

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 not 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
\$10,665,000
2005 GENERAL OBLIGATION BONDS

Dated: March 15, 2005

Due: November 1, as shown below

<u>Year of Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>Year of Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield or Price</u>
2005	\$ 315,000	3.50%	2.10	2020	\$ 270,000	4.20%	100
2006	340,000	3.50	2.40	2021	280,000	4.25	100
2007	510,000	3.50	2.65	2022	290,000	4.25	4.30
2008	520,000	3.50	2.80	2023	300,000	4.30	4.35
2009	525,000	3.50	3.00	2024	315,000	4.50	4.40
2010	385,000	3.50	3.15	2025	325,000	4.50	4.45
2011	390,000	3.75	3.35	2026	340,000	4.50	100
2012	395,000	3.75	3.47	2027	355,000	4.50	4.55
2013	305,000	4.00	3.62	2028	370,000	4.60	100
2014	315,000	4.00	3.72	2029	385,000	4.60	4.62
2015	250,000	4.00	3.82	2030	405,000	5.00	4.55
2016	230,000	4.00	3.95	2031	420,000	5.00	4.57
2017	240,000	4.00	4.05	2032	440,000	5.00	4.58
2018	250,000	4.00	4.10	2033	460,000	5.00	4.59
2019	260,000	4.10	4.15	2034	480,000	5.00	4.60

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. 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, 2005 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 which may 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 & 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 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, 2015 are not subject to redemption prior to their stated dates of maturity. The Bonds maturing after November 1, 2015 are subject to redemption prior to maturity, at the option of the Town, on and after November 1, 2015 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 March 31, 2005.

Advest, 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.

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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 Moors & Cabot, Inc. 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
\$10,665,000
2005 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 2005 General Obligation Bonds (the "Bonds" or the "2005 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. The Bonds will be dated March 15, 2005 and will bear interest, payable on November 1, 2005, 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>
\$315,000	2005	806075QK6	\$270,000	2020	806075RA7
340,000	2006	806075QL4	280,000	2021	806075RB5
510,000	2007	806075QM2	290,000	2022	806075RC3
520,000	2008	806075QN0	300,000	2023	806075RD1
525,000	2009	806075QP5	315,000	2024	806075RE9
385,000	2010	806075QQ3	325,000	2025	806075RF6
390,000	2011	806075QR1	340,000	2026	806075RG4
395,000	2012	806075QS9	355,000	2027	806075RH2
305,000	2013	806075QT7	370,000	2028	806075RJ8
315,000	2014	806075QU4	385,000	2029	806075RK5
250,000	2015	806075QV2	405,000	2030	806075RL3
230,000	2016	806075QW0	420,000	2031	806075RM1
240,000	2017	806075QX8	440,000	2032	806075RN9
250,000	2018	806075QY6	460,000	2033	806075RP4
260,000	2019	806075QZ3	480,000	2034	806075RQ2

It is expected that the Bonds will be available for delivery at DTC on or about March 31, 2005.

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, 2015 are not subject to redemption prior to their stated dates of maturity. Bonds maturing after November 1, 2015 are subject to redemption prior to their stated dates of maturity, at the option of the Town, on and after November 1, 2015, 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, 2015 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 September 15, 2000 (Order 00-140), August 18, 2004 (Order 04-83) and February 16, 2005 (Orders 05-07 or 05-08) in order to provide funds to finance various capital improvement programs of the Town ("CIP"); and, for \$26,850,000 bonds to provide funds for additions and renovations to the Scarborough High School, by the November 5, 2002 approval by referendum vote of the voters of the Town (\$10,500,000 and \$8,175,000 having been financed by the Town's 2003 Bonds and 2004 Bonds, respectively. The remaining unissued amount for the project is \$8,175,000). The various projects being financed by the Bonds are itemized in the following table, "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

<u>CIP</u>	<u>PROJECT</u>	<u>2005 Bonds</u>	
2004-2005 Muni Equip	Public Works Loader Backhoe #42	\$95,779	
2004-2005 Muni Equip	Town Wide ADA Accessibility Modif	28,000	
2004-2005 Muni Equip	Fire Dept Replace 2 Deputy Vehicles	85,000	
2004-2005 Muni Equip	Police ACO Vehicle Replacement	27,000	
2004-2005 Muni Equip	PW Pickup Trucks #34 & 52	52,000	
2004-2005 Muni Equip	Route 1 Master Interconnect	40,000	
2004-2005 Muni Equip	PW Facility Combination Sweeper Vac	37,000	
			\$364,779
2004-2005 Muni Equip	PW Plow Truck #7	148,000	
2004-2005 Muni Equip	PW Plow Truck #18	148,000	
2004-2005 Muni Equip	PW Plow Truck #10	148,000	
			444,000
2004-2005 Muni Proj	IS Area Municipal Building Expansion Bond	20,000	
			20,000
2004-2005 Muni Proj	Police Correct Air Quality Issues in Building	72,000	
2004-2005 Muni Proj	PW Old Blue Point Road Project	250,000	
			322,000
2004-2005 Muni Proj	Library Building Expansion & Renov Proj.	100,000	
			100,000
2004-2005 School	Wentworth Exterior Doors	15,000	
2004-2005 School	Transportation Office Exterior Upgrade	25,000	
2004-2005 School	District Wide Fire Alarm Replace/Modifications	25,000	
2004-2005 School	MS HVAC & Operable Wall Replacement	45,000	
2004-2005 School	MS Building Modifications	40,000	
2004-2005 School	HS Auditorium Equipment	40,000	
2004-2005 School	System Wide Roofing	32,000	
			222,000
2004-2005 School	Security System Expansion & Upgrades	80,000	
2004-2005 School	District Wide Flooring	60,000	
2004-2005 School	District Wide Movable Equipment	70,000	
2004-2005 School	System Wide ADA	64,000	
2004-2005 School	Information Systems-Capital Equipment	64,000	
			338,000
2004-2005 School	Wentworth Boiler Replacement	100,000	
2004-2005 School	Wentworth Asbestos Abatement	105,000	
			205,000
2002-2003 Muni Equip	F.D. Safety Accountability System	30,500	
2002-2003 Muni Equip	Public Safety Communication Upgrade	11,825	
2002-2003 Muni Equip	C.S. Municipal Building Modifications	19,275	
			61,600
2002-2003 School	System Wide - Flooring	24,785	
2002-2003 School	System Wide - Furniture	55,940	
			80,725
2002-2003 School	High School Expansion Project (Voter appr: 11-5-02)	8,175,000	
			8,175,000
2000-2001 Muni Proj	Purchase parks & conservation lands	197,496	
			197,496
2000-2001 School	Primary Sch-Telephone System w/intercom&voice mail	135,000	
			135,000
	(less rounding)		(600)
		\$10,665,600	\$10,665,000

AMORTIZATION OF THE BONDS

Fiscal Year	Due Nov 1,	2004-2005 CIP		2002-2003 CIP		2000-2001 CIP		High	The Bonds
		Muni	School	Muni	School	Muni	School	School	
2005/2006	2005	\$163,955	\$106,000	\$11,000	\$15,725	\$18,320	\$0	\$0	\$315,000
2006/2007	2006	173,956	106,000	12,000	16,000	19,044	13,000	0	340,000
2007/2008	2007	173,000	106,000	12,000	16,000	20,000	13,000	170,000	510,000
2008/2009	2008	174,868	107,000	13,000	16,000	20,132	14,000	175,000	520,000
2009/2010	2009	175,000	107,000	13,000	17,000	20,000	13,000	180,000	525,000
2010/2011	2010	98,000	63,000			20,000	14,000	190,000	385,000
2011/2012	2011	98,000	64,000			20,000	13,000	195,000	390,000
2012/2013	2012	98,000	64,000			20,000	13,000	200,000	395,000
2013/2014	2013	43,000	21,000			20,000	11,000	210,000	305,000
2014/2015	2014	43,000	21,000			20,000	16,000	215,000	315,000
2015/2016	2015	10,000					15,000	225,000	250,000
2016/2017	2016							230,000	230,000
2017/2018	2017							240,000	240,000
2018/2019	2018							250,000	250,000
2019/2020	2019							260,000	260,000
2020/2021	2020							270,000	270,000
2021/2022	2021							280,000	280,000
2022/2023	2022							290,000	290,000
2023/2024	2023							300,000	300,000
2024/2025	2024							315,000	315,000
2025/2026	2025							325,000	325,000
2026/2027	2026							340,000	340,000
2027/2028	2027							355,000	355,000
2028/2029	2028							370,000	370,000
2029/2030	2029							385,000	385,000
2030/2031	2030							405,000	405,000
2031/2032	2031							420,000	420,000
2032/2033	2032							440,000	440,000
2033/2034	2033							460,000	460,000
2034/2035	2034							480,000	480,000
Totals		<u>\$1,250,779</u>	<u>\$765,000</u>	<u>\$61,000</u>	<u>\$80,725</u>	<u>\$197,496</u>	<u>\$135,000</u>	<u>\$8,175,000</u>	<u>\$10,665,000</u>

SOURCE OF PAYMENT AND REMEDIES

The Bonds are general obligations of the Town of Scarborough, Maine 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 Town has power to levy ad valorem property taxes without limit as to rate or amount upon all the taxable property within its territorial limits to pay principal and interest on the Bonds, 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 either municipal development districts as tax increment financing districts or municipal affordable housing development districts pursuant to Title 30-A, Chapters 206 & 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 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.

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 Bonds 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 Bond, 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 \$8,329,000,000 (unaudited) and statutory capital of approximately \$5,224,000,000 (unaudited) as of December 31, 2004. 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 an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation 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 450 Fifth Street, N.W., 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 documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;
2. The Company’s Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;
3. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;
4. The Company’s Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;
5. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;
6. The Company’s Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004;
7. The Company’s Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004;
8. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2004 and filed on November 9, 2004;
9. The Company’s Current Report on Form 8-K dated November 12, 2004 and filed on November 12, 2004; and
10. The Company’s Current Report on Form 8-K dated January 26, 2005 and filed on January 26, 2005.

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 “THE BONDS – BOND INSURANCE – 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 not 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.

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".

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 the 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.

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 sewerred. 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⁾	301
Eight Corners School	K-2	250 ⁽¹⁾	220
Pleasant Hill School	K-2	200 ⁽¹⁾	204
Benjamin Wentworth Intermediate	3-5	750 ⁽¹⁾	779
Scarborough Middle	6-8	800 ⁽¹⁾	805
Scarborough High	9-12	1,200	931

NOTE: ⁽¹⁾ Does not include Portable Classrooms.

⁽²⁾ "Previous Year Pupils" from *Maine Educational Directory, School Year 2003-2004*, State of Maine, Department of Education.

School Enrollments

April 1,	Grades					Total Enrollment
	K-2	3-5	6-8	9-12	Other	
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
1995	622	544	530	590	55	2,341

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, 2004	June 30, 2005 ⁽²⁾
SPSDA	Dispatchers	10	July 1, 2004	June 30, 2005 ⁽²⁾
SPA	Paramedics	8	July 1, 2003	June 30, 2006
SEA	Teachers	279	Sept 1, 2003	Aug 31, 2006
SEAA	School Administrators	11	July 1, 2003	June 30, 2006
SESA	School Staff and Teacher's Aids	131	July 1, 2004	June 30, 2005 ⁽²⁾
SEA	School Custodians	28	July 1, 2004	June 30, 2007
SEA	Bus Drivers	27	July 1, 2003	June 30, 2006
SEA	Maintenance Workers	7	July 1, 2004	June 30, 2007
SEA	Food Service Workers	28	Sept 1, 2003	Aug 31, 2005

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⁾ The Town historically negotiates its contracts for three-year periods. However, due to the uncertainties of a Tax Initiative referendum vote, which failed in the November 2, 2004 referendum election, the Town was reluctant to incur longer-term commitments at the time of the expiration of the respective contract. The Town has budgeted for what it deems as reasonable expectations for the respective contract's renewal after its June 30, 2005 expiration.

