339</u>	<u>978,985</u>

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

INTERFUND BALANCES, CONTINUED

	<u>Interfund receivables</u>	<u>Interfund payables</u>
Nonmajor Capital Project Funds:		
Municipal building fund	\$ -	551,199
Total Nonmajor Capital Project Funds	-	551,199
 Total Other Governmental Funds	 1,343,339	 1,530,184
Trust Funds:		
Scarborough Memorial Cemetery	2,213	-
Dunstan Perpetual Care	-	371
Total Trust Funds	2,213	371
 Total all funds	 \$ 1,650,972	 1,650,972

INTERFUND TRANSFERS

	<u>Transfers in</u>	<u>Transfers out</u>
General Fund	\$ 2,086,828	795,906
General Town Improvements	40,000	43,241
General School Improvements	-	67,654
Other Governmental Funds	795,906	2,015,933
 Total	 2,922,734	 2,922,734

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 62,952,163	10,665,000	5,879,730	67,737,433	5,907,433
Capital leases	208,444	-	66,470	141,974	69,434
Landfill post-closure care costs	449,634	-	-	449,634	-
Governmental activity					
Long-term liabilities	\$ 63,610,241	10,665,000	5,946,200	68,329,041	5,976,867

As of June 30, 2005, the Town had authorized, but unissued debt totaling \$4,715,637.

The General Fund typically pays all governmental activities long-term debt service requirements.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

BONDS PAYABLE

Bonds payable at June 30, 2005 is comprised of the following:

General Obligation Notes and Bonds	Amount originally issued	Percentage applicable to			Interest rate	Final maturity date	Balance end of year
		Town	School	Sewer			
1987 Capital improvements	\$ 3,300,000	-	-	100.00%	Varies	2008	375,000
1988 Capital improvements	6,615,000	16.80%	-	83.20%	Varies	2009	1,100,000
1989 Capital improvements	2,300,000	100.00%	-	-	Varies	2009	430,000
1990 Capital improvements	7,415,000	-	100.00%	-	Varies	2011	1,970,000
1993 Capital improvements	1,135,000	100.00%	-	-	Varies	2012	200,000
1994 Capital improvements	6,775,000	6.23%	93.77%	-	Varies	2015	2,300,000
1995 Capital improvements	97,000	100.00%	-	-	6.00%	2006	12,433
1995 Capital improvements	6,160,000	4.29%	95.71%	-	Varies	2016	2,955,000
1997 Capital improvements	4,230,000	88.73%	11.27%	-	Varies	2017	1,510,000
1998 Capital improvements	1,475,000	76.62%	23.38%	-	Varies	2008	285,000
1999 Capital improvements	6,493,000	93.28%	6.72%	-	Varies	2019	2,290,000
2000 Capital improvements	4,770,000	70.40%	29.60%	-	Varies	2020	2,190,000
2001 Capital improvements	4,932,000	47.91%	52.09%	-	Varies	2021	2,575,000
2002 Capital improvements	4,000,000	48.63%	51.37%	-	Varies	2022	1,695,000
2003 Capital improvements	24,579,000	13.25%	49.74%	37.01%	Varies	2032	23,380,000
2004 Capital improvements	14,628,000	21.95%	72.44%	5.61%	Varies	2034	13,805,000
2005 Capital improvements	10,665,000	14.15%	85.85%	-	Varies	2034	10,665,000
Total							\$ 67,737,433

The annual requirements to amortize all debt outstanding as of June 30, 2005 are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 5,907,433	2,846,370	8,753,803
2007	5,520,000	2,560,541	8,080,541
2008	4,815,000	2,347,666	7,162,666
2009	4,270,000	2,155,995	6,425,995
2010	3,285,000	1,997,614	5,282,614
2011-2015	13,400,000	8,119,705	21,519,705
2012-2020	9,455,000	5,738,824	15,193,824
2021-2025	8,825,000	3,616,294	12,441,294
2026-2030	6,300,000	2,117,989	8,417,989
2031-2035	5,960,000	584,228	6,544,228
Totals	\$ 67,737,433	32,085,226	99,822,659

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

STATUTORY DEBT LIMIT

In accordance with Maine law, no municipality shall incur debt for specified purposes in excess of certain percentages of State valuation of such municipality. A summary of the Town's legal debt margin is as follows:

	June 30, 2005 outstanding bonds	Percent of 2005 State assessed value of \$2,538,800,000	Amount	Margin
For school purposes	\$ 41,203,695	10.0%	253,880,000	212,676,305
For storm or sanitary sewer	10,981,200	7.5%	190,410,000	179,428,800
For municipal airport, water and special district purposes	-	3.0%	76,164,000	76,164,000
For all other purposes	15,552,538	7.5%	190,410,000	174,857,462
Total	\$ 67,737,433	15.0%	380,820,000	

STATE REIMBURSEMENT FOR DEBT SERVICE EXPENDITURES

The State of Maine currently reimburses the Town for a portion of financing costs of school buildings. Continuation of such reimbursements is dependent upon continued appropriations by the State Legislature.

CAPITAL LEASES

The Town of Scarborough has entered into various lease agreements as lessee for copiers. Those leases qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of future minimum lease payments as of the date of its inception.

The following is an analysis of equipment leased under the capital lease as of June 30, 2005:

Municipal building - copiers
School - various copiers

The following is a schedule of future minimum lease payments under the capital lease and the present value of the minimum lease payment at June 30, 2005:

2006	\$ 76,679
2007	76,679
Total minimum lease payments	153,358
Less: amount representing interest	11,384
Present value of future minimum lease payments	\$ 141,974

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

OVERLAPPING DEBT AND OTHER CONTINGENCIES

Overlapping Debt

The Town is subject to an annual assessment of its proportional share of Cumberland County expenses, including debt repayment, as determined by the percentage of the Town's State valuation to the County's State valuation. At June 30, 2005, the Town's State valuation of \$2,538,800,000 was 8.38% of the County's State valuation of \$30,301,350,000. The Town's share is 8.38% or \$1,054,854 of Cumberland County's \$12,590,000 long-term debt outstanding as of June 30, 2005.

The Town is also served by the Portland Water District. At June 30, 2005, the Town's share of self-supporting bonded water debt is 12.41% or \$2,845,859 of total debt of \$22,940,000.

Contingencies

Regional Waste Systems, Inc. ("RWS"), a Maine Corporation with 21 participating municipalities ("Member Municipalities"), including the Town of Scarborough, has issued bonds to fund the design, construction and start-up of a resource recovery system. The bonds are special revenue obligations of RWS, payable from and secured by a pledge of RWS revenues. The bonds do not constitute a debt or liability within the meaning of any constitutional or statutory provision, or a pledge of the full faith and credit of any political subdivision of the State of Maine. RWS has no taxing power. Notwithstanding the foregoing, pursuant to the Waste Handling Agreements, the participating municipalities are obligated severally to deliver certain of the solid waste produced within each such participating municipality to RWS for processing to make service payments and pay tipping fees for such processing in amounts which, when added to other available monies, will be at least equal to the required debt service on the bonds. The obligations of the participating municipalities under the Waste Handling Agreements are secured by the full faith and credit of the participating municipalities subject to certain limitations. At June 30, 2005, outstanding "Incinerator Debt" of RWS totaled \$50,092,000 of which the Town of Scarborough's share, based on estimated tonnage to be delivered, amounted to 8.11% or \$4,062,150.

The Town has also entered into an agreement with Regional Waste Systems, Inc. as one of the 21 RWS Member Municipalities along with an additional six Participating Municipalities, to establish a Material Recycling Facility ("MRF") at RWS' demolition debris and recycling facility in Gorham. It is anticipated that the Town's share of debt incurred for this project will also be paid through service charges and user fees over the life of the project. At June 30, 2005, the Town's share is 6.30% or \$352,359 of RWS' outstanding MRF debt of \$5,593,000.

RWS operates a licensed balefill and ashfill site for which projected landfill closure and postclosure care costs approximate \$19,953,270 at June 30, 2004, the most recent date available. The Town's proportionate share of these estimated landfill closure and postclosure care costs is 7.92%, or \$1,581,199.

Total Debt and Contingencies

Governmental Unit	As of June 30, 2005			
	Direct debt	Overlapping debt	Contingent debt	Total debt
Town of Scarborough	\$ 67,737,433	-	-	67,737,433
Cumberland County	-	1,054,854	-	1,054,854
Portland Water District - water debt	-	2,845,859	-	2,845,859
Regional Waste Systems:				
Resource recovery system	-	-	4,062,150	4,062,150
Material recovery facility	-	-	352,359	352,359
Landfill closure/postclosure costs	-	-	1,581,199	1,581,199
Totals	\$ 67,737,433	3,900,713	5,995,708	77,633,854

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

OVERLAPPING DEBT AND OTHER CONTINGENCIES, CONTINUED

Arbitrage

Pursuant to the Tax Reform Act of 1986, municipalities issuing tax-exempt bonds or entering into note or lease obligations are required to perform an arbitrage rebate calculation upon the fifth anniversary of the obligation and to remit such rebate to the federal government, subject to certain exceptions. The Town has had several issues for which a rebate calculation is or has been required. As of June 30, 2005, substantially all such calculations have been performed.

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

LANDFILL CLOSURE AND POSTCLOSURE COSTS

Under existing State law, Maine communities had until December 31, 1995 to close existing landfills under a state approved plan and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. The Town is operating a demolition debris landfill and has submitted a plan to the State for closure. The estimated total current cost of landfill closure, \$449,634, is based on the amount that would be paid if equipment, facilities, and services required to close and maintain the Town's landfill were acquired as of June 30, 2005. Additionally, annual monitoring and maintenance costs are estimated to be \$4,050 per year. The total closure and postclosure care costs of \$449,634 have been accrued in the statement of activities. Presently, the State of Maine is providing partial funding for certain closure costs, however, future funding is based on availability of funds. The actual cost of closure and postclosure care may be higher due to inflation, changes in technology, engineering estimates, or changes in landfill laws and regulations.

DESIGNATED FUND BALANCES

At June 30, 2005, portions of the General Fund fund balance were designated to future periods as follows:

	<u>2005</u>
General Fund:	
Human Resource Supplies	\$221
Geographical Information	20,000
General Government Town Report	5,100
Co-Op Boat Launch Improvements	4,932
Community Services Mini-Bus	55,000
Community Services Pickup Truck with Plow	2,685
Public Safety Night Vision Goggles	6,540
Public Safety Marine Resource Inventory Management	4,520
Fire Department – Squad Truck	395,000
Fire Department – Municipal Holding Tank	7,994

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

DESIGNATED FUND BALANCES, CONTINUED

	<u>2005</u>
Comprehensive Plan	\$ 34,971
Municipal building improvements	(8,273)
Community services child care program	15,884
State Revenue Sharing	116,567
Summer recreation	48,149
Cable TV programming	44,062
Traffic Department – Traffic Signal Master Interconnect	40,000
Town Wide ADA projects	28,000
Town-wide computer purchases	35,735
Encumbered Purchase Orders	986,635
Reserve for accrued sick pay	852,686
<u>Total General Fund designated fund balance</u>	<u>\$2,696,408</u>

RESERVED FUND EQUITY

At June 30, 2005, the Special Revenue fund equity for the School Lunch Program included a reserve for inventory on hand at June 30, 2005 of \$12,558. Also, at June 30, 2005, the Special Revenue fund equity was reserved in the Industrial Park Fund to reflect the noncurrent portion of notes receivable amounting to \$2,289. Fund balance has been reserved in the permanent funds for nonexpendable principal of \$99,715. The total reserved fund balance for other governmental funds on Statement 3 was \$114,562. As of June 30, 2005, the General Fund fund balance was reserved in the amount of \$697,126, reflecting the non-current portion of the interfund loan receivable from the Municipal Building Fund in the amount of \$551,199, the Boat Launch Fund deficit of \$39,940 and the Recreation Development Fund amount of \$105,987.

SCHOOL OPERATIONS UNDESIGNATED DEFICIT/BUDGETARY VS. GAAP BASIS

At June 30, 2005, School operations (General Fund and Adult Education) reported a fund balance of \$693,088 on a GAAP basis and a fund balance of \$2,827,186 on a budgetary basis, the difference resulting from the accrual of earned but unpaid summer salaries. The School Department's policy is to budget for teacher salaries when paid rather than when the obligation is incurred. Additionally, as required by accounting principles generally accepted in the United States of America (GAAP), the School Department has recorded a revenue and expenditure for Maine State Retirement contributions made by the State of Maine on behalf of the Scarborough School Department. These amounts have not been budgeted in the General Fund and result in a difference in reporting on a budgetary basis of accounting vs. reporting under accounting principles generally accepted in the United States of America. An intergovernmental revenue of \$2,575,202 and an education expenditure of \$2,575,202 have been included in the General Fund on Statement 4 and on Statement 2 (GAAP basis) and have not been reported on Statement 6 (budgetary basis). There is no effect on the fund balance at the end of the year.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

SCHOOL OPERATIONS UNDESIGNATED DEFICIT/BUDGETARY VS. GAAP BASIS, CONTINUED

The following reconciles the GAAP vs. budgetary basis fund balances:

	GAAP basis	Summer salary accrual	On- behalf payments	Budgetary basis
Balance, June 30, 2004	\$ 468,684	2,068,037	-	2,536,721
Revenues and other sources	31,143,580	-	(2,575,202)	28,568,378
Expenditures and other uses	(30,919,176)	66,101	2,575,202	(28,277,913)
Balance, June 30, 2005	\$ 693,088	2,134,138	-	2,827,186

The GAAP basis fund balance of \$693,088 is comprised of the following components:

General fund - undesignated	\$ 623,524
Adult Education	69,564
Total	\$ 693,088

The School Department has been designating a portion of budgetary fund balance to fund accrued summer salaries. It expects to fund a portion of future fund balances until the accrual is fully funded. As of June 30, 2005, \$2,100,000 of budgetary fund balance has been designated to fund summer salary obligations.

MAINE STATE RETIREMENT SYSTEM (MSRS) - CONSOLIDATED RETIREMENT PENSION PLAN

Description of the Plan - The Town contributes to the Maine State Retirement System Consolidated Plan, a cost sharing multiple-employer retirement system established by the Maine State legislature. The Maine State Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the State legislature. The Maine State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained by writing to Maine State Retirement, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

Funding Policy - Plan members are required to contribute 6.5% of their annual covered salary and the Town is required to contribute an actuarially determined rate. These rates are designed to accumulate sufficient assets to pay benefits, when due. Normal cost employer contributions are calculated using the entry age normal actuarial cost method. Additionally, upon entering the Consolidated Retirement Plan, the School had its separate, individual existing unfunded actuarial liability calculated. The School will pay this initial unpooled unfunded liability on a scheduled basis, in addition to making the normal contribution to the plan. The (IUUAL) is being amortized over nineteen years although the remaining balance will be paid off in eleven years. The current rate is 2.8% of annual covered payroll for School employees participating in the District Plan, 2.8% for Town employees and 4.0% for Police. The contribution rates of plan members and the Town are established and may be amended by the Maine State Retirement Board of Trustees. The Town's contributions to the MSRS Consolidated Plan for the year ended June 30, 2005 were \$48,977 including IUUAL payments of \$14,376.

Teacher Group - All schoolteachers, plus other qualified educators, participate in the Maine State Retirement System's teacher group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State legislature. The Maine State Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

**MAINE STATE RETIREMENT SYSTEM (MSRS) - CONSOLIDATED RETIREMENT PENSION PLAN,
CONTINUED**

establish and amend benefit provisions rests with the State legislature. The Maine State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Teacher's Group. That report may be obtained by writing to Maine State Retirement System, 46 State House Station, Augusta, Maine 04333-0046 or by calling 1-800-451-9800.

Funding Policy - Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education is required, by the same statute, to contribute the employer contribution which amounts to \$2,575,202 (17.77%) for the fiscal year 2005. This amount has been reported as an intergovernmental revenue and retirement expenditure in the GAAP basis financial statements (Statement 2 and Statement 4).

DEFINED CONTRIBUTION PENSION PLAN

Defined Contribution Pension Plan - The Town contributes to the International City Manager's Association (ICMA) Money Purchase Plan, which is a defined contribution pension plan administered by the ICMA.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account. All municipal employees of the Town have the option of participating in the plan or the Maine State Retirement System. Contributions made by the employer vest upon completion of three years of service. An employee who leaves the employment of the Town is entitled to all contributions and earned income in his account at that time. Each employee must contribute a minimum of 6% of his or her gross earnings to the pension plan, while the Town is required to contribute an amount equal to 6% of the employee's gross earnings.

During the year, the Town's required and actual contributions amounted to \$346,160, which was 6% of its current year covered payroll. The covered payroll amounted to \$5,769,330, while the Town's total payroll was \$8,217,962.

Employee's required contributions amounted to \$346,160, which was 6% of the Town's current year covered payroll.

No pension provision changes occurred during the year that affected the required contributions to be made by the Town or its employees.

The ICMA Money Purchase Plan held no securities of the Town or other related parties during the year or as of the close of the fiscal year.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

DEFERRED COMPENSATION PLAN

The Town of Scarborough offers all its employees a deferred compensation plan created in accordance with Internal Revenue (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Assets of the plan are placed in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, were removed from the Town's financial statements.

TAX INCREMENT FINANCING DISTRICTS

The Town has established two Tax Increment Financing Districts under the terms of applicable State laws. The districts have been established to finance certain development programs located in the Town. The expenditures from these development programs will be recouped in future years via an incremental tax levied upon the Town's so-called "captured assessed value". The tax increment will be held in the form of a sinking fund which will be used expressly for the repayment of principal and interest on any indebtedness created to fund the expenditures of the development programs.

The status of the various Tax Increment Financing Districts is summarized below:

Scarborough Town Center Development District:	
Original assessed value based on April 1, 1985 valuation	\$ 6,915,000
Maximum authorized captured value	6,900,000
Amount captured as of June 30, 2005	6,900,000
Scarborough Eight Corners Development District:	
Original assessed value based on April 1, 1986 valuation	4,522,700
Maximum authorized captured value	39,000,000
Amount captured as of June 30, 2005	39,000,000

RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters, for which the Town either carries commercial insurance, participates in a public entity pool, or is effectively self-insured. Currently, the municipal departments participate in several public entity and self-insured pools sponsored by the Maine Municipal Association. Based on the coverage provided by the pools described above, as well as coverage provided by commercial insurance purchases, the Town is not aware of any material actual or potential claims liabilities which should be recorded at June 30, 2005.