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 feet 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 Librarian oversees a staff of 19 full-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	882
Wal-Mart	Retail Department Store	294
Maine Medical Center	Medical	180
Shaw's	Supermarket	150
R.C. Moore Trucking	Trucking	150
Sam's Wholesale Club	Wholesale Department Store	123
Konica Quality Photo	Photo Processing and Supply	108
Rich Tool & Die	Metals Fabrication	90
RTS Packaging	Packaging Materials	85

SOURCE: Scarborough Economic Development Corporation as of June 30, 2004.

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
2003	49,560.0	20,054.9	16,714.8	129,460.3	13,649.4	29,054.8	36,640.4	295,134.6	245,574.6
2002	50,272.5	19,063.7	16,621.5	135,807.9	12,931.0	26,761.2	39,000.2	300,458.0	250,185.5
2001	53,219.3	18,450.9	15,815.0	113,496.2	12,106.1	21,262.1	36,085.3	270,434.9	217,215.6
2000	58,758.3	18,149.3	18,005.1	102,677.5	13,399.2	20,263.6	34,603.4	265,856.4	207,098.1
1999	67,656.9	15,753.4	17,676.3	87,799.5	13,867.3	20,520.9	32,352.4	255,626.7	187,969.8
1998	51,990.2	15,823.1	17,003.7	81,922.5	12,181.2	18,292.0	29,250.2	226,462.9	174,472.7
1997	31,511.9	14,178.8	21,164.8	73,973.7	9,070.2	16,268.4	27,963.4	194,131.2	162,619.3
1996	28,056.9	15,052.2	15,845.4	65,459.8	9,472.3	12,489.1	27,081.1	173,456.8	145,399.9

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		
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

Population	% Change			
	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

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
2004	2.8%	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
1996	2.4	2.9	5.1	5.1

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. 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 Fiscal Year Ending June 30,

	2001	2002	2003	2004	2005
EXPENDITURES					
General government	\$3,024,926	\$3,563,437	\$3,339,535	\$3,451,097	\$3,632,510
Public services	2,146,578	2,404,011	2,150,036	2,425,129	2,593,119
Public safety	4,543,190	4,836,751	5,164,220	5,779,263	5,972,139
Public works	4,107,107	4,238,519	5,119,465	5,256,770	5,540,014
Education	21,170,998	23,337,456	24,993,542	27,358,715	28,741,171
County Tax	933,364	1,061,578	1,306,425	1,441,610	1,519,714
Debt service	3,321,457	3,062,715	3,306,056	3,775,731	4,314,239
CIP	0	1,019,765	1,286,555	329,946	1,753,644
TOTAL EXPENDITURES	39,247,620	43,524,232	46,665,834	49,818,261	54,066,550
REVENUES					
Taxes	29,236,210	32,010,175	34,084,632	36,815,070	40,045,594
Licenses and permits	375,770	413,100	305,950	397,595	392,119
Intergovernmental	7,313,709	7,346,349	8,323,105	7,600,966	7,101,509
Interest earned	160,000	160,000	120,000	120,000	120,000
Other	1,725,998	2,125,162	2,795,354	3,221,163	3,148,628
TOTAL REVENUES	38,811,687	42,054,786	45,629,041	48,154,794	50,807,850
OTHER SOURCES					
Operating transfers	(685,331)	(236,314)	9,182	892,492	1,687,259
Prior year fund balance	1,261,150	1,241,818	0	730,000	478,840
Overlay	(139,886)	(390,966)	(99,039)	(121,025)	(74,899)
Bond and note proceeds	0	854,908	1,126,650	162,000	1,167,500
TOTAL OTHER	435,933	1,469,446	1,036,793	1,663,467	3,258,700
TOTAL BUDGET	\$39,247,620	\$43,524,232	\$46,665,834	\$49,818,261	\$54,066,550

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 displays the current capital improvements schedule:

Capital Improvement Plan Fiscal Year Ending June 30, (expressed in \$)

	2005	2006	2007	2008	2009	Total
Community Services						
Capital Project	0	350,000	350,000	350,000	10,350,000	11,400,000
Equipment	0	25,000	0	0	0	25,000
Municipal Building						
Capital Project	60,000	0	0	0	0	60,000
Equipment	0	0	0	0	0	0
Townwide ADA						
Capital Project	0	0	0	0	0	0
Equipment	5,000	33,000	33,000	33,000	0	104,000
MIS						
Capital Project	0	115,000	100,000	0	0	215,000
Equipment	2,900	290	2,900	700	700	7,490
Public Safety						
Capital Project	119,447	4,336,500	0	0	0	4,455,947
Equipment	18,535	95,120	47,000	15,000	15,000	190,655
Fire Department						
Capital Project	0	735,000	50,000	0	415,000	1,200,000
Equipment	224,152	163,957	276,207	253,454	210,946	1,128,716
Public Works						
Capital Project	0	2,000,000	70,000	1,110,000	0	3,180,000
Equipment	104,500	327,000	56,000	160,000	0	647,500
Haigis Parkway						
Capital Project	0	0	0	0	4,000,000	4,000,000
Equipment	0	0	0	0	0	0
Library						
Capital Project	14,000	1,839,000	67,000	0	0	1,920,000
Equipment	37,000	22,000	18,000	9,000	4,000	90,000
Total Capital Projects	193,447	9,375,500	637,000	1,460,000	14,765,000	26,430,947
Total Equipment	392,087	666,367	433,107	471,154	230,646	2,193,361
Total CIP	585,534	10,041,867	1,070,107	1,931,154	14,995,646	28,624,308

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 undesignated 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 undesignated to be carried forward.

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 2004 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

Trust Funds - Trust Funds are used to account for assets received by the Town and held in a trustee capacity. The Town elected to report the nonexpendable trust funds with expendable trust funds for the purposes of this report.

Agency Funds - Agency Funds are used to account for assets that a government holds on behalf of others as their agent.

Account Groups

Account groups are used to establish accounting control and accountability for the Town's general fixed assets and general long-term debt. The following are the Town's account groups.

General Fixed Assets Account Group - This account group is established to account for the fixed assets of the Town. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

General Long-term Debt Account Group - This account group is established to account for the long-term liabilities expected to be financed from governmental funds.

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

	2004	2003	2002	2001	2000
ASSETS					
Cash and cash equivalents	\$6,885,074	\$9,194,945	\$3,965,364	\$3,083,887	\$4,019,205
Investments	2,692,139	907,364	2,654,419	4,983,726	2,596,472
Receivables:					
Taxes receivable	75,740	71,205	111,882	103,003	106,864
Tax liens	364,515	359,964	658,429	825,269	847,170
Accounts receivable	535,740	414,811	1,523,279	256,202	206,423
Due from State	52,814	26,087	40,573	142,531	146,722
Interfund receivable	1,438,719	1,172,604	1,811,384	0	0
Tax acquired property	7,231	7,231	3,030	3,030	3,072
TOTAL ASSETS	12,051,972	12,154,211	10,768,360	9,397,648	7,925,928
LIABILITIES					
Accounts payable	809,838	666,405	501,795	708,680	700,570
Accrued wages	2,274,593	2,187,754	1,960,455	1,803,424	1,713,524
Accrued absences	375,384	341,810	288,388	365,570	343,237
Interfund payable	1,526,628	1,575,276	288,754	659,098	135,822
Taxes collected in advance	36,187	19,582	31,806	8,061	10,931
Deferred tax revenue	400,000	400,000	717,000	878,000	890,000
Performance bond	0	0	427,149	416,686	418,574
TOTAL LIABILITIES	5,422,630	5,190,827	4,215,347	4,839,519	4,212,658
EQUITY					
Fund balances:					
Reserved	710,484	751,842	800,315	889,379	935,515
Unreserved:					
Designated - Town	1,225,294	1,542,291	1,688,411	893,233	1,138,150
Designated - Education	0	0	0	350,000	0
Undesignated - Town	4,224,880	4,508,990	4,167,190	3,306,369	2,630,249
Undesignated - Education	468,684	160,261	(102,903)	(880,852)	(990,644)
TOTAL EQUITY	6,629,342	6,963,384	6,553,013	4,558,129	3,713,270
TOTAL LIABILITIES AND EQUITY	\$12,051,972	\$12,154,211	\$10,768,360	\$9,397,648	\$7,925,928

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.)

	2004	2003	2002	2001	2000
REVENUES					
Taxes	\$37,104,562	\$34,581,649	\$32,380,000	\$29,311,032	\$27,560,090
Licenses and permits	480,440	428,593	412,845	432,830	652,955
Intergovernmental	9,756,365	7,622,220	9,805,334	10,180,585	9,227,049
Interest earned	105,034	123,995	157,722	301,979	260,053
Other	3,062,901	3,036,510	2,375,769	2,058,516	1,957,249
TOTAL REVENUES	50,509,302	45,792,967	45,131,670	42,284,942	39,657,396
EXPENDITURES					
General government	3,568,303	3,422,319	3,041,249	2,923,128	2,755,848
Public services	2,572,389	2,653,341	2,325,304	2,503,686	2,304,933
Public safety	5,933,594	5,277,917	4,705,436	4,464,600	4,270,802
Public works	4,877,211	4,767,202	4,108,009	4,103,021	3,584,832
Education	28,862,018	24,171,344	25,091,349	22,901,339	21,129,812
County tax	1,441,610	1,306,425	1,061,578	933,364	841,774
Other	0	148,018	102,550	56,665	50,974
Debt service	5,046,242	3,192,012	3,039,920	3,046,310	2,818,666
Capital improvements	653,352	1,209,004	1,233,457	0	0
TOTAL EXPENDITURES	52,954,719	46,147,582	44,708,852	40,932,113	37,757,641
EXCESS OF REVENUES OVER EXPENDITURES	(2,445,417)	(354,615)	422,818	1,352,829	1,899,755
OTHER FINANCING SOURCES:					
Operating transfers in	1,304,889	640,584	1,430,397	658,463	601,260
Operating transfers out	(755,514)	(897,846)	(1,049,986)	(1,166,433)	(1,513,489)
Prior year designated funds	0	2,066,352	1,241,818	1,261,150	946,017
Bond or note proceeds	1,562,000	1,210,085	1,191,655	0	0
TOTAL OTHER FINANCING:	2,111,375	3,019,175	2,813,884	753,180	33,788
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(334,042)	2,664,560	3,236,702	2,106,009	1,933,543
Reconciliation to GAAP	0	(187,837)	0	0	0
FUND BALANCE, BEGINNING OF YEAR	6,963,384	6,553,013	4,558,129	3,713,270	2,725,744
(Less prior year designated funds)	0	(2,066,352)	(1,241,818)	(1,261,150)	(946,017)
FUND BALANCE, END OF YEAR	\$6,629,342	\$6,963,384	\$6,553,013	\$4,558,129	\$3,713,270

Prepared from Audited Financial Statements.

PROPERTY TAXATION

Fiscal Yr. End June 30,	Equalized State Valuation (000)	Assessed Valuation (000)	Tax Rate (000)	Gross Tax Levy (000)	Collections (after Supplements and Abatements)		
					Year End (000)	% of Levy	% of Levy A/O 9/01/04
2005	\$2,538,800	\$2,057,589	\$17.34	\$35,678	---- In Process ----		
2004	2,158,300	2,023,583	16.46	32,969	32,747	99.33%	99.48%
2003	1,864,800	1,959,463	15.70	30,311	30,104	99.20	99.72
2002	1,571,700	1,858,345	15.30	28,433	28,121	98.84	99.92
2001	1,374,950	1,313,684	19.60	25,748	25,339	98.35	99.96
2000	1,253,450	1,259,330	19.20	24,179	23,716	98.06	99.96
1999	1,155,300	1,206,144	18.40	22,193	21,746	97.68	99.94
1998	1,109,500	1,186,155	18.40	21,825	21,382	97.68	99.95
1997	1,060,350	1,138,964	18.20	20,729	20,114	96.92	99.95
1996	1,037,050	1,096,685	17.90	19,631	18,997	96.61	99.95
1995	1,005,600	1,070,635	17.00	18,201	17,518	95.98	99.95

The principal tax of the Town is the tax on real and personal property. There is no limit as to rate or amount. 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 2004/2005 the tax due dates are October 15, 2004 and March 15, 2005. All taxes paid after the due date will be subject to interest, at the rate of 6.50% 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.