CONSTRUCTION COMMITMENTS

As of June 30, 2005, the Town had construction commitments for construction of the High School and for Haigis Parkway. As of June 30, 2005, the balance of those commitments was \$5,115,545 and \$950,255, respectively.

TOWN OF SCARBOROUGH, MAINE
Notes to Basic Financial Statements, Continued

RESTATEMENT OF FUND BALANCE/NET ASSETS

As of July 1, 2004, the Town changed its method of accounting for certain compensated absences to comply with recent interpretations of previously issued standards. Fund balance as of July 1, 2004 has been restated as follows:

	General
	<u>Fund</u>
Fund balance as previously reported	\$ 6,629,342
Add back accrued vacation (change in accounting policy)	376,233
Fund balance, as restated	<u>\$ 7,005,575</u>

Additionally, net assets for the governmental activities have been restated for certain infrastructure assets that were not previously reported as a result of identifying certain Town owned roads that were previously considered State owned:

Net assets as previously reported	\$ 35,729,597
Record capital assets net of accumulated depreciation	8,239,811
Fund balance, as restated	<u>\$ 43,969,408</u>

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GENERAL FUND

The General Fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. Most governmental services are provided by the General Fund including general government, public services, public safety, public works, education, intergovernmental, debt service, and capital improvements (that are not financed through other funds).

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TOWN OF SCARBOROUGH, MAINE
General Fund
Comparative Balance Sheets
June 30, 2005 and 2004

	2005	2004
ASSETS		
Cash and cash equivalents	\$ 9,421,858	6,885,074
Investments	533,400	2,692,139
Receivables:		
Taxes receivable	60,561	75,740
Tax liens	421,274	364,515
Accounts receivable	472,345	535,740
Due from State of Maine	-	52,814
Interfund loans receivable	265,420	1,438,719
Tax acquired property	7,231	7,231
Total assets	\$ 11,182,089	12,051,972
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable and payroll withholdings	586,549	809,838
Accrued payroll	2,419,588	2,274,593
Accrued vacation and sick leave	-	375,384
Interfund loans payable	-	1,526,628
Taxes collected in advance	15,944	36,187
Deferred tax revenues	400,000	400,000
Total liabilities	3,422,081	5,422,630
Fund balance:		
Reserved	697,126	710,484
Unreserved:		
Designated - Town	2,696,408	1,225,294
Undesignated - Education	693,048	468,684
Undesignated - Town	3,673,426	4,224,880
Total fund balance	7,760,008	6,629,342
Total liabilities and fund balance	\$ 11,182,089	12,051,972

TOWN OF SCARBOROUGH, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis)
For the year ended June 30, 2005
(with comparative totals for June 30, 2004)

	2005					2004 Actual
	2004 carryforward	Budget	Total Available	Actual	Variance positive (negative)	
Revenues:						
Taxes:						
Property taxes	\$ -	35,601,877	35,601,877	35,548,830	(53,047)	32,861,926
Change in deferred property tax revenue	-	-	-	-	-	-
Excise taxes	-	4,175,000	4,175,000	4,253,930	78,930	4,170,216
Cable franchise fee	-	130,000	130,000	143,224	13,224	125,453
Interest and costs on taxes	-	62,000	62,000	57,852	(4,148)	72,420
Total taxes	-	39,968,877	39,968,877	40,003,836	34,959	37,230,015
Licenses and permits:						
Plumbing fees	-	22,000	22,000	19,350	(2,650)	22,169
Town Clerk fees	-	80,325	80,325	94,517	14,192	89,014
Building permits	-	293,174	293,174	356,502	63,328	236,511
Electrical permits	-	20,000	20,000	20,900	900	21,966
Zoning Board of Appeals	-	10,000	10,000	4,575	(5,425)	7,900
License plate fees	-	60,450	60,450	66,064	5,614	66,430
Subdivision fees	-	10,000	10,000	4,575	(5,425)	36,450
Total licenses and permits	-	495,949	495,949	566,483	70,534	480,440
Intergovernmental:						
Education state subsidies	-	4,503,857	4,503,857	4,532,559	28,702	4,669,174
FEMA reimbursement	-	-	-	149,408	149,408	170,000
FEMA fire account	-	-	-	50,687	50,687	23,189
Homeland Security	-	5,000	5,000	53,160	48,160	17,784
State Revenue Sharing	-	1,341,589	1,341,589	1,449,141	107,552	1,358,586
Homestead exemption	-	300,361	300,361	300,361	-	341,272
URIP (D.O.T. block grant)	-	240,000	240,000	292,196	52,196	240,980
Regional Waste payment in lieu of taxes	-	71,450	71,450	71,450	-	77,148
Adult education State subsidies	-	29,000	29,000	30,425	1,425	28,915
General assistance reimbursement	-	7,868	7,868	1,169	(6,699)	2,657
COPS Fast Grant	-	-	-	-	-	-
Federal HIDTA revenues	-	100,000	100,000	84,760	(15,240)	88,470
Medicaid	-	150,000	150,000	162,103	12,103	-
Other Federal and State revenues - School	-	368,046	368,046	389,379	21,333	276,239
Other Federal and State revenues - Town	-	32,608	32,608	100,806	68,198	39,231
Total intergovernmental	-	7,149,779	7,149,779	7,667,604	517,825	7,333,645
Interest earned	-	120,000	120,000	159,450	39,450	105,034
Unclassified:						
School Department	-	37,000	37,000	63,553	26,553	235,047
Adult education	-	17,500	17,500	6,935	(10,565)	13,513
Community services	-	1,214,105	1,214,105	1,320,470	106,365	1,161,560
Police court time	-	10,000	10,000	15,312	5,312	22,477
Snow plowing service	-	4,000	4,000	4,100	100	4,100
Alarm repair reimbursements	-	3,500	3,500	11,625	8,125	7,750
Insurance reimbursements	-	11,000	11,000	38,383	27,383	23,908
Parking violations	-	9,000	9,000	10,649	1,649	13,765
Special police	-	111,000	111,000	93,293	(17,707)	106,722
Inspection/review fees	-	90,200	90,200	180,631	90,431	61,510
Rescue donations	-	330,000	330,000	330,000	-	330,000
Rental income	-	30,192	30,192	20,606	(9,586)	44,659
Sale of Town-owned property	-	32,214	32,214	46,810	14,596	64,279
Legal/engineering salary reimbursement	-	441,000	441,000	383,281	(57,719)	243,937
Vehicle fuel reimbursement	-	214,378	214,378	294,668	80,290	202,943
Vehicle maintenance reimbursement	-	271,400	271,400	264,935	(6,465)	243,791
Miscellaneous	-	57,039	57,039	100,772	43,733	80,339
Total unclassified	-	2,883,528	2,883,528	3,186,023	302,495	2,860,300
Total revenues	-	50,618,133	50,618,133	51,583,396	965,263	48,009,434

TOWN OF SCARBOROUGH, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis), Continued

		2005				
	2004 carryforward	Budget	Total available	Actual	Variance positive (negative)	2004 Actual
Expenditures:						
Current:						
General government:						
Town Council	\$ -	11,573	11,573	11,572	1	11,572
Administration	-	221,068	221,068	223,925	(2,857)	224,525
Town Clerk	-	179,380	179,380	169,076	10,304	166,612
Planning	-	729,963	729,963	746,862	(16,899)	649,805
Assessing department	-	216,864	216,864	221,699	(4,835)	203,286
Human resources	-	174,272	174,272	172,474	1,798	169,013
Personnel benefits	-	(54)	(54)	39,737	(39,791)	41,427
Management information systems	-	471,303	471,303	471,197	106	457,308
Municipal building	281	258,586	258,867	238,265	20,602	234,793
General government	-	94,745	94,745	71,894	22,851	67,170
Finance	-	425,806	425,806	341,949	83,857	407,856
Purchasing	-	14,400	14,400	96,222	(81,822)	9,074
Taxation/Treasury	-	308,086	308,086	308,593	(507)	289,248
Legal	-	86,500	86,500	84,944	1,556	105,115
Risk management	-	451,400	451,400	459,533	(8,133)	447,532
Public information	6,153	9,600	15,753	5,220	10,533	1,847
Engineering	-	17,422	17,422	6,742	10,680	22,119
Grants management	-	-	-	-	-	3,298
Outside agencies	-	57,842	57,842	57,127	715	56,703
Total general government	6,434	3,728,756	3,735,190	3,727,031	8,159	3,568,303
Public services:						
Library	-	629,939	629,939	629,939	-	606,395
Public health and welfare	-	16,685	16,685	2,221	14,464	6,040
Enterprise Park tax rebate	-	-	-	50,397	(50,397)	29,136
Economic Development Corporation	-	208,225	208,225	206,126	2,099	174,258
Community services	-	1,738,270	1,738,270	1,754,231	(15,961)	1,756,560
Total public services	-	2,593,119	2,593,119	2,642,914	(49,795)	2,572,389
Public safety:						
Fire Department	13,855	1,360,279	1,374,134	1,414,202	(40,068)	1,388,724
Police Department	5,865	3,514,700	3,520,565	3,493,267	27,298	3,583,635
Civil Emergency Preparedness	-	34,717	34,717	29,349	5,368	32,504
Marine resources	-	71,096	71,096	69,829	1,267	62,128
Emergency Medical Services	3,100	923,401	926,501	914,662	11,839	866,603
Total public safety	22,820	5,904,193	5,927,013	5,921,309	5,704	5,933,594
Public works:						
Public Works Department	27,981	2,225,835	2,253,816	2,082,358	171,458	1,889,019
Vehicle maintenance	980	1,207,481	1,208,461	1,257,943	(49,482)	1,217,135
Water charges	-	167,972	167,972	163,602	4,370	153,230
Street lighting	-	135,400	135,400	139,201	(3,801)	131,859
Traffic signals	4,852	102,263	107,115	87,317	19,798	89,677
Cemetery care	-	25,600	25,600	23,869	1,731	22,246
Memorials	1,400	8,503	9,903	8,576	1,327	6,000
Shade trees	-	13,800	13,800	8,350	5,450	22,970
Engineering services	-	15,000	15,000	16,591	(1,591)	12,123
Solid waste program	-	1,614,860	1,614,860	1,582,515	32,345	1,332,952
Total public works	35,213	5,516,714	5,551,927	5,370,322	181,605	4,877,211
Education:						
Regular high school (9-12)	-	4,370,121	4,370,121	4,357,551	12,570	3,976,401
Regular middle school (6-8)	-	3,258,101	3,258,101	3,248,521	9,580	3,108,798
Regular elementary school (3-5)	-	3,209,707	3,209,707	3,204,114	5,593	3,021,894
Regular elementary school (K-2)	-	2,944,362	2,944,362	2,881,333	63,029	2,846,226
Special services	-	4,640,657	4,640,657	4,465,957	174,700	4,086,336
Transportation	-	1,215,400	1,215,400	1,172,590	42,810	1,160,370
Maintenance	-	2,035,116	2,035,116	2,025,541	9,575	1,673,667
Central office	-	679,326	679,326	635,597	43,729	607,693
Debt service	-	4,272,027	4,272,027	4,272,027	-	3,853,190
System-wide	-	1,694,626	1,694,626	1,650,470	44,156	1,576,593
Computer systems management	-	313,200	313,200	297,604	15,596	288,880
Adult education	-	108,528	108,528	76,438	32,090	80,361
Total education	-	28,741,171	28,741,171	28,287,743	453,428	26,280,409

TOWN OF SCARBOROUGH, MAINE
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Budgetary Basis), Continued

	2005					2004 Actual
	2004 carryforward	Budget	Total available	Actual	Variance positive (negative)	
Expenditures, continued:						
Current, continued:						
County tax	\$ -	1,519,714	1,519,714	1,519,714	-	1,441,610
Emergency management	-	-	-	40,638	(40,638)	-
Debt service (excluding education):						
Principal	-	3,098,697	3,098,697	3,113,081	(14,384)	3,812,154
Interest and other costs	-	1,210,542	1,210,542	1,191,120	19,422	1,234,088
Total debt service	-	4,309,239	4,309,239	4,304,201	5,038	5,046,242
Capital Improvements	260,348	1,741,927	2,002,275	1,119,917	882,358	653,352
Total expenditures	324,815	54,054,833	54,379,648	52,933,789	1,445,859	50,373,110
Excess (deficiency) of revenues over (under) expenditures	(324,815)	(3,436,700)	(3,761,515)	(1,350,393)	2,411,122	(2,363,676)
Other financing sources (uses):						
Operating transfers - in	-	2,483,165	2,483,165	2,086,828	(396,337)	1,304,889
Operating transfers - out	-	(795,906)	(795,906)	(795,906)	-	(755,514)
General obligation bonds	-	1,232,500	1,232,500	870,175	(362,325)	1,562,000
Proceeds from capital leases	-	113,000	113,000	-	(113,000)	-
Utilization of prior year surplus and carryforward balance	324,815	478,840	803,655	-	(803,655)	-
Overlay	-	(74,899)	(74,899)	-	74,899	-
Total other financing sources (uses)	324,815	3,436,700	3,761,515	2,161,097	(1,600,418)	2,111,375
Net change in fund balances - budgetary basis	-	-	-	810,704	810,704	(252,301)
Reconciliation to GAAP:						
Change in accrued salaries				(56,271)		(81,741)
Fund balances, beginning of year, as restated				7,005,575		6,963,384
Fund balances, end of year				\$ 7,760,008		6,629,342

OTHER GOVERNMENTAL FUNDS

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TOWN OF SCARBOROUGH, MAINE
Combining Balance Sheet
All Other Governmental Funds
June 30, 2005

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 257,500	-	-	257,500
Investments	5,969,013	-	169,861	6,138,874
Accounts receivable	24,497	-	-	24,497
Notes receivable	21,520	-	-	21,520
Due from State of Maine	2,911	-	-	2,911
Interfund loans	1,343,339	-	2,213	1,345,552
Inventory	12,558	-	-	12,558
Total assets	\$ 7,631,338	-	172,074	7,803,412
LIABILITIES AND FUND BALANCES				
Liabilities:				
Performance bonds	2,105,270	-	-	2,105,270
Accounts payable	75,774	-	-	75,774
Accrued payroll	53,088	-	-	53,088
Interfund loans	978,985	551,199	371	1,530,555
Total liabilities	3,213,117	551,199	371	3,764,687
Fund balances (deficit):				
Reserved for:				
Noncurrent notes receivable	2,289	-	-	2,289
Inventory	12,558	-	-	12,558
Principal	-	-	101,928	101,928
Unreserved, undesignated	4,403,374	(551,199)	69,775	3,921,950
Total fund balances (deficit)	4,418,221	(551,199)	171,703	4,038,725
Total liabilities and fund balances	\$ 7,631,338	-	172,074	7,803,412

TOWN OF SCARBOROUGH, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Other Governmental Funds
For the year ended June 30, 2005

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
Revenues:				
Intergovernmental	\$ 976,280	-	-	976,280
Contributions	88,097	-	-	88,097
Assessments and impact fees	167,753	-	-	167,753
Sale of lots	2,187	-	-	2,187
Other revenue	2,233,653	-	-	2,233,653
Interest revenue	59,306	-	3,445	62,751
Total revenues	3,527,276	-	3,445	3,530,721
Expenditures:				
Current:				
Capital expenditures	554,836	-	-	554,836
Program expenditures	2,181,712	-	-	2,181,712
Other	140,615	-	-	140,615
Total expenditures	2,877,163	-	-	2,877,163
Excess of revenues over expenditures	650,113	-	3,445	653,558
Other financing sources (uses):				
Transfer from other funds	676,260	119,646	-	795,906
Transfer to other funds	(1,942,640)	(73,293)	-	(2,015,933)
Total other financing sources (uses)	(1,266,380)	46,353	-	(1,220,027)
Net change in fund balances	(616,267)	46,353	3,445	(566,469)
Fund balances (deficit), beginning of year	5,034,488	(597,552)	168,258	4,605,194
Fund balances (deficit), end of year	\$ 4,418,221	(551,199)	171,703	4,038,725

NONMAJOR SPECIAL REVENUE FUNDS

Special revenue funds account for specific resources, the expenditure of which are restricted by law or administrative action for particular purposes.

Special revenue funds are established for the following purposes:

Unemployment Compensation

The Unemployment Compensation fund represents money set aside to be expended for unemployment compensation coverage (reimbursed to the State of Maine, Department of Manpower Affairs) for all municipal and school employees.

Ferry Beach

To account for all fees collected from the sale of resident and non-resident parking stickers, and day-to-day parking fees. Fees from combination passes are split evenly between Pine Point Beach and Ferry Beach funds. The monies are used for the maintenance of the beach parking area.

Recreation Development

To account for contributions from the developers of sub-divisions for the development of recreation facilities.

Sewer Expansion

The purpose of this fund is to collect user and impact fees as well as tax increment financing district revenues to fund the related debt service.

Hurd Park

To account for all fees collected from the sale of resident and non-resident parking stickers, and day-to-day parking fees. Funds from combination passes are split evenly between the Hurd Park fund and the Ferry Beach fund. The funds are used for the maintenance of the beach parking area.

Scarborough Memorial Improvement

To account for 50% of the funds accumulated by the sale of lots in the Scarborough Memorial Cemetery. These funds are used to maintain the grounds of the Cemetery.

Dunstan Cemetery Improvement

To account for funds accumulated by the sale of lots in the Dunstan Cemetery. These funds are used to maintain the grounds.

Industrial Park

To account for the sale of property lots in the Scarborough Industrial Park.

Prouts Landing Conservation

To account for monies spent in the upkeep of a 62 acre parcel of land given to the Town by the Linwood Companies/Prout's Landing. This land is to remain in its natural state and is not for recreational purposes.

NONMAJOR SPECIAL REVENUE FUNDS, CONTINUED

Performance Bonds

To account for funds temporarily held by the Town until work is completed by developers. If the work is not completed, these funds are retained by the Town and the town completes the required work.

Payne Road Improvements

To account for all fees collected in connection with the improvement of Payne Road.

Payne Road Impact Fees

To account for fees collected in connection with the Town's road impact ordinance.

Boat Launch Facility

To account for all resident and non-resident fees collected from the use of the boat launch facility. The funds are to be used for the improvement of the boat launch facility at Pine Point.