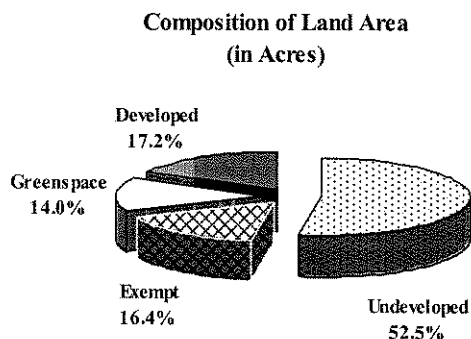
LARGEST TAXPAYERS

Name	Business	Fiscal Year 2004/2005		
		Assessed Value	Property Tax	% of Levy
Maine Life Care	Senior Housing	\$46,346,900	\$803,655	2.25%
Hannaford Brothers	Supermarket, Corporate Office	29,417,300	510,096	1.43
WalMart/Sam's Club	Wholesale Retail	21,363,600	370,445	1.04
Gavin Ruotolo	Commercial Leases	10,797,000	187,220	0.52
Maine Historic Hotels	Hotel	9,862,000	171,007	0.48
ERP Operating L.P.	Residential Apartments	8,870,500	153,814	0.43
Central Maine Power	Electric Transmission	8,364,600	145,042	0.41
Shaw's	Supermarket	7,876,200	136,573	0.38
Davric Maine Corp	Race Track	7,180,200	124,505	0.35
CNL Hospitality Part	Hotel	6,638,400	115,109	0.32

CURRENT TAX BASE AND TAX BASE GROWTH

The Town's land area is comprised of 28,075 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.

<u>By Land Area (acres)</u>	<u>2004</u>
Undeveloped ⁽¹⁾	14,727
Exempt	4,607
Greenspace ⁽²⁾	3,921
Developed	<u>4,820</u>
Total	28,075



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:

	1994		1999		2004	
	Value (\$)	% Total	Value (\$)	% Total	Value (\$)	% Total
Commercial	189,525,000	17.27%	204,136,700	15.93%	376,824,050	17.77%
Industrial	67,125,300	6.12	65,155,000	5.08	79,075,100	3.73
Residential	813,984,700	74.17	929,093,200	72.51	1,525,031,350	71.91
Undeveloped (included in Residential)			60,606,400	4.73	76,658,500	3.61
Other	26,793,100	2.44	22,379,300	1.75	63,276,900	2.98
Assessed Value	<u>1,097,428,100</u>	<u>100.00%</u>	<u>1,281,372,599</u>	<u>100.00%</u>	<u>2,120,865,900</u>	<u>100.00%</u>

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

TAX INCREMENT FINANCING DISTRICTS AND AFFORDABLE HOUSING DISTRICTS

Chapter 206 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
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, 2005 the Town’s equalized state valuation (“equalized State Valuation”) was reported to be \$2,538,800,000. The 15% debt limit is \$380,820,000. As of June 30, 2004 the Town’s long-term debt was \$62,952,163 or 2.48% 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, 2004 (audited) and projected for June 30, 2005 (unaudited) are comprised of the following individual issues:

Series	Date of Issue	Issue Amount	Date of Final Mat	Outstanding as of	
				June 30, 2004	June 30, 2005
1987	10/25/87	\$3,300,000	10/25/07	\$500,000	\$375,000
1988	04/25/88	6,615,000	10/25/08	1,375,000	1,100,000
1989	12/15/89	2,300,000	12/15/08	550,000	430,000
1990	11/01/90	7,415,000	11/01/10	2,305,000	1,970,000
1993	05/01/93	1,135,000	11/01/12	225,000	200,000
1994	10/15/94	6,775,000	10/15/14	2,730,000	2,300,000
1995A	07/15/95	97,000	07/15/05	24,163	12,434
1995B	12/15/95	6,160,000	11/01/15	3,260,000	2,955,000
1997	04/15/97	4,230,000	11/01/16	1,715,000	1,510,000
1998	02/15/98	1,475,000	11/01/07	385,000	285,000
1999	06/15/66	6,493,000	11/01/18	2,690,000	2,290,000
2000	06/15/00	4,770,000	12/15/19	2,635,000	2,190,000
2001	06/15/01	4,932,000	11/01/20	3,110,000	2,575,000
2002	06/15/02	4,000,000	11/01/06	2,570,000	1,695,000
2003	05/15/03	24,579,000	11/01/32	24,250,000	23,380,000
2004	03/15/04	14,628,000	11/01/33	14,628,000	13,805,000
				<u>\$62,952,163</u>	<u>\$57,072,434</u>
2005	03/15/05	10,665,000	11/01/34	0	10,665,000
				<u>\$62,952,163</u>	<u>\$67,737,434</u>

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
2005	16,970	\$2,538,800	2,057,589	\$67,737,434	2.67%	\$3,993.36
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
1995	12,518	1,005,600	1,070,635	27,803,000	2.76	2,221.04

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

DEBT SERVICE COMPONENT OF OPERATING EXPENSES

	Audited					Budgeted
	2000	2001	2002	2003	2004	2005
Total Current Year Debt Service:	\$5,686,782	\$6,062,165	\$6,586,998	\$6,549,468	\$8,793,061	\$8,513,265
(less Subsidized School Debt):	(760,816)	(679,260)	(631,119)	(615,031)	(271,119)	(180,726)
Net Tax-backed Debt:	\$4,925,966	\$5,382,905	\$5,955,879	\$5,934,437	\$8,521,942	\$8,332,539
Budgeted Operating Expense:	\$35,915,195	\$39,247,620	\$43,524,232	\$46,665,834	\$49,818,261	\$54,066,550
Debt Service as % Oper. Expense:	13.72%	13.72%	13.68%	12.72%	17.11%	15.41%

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	
				Principal	Interest		
2005	\$5,879,729	\$2,633,535	\$8,513,265	\$0	\$0	\$0	\$8,513,265
2006	5,592,433	2,346,590	7,939,023	315,000	499,780	814,780	8,753,803
2007	5,180,000	2,129,474	7,309,474	340,000	431,068	771,068	8,080,541
2008	4,305,000	1,931,474	6,236,474	510,000	416,193	926,193	7,162,666
2009	3,750,000	1,757,828	5,507,828	520,000	398,168	918,168	6,425,995
2010	2,760,000	1,617,734	4,377,734	525,000	379,880	904,880	5,282,614
2011	2,750,000	1,499,349	4,249,349	385,000	363,955	748,955	4,998,304
2012	2,455,000	1,388,131	3,843,131	390,000	349,905	739,905	4,583,036
2013	2,545,000	1,280,898	3,825,898	395,000	335,186	730,186	4,556,084
2014	2,055,000	1,179,918	3,234,918	305,000	321,680	626,680	3,861,598
2015	1,805,000	1,091,404	2,896,404	315,000	309,280	624,280	3,520,684
2016	1,680,000	1,010,965	2,690,965	250,000	297,980	547,980	3,238,945
2017	1,530,000	939,039	2,469,039	230,000	288,380	518,380	2,987,419
2018	1,550,000	871,114	2,421,114	240,000	278,980	518,980	2,940,094
2019	1,690,000	800,110	2,490,110	250,000	269,180	519,180	3,009,290
2020	1,775,000	724,226	2,499,226	260,000	258,850	518,850	3,018,076
2021	1,830,000	646,576	2,476,576	270,000	247,850	517,850	2,994,426
2022	1,900,000	567,193	2,467,193	280,000	236,230	516,230	2,983,423
2023	2,105,000	480,887	2,585,887	290,000	224,118	514,118	3,100,004
2024	750,000	418,736	1,168,736	300,000	211,505	511,505	1,680,241
2025	785,000	385,233	1,170,233	315,000	197,968	512,968	1,683,200
2026	825,000	349,776	1,174,776	325,000	183,568	508,568	1,683,344
2027	860,000	312,579	1,172,579	340,000	168,605	508,605	1,681,184
2028	905,000	273,472	1,178,472	355,000	152,968	507,968	1,686,439
2029	945,000	232,288	1,177,288	370,000	136,470	506,470	1,683,758
2030	990,000	189,160	1,179,160	385,000	119,105	504,105	1,683,265
2031	1,035,000	144,028	1,179,028	405,000	100,125	505,125	1,684,153
2032	1,085,000	96,778	1,181,778	420,000	79,500	499,500	1,681,278
2033	1,135,000	47,298	1,182,298	440,000	58,000	498,000	1,680,298
2034	500,000	11,000	511,000	460,000	35,500	495,500	1,006,500
2035	0	0	0	480,000	12,000	492,000	492,000
TOTAL	\$62,952,163	\$27,356,788	\$90,308,950	\$10,665,000	\$7,361,974	\$18,026,974	\$108,335,924

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	Total Debt
2005	125	275	120	335	25	430	12	305	205	100	400	445	535	875	870	823	0	5,880
2006	125	275	110	335	25	230	12	305	205	100	400	210	510	850	1,070	830	315	5,907
2007	125	275	110	335	25	230		265	205	100	400	210	190	845	890	975	340	5,520
2008	125	275	110	325	25	230		265	110	85	395	210	180		995	975	510	4,815
2009		275	100	325	25	230		265	110		395	205	180		655	985	520	4,270
2010				325	25	230		265	110		70	205	180		685	665	525	3,285
2011				325	25	230		265	110		70	115	180		750	680	385	3,135
2012					25	230		265	110		70	115	120		840	680	390	2,845
2013					25	230		265	110		70	115	115		925	690	395	2,940
2014					25	230		265	110		70	115	115		595	555	305	2,360
2015						230		265	110		70	115	115		685	215	315	2,120
2016						230		265	110		70	115	115		780	225	250	1,930
2017									110		70	115	115		885	235	230	1,760
2018											70	115	115		1,005	245	240	1,790
2019											70	115	115		1,135	255	250	1,940
2020											70	115	115		1,280	265	260	2,035
2021												115	115		1,435	280	270	2,100
2022													115		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
Totals	500	1,375	550	2,305	225	2,730	24	3,260	1,715	385	2,690	2,635	3,110	2,570	24,250	14,628	10,665	73,617

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, 2005 the Town's equalized State Valuation of \$2,538,800,000 was 8.38% of the County's equalized State Valuation of \$30,301,350,000. The Town's share is 8.38%, or \$1,194,150, of the County's \$14,250,000 long-term debt projected to be outstanding as of December 31, 2004.

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, 2005 the Town was responsible for 12.81%, or \$2,938,614, of the PWD's \$22,940,000 Water System Debt projected to be outstanding as of December 31, 2004.

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, 2004, outstanding RRS Debt of RWS totaled \$56,725,000, of which the Town's share, based on estimated tonnage to be delivered, amounts to 7.92% or \$4,495,177.

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, 1999 (the latest audited data available) aggregate

\$8,079,467 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, 1999 the reported costs of this property have been written down to its estimated fair market value of \$4,000,000. At June 30, 2004 the Town's share is 6.30% or \$384,930 of RWS's outstanding MRF debt of \$6,110,000. 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 \$18,895,132 at June 1, 2003 (the latest audited data available). The Town's proportionate share of these estimated landfill closure and postclosure care costs is 7.74%, or \$1,462,532.

TOTAL GENERAL OBLIGATION, OVERLAPPING AND CONTINGENT DEBT

	Direct Debt	Overlapping	Contingent	Total Debt
Town of Scarborough	\$62,952,163	\$0	\$0	\$62,952,163
County of Cumberland	0	1,194,150	0	1,194,150
Portland Water District	0	0	2,938,614	2,938,614
RWS (RRS)	0	0	4,495,177	4,495,177
RWS (MRF)	0	0	384,930	384,930
RWS (Landfill)	0	0	1,462,532	1,462,532
Total A/O June 30, 2004	<u>\$62,952,163</u>	<u>\$1,194,150</u>	<u>\$9,281,253</u>	<u>\$73,427,566</u>

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 vote 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 2004 Bonds, in the amount of \$1,000,000, were used to purchase parcels identified by the Town. A portion of the proceeds of the 2005 Bonds, in the amount of \$197,496, will be 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 2000-2001, 2002-2003, 2003-2004 or 2004-2005 CIP projects that have been authorized by the Council, in a consolidated amount of \$2,262,387. As the projects have not matured to the extent that significant funds need be available over the next several months, they will be financed, if completed, by future bond issues.