Police Asset Forfeiture

To account for funds awarded to the Scarborough Police Department for drug related convictions. These funds are to be used for law enforcement purposes only. (Pursuant to Title 15 M.R.S.A. Section 5824(3)).

Hunnewell House

To account for monies spent in the upkeep of the plot of land on the corner of the Black Point and Winnocks Neck roads, which was purchased by the Town on May 2, 1973. The Hunnewell House (built in 1638) was set on the plot and is used as a Town Park. Donations and appropriations are also accounted for in this fund.

Rescue Equipment

To account for fees collected in connection with the Town's Rescue billing program. These funds are used for the purpose of acquiring and maintaining rescue equipment.

Fire Department

This fund accounts for various grant awards and donations. These funds are to be used for the purchase of fire equipment.

Department Grants and Programs

To account for various federal and state grants and non-budget programs.

NONMAJOR SPECIAL REVENUE FUNDS, CONTINUED

School Development Impact Fees

The purpose of this fund is to account for all "Impact Fees" that are collected pursuant to the *Development Impact Fee Ordinance* adopted by the Town Council. The Ordinance requires the Town Treasurer to maintain all of these fees in a separate impact fee account and that the account is segregated from the Town's general revenues. The Ordinance requires the Town treasurer to deposit impact fees collected pursuant to this Ordinance in special non-lapsing accounts dedicated for funding of the improvements for which the fee is collected. Impact fees collected by the Town under this ordinance may be used only for financing facility improvements which the Town Council has determined are made necessary by new development.

Friends of the Scarborough Marsh

The Friends of the Scarborough Marsh is a coalition of private citizens dedicated to conserve, protect, restore and enhance the Scarborough Marsh watershed. In an agreement with the Scarborough Planning Board and the Friends of the Scarborough Marsh, \$10,000 was donated to the Town and dedicated for Water Quality Improvement Projects. Use of the funds will require approval, by majority vote, of the Board of Directors of the Friends of the Scarborough Marsh and by the Town Manager. Approved, June 29, 2004.

Pleasant Hill Area Drainage

This fund accounts for monies received to improve the drainage in the Pleasant Hill area of the Town of Scarborough.

School Categorical Programs

This fund accounts for various federal, states, and other programs administrated by the School Department.

School Lunch Program

This fund accounts for revenues and expenditures for the School Lunch program.

Computer Replacement Fund

This fund is used for the replacement of municipal computers.

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TOWN OF SCARBOROUGH, MAINE
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2005

	Unemploy- ment Compen- sation	Ferry Beach	Recrea- tional Develop- ment	Sewer Expansion	Hurd Park	Scarborough Memorial Improve- ment	Dunstan Cemetery Improve- ment	Industrial Park	Prouts Landing Conserva- tion	Perform- ance Bonds	Payne Road Improvements
ASSETS											
Cash and cash equivalents	\$ -	-	128,201	-	-	-	-	-	-	25,715	-
Investments	162,542	184,371	-	-	141,736	67,865	1,096	574,961	21,152	2,637,278	182,710
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-	10,985	-	-	-
Due from State of Maine	-	-	-	-	-	-	-	-	-	-	-
Interfund loans receivable	8,503	-	-	704,352	68,340	2,187	-	-	-	3,500	-
Inventory	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 171,045	184,371	128,201	704,352	210,076	70,052	1,096	585,946	21,152	2,666,493	182,710
LIABILITIES AND FUND BALANCES											
Liabilities:											
Performance bond deposits	-	-	-	-	-	-	-	-	-	2,105,270	-
Accounts payable	-	-	-	-	-	-	-	-	-	54,071	-
Accrued wages	-	-	-	-	-	-	-	-	-	-	-
Interfund loans payable	-	66,758	234,188	-	-	-	-	21,442	-	507,152	53,936
Total liabilities	-	66,758	234,188	-	-	-	-	21,442	-	2,666,493	53,936
Fund balances:											
Reserved	-	-	-	-	-	-	-	2,289	-	-	-
Unreserved:											
Undesignated	171,045	117,613	(105,987)	704,352	210,076	70,052	1,096	562,215	21,152	-	128,774
Total fund balances (deficit)	171,045	117,613	(105,987)	704,352	210,076	70,052	1,096	564,504	21,152	-	128,774
Total liabilities and fund balances	\$ 171,045	184,371	128,201	704,352	210,076	70,052	1,096	585,946	21,152	2,666,493	182,710

A-61

TOWN OF SCARBOROUGH, MAINE
Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2005

	Unemploy- ment Compen- sation	Ferry Beach	Recrea- tional Develop- ment	Sewer Expansion	Hurd Park	Scarborough Memorial Improve- ment	Dunstan Cemetery Improve- ment	Industrial Park	Prouts Landing Conserva- tion	Perform- ance Bonds	Payne Road Improvements
Revenues:											
Intergovernmental	-	-	-	-	-	-	-	-	-	-	-
Interest earned	2,388	2,708	-	-	2,610	1,047	16	11,618	310	-	2,687
Contributions	5,000	-	-	-	44,952	-	-	-	-	-	-
Sale of Lots	-	-	-	-	-	2,187	-	-	-	-	-
Other	-	7,600	-	-	-	-	-	-	-	-	-
Assessments and impact fees	-	-	35,000	105,900	-	-	-	-	-	-	-
Total revenues	7,388	10,308	35,000	105,900	47,562	3,234	16	11,618	310	-	2,687
Expenditures:											
Construction and acquisitions	-	20,037	-	-	34,301	-	-	40,000	-	-	35,538
Benefits paid	239	-	-	-	-	-	-	-	-	-	-
Program expenditures	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	9,707	-	-	-	-	-	-	-	-
Total expenditures	239	20,037	9,707	-	34,301	-	-	40,000	-	-	35,538
Excess (deficiency) of revenues over (under) expenditures	7,149	(9,729)	25,293	105,900	13,261	3,234	16	(28,382)	310	-	(32,851)
Other financing sources (uses):											
Operating transfers - in	-	-	-	676,260	-	-	-	-	-	-	-
Operating transfers - out	-	-	(18,785)	(1,069,055)	-	(10,000)	-	(180,000)	-	-	-
Total other financing sources (uses)	-	-	(18,785)	(392,795)	-	(10,000)	-	(180,000)	-	-	-
Net change in fund balances	7,149	(9,729)	6,508	(286,895)	13,261	(6,766)	16	(208,382)	310	-	(32,851)
Fund balances (deficit), beginning of year	163,896	127,342	(112,495)	991,247	196,815	76,818	1,080	772,886	20,842	-	161,625
Fund balances (deficit), end of year	\$ 171,045	\$ 117,613	(105,987)	704,352	210,076	70,052	1,096	564,504	21,152	-	128,774

TOWN OF SCARBOROUGH, MAINE
Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Continued

Payee	Boat Launch	Police Asset Forfeiture	Hunnewell House	Rescue Equipment	Fire Department	Departmental Grants & Programs	School Development Impact Fees	Friends of the Scarborough Marsh	Pleasant Hill Area Drainage	School Categorical Programs	School Lunch Program	Computer Replacement Fund	Totals
-	-	-	-	-	-	-	-	-	-	824,398	151,882	-	976,280
21,664	-	35	-	2,299	41	318	10,201	146	-	-	-	1,218	59,306
-	7,951	-	1,224	-	13,970	15,000	-	-	-	-	-	-	88,097
-	-	-	-	-	-	-	-	-	-	-	-	-	2,187
-	-	93,442	-	738,111	-	84,990	190,650	-	-	131,833	963,615	23,412	2,233,653
26,853	-	-	-	-	-	-	-	-	-	-	-	-	167,753
48,517	7,951	93,477	1,224	740,410	14,011	100,308	200,851	146	-	936,231	1,115,497	24,630	3,527,276
-	2,823	42,139	-	330,000	-	42,340	-	-	1,194	-	-	6,464	554,836
-	-	-	-	-	-	-	-	-	-	-	-	-	239
-	-	-	-	-	-	-	-	-	-	1,022,321	1,159,391	-	2,181,712
-	-	-	-	130,669	-	-	-	-	-	-	-	-	140,376
-	2,823	42,139	-	460,669	-	42,340	-	-	1,194	1,022,321	1,159,391	6,464	2,877,163
48,517	5,128	51,338	1,224	279,741	14,011	57,968	200,851	146	(1,194)	(66,090)	(43,894)	18,166	650,113
-	-	-	-	-	-	-	-	-	-	-	-	-	676,260
-	(45,068)	-	-	(133,732)	-	-	(446,000)	-	-	-	-	(40,000)	(1,942,640)
-	(45,068)	-	-	(133,732)	-	-	(446,000)	-	-	-	-	(40,000)	(1,266,380)
48,517	(39,940)	51,338	1,224	146,009	14,011	57,968	(245,149)	146	(1,194)	(66,090)	(43,894)	(21,834)	(616,267)
1,454,328	-	7,601	(437)	209,314	3,136	-	725,255	10,000	17,849	131,131	6,460	69,795	5,034,488
1,502,845	(39,940)	58,939	787	355,323	17,147	57,968	480,106	10,146	16,655	65,041	(37,434)	47,961	4,418,221

TOWN OF SCARBOROUGH, MAINE
School Categorical Funds - Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2005

	Fund balances beginning of year	Revenues Grants	Other	Program expenditures	Fund balances end of year
Federal education grant programs:					
NCLB/Title IA	\$ 1,902	136,855	-	137,551	1,206
NCLB/Title IIA	19,612	57,195	-	80,554	(3,747)
NCLB/Title IID	854	4,853	-	800	4,907
NCLB/Title IVA	7,733	12,529	-	16,201	4,061
NCLB/Title VA	3,898	15,215	-	17,378	1,735
Refugee Resettlement	4,241	-	-	(394)	4,635
Local Entitlement	55,449	455,275	-	511,703	(979)
Title II (Eisenhower Math and Science)	4,108	-	-	-	4,108
Goals 2000	48	-	-	-	48
Total federal education grant programs	97,845	681,922	-	763,793	15,974
Other State grant programs:					
State Agency Clients	1	102,529	-	94,745	7,785
Professional Development Grant	13,570	32,400	-	11,072	34,898
Total other state grant programs	13,571	134,929	-	105,817	42,683
Co-curricular programs:					
Red Storm Football	252	-	21,022	21,433	(159)
Ice Hockey	950	-	16,243	17,193	-
HS Girls Ice Hockey	585	-	9,123	9,708	-
HS Lacrosse	2,709	-	6,776	6,908	2,577
Girl's Lacrosse	(1,892)	-	6,024	5,991	(1,859)
Gym Dandies	265	-	24,393	24,347	311
Varsity Track	-	-	-	-	-
Baseball and Softball	(3)	-	-	-	(3)
High School/MS Swimming	911	-	12,814	13,725	-
Field Hockey	-	7,547	-	7,652	(105)
Foreign Language Club	(59)	-	-	-	(59)
HS Volleyball	1,467	-	4,800	6,162	105
HS Wrestling	2,936	-	10,000	15,803	(2,867)
Maine Nutrition Program	500	-	-	-	500
Community Services transportation	-	-	15,593	16,628	(1,035)
Community Foundation Grant	98	-	-	-	98
Band	-	-	-	-	-
Beacon Learning Center	(20,214)	-	-	2,011	(22,225)
MS Health Grant	(388)	-	-	-	(388)
Total co-curricular programs	(11,883)	7,547	126,788	147,561	(25,109)
Other special programs:					
Wellness Activities	84	-	740	719	105
Winslow Homer Auditorium	4,412	-	4,305	4,431	4,286
Beacon Learning Center	27,102	-	-	-	27,102
Total other special programs	31,598	-	5,045	5,150	31,493
Total school categorical programs	\$ 131,131	824,398	131,833	1,022,321	65,041

NONMAJOR CAPITAL PROJECT FUNDS

Capital projects funds are established to account for resources obtained and expended for the acquisition of major capital facilities and projects.

The Town's individual capital project funds were established for the following purposes:

Municipal Building Fund

To account for grants, awards, and money appropriated by the Town Council for a study, development, and the related tax increment financing district for the construction of new Town center improvements.

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TOWN OF SCARBOROUGH, MAINE
Nonmajor Capital Project Fund
Balance Sheet
June 30, 2005

		Municipal Building Fund
ASSETS		
Cash and cash equivalents	\$	-
Interfund loans receivable		-
Total assets	\$	-
LIABILITIES AND FUND BALANCE		
Liabilities:		
Interfund loans payable		551,199
Total liabilities		551,199
Fund balance (deficit):		
Unreserved:		
Designated		-
Undesignated		(551,199)
Total fund deficit		(551,199)
Total liabilities and fund balance	\$	-

TOWN OF SCARBOROUGH, MAINE
Nonmajor Capital Project Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2005

	Municipal Building Fund
Revenues:	
Interest earned	\$ -
Intergovernmental	-
Other	-
Total revenues	-
Expenditures:	
Construction and professional services	-
Total expenditures	-
Excess (deficiency) of revenues over (under) expenditures	-
Other financing sources (uses):	
Operating transfers - in	119,646
Operating transfers - out	(73,293)
Proceeds of general obligation bonds	-
Total other financing sources (uses)	46,353
Net change in fund balances	46,353
Fund deficit, beginning of year	(597,552)
Fund deficit, end of year	\$ (551,199)

NONMAJOR PERMANENT FUNDS

Permanent funds are established to account for assets held by the Town in a fiduciary capacity as trustee. These funds are legally restricted to the extent that only the earnings, not principal, may be used for purposes that support the reporting government's programs.

Permanent funds are established by the Town for the following purposes:

Scarborough Memorial Cemetery

This fund accounts for funds received for the perpetual care of various lots in the Scarborough Memorial Cemetery. The money from the sale of lots is split between this trust and the Scarborough Memorial Improvement Fund (a Special Revenue Fund).

Dunstan Perpetual Care

This fund was established in 1893 at an annual Town Meeting. It was approved that unexpended income be allotted as necessary by the selectmen for the upkeep of the cemetery.

Mary A. Tucker Fund

Mary A. Tucker donated \$500 through a provision in her will to be used under the direction of the Town Council for the perpetual care of the lots of James W., Emma E., Clara, Sadie, and Mary A. Tucker. All lots are located in the Dunstan Cemetery.

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TOWN OF SCARBOROUGH, MAINE
Nonmajor Permanent Funds
Combining Balance Sheet
June 30, 2005

	Scarborough Memorial Cemetery	Dunstan Perpetual Care	Mary A. Tucker Fund	Totals
ASSETS				
Investments	\$ 141,871	25,196	2,794	169,861
Interfund loans receivable	2,213	-	-	2,213
Total assets	\$ 144,084	25,196	2,794	172,074
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund loans payable	-	371	-	371
Total liabilities	-	371	-	371
Fund balances:				
Principal	88,061	13,367	500	101,928
Unexpended income	56,023	11,458	2,294	69,775
Total fund balances	144,084	24,825	2,794	171,703
Total liabilities and fund balances	\$ 144,084	25,196	2,794	172,074

TOWN OF SCARBOROUGH, MAINE
Nonmajor Permanent Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2005

	Scarborough Memorial Cemetery	Dunstan Perpetual Care	Mary A. Tucker Fund	Totals
Revenues:				
Interest and dividends	\$ 3,437	-	8	3,445
Sale of lots/perpetual care deposits	-	-	-	-
Total revenues	3,437	-	8	3,445
Expenditures:				
Earnings retained by General Fund	-	-	-	-
Other	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balances	3,437	-	8	3,445
Fund balances, beginning of year	140,647	24,825	2,786	168,258
Fund balances, end of year	\$ 144,084	24,825	2,794	171,703

PRIVATE-PURPOSE TRUST FUNDS

Shirley Grover Fund

A scholarship to students graduating from Scarborough High School, who have demonstrated good school/community citizenship, and received honor roll grades for at least two years.

Mary Campbell Peterson Fund

This scholarship fund was established as the result of funds bequeathed to the School Department. Each year interest earned by the fund will be used to award scholarships to deserving students. The criteria are that the student should be an average student who may have overcome some adversity.

Edith Warga Art Scholarship

This scholarship began in 1990 as a 10-year program by Edith Warga. Each year a student who was pursuing a career in Art was awarded a \$1,000 scholarship. Following her demise, her husband, James Warga, agreed to continue the original program, and then in September 1998, donated \$100,000 to the School Department in order to continue the program. The amount awarded annually will not exceed the interest earned by the fund. A committee will award the scholarship to one or more students that meet the criteria, which continues the original intent.

Packy McFarland Scholarship Fund

This athletic scholarship was established to provide a yearly \$200 scholarship to a senior boy and girl planning to continue their education, as selected by the School's coaches.

Roy Nelson Scholarship Fund

A scholarship fund established to provide a \$300 scholarship to a senior who plans to attend a post-secondary technical or vocational school. The fund was established in memory of Roy Nelsen, who was the transportation supervisor and School Department employee for over 30 years.

Evelyn J. Chaddon Memorial Scholarship Fund

A scholarship fund established to provide a yearly \$100 scholarship to a senior planning to continue his or her education in teaching.

S. Dwight Howard Memorial Scholarship Fund

A scholarship fund established to provide a yearly \$150 scholarship to a senior planning to continue his or her education, major consideration being given to those considering math, art, or the field of audio-visual aids.

PRIVATE-PURPOSE TRUST FUNDS, CONTINUED

Bertha Libby-Lary Scholarship Fund

A scholarship fund established to provide a yearly \$250 scholarship to a senior planning to continue his or her education.

Academic Decathlon Scholarship Fund

A scholarship fund established to provide scholarships to students planning to continue their education.

Kathy Pearson Scholarship Fund

A scholarship fund established to provide a scholarship in memoriam of Kathy Pearson to any student planning to continue his or her education.

Daniel Tranchemontagne Scholarship Fund

A scholarship fund established to provide scholarships to a graduating high school wrestler continuing his or her education. The scholarship will be paid out each year as funds are available and can come from both principal and interest.

Virginia Jackson Scholarship Fund

A scholarship fund in memory of Virginia Jackson established by her family to provide a \$1,500 annual scholarship to one Scarborough High School senior who will be attending college upon graduation.