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 5.9% of annual covered payroll for School employees participating in the District Plan and 6.8% for Town employees. 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, 2004 were \$44,221 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 \$2,499,868 for the fiscal year 2004. 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 \$354,763, which was 6% of its current year covered payroll. The covered payroll amounted to \$5,912,717 while the Town's total payroll was \$7,916,421. Employee's required contributions amounted to \$354,763, 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, 2004**

(With Report of Independent Auditors' Thereon)

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TOWN OF SCARBOROUGH, MAINE
Comprehensive Annual Financial Report
Year ended June 30, 2004

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TOWN OF SCARBOROUGH, MAINE
 Comprehensive Annual Financial Report
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INTRODUCTORY SECTION



Town of Scarborough, Maine

P.O. BOX 360 • SCARBOROUGH, MAINE 04070-0360

Jeffrey Messer, Council Chairman
And Distinguished Members of the Town Council
Scarborough, Maine

In accordance with the requirements of our Town Charter and state statutes and in recognition of the increased interest in public official's accountability to citizens, businesses and potential investors, we hereby issue the comprehensive annual financial report of the Town of Scarborough, Maine for the fiscal year ended June 30, 2004. The Town's Finance Department has prepared this report using the new reporting requirements as prescribed by the Governmental Accounting Standard's Board (GASB) Statement No. 34. Responsibility for both the accuracy of the data and the completeness and fairness of the information, including all disclosures, rests with the Town of Scarborough. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position of the Town of Scarborough. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

The Town is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984, and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Information pertaining to this single audit, including a schedule of expenditures of federal awards, findings and questioned costs, recommendations and the independent auditor's report on the internal control and compliance with applicable laws and regulations, are reported in a separate document.

The comprehensive annual financial report is prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America. This report is presented in three sections: introductory, financial and statistical. The first section, introductory, is unaudited and includes the transmittal letter. The second section, financial, includes the management's discussion and analysis of the Town's financial activities, the basic financial statements and the combining and individual fund statements and schedules. The final section, statistical, includes selected financial and demographic information, generally presented on a multi-year basis.

TOWN'S ORGANIZATIONAL STRUCTURE AND SERVICES PROVIDED

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. Scarborough is bordered by the Spurwink River and the Atlantic Ocean on its eastern side and is bordered by the communities of Westbrook, South Portland, Cape Elizabeth, Gorham, Buxton, Saco and Old Orchard Beach.

The Town was first settled in 1633 and was incorporated as the sixth town in the Province of Maine on July 14, 1658. The Town operates under a charter first adopted on October 7, 1969 and provides for a Town Council and Town Manager form of government. The legislative body consists of a seven-member town council and a seven-member school board has general authority for our public schools. The Town Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees and hiring both the Town Manager and the Town Assessor. The Town Manager is responsible for carrying out the policies and ordinances of the Town Council, for overseeing the day-to-day operations of the government, and for appointing the administrators of the various departments.

The Town of Scarborough provides a full range of services, including public safety protection which incorporates the police, fire, rescue and emergency management services; sanitation and solid waste services; roads and highway maintenance and construction; vehicle maintenance; community services including recreation, parks, child care programs and grounds maintenance; human services and public assistance; education; planning and zoning and general administrative services.

Although legally separate entities, blended component units are, in substance, part of the Town's primary government operations. We have included the Scarborough Economic Development Corporation as part of the primary government's operations.

The Scarborough Public Library is a discretely presented component unit in a separate column in the government wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government.

Financial statements for the following entities are not included in this report as they are administered by boards that are legally separate from and independent of the Town Council and otherwise have not met the established criteria for inclusion in this report. A brief description, however, is incorporated in the notes to the financial statements:

- Portland Water District
- Scarborough Sanitary District
- Regional Waste Systems
- Biddeford Saco Water District

In accordance with the provisions of Article V of the Town Charter, the annual budget serves as the foundation for Scarborough's financial planning and control. The Town's budget year begins July 1 and ends June 30 of the following year. The Charter provides that the Town Manager submit a budget to the Town Council at least sixty days (60) 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 budget is reviewed and adopted by the Council with the potential for future amendment. 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 prior to July 1, the budgets presented by the Town Manager and the Board of Education automatically become the budget for the fiscal year.

The Town Charter requires the budget document include the following information:

- Prior year actual expenditures
- Current year budget
- Current year estimated expenditures
- New year Department requests
- New year Manager request
- Increase (Decrease) of budgets shown as both a Percentage and a dollar amount
- Council approved budget

Department Administrators and the Board of Education may make transfers of appropriations within their departments. Transfers of appropriations between departments, however, require the approval of the Town Council.

ECONOMIC CONDITION AND FUTURE OUTLOOK

Local Economy. The Town of Scarborough is primarily a suburban residential community that currently enjoys a favorable economic environment and local indicators point to continued stability and growth. There are currently 980 businesses located within Scarborough. As well as being home to two excellent major medical research facilities, the Town of Scarborough continues to attract high tech and biotech industry. A major redevelopment of

an 88,000 square foot underutilized structure was completed and will house two biotech companies. Additionally, the Town of Scarborough is an active participant in the development of private industrial and commercial facilities. The Town of Scarborough has a varied manufacturing, industrial and commercial base that adds to the relative stability of the unemployment rate.

The Maine Department of Labor provides unemployment data for various regions of the state. While data is not provided specifically for the Town of Scarborough, we are included in the information for the Portland Metropolitan Statistical Area (PMSA). The unemployment rate for the PMSA decreased 0.1 % during 2004 and remains below state levels as of the month of June for the last three years:

	<u>PMSA</u>	<u>Statewide</u>
2001	2.4%	4.0%
2002	2.9%	4.3%
2003	2.7%	4.4%
2004	2.6%	4.0%

The business community, in Scarborough, is diverse and is located primarily in distinct areas of the Town. U.S. Route One, one of three major routes through the community, is primarily a commercial business district serving the daily needs of the community's residents. It is a mix of retail, amusement, and small professional offices. Payne Road, a continuation of the Maine Mall Road, is home to many larger, big box type retailers and serves a more regional clientele. Industrial development is largely contained in the Scarborough Industrial Park and the Pleasant Hill Road Area.

The Town of Scarborough is also bisected north to south by Interstate 95 and is serviced by Exit 42 as well as Interstate 295 and the aforementioned U. S. Route One giving Scarborough an enviable location advantage. Scarborough is located ten minutes from downtown Portland, five minutes to the Portland International Jetport, and less than two hours from Boston. Access to the new Downeaster train service to Boston is located to both the north and south of Scarborough.

As mentioned earlier, the Town of Scarborough is primarily a suburban, residential community. It is one of the fastest growing residential centers in the State of Maine. This growth has necessitated Scarborough's need to develop a strong and stable commercial base to help meet the ever-growing demands of its residents. To foster that development, the Town of Scarborough created a private non-profit Corporation in 1986 to encourage new business and retain and grow existing businesses and assist the community in its long term economic development planning.

One of the economic initiatives in this fiscal year includes the continuing development of the infrastructure in the Haigis Parkway/Exit 42 Development Area. This will open approximately 1,000 acres for private high-end industrial and commercial development. This continues the trend in Scarborough to use public resources more effectively by partnering with the private sector to develop commercial and industrial sites. This is evidenced by partnership between the Town and the Enterprise Business Park. This privately developed park will ultimately contain 35 lots. Three buildings are currently occupied. The Enterprise Business Park will be built in four stages; stage one is nearly completed.

Comprehensive Plan. The Town Council adopted the Town's current Comprehensive Plan in June of 1994. Since that time, the Town has continued its planning process with a number of studies. Among those studies is the Growth and Services Report, the Haigis Parkway Study and the development of a Comprehensive Growth Strategy.

The Comprehensive Growth Strategy included the adoption of a Residential Growth Control Ordinance, which allows growth to proceed at about 135 residential units per year. This will help ensure that we do not overtax our infrastructure.

The first step in the new Comprehensive Plan was the development of a visioning process for the Town. This included seven neighborhood meetings as well as five meetings with various interest groups (schools, environmental, non-profit organizations, economic development and historical). The development of visioning included mailings to all households in Scarborough. The visioning process provided insight to the Comprehensive Plan Committee as to the direction, needs and desires of Scarborough residents. In the fall of 2004, the process to update the Comprehensive Plan will begin. The update of the subdivision ordinance and other development guidelines were completed and adopted.

Major Initiatives

For the year. The construction of the Haigis Parkway/Exit 42 infrastructure is nearing completion. It is envisioned that this area will become the pre-eminent commercial location in the State of Maine. Scarborough is now in the planning stages for the construction of a US Post Office, a Mercedes Dealership, a Lowes and Super Walmart. The Town Council, Planning Board, Planning Staff and the Scarborough Development Corporation have worked diligently to develop Ordinances to ensure high level of development that is both environmentally sound and aesthetically pleasing. They are also looking into updating the Site Plan Ordinance and Shoreland Zoning as well as implementing a local Wetland Ordinance.

For the future. The infrastructure development of the Haigis Parkway/Exit 42 (formerly Exit 6) area has begun and is nearing completion. It is expected that development interest will continue to grow in this area. Funding and construction of the Haigis Parkway infrastructure will help to strengthen Scarborough's economic base over the next two decades.

In 2004, the Scarborough Town Council awarded the Scarborough Economic Development Corporation and additional \$30,000 to develop a national marketing campaign to promote the Exit 42 (formerly Exit 6)/Haigis Parkway area and the Town of Scarborough. This campaign will create a new name, logo, printed material, web site and trade show materials.

The Enterprise Business Park project has received final approval for the full build-out condition, both locally and with the State. Phase One of the Enterprise Business Park was approved and has been substantially completed. The Enterprise Business Park, a private business park, developed in partnership with the Town of Scarborough is filling up with the completion of a fourth building and a commitment for a fifth building. Permitting for Phase Two, Three and Four are progressing. This park will ultimately house some thirty buildings.

A subcommittee of the Planning Board had designed guideline recommendations on beautifying and revitalizing the U.S. Route One corridor. The design guidelines have been adopted.

Acquisition and preservation of open space and environmentally sensitive areas are high priorities for the citizens of Scarborough as determined from the visioning process. In 2002, the citizen approved a \$1.5 million bond for open space preservation and an additional \$2.5 million in 2003.

As noted earlier, Scarborough continues to be a focal point for the development of small biotech start-up companies. A major biotech firm, Binax, has committed to moving its facilities from Portland to Scarborough. This development coupled with the continuing expansion of the Maine Medical Research Institute and the Foundation for Blood Research will undoubtedly spin off smaller ventures while hopefully attracting more established firms to the area.

Long Term Financial Planning. Scarborough has a five year Capital Improvement Plan. We use this plan, not only to make decisions regarding equipment replacement, building, land and infrastructure improvements and purchases, but also for open space purchases and improvements.

Scarborough has seen an ever-increasing popularity in skateboarding, scooter and rollerblading. The Town is continuing the construction of the skateboard park that began last year. This skateboard park is being incorporated into the Community Park in the Oak Hill section of the community. The Community Park is located

at the site of an old drive-in on U.S. Route One. In addition to the skateboard park, the construction of a multi-purpose playing field, nature trails and park have begun.

The Eastern Trail Management District has been awarded a grant to allow for future development of the trail system across the Scarborough Marsh and Black Point Road. This grant will provide access for a north to south corridor for safe recreational biking and walking. A new bridge will be installed in the Summer of 2004, spanning the Dunstan River on the Scarborough Marsh, to help further the future growth the Eastern Trail corridor.

The Town is one of twenty-one (21) communities that own and operate Regional Waste Systems, which was established in 1974 to dispose of the participating community's trash. As a result of changes in the economics of trash to energy, and a reduction in commercial waste, the annual assessment and tipping fee have increased steadily in the past several years. With the other member communities, the Town of Scarborough is exploring ways to reduce annual operating costs and debt service payments and to improve plant utilization.

As the Town's population continues to grow, existing school buildings, already at or near capacity, are being stretched to the point that effective instruction for all students is becoming increasingly difficult to guarantee. Additional information can be found in the Required Supplementary Information section of the financial statements.

The citizens of Scarborough approved a \$28.6 million dollar high school expansion project. This project is expected to be completed in late 2005. Scarborough High School's new and improved physical facility will not merely provide a larger place for more students, but, guided by well-documented research, solid data, and successful best practices, the school will be able to offer new, exciting programs that will supplement an already strong, traditional secondary curricula. Distance learning, teaming, and collaboration beyond the classroom, increased program individualization, creative use of time, technology as both a means and an end - these instructional approaches and more will be possible upon completion of the high school construction project. Scarborough High School will truly possess the potential to become an institution of the 21st Century.

Scarborough Middle School for grades six through eight, reached its physical capacity of 600 when the building opened its doors in September 1996. By 2001, as enrollment approached 800, eight modular classrooms were needed. Future enrollment of the middle school population is projected to be above 900. Proposed development projects will likely push this figure even higher.

Similarly, the Wentworth Intermediate School, constructed in 1964 and expanded in 1975, is not conducive to currently accepted best practices in intermediate education. Additionally, building mechanicals (heating, lighting) and security concerns are outdated.

A facilities plan for both the middle school and the intermediate school is in progress. This plan will include the request for construction funding from the Maine Department of Education, construction of additional modular classrooms, and referendum questions submitted to the voters for the middle school renovation in the future. Anticipated completion of the renovation of these two schools would be August 2007 for the middle school and August 2008 for the intermediate school.

The Scarborough School system currently has three K-2 schools. As continued home construction and subdivisions are proposed and built, it may be necessary to build a fourth K-2 school.

FINANCIAL INFORMATION

Assessed Valuation and Collections. An indicator of our strong local economy is reflected in the growth of the Town's assessed value of real and personal property. The taxable valuation of Scarborough has more than doubled since 1990. For the 2004 tax year, the valuation was \$2,062,987,200 compared to the 1990 valuation of \$995,448,900. For the past seven (7) years, residential and commercial construction have increased on an average of three (3%) to four (4%) percent per year.

Below is a list of unpaid property taxes for the last four years:

\$928,271 in 2001,
\$770,312 in 2002,
\$431,168 in 2003,
\$440,255 in 2004.

The Town had implemented two ways to improve property tax collections. The Scarborough Town Council had adopted a policy on collection of prior year unpaid tax acquired property. These factors, combined with interest rates being the lowest in years, have contributed to Scarborough's successful rate of collections. Collections for the 2004 tax year exceeded 99% of the current year's tax levy.

Cash management policies and practices. Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, U.S. Government obligations and repurchase agreements. The average yield on all investments was approximately 1.16%.

Total investment income during the year amounted to \$355,494.

Risk Management. The Town of Scarborough continues to manage all aspects of its risk management program aggressively. The Human Resource Department is responsible for all employment, workers' compensation and ADA related issues. As claims arise, the staff identifies situations, which may cause injury or illness to employees and work to resolve safety issues and health concerns.

The Administrative Assistant to the Town Manager is responsible for the property and casualty, police professional and general liability claims. The Town's risk pool insurance provider, as a part of their insurance service, provides safety training to the Town along with loss prevention analysis on a regular basis.

OTHER INFORMATION

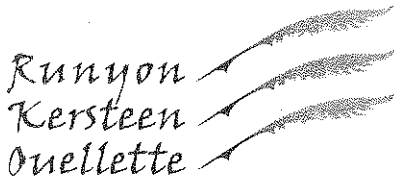
Independent Audit. The Town Charter requires an annual financial audit by independent certified public accountants appointed by the Town Council. The firm of Runyon, Kersteen, and Ouellette was selected to perform the annual audit for the Scarborough Town Council for the fiscal year 2004. This audit is designed to meet the requirements of the federal Single Audit Act of 1984 and related OMB Circular A-133. The independent auditor's report is presented as the first component of the financial section of this report.

Acknowledgements. The preparation of the comprehensive annual financial report was made possible by the dedicated service of each member of the Finance Department. Appreciation is also extended to the Department Administrators and to Ronald W. Owens, the Town Manager for his unfailing support for the work of the Accounting staff. Additionally, I would like to acknowledge the efforts of the accounting firm of Runyon, Kersteen, and Ouellette. Finally, I would like to extend my appreciation to the Scarborough Town Council for their complete support for maintaining the highest standards of professionalism in the management of the Town's finances.

Respectfully Submitted,

Ruth D. Porter
Finance Director

FINANCIAL SECTION



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, 2004, which collectively comprise the City'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 an opinion 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 combining statements and individual fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ryan Kersten Ouellette

November 15, 2004
South Portland, Maine

Town of Scarborough

Management Discussion and Analysis

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, 2004. For the fiscal year ending June 30, 2004, 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 2004 fiscal year by \$35,730 (net assets).
- The Town's total net assets increased by \$2,826.
- As of June 30, 2004, the Town's governmental funds reported combined fund balances of \$30,443, a decrease of \$2,009 compared with the prior year. Of the approximately \$29,609 reported as unreserved fund balance, \$5,010 are special revenue funds authorized for specific projects, \$18,611 are for major capital construction projects and \$68 is for maintenance of the Town's cemeteries. The remaining amount of \$5,919 is available for the discrete purposes for which these funds are collected.
- As of June 30, 2004, unreserved and undesignated fund balance for the general fund was \$4,694, or 9.2% of total general fund expenditures and transfers. The Town of Scarborough's Fund Balance policy calls for 8.33% of the total operating budget or \$4,219.
- The Town of Scarborough's total debt increased by \$8,193 from the prior year. Total debt retired was \$6,435. Total debt issued was \$14,628 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).

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, public safety, public works (highways, streets, and solid waste disposal), capital improvements, education and county tax. The Town currently has no business-type activities.

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 25-26 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 6 individual government 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 3 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 27-32 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.
- 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 71-72 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 Funds are not considered major funds and the fund data for these funds is provided in the form of combining statements elsewhere in this report.

The permanent fund financial statements can be found on pages 75-76 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 79-80 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 33 to 50.

Other Information. The combining statements referred to earlier in conjunction with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 53 to 80 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second 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 \$35,730 as of June 30, 2004.

Town of Scarborough's Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 36,704	38,047
Capital assets	<u>69,849</u>	<u>61,930</u>
Total assets	<u>106,553</u>	<u>99,977</u>
Long term liabilities outstanding	\$ 57,664	55,486
Other liabilities	<u>13,159</u>	<u>6,371</u>
Total liabilities	\$ <u>70,823</u>	<u>61,857</u>
Net assets		
Invested in capital assets, net of related debt	\$ 6,689	6,893
Restricted	123	21,040
Unrestricted	<u>28,918</u>	<u>10,187</u>
Total Net Assets	\$ <u>35,730</u>	<u>38,120</u>

Approximately 18.72% 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. 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.

Less than 1% 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 (\$28,918) may be used to meet the government'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.

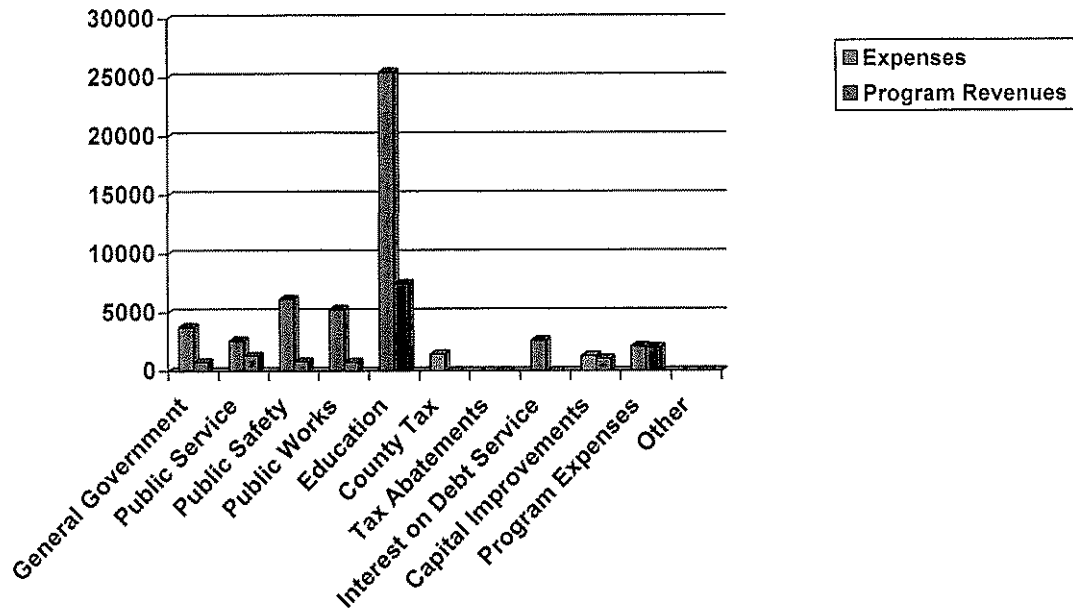
GOVERNMENTAL ACTIVITIES. All of the decrease pertaining to the Town of Scarborough's net assets of \$2,826 is due to the governmental activities of the Town. Key components of this decrease are shown below:

Town of Scarborough's Changes in Net Assets

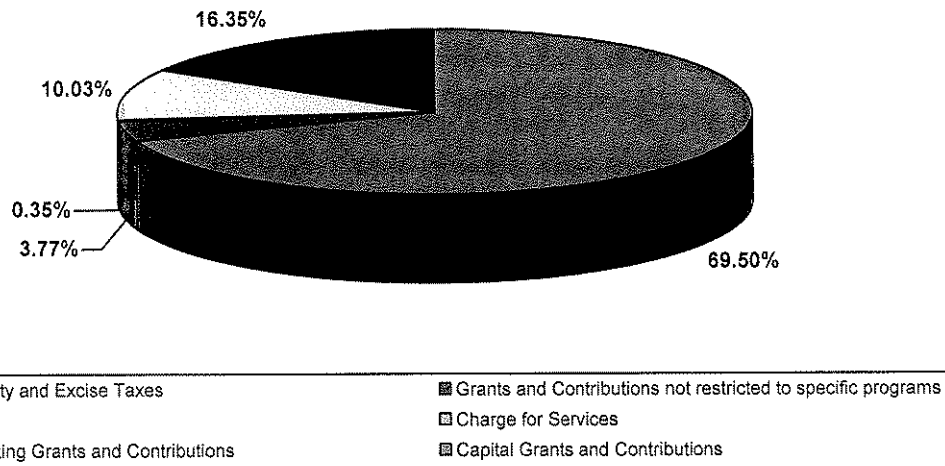
Governmental Activities

	<u>2004</u>	<u>2003</u>
Revenues:		
Program Revenues:		
Charge for services	\$ 5,363	2,728
Operating grants and contributions	8,744	6,992
Capital grants and contributions	-	312
General Revenues:		
Property and excise taxes, levied for general purposes	37,182	34,472
Grants and contributions not restricted to specific programs	2,015	4,342
Unrestricted investment earnings	105	209
Other	80	2,324
Temporarily restricted net assets released from restriction	<u>-</u>	<u>-</u>
Total revenues and transfers	\$ 53,490	51,379
Expenses:		
General government	3,772	3,360
Public Services	2,597	2,701
Public Safety	6,127	5,552
Public Works	5,266	5,175
Education	25,442	23,464
County Tax	1,442	1,306
Tax abatements	-	148
Interest on Debt Service	2,610	895
Capital Improvements	1,303	2,261
Program and Other Expenditures	<u>2,105</u>	<u>2,556</u>
Total Expenses	50,664	47,668
Increase (decrease) in net assets	2,826	3,711
Net Assets Beginning, as restated	<u>32,904</u>	<u>34,409</u>
Net Assets Ending June 30, 2004	\$ 35,730	38,120

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, 2004, the Town of Scarborough’s governmental funds reported combined ending fund balances of \$30,443, a decrease of \$2,009 in comparison with the prior year.

General Fund	\$ 6,629
Special Revenue Funds	5,035
Capital Project Funds	18,611
Permanent Funds	<u>168</u>
Total	\$30,443

As noted earlier, governmental funds reported combined fund balances of \$30,443 a decrease of \$2,009 compared with the prior year. Of the approximately \$29,610 reported as unreserved fund balance, \$5,010 are special revenue funds authorized for specific projects, \$18,611 are for major capital construction projects and \$68 is for maintenance of the town’s cemeteries. The remaining amount of \$5,919 is available for the discrete purposes for which these funds are collected.

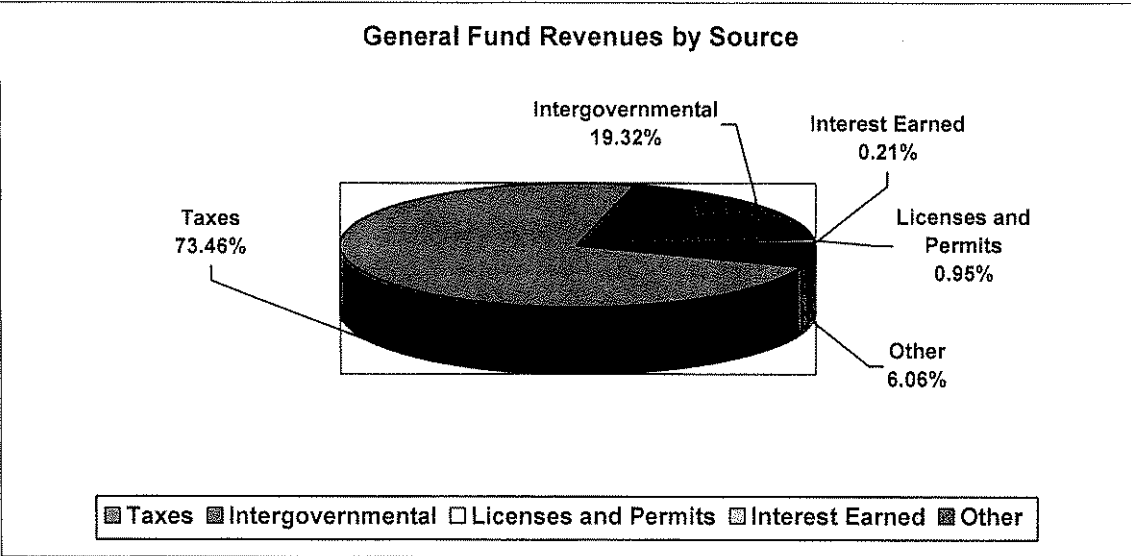
The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed:

- 1) To generate income to pay for the perpetual care of the municipal cemeteries (\$100) and,
- 2) For a variety of other restricted purposes (\$23).

General Fund Highlights

The General Fund is the chief operating fund of the Town of Scarborough. As of June 30, 2004, unreserved fund balance in the General Fund was \$5,919 while total fund balance reached \$6,629. As a measure of the General Fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11.58% of total fund expenditures, while total fund balance represents 12.96% 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 (8.3%) of the total operating budget for the General Fund.

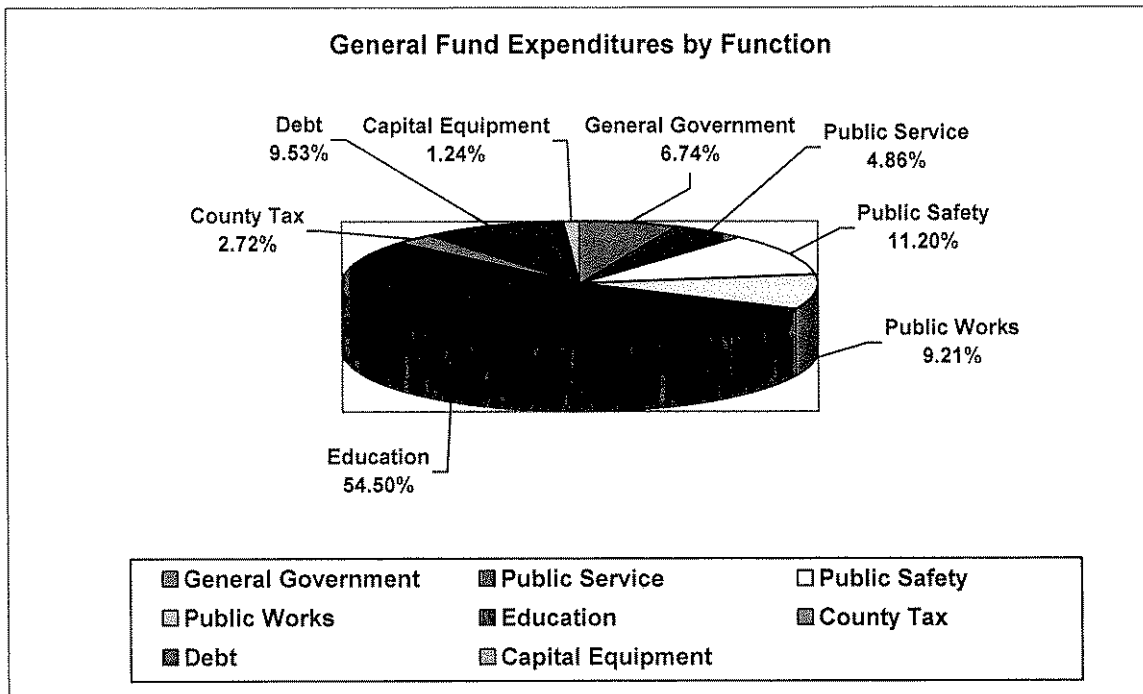
Current fiscal year revenues by source for the General Fund are as follows:



Property Tax revenues increased \$2,632 from 2003 to 2004.

A comparison of the actual revenues to estimated revenues can be found on page 30 of the financial statements.

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



General government expenditures increased \$143. Some of the key factors in this increase are:

- County Tax increased 10%
- Solid Waste increased 1.39%
- Health Insurance costs decreased 30%
- Education decreased 2%
- Debt Service costs increased 58%

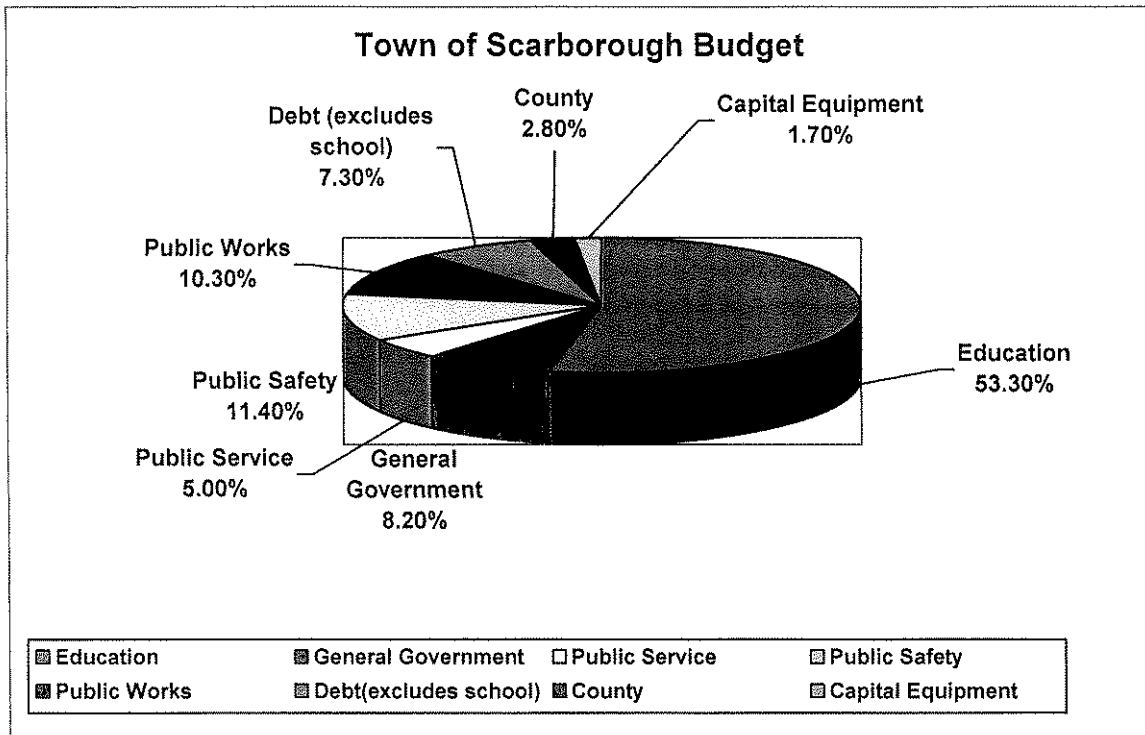
Capital Projects Fund Highlights

During this fiscal year, the Town of Scarborough's fund balances for Capital Projects decreased from \$20,288 in 2003 to \$18,611 in 2004.

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 2003-2004, a total of \$1,225 has been set aside for prior year encumbrances and commitments. Differences between the original budget and the final amended budget were relatively minor and did not include any change in total appropriations in the general fund. Excluding the \$1,225 prior year encumbrance and commitment appropriation, the original General Fund budget for fiscal year 2003-2004 was \$51,340.

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, 2004, amounts to \$69,849 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and roads. The total increase in the Town's investment in capital assets for the current fiscal year was 13%.

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

Governmental Activities as of June 30, 2004

Land	\$ 3,685
Buildings	33,210
Vehicles	3,610
Equipment & Furniture	1,007
Infrastructure	13,441
Construction in Progress	<u>14,896</u>
 Total	 \$ <u>69,849</u>

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.

Additional information on the Town of Scarborough's capital assets can be found in Notes to the Basic Financial Statements on pages 40 – 41 of this report.

Long-term Debt. As of June 30, 2004, the Town had long-term bonds outstanding of \$62,952 compared to \$54,759 in the prior year. All of this debt is backed by the full faith and credit of the Town of Scarborough.

Town of Scarborough Outstanding Debt General Obligation Bonds		
	<u>2003</u>	<u>2004</u>
Municipal	\$ 24,556	16,684
Education	28,205	34,829
Sewer	<u>1,998</u>	<u>11,439</u>
Total Debt	\$ 54,759	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. This follows Moody’s prior upgrade, in its 2002 assignment of “AA3” that was from the previous “A1” level first assigned in 1975. S&P’s “AA- (Stable)” is an “initial” rating for the Town of Scarborough.

These ratings reflect: “Strong growth in the Town’s tax base, favorable wealth levels, ample financial margins and a slightly above-average debt profile”. 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

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 to no more than 5 percent.

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

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.

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.

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.

COMBINED FINANCIAL STATEMENTS - OVERVIEW (BASIC FINANCIAL STATEMENTS)

These financial statements provide an overview of the financial position of all funds and of the operating results by fund types. They also serve as an introduction to the more detailed exhibits that follow. The notes to the basic financial statements are an integral part of the basic financial statements.

TOWN OF SCARBOROUGH, MAINE
Statement of Net Assets
June 30, 2004

	Governmental Activities	Component Unit
ASSETS		
Cash and cash equivalents	\$ 14,157,107	114,858
Investments	21,453,773	421,474
Receivables:		
Accounts	537,081	-
Intergovernmental	59,224	-
Taxes receivable	75,740	-
Tax liens	364,515	-
Notes	18,995	-
Tax acquired property	7,231	-
Inventory	29,797	2,141
Prepaid items	-	4,481
Construction in progress	14,896,375	-
Capital assets, net	54,953,045	941,117
Total assets	106,552,883	1,484,071
LIABILITIES		
Accounts payable and other current liabilities	3,174,195	7,800
Accrued payroll and other related liabilities	2,374,350	10,614
Compensated absences payable	1,137,469	12,848
Taxes collected in advance	36,187	-
Accrued interest	490,844	-
Noncurrent liabilities:		
Due within one year	5,946,201	-
Due in more than one year	57,664,040	-
Total liabilities	70,823,286	31,262
NET ASSETS		
Invested in capital assets, net of related debt	6,688,813	941,117
Restricted for:		
Nonexpendable trust principal	123,259	-
Other purposes	-	796,925
Unrestricted	28,917,525	(285,233)
Total net assets	\$ 35,729,597	1,452,809

See accompanying notes to basic financial statements.

TOWN OF SCARBOROUGH, MAINE
Statement of Activities
For the Year Ended June 30, 2004

Functions/programs	Program revenues				in net assets	
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government activities	
					Governmental	Public Library
Primary government:						
Governmental activities:						
General government	\$ 3,771,755	769,036	-	-	(3,002,719)	-
Public services	2,597,446	1,287,013	2,657	-	(1,307,776)	-
Public safety	6,126,871	534,474	276,254	-	(5,316,143)	-
Public works	5,265,795	482,492	264,169	-	(4,519,134)	-
Education	25,442,122	248,560	7,197,957	-	(17,995,605)	-
County tax	1,441,610	-	-	-	(1,441,610)	-
Interest on debt service	2,610,564	-	-	-	(2,610,564)	-
Capital maintenance expenses	1,303,457	1,051,591	-	-	(251,866)	-
Program expenses	2,004,675	979,669	1,003,461	-	(21,545)	-
Other	99,991	10,115	-	-	(89,876)	-
Total governmental activities	50,664,286	5,362,950	8,744,498	-	(36,556,838)	-
Total primary government	\$ 50,664,286	5,362,950	8,744,498	-	(36,556,838)	-
Component unit:						
Scarborough Public Library	\$ 725,421	659,345	-	-	-	(66,076)
General revenues:						
Property taxes, levied for general purposes					\$ 32,861,926	-
Excise taxes					4,170,216	-
Payments in lieu of taxes					77,148	-
Interest and costs on taxes					72,420	-
Grants and contributions not restricted to specific programs:						
Homestead exemption					341,272	-
Other State aid					315,470	-
State Revenue Sharing					1,358,586	-
Unrestricted investment earnings					105,034	13,055
Other					80,339	12,682
Total general revenues					39,382,411	25,737
Change in net assets					2,825,573	(40,339)
Net assets - beginning, as restated					32,904,024	1,493,148
Net assets - ending	\$ 725,421	659,345	-	-	\$ 35,729,597	1,452,809

See accompanying notes to basic financial statements.

TOWN OF SCARBOROUGH, MAINE

Balance Sheet
Governmental Funds
June 30, 2004

	General	General Town Improvements	General School Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 6,885,074	5,016,492	1,835,069	420,472	14,157,107
Investments	2,692,139	2,244,794	11,243,883	5,272,957	21,453,773
Receivables:					
Accounts	535,740	-	-	1,341	537,081
Intergovernmental	52,814	-	-	6,410	59,224
Taxes receivable	75,740	-	-	-	75,740
Tax liens	364,515	-	-	-	364,515
Notes	-	-	-	18,995	18,995
Interfund loans receivable	1,438,719	27,707	-	1,300,026	2,766,452
Tax acquired property	7,231	-	-	-	7,231
Inventory	-	-	-	29,797	29,797
Total assets	\$ 12,051,972	7,288,993	13,078,952	7,049,998	39,469,915
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	809,838	517,995	449,955	363,685	2,141,473
Accrued payroll	2,274,593	-	-	456	2,275,049
Compensated absences payable	375,384	-	-	-	375,384
Interfund loans payable	1,526,628	85,000	106,883	1,047,941	2,766,452
Taxes collected in advance	36,187	-	-	-	36,187
Deferred tax revenue	400,000	-	-	-	400,000
Performance bond deposits	-	-	-	1,032,722	1,032,722
Total liabilities	5,422,630	602,995	556,838	2,444,804	9,027,267
Fund balances:					
Reserved	710,484	-	-	123,259	833,743
Unreserved, reported in:					
General fund - undesignated	4,693,564	-	-	-	4,693,564
General fund - designated	1,225,294	-	-	-	1,225,294
Special revenue funds	-	-	-	5,010,944	5,010,944
Capital projects funds	-	6,685,998	12,522,114	(597,552)	18,610,560
Permanent funds	-	-	-	68,543	68,543
Total fund balances	6,629,342	6,685,998	12,522,114	4,605,194	30,442,648
Total liabilities and fund balances	\$ 12,051,972	7,288,993	13,078,952	7,049,998	

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.	69,849,420
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.	(62,952,163)
Bonds payable	(208,444)
Capital leases	(490,844)
Accrued interest	(449,634)
LULUAL liability	(99,301)
Accrued compensated absences	(762,085)

Net assets of governmental activities **\$ 35,729,597**

See accompanying notes to basic financial statements.

TOWN OF SCARBOROUGH, MAINE
Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the year ended June 30, 2004

	General	General	General	Other	Total
	Improvements	Town	School	Governmental	Governmental
	Improvements	Improvements	Improvements	Funds	Funds
Revenues:					
Taxes	\$ 37,104,562	86,100	-	-	37,190,662
Licenses and permits	480,440	-	-	-	480,440
Intergovernmental	9,756,365	18,000	-	1,049,027	10,823,392
Interest earned	105,034	111,983	107,753	23,525	348,295
Donations	-	-	-	120,301	120,301
Sale of lots	-	-	-	19,095	19,095
Assessments and impact fees	-	-	-	406,401	406,401
Other	3,062,901	43,599	-	994,773	4,101,273
Total revenues	50,509,302	259,682	107,753	2,613,122	53,489,859
Expenditures:					
Current:					
General government	3,568,303	-	-	-	3,568,303
Public services	2,572,389	-	-	-	2,572,389
Public safety	5,933,594	-	-	-	5,933,594
Public works	4,877,211	-	-	-	4,877,211
Education	28,862,018	-	-	-	28,862,018
County tax	1,441,610	-	-	-	1,441,610
Debt service	5,046,242	-	-	-	5,046,242
Capital improvements	653,352	7,876,576	7,149,262	140,674	15,819,864
Program expenditures	-	-	-	2,004,675	2,004,675
Other	-	-	-	1,391	1,391
Total expenditures	52,954,719	7,876,576	7,149,262	2,146,740	70,127,297
Excess (deficiency) of revenues over (under) expenditures	(2,445,417)	(7,616,894)	(7,041,509)	466,382	(16,637,438)
Other financing sources (uses):					
Operating transfers - in	1,304,889	15,950	-	793,731	2,114,570
Operating transfers - out	(755,514)	(15,950)	(106,883)	(1,236,223)	(2,114,570)
General obligation bonds	1,562,000	3,869,000	9,197,000	-	14,628,000
Total other financing sources (uses)	2,111,375	3,869,000	9,090,117	(442,492)	14,628,000
Net change in fund balances	(334,042)	(3,747,894)	2,048,608	23,890	(2,009,438)
Fund balances, beginning of year	6,963,384	10,433,892	10,473,506	4,581,304	32,452,086
Fund balances, end of year	\$ 6,629,342	6,685,998	12,522,114	4,605,194	30,442,648

See accompanying notes to basic 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, 2004

Net change in fund balances - total governmental funds (from Statement 4)	\$	(2,009,438)
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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	\$ 14,417,807	
Depreciation Expense	1,282,457	
		13,135,350

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

-

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.

(176,182)

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.

68,778

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 (\$14,628,000) exceeded repayments (\$6,435,065).

(8,192,935)

Change in net assets of governmental activities (see Statement 2)	\$	2,825,573
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See accompanying notes to basic 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, 2004

	Budgeted amounts		Actual	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Taxes	\$ 36,815,070	36,815,070	37,104,562	289,492
Licenses and permits	397,595	397,595	480,440	82,845
Intergovernmental	7,580,537	7,580,537	7,256,497	(324,040)
Interest earned	120,000	120,000	105,034	(14,966)
Unclassified	3,221,163	3,221,163	3,062,901	(158,262)
Total revenues	48,134,365	48,134,365	48,009,434	(124,931)
Expenditures:				
Current:				
General government	4,174,815	4,174,815	3,568,303	606,512
Public services	2,550,346	2,550,346	2,572,389	(22,043)
Public safety	5,866,469	5,866,469	5,933,594	(67,125)
Public works	5,274,252	5,274,252	4,877,211	397,041
Education	27,358,715	27,358,715	26,280,409	1,078,306
County tax	1,441,610	1,441,610	1,441,610	-
Debt service	3,775,731	3,775,731	5,046,242	(1,270,511)
Capital improvements	898,185	898,185	653,352	244,833
Total expenditures	51,340,123	51,340,123	50,373,110	967,013
Deficiency of revenues under expenditures	(3,205,758)	(3,205,758)	(2,363,676)	842,082
Other financing sources (uses):				
Operating transfers - in	1,648,006	1,648,006	1,304,889	(343,117)
Operating transfers - out	(755,514)	(755,514)	(755,514)	-
Utilization of surplus	2,272,291	2,272,291	-	(2,272,291)
Overlay	(121,025)	(121,025)	-	121,025
General obligation bonds	162,000	162,000	1,562,000	1,400,000
Total other financing sources (uses)	3,205,758	3,205,758	2,111,375	(1,094,383)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(252,301)	(252,301)
Reconciliation to GAAP:				
Change in accrued salaries			(81,741)	
Fund balance, beginning of year			6,963,384	
Fund balance, end of year	\$		6,629,342	

See accompanying notes to basic financial statements.

TOWN OF SCARBOROUGH, MAINE
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

		Private-purpose Trust Funds (Scholarships)	Agency Funds	Totals
ASSETS				
Cash	\$	-	143,210	143,210
Investments		225,247	-	225,247
Accounts receivable		1,000	-	1,000
Interfund loans receivable		525	-	525
Total assets		226,772	143,210	369,982
LIABILITIES				
Accounts payable		9,150	-	9,150
Due to student groups		-	143,210	143,210
Total liabilities		9,150	143,210	152,360
NET ASSETS				
Held in trust	\$	217,622	-	217,622

See accompanying notes to basic financial statements.

TOWN OF SCARBOROUGH, MAINE
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the year ended June 30, 2004

	Private-purpose Trust Funds (Scholarships)
Additions:	
Donations	\$ 1,525
Interest and dividends	1,125
Total additions	2,650
Deductions:	
School scholarships	6,950
Other	-
Total deductions	6,950
Change in net assets	(4,300)
Net assets, beginning of year	221,922
Net assets, end of year	\$ 217,622

See accompanying notes to basic 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.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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 both 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.

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, accumulated vacation and vested sick leave, which are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund from which they will be paid. All accumulated leave not expected to be liquidated with expendable available financial resources is reported in the government-wide financial statements. In some cases, employees are entitled to payment for unused vacation and a percentage of sick leave upon termination or retirement.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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.

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

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, CONTINUED

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>
2003-2004 budget as amended	\$ 54,016,413	54,016,413
Budgetary adjustments:		
Supplemental adjustments - grants	18,284	18,284
Capital Improvement Projects - Capital Projects Fund	(2,403,326)	(2,403,326)
School Lunch Program - Special Revenue Fund	(957,000)	(957,000)
2003 designated carryforwards	1,542,291	1,542,291
Total adjusted budget	\$ 52,216,662	52,216,662

B. Excess of Expenditures over Appropriations

The overexpenditure of the Public Service Department was the result of child care overspent but under collected.

The Public Safety overexpenditure is due to an error in the budgeting process.

The Debt Service overexpenditure is due to the refunding of the Town's 1992 bond issue.

The General Government overexpenditure is due to Planning and Town Clerk overtime. Additionally, worker's compensation costs were higher than estimated causing the Risk Management to be overspent.

The Risk Management overexpenditure is due to the payout of sick time totaling \$25,216 for employees who left in good standing.

C. Deficit Fund Balance

At June 30, 2004, the following special revenue and capital projects funds had deficit fund balances:

The Recreational Development Fund (a special revenue fund) had a deficit of \$112,495. It is expected that the deficit will be adequately funded in future years through development and user fees.

The Hunnewell House (a special revenue fund) had a deficit of \$437. It is expected that this deficit will be adequately funded in future years through additional contributions.

The Municipal Building Fund (a capital project fund) had a deficit of \$597,552. 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

The Town's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines, while avoiding unreasonable risk. The funds are invested in liquid investments with maturities planned to coincide with the Town's cash needs during the year.

A. Deposits

The Town's deposits are categorized as follows to give an indication of the level of custodial risk assumed by the Town at year end: Category 1 includes deposits covered by federal depository insurance or by collateral held by the Town or by the Town's agent in the Town's name; category 2 includes uninsured deposits covered by collateral held by the pledging financial institution's trust department or agent in the Town's name; category 3 includes uninsured and uncollateralized deposits.

At June 30, 2004, cash and cash equivalents consisted of:

	Carrying amount	Bank balance	Category		
			<u>1</u>	<u>2</u>	<u>3</u>
<u>Cash and cash equivalents:</u>					
Petty cash	\$ 1,858	-	-	-	-
Checking	7,361,744	7,858,699	397,116	7,067,587	393,995
Savings/money market	6,936,713	6,936,713	390,121	4,080,082	2,466,510
Totals	\$ 14,300,315	14,795,412	787,237	11,147,669	2,860,505

The carrying amount of deposits for the Scarborough Public Library, a discretely presented component unit, was \$114,858 and the bank balance was \$118,562, all of which was covered by federal depository insurance.

B. Investments

Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, certain corporate stocks and bonds and mutual funds. Generally, the Town invests such excess funds in repurchase agreements and obligations of the U.S. Treasury and U.S. agencies.

Investments are classified into three categories. Category 1 includes investments which are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category 2 includes uninsured and unregistered investments held by the financial institution's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the Town's name.

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

DEPOSITS AND INVESTMENTS, CONTINUED

At June 30, 2004, investments consisted of the following:

	Carrying amounts	Category		
		<u>1</u>	<u>2</u>	<u>3</u>
<u>Investments:</u>				
FHLN	\$ 2,700,018	100,000	2,600,018	-
Repurchase	9,309,748	-	9,309,748	-
<u>Mutual funds (1)</u>	<u>9,669,256</u>			
<u>Total investments</u>	<u>\$ 21,679,022</u>	<u>100,000</u>	<u>11,909,766</u>	<u>-</u>

(1) Mutual funds are not required to be categorized in any of the three above categories because they are not evidenced by securities that exist in physical or book entry form.

At June 30, 2004, the Scarborough Public Library's investment balance was as follows:

	Carrying amounts	Category		
		<u>1</u>	<u>2</u>	<u>3</u>
<u>Investments:</u>				
Federal Home Loan Bank and Index Trust	\$421,474	425,277	4,006	-

PROPERTY TAX

Property taxes for the current year were committed on August 28, 2003, 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, 2003 and 50% on March 15, 2004. Interest at the rate of 7% 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, 2004 and the Town's value was 92.8% of the 2004 State valuation of \$2,158,300,000.

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 \$121,024 for the year ended June 30, 2004.

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.

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

PROPERTY TAX, CONTINUED

The following summarizes the June 30 levy:

	<u>2004</u>	<u>2003</u>
Assessed value	\$ 2,002,987,200	1,930,576,300
Tax rate (per \$1,000)	16.46	15.70
Commitment	32,969,169	30,310,048
Supplemental taxes assessed	-	37,967
	32,969,169	30,348,015
Less - collections and abatements	32,747,993	30,103,820
Receivable at June 30	221,176	244,195
Consisting of:		
Taxes	14,605	38,797
Liens	206,571	205,398
Receivable at June 30	\$ 221,176	244,195
Collection rate	99.33%	99.20%

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, 2004 outstanding bonds	Percent of 2004 State assessed value of \$2,158,300,000	<u>Amount</u>	<u>Margin</u>
For school purposes	\$34,829,103	10.0%	215,830,000	181,000,897
For storm or sanitary sewer	11,439,000	7.5%	161,872,500	150,433,500
For municipal airport, water and special district purposes	-	3.0%	64,749,000	64,749,000
For all other purposes	16,684,060	7.5%	161,872,500	145,188,440
Total	\$62,952,163	15%	323,745,000	

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

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance June 30, <u>2003</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, <u>2004</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,723,700	60,000	98,600	3,685,100
Construction in progress	2,526,932	12,369,443	-	14,896,375
<u>Total capital assets, not being depreciated</u>	<u>6,250,632</u>	<u>12,429,443</u>	<u>98,600</u>	<u>18,581,475</u>
Capital assets, being depreciated:				
Buildings	39,321,595	-	-	39,321,595
Vehicles	6,556,218	1,559,100	306,913	7,808,405
Equipment and furniture	2,236,916	527,864	246,030	2,518,750
Infrastructure	18,871,601	-	-	18,871,601
<u>Total capital assets being depreciated</u>	<u>66,986,330</u>	<u>2,086,964</u>	<u>552,943</u>	<u>68,520,351</u>
Less accumulated depreciation for:				
Buildings	5,668,179	443,686	-	6,111,865
Vehicles	4,036,334	468,908	306,913	4,198,329
Equipment and furniture	1,621,225	136,873	246,030	1,512,068
Infrastructure	5,197,154	232,990	-	5,430,144
<u>Total accumulated depreciation</u>	<u>16,522,892</u>	<u>1,282,457</u>	<u>552,943</u>	<u>17,252,406</u>
<u>Total capital assets being depreciated, net</u>	<u>50,463,438</u>	<u>804,507</u>	<u>-</u>	<u>51,267,945</u>
<u>Governmental activities capital assets, net</u>	<u>\$ 56,714,070</u>	<u>13,233,950</u>	<u>98,600</u>	<u>69,849,420</u>

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

Governmental activities:	
General government	\$ 194,164
Public services	10,658
Public safety	171,418
Public works, including depreciation of general infrastructure assets	393,684
Education	512,533
<u>Total depreciation expense – governmental activities</u>	<u>\$ 1,282,457</u>

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

CAPITAL ASSETS, CONTINUED

Capital assets at June 30, 2003 have been restated by \$5,215,527 as a result of recording certain assets which were previously omitted from the fixed asset totals and deleting certain assets that fall below the Town's capitalization threshold of \$5,000. The School Department recently completed a full inventory of vehicles, equipment and furniture. These detailed listings were used to replace amounts that were previously carried in total for these capital asset categories. Accumulated depreciation was adjusted accordingly. This resulted in much of the reduction in previously reported capital asset totals. Additionally, there was a change in the method of depreciating certain assets. Beginning net assets on the Statement of Activities has been restated accordingly. The following summarizes the restatement of capital assets and beginning net assets:

	<u>2003 capital assets</u>	<u>2003 net assets</u>
As previously reported	\$ 61,929,597	38,119,551
Adjustment	(5,215,527)	(5,215,527)
As restated	\$ 56,714,070	32,904,024

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, 2004.

INTERFUND BALANCES

Individual interfund receivables and payables at June 30, 2004, were as follows:

	<u>Interfund receivables</u>	<u>Interfund payables</u>
General Fund	\$ 1,438,719	1,526,628
Special Revenue Funds:		
Ferry Beach	-	54,320
Recreational development	-	201,995
Unemployment compensation	3,741	-
Sewer expansion	991,247	-
Industrial Park	9,279	-
Payne Road improvements	-	18,924
Payne Road impact fees	73,981	-
Police asset forfeiture	5,211	-
Fire Dept equipment	376	-
Hunnewell House	-	440
School development impact fees	112,000	-
Friends of the Scarborough Marsh	10,000	-
Computer replacement fund	-	11,695
Performance bonds	-	162,883
Rescue equipment	84,643	-
Total Special Revenue Funds	1,290,478	450,257

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

INTERFUND BALANCES, CONTINUED

	<u>Interfund receivables</u>	<u>Interfund payables</u>
Capital Project Funds:		
Municipal building fund	\$ -	597,552
General School improvements	-	106,883
General Town improvements	27,707	85,000
Total Capital Project Funds	27,707	789,435
Permanent Funds:		
Scarborough Memorial Cemetery	9,548	-
Dunstan Perpetual Care	-	132
Total Trust Funds	9,548	132
Total all funds	\$ 2,766,452	2,766,452

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004, 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	\$54,759,228	14,628,000	6,435,066	62,952,163	5,879,730
Capital leases	277,222	-	68,778	208,444	66,471
Landfill post-closure care costs	449,634	-	-	449,634	-
Governmental activity long-term liabilities	\$55,486,084	14,628,000	6,503,844	63,610,241	5,946,201

As of June 30, 2004, the Town had authorized, but unissued debt totaling \$11,424,850.

BONDS PAYABLE

Bonds payable at June 30, 2004 is comprised of the following:

<u>General Obligation Notes and Bonds</u>	<u>Percentage applicable to</u>			<u>Interest rate</u>	<u>Final maturity date</u>	<u>Balance end of year</u>
	<u>Town</u>	<u>School</u>	<u>Sewer</u>			
1987 Capital improvements	-	-	100.00%	Varies	2008	\$500,000
1988 Capital improvements	16.80%	-	83.20%	Varies	2009	1,375,000
1989 Capital improvements	100.00%	-	-	Varies	2009	550,000
1990 Capital improvements	-	100.00%	-	Varies	2011	2,305,000
1992 Capital improvements	-	100.00%	-	Varies	Refunded	-
1993 Capital improvements	100.00%	-	-	Varies	2012	225,000
1994 Capital improvements	6.23%	93.77%	-	Varies	2015	2,730,000
1995 Capital improvements	100.00%	-	-	6.00%	2006	24,163
1995 Capital improvements	4.29%	95.71%	-	Varies	2016	3,260,000

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

BONDS PAYABLE, CONTINUED

General Obligation Notes and Bonds	Percentage applicable to			Interest rate	Final maturity date	Balance end of year
	Town	School	Sewer			
1997 Capital improvements	88.73%	11.27%	-	Varies	2017	\$ 1,715,000
1998 Capital improvements	76.62%	23.38%	-	Varies	2008	385,000
1999 Capital improvements	93.28%	6.72%	-	Varies	2019	2,690,000
2000 Capital improvements	70.40%	29.60%	-	Varies	2020	2,635,000
2001 Capital improvements	47.91%	52.09%	-	Varies	2021	3,110,000
2002 Capital improvements	48.63%	51.37%	-	Varies	2022	2,570,000
2003 Capital improvements	13.25%	49.74%	37.01%	Varies	2032	24,250,000
2004 Capital improvements	21.95%	72.44%	5.61%	Varies	2034	14,628,000
Total						\$ 62,952,163

The annual requirements to amortize all debt outstanding as of June 30, 2004, are as follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 5,879,730	2,633,535	8,513,265
2006	5,592,433	2,346,590	7,939,023
2007	5,180,000	2,129,474	7,309,474
2008	4,305,000	1,931,474	6,236,474
2009	3,750,000	1,757,828	5,507,828
2010-2014	12,565,000	6,966,029	19,531,029
2015-2019	8,255,000	4,712,631	12,967,631
2020-2024	8,360,000	2,837,618	11,197,618
2025-2029	4,320,000	1,553,347	5,873,347
2030-2034	4,745,000	488,262	5,233,262
Totals	\$62,952,163	27,356,788	90,308,951

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.

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

CAPITAL LEASES

The Town of Scarborough has entered into various lease agreements as lessee for various equipment and 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, 2004:

Municipal building - copier
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, 2004:

2005	\$ 76,678
2006	76,679
2007	76,679
Total minimum lease payments	230,036
Less: amount representing interest	(21,592)
Present value of future minimum lease payments	\$ 208,444

DESIGNATED