TOWN OF SCARBOROUGH, MAINE

Trust Funds - Private-purpose
Combining Statement of Fiduciary Net Assets

	June 30, 2005												Totals
	Shirley Grover Fund	Mary Campbell Peterson Fund	Edith Warga Art Scholarship Fund	Packy McFarland Scholarship Fund	Roy Nelson Scholarship Fund	Daniel Tranchesi Scholarship Fund	Virginia Jackson Scholarship Fund	Evelyn J. Chaddon Mem. Scholarship Fund	S. Dwight Howard Mem. Scholarship Fund	Bertha Libby-Lary Scholarship Fund	Academic Decathlon Scholarship Fund	Kathy Pearson Scholarship Fund	
ASSETS													
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	\$ 1,391	91,455	101,425	3,320	583	1,013	25,868	267	3,279	12,297	1,868	3,976	246,742
Interfund loans	-	-	-	-	-	1,000	-	-	-	-	-	-	1,000
Total assets	\$ 1,391	91,455	101,425	3,320	583	2,013	25,868	267	3,279	12,297	1,868	3,976	247,742
LIABILITIES AND NET ASSETS													
Liabilities:													
Interfund loans	-	1,000	-	-	-	-	-	-	-	-	-	-	1,000
Accounts payable	-	-	-	-	-	-	-	200	-	1,500	-	250	1,950
Total liabilities	-	1,000	-	-	-	-	-	200	-	1,500	-	250	2,950
Net assets:													
Principal	1,240	87,680	100,000	-	-	-	-	-	2,026	3,500	-	3,810	198,256
Undesignated	151	2,775	1,425	3,320	583	2,013	25,868	67	1,253	7,297	1,868	(84)	46,536
Total net assets	1,391	90,455	101,425	3,320	583	2,013	25,868	67	3,279	10,797	1,868	3,726	244,792
Total liabilities and net assets	\$ 1,391	91,455	101,425	3,320	583	2,013	25,868	267	3,279	12,297	1,868	3,976	247,742

TOWN OF SCARBOROUGH, MAINE
Trust Funds - Private-purpose
Combining Statement of Changes in Fiduciary Net Assets
Year ended June 30, 2005

		Mary Campbell	Edith Waga	Packy McFarland	Roy Nelson	Daniel Trachemontagne	Virginia Jackson	Evelyn J. Chaddon	S. Dwight Howard	Bertha Libby-Lary	Academic Decathlon	Kathy Pearson
		Fund	Scholarship	Fund	Scholarship	Fund	Scholarship	Fund	Scholarship	Fund	Scholarship	Fund
Donations	\$	-	-	-	-	-	27,124	-	-	-	-	-
Interest and dividends		18	1,286	46	12	1,013	244	4	30	52	32	42
Total additions		18	1,286	46	12	1,013	27,368	4	30	52	32	42
Deductions:												
School scholarships		-	2,000	-	300	-	1,500	-	-	250	100	-
Total deductions		-	2,000	-	300	-	1,500	-	-	250	100	-
Changes in net assets		18	(714)	46	(288)	1,013	25,868	4	30	(198)	(68)	42
Net assets, beginning of year		1,373	91,169	3,274	871	1,000	-	63	3,249	10,995	1,936	3,684
Net assets, end of year	\$	1,391	90,455	3,320	583	2,013	25,868	67	3,279	10,797	1,868	3,726
												244,792

TOWN OF SCARBOROUGH, MAINE
 Agency Funds
 Statement of Changes in Assets and Liabilities
 For the year ended June 30, 2005

		Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
STUDENT ACTIVITIES:					
ASSETS					
Cash	\$	143,210	195,701	145,450	193,461
LIABILITIES					
Payable to student groups	\$	143,210	195,701	145,450	193,461

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GENERAL LONG-TERM DEBT

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TOWN OF SCARBOROUGH, MAINE
Statement of Changes in Long-term Debt
Year ended June 30, 2005

			Interest rate	Final maturity date	Annual principal payments	Balance beginning of year	Current Year		Balance end of year
							Issued	Retired	
General Obligation Bonds									
1987 Capital Improvements	Varies	2008	\$	125,000 to 2008	500,000	-	125,000	375,000	
1988 Capital Improvements	Varies	2009		275,000 to 2009	1,375,000	-	275,000	1,100,000	
1989 Capital Improvements	Varies	2009		120,000 in 2005 110,000 to 2008 100,000 in 2009	550,000	-	120,000	430,000	
1990 Capital Improvements	Varies	2011		335,000 to 2007 325,000 to 2010	2,305,000	-	335,000	1,970,000	
1992 Capital Improvements	Varies	2013		150,000 to 2013		-			
1993 Capital Improvements	Varies	2013		25,000 to 2013	225,000	-	25,000	200,000	
1994 Capital Improvements	Varies	2015		430,000 to 2005 230,000 to 2015	2,730,000	-	430,000	2,300,000	
1995 Capital Improvements	6.00%	2006		11,729.43 in 2005 12,433.22 in 2006	24,163	-	11,730	12,433	
1995 Capital Improvements	Varies	2016		305,000 to 2006 265,000 to 2016	3,260,000	-	305,000	2,955,000	
1997 Capital Improvements	Varies	2017		205,000 to 2007 110,000 to 2017	1,715,000	-	205,000	1,510,000	
1998 Capital Improvements	Varies	2008		100,000 to 2007 85,000 in 2008	385,000	-	100,000	285,000	
1999 Capital Improvements	Varies	2019		400,000 to 2007 395,000 to 2009 70,000 to 2019	2,690,000	-	400,000	2,290,000	
2000 Capital Improvements	Varies	2020		445,000 in 2005 210,000 to 2008 205,000 to 2010 155,000 to 2020	2,635,000	-	445,000	2,190,000	
2001 Capital Improvements	Varies	2021		535,000 in 2005 510,000 in 2006 190,000 in 2007 180,000 to 2011 120,000 in 2012 115,000 to 2021	3,110,000	-	535,000	2,575,000	
2002 Capital Improvements	2.000% 2.375% 2.700%	2007		875,000 in 2005 850,000 in 2006 845,000 in 2007	2,570,000	-	875,000	1,695,000	
2003 Capital Improvements	Varies	2033		870,000 in 2005 1,070,000 in 2006 890,000 in 2007 995,000 in 2008 655,000 in 2009 685,000 in 2010 750,000 in 2011 840,000 in 2012 925,000 in 2013 595,000 in 2014 685,000 in 2015 780,000 in 2016 885,000 in 2017 1,005,000 in 2018 1,135,000 in 2019 1,280,000 in 2020 1,435,000 in 2021 1,610,000 in 2022 1,800,000 in 2023 430,000 in 2024 450,000 in 2025 475,000 in 2026 495,000 in 2027 520,000 in 2028 545,000 in 2029 570,000 in 2030 595,000 in 2031 625,000 in 2032 655,000 in 2033	24,250,000	-	870,000	23,380,000	

TOWN OF SCARBOROUGH, MAINE
Statement of Changes in Long-term Debt, Continued

	Interest rate	Final maturity date	Annual principal payments	Balance beginning of year	Current Year		Balance end of year
					Issued	Retired	
<u>General Obligation Bonds</u>							
2004 Capital Improvements	2.250%	2034	823,000 in 2005 830,000 in 2006 975,000 to 2008 985,000 in 2009 665,000 in 2010 680,000 to 2012 690,000 in 2013 555,000 in 2014 215,000 in 2015 225,000 in 2016 235,000 in 2017 245,000 in 2018 255,000 in 2019 265,000 in 2020 280,000 in 2021 290,000 in 2022 305,000 in 2023 320,000 in 2024 335,000 in 2025 350,000 in 2026 365,000 in 2027 385,000 in 2028 400,000 in 2029 420,000 in 2030 440,000 in 2031 460,000 in 2032 480,000 in 2033				
2005 Capital Improvements	Varies	2034	500,000 in 2034 315,000 in 2005 340,000 in 2006 510,000 in 2007 520,000 in 2008 525,000 in 2009 385,000 in 2010 390,000 in 2011 395,000 in 2012 305,000 in 2013 315,000 in 2014 250,000 in 2015 230,000 in 2016 240,000 in 2017 250,000 in 2018 260,000 in 2019 270,000 in 2020 280,000 in 2021 290,000 in 2022 300,000 in 2023 315,000 in 2024 325,000 in 2025 340,000 in 2026 355,000 in 2027 370,000 in 2028 385,000 in 2029 405,000 in 2030 420,000 in 2031 440,000 in 2032 460,000 in 2033 480,000 in 2034	14,628,000	-	823,000	13,805,000
Total bonds				62,952,163	10,665,000	5,879,730	67,737,433
Total long-term debt		\$		62,952,163	10,665,000	5,879,730	67,737,433

APPENDIX B

PROPOSED FORM OF LEGAL OPINION

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BERNSTEIN SHUR

COUNSELORS AT LAW

207 774-1200 main
207 774-1127 facsimile
bernsteinshur.com

100 Middle Street
PO Box 9729
Portland, ME 04104-5029

Upon delivery of the Bonds, Bernstein, Shur, Sawyer & Nelson in Portland, Maine, proposes to issue its opinion as Bond Counsel in the following form:

(Date of Closing)

(Purchaser)

We have examined the law and certified proceedings submitted in connection with the issuance and sale of \$7,014,000 aggregate principal amount of 2006 General Obligation Bonds (the "Bonds") of the Town of Scarborough, Maine (the "Issuer"), a public municipal corporation in the State of Maine organized and existing under and pursuant to the Charter of the Town of Scarborough, Maine (the "Charter").

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of any offering material relating to the Bonds and we express no opinion relating thereto.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

The Bonds are issued under and pursuant to the Charter and the provisions of Title 30-A, Section 5772 of the Maine Revised Statutes, as amended.

The Bonds are dated May 15, 2006, and will mature on the dates and in the respective principal amounts and will bear interest from their date, payable semi-annually on May 1 and November 1 in each year, commencing on November 1, 2006, at the respective rates per annum, as follows:

<u>Nov. 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Nov. 1</u>	<u>Amount</u>	<u>Rate</u>
2006	\$ 479,000		2014	\$ 530,000	
2007	\$ 665,000		2015	\$ 505,000	
2008	\$ 690,000		2016	\$ 185,000	
2009	\$ 805,000		2017	\$ 190,000	
2010	\$ 835,000		2018	\$ 195,000	
2011	\$ 480,000		2019	\$ 210,000	
2012	\$ 510,000		2020	\$ 220,000	
2013	\$ 515,000				

The Bonds maturing on and before November 1, 2016 are not subject to redemption prior to their respective dates of maturity. The Bonds maturing after November 1, 2016 are subject to redemption prior to maturity, at the option of the Issuer, on and after November 1, 2016.

The Bonds will be issued in fully registered form without coupons and, when issued, will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of the Bonds will be made in book-entry form (without certificates) in the denomination of \$5,000 or any integral multiple thereof and with one denomination of \$4000 that will mature on November 1, 2006. The Bonds are lettered R and shall be numbered from one (1) upwards.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code. Noncompliance with such requirements may cause interest on the Bonds to be included in the gross income of the owners thereof retroactive to the date of issuance of the Bonds, regardless of when such noncompliance occurs. The Issuer, in executing its Arbitrage Certificate, has certified to the effect that the Issuer will comply with the provisions and procedures set forth therein and do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for purposes of federal income tax, be excluded from the gross income of the owners thereof. In rendering this opinion, we have assumed that the Issuer will comply with the provisions and procedures set forth in its Arbitrage Certificate and Tax Certificate.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer has been duly created and validly exists as a public municipal corporation under and pursuant to the laws of the State of Maine.

2. The Issuer is duly authorized to issue the Bonds which have been duly and validly authorized and issued in accordance with law and constitute valid general obligations of the Issuer payable as to both principal and interest from ad valorem taxes which may be levied, subject to certain procedural limitations under Section 5721-A of the Maine Revised Statutes as amended and supplemented to date, without limit as to rate or amount upon all the property located within the territorial limits of the Issuer and taxable by it, except to any extent that the Issuer may enter into an agreement under Title 30-A, Chapter 223, Subchapter V, of the Maine Revised Statutes, as amended, to share any portion of its assessed valuation with another municipality and except to the extent that the Issuer may establish municipal development districts or affordable housing districts pursuant to Title 30-A, Chapters 206 and 207 of the Maine Revised Statutes, as amended, the tax increment revenues on retained captured assessed values of which may not be available for payment of debt service on the Bonds.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes, and exempt from the State of Maine Income Tax imposed on individuals under existing statutes, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted net book income (adjusted current earnings for taxable years beginning after December 31, 1989). The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal or state tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We have examined an executed Bond and, in our opinion, the form of said Bond and its execution are regular and proper.

Very truly yours,

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APPENDIX C

**PROPOSED FORM
OF
CONTINUING DISCLOSURE CERTIFICATE**

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**TOWN OF SCARBOROUGH, MAINE
PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

In connection with the issuance by the Town of Scarborough, Maine (the "Issuer") of its \$7,014,000 2006 General Obligation Bonds, dated as of May 15, 2006 (the "Bonds") and with reference to the continuing disclosure requirements of Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended, and officially interpreted from time to time (the "Rule"), the Issuer hereby covenants that it will engage in the undertakings described in Paragraphs 1, 2 and 3 herein for the benefit of the beneficial owners of the Bonds, subject to the conditions and limitations specified herein. The Issuer reserves the right to incorporate by reference its Official Statement dated April __, 2006 relating to the Bonds (the "Official Statement"), which will be submitted to the MSRB, as hereinafter defined, at the time of delivery of the Bonds, in any future disclosure provided hereunder.

1. The Issuer will provide to each nationally recognized municipal securities information repository ("NRMSIR") and the appropriate state information depository for the State of Maine ("SID"), if any (as of the date hereof there is no SID for Maine): (a) not later than 270 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2006, financial information and operating data relating to the Issuer for the preceding fiscal year of the type presented in the Official Statement prepared in connection with the Bonds regarding (i) revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) rate information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) such other financial information and operating data as may be required to comply with the Rule; and (b) promptly upon their public release, the audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles. Any filing under this certificate may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

The Issuer reserves the right to modify from time to time the specific types of information provided under clause (a) above or the format of the presentation of such information to reflect changed circumstances, provided that any such modification will be done in a manner consistent with the Rule.

2. The Issuer will provide in a timely manner to each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB") and the SID, if any, notice of the occurrence of any of the following events with respect to the Bonds, if material:
 - a. Principal and interest payment delinquencies;
 - b. Non-payment related defaults;
 - c. Unscheduled draws on debt service reserves reflecting financial difficulties;
 - d. Unscheduled draws on credit enhancements reflecting financial difficulties;
 - e. Substitution of credit or liquidity providers, or their failure to perform;
 - f. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
 - g. Modifications to the rights of securities holders;
 - h. Bond calls;
 - i. Defeasances;
 - j. The release, substitution, or sale of property securing repayment of the Bonds; or
 - k. Rating changes.

The Issuer from time to time may choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the Issuer, such other event is material with respect to the Bonds, but the Issuer does not undertake to commit to provide any such notice of the occurrence of any material event except those listed above.

3. The Issuer will provide, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of a failure to satisfy the requirements of Paragraph 1 herein.

4. The intent of the Issuer's undertaking in this Continuing Disclosure Certificate is to provide on a continuing basis the information described in the Rule. The provisions of the Continuing Disclosure Certificate may be amended by the Issuer without the consent of, or notice to, any beneficial owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Issuer for the benefit of the beneficial owners of the Bonds, (d) to modify the contents, presentation and format of the financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the beneficial owners of the Bonds, as determined either by a party unaffiliated with the Issuer (such as bond counsel), or by the vote or consent of beneficial owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment. Furthermore, to the extent that the Rule, as in effect from time to time, no longer requires the issuers of municipal securities to provide all or any portion of the information the Issuer has agreed to provide pursuant to the Continuing Disclosure Certificate, the obligation of the Issuer to provide such information also shall cease immediately.
5. The purpose of the Issuer's undertaking is to conform to the requirements of the Rule and, except for creating the right on the part of the beneficial owners of the Bonds, from time to time, to specifically enforce the Issuer's obligations hereunder, not to create new contractual or other rights for any beneficial owner of the Bonds, any municipal securities broker or dealer, any potential purchaser of the Bonds, the Securities and Exchange Commission or any other person. The sole remedy in the event of any actual or alleged failure by the Issuer to comply with any provision herein shall be an action for the specific performance of the Issuer's obligations hereunder and not for money damages in any amount. Any failure by the Issuer to comply with any provision of this undertaking shall not constitute an event of default with respect to the Bonds.
6. The NRMSIRs as of the date of this Continuing Disclosure Certificate are set forth in EXHIBIT A hereto.
7. Except for a late filing for fiscal year ended June 30, 2003, due to its initial compliance with GASB Rule 34, the Town has never failed to comply in all material respects with any previous undertakings to provide financial information or notices of material events in accordance with the Rule.
8. The Issuer's Finance Director, or such official's designee from time to time, shall be the contact person on behalf of the Issuer from whom the foregoing information, data and notices may be obtained. The name, address and telephone number of the initial contact person is: Ruth D. Porter, Finance Director, Town of Scarborough, 259 U.S. Route 1, P.O. Box 360, Scarborough, ME 04070-0360; Telephone: (207) 883-4301.

TOWN OF SCARBOROUGH, MAINE

By: _____

Its: _____

Dated: _____, 2006

EXHIBIT A

NRMSIRs:

Bloomberg Financial Markets

Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
PHONE: (609) 279-3225
FAX: (609) 279-5962
www.MUNIS@bloomberg.com

DPC Data, Inc.

One Executive Drive
Fort Lee, NJ 07024
PHONE: (201) 346-0701
FAX: (201) 947-0107
www.nrmsir@dpdata.com

Standard & Poor's Securities Evaluations, Inc.

Attention: Repository
55 Water Street, 45th Floor
New York, NY 10041
PHONE: (212) 438-4595
FAX: (212) 438-3975
www.nrmsir-repository@sandp.com

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, NY 10038
PHONE: (212) 771-6999
FAX: (212) 771-7390
www.nrmsir@FTID.com

OR TO THE CPO:

Disclosure USA (*)

600 W. 8th Street (78701)
P.O. Box 684667 (78768-4667)
Austin, TX
PHONE: (512) 476-6947
FAX: (512) 476-6403 (FAX)
www.disclosureusa.org

NOTE: (*) Paper or facsimile filings to the CPO (Central Post Office) incur a \$25.00 filing scanning fee through December 31, 2005; then \$35.00 to December 31, 2006; and \$45.00 through December 31, 2007. After 2007 paper filings will not be accepted.

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APPENDIX D

**FORM
OF
FINANCIAL GUARANTY INSURANCE POLICY**

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Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee

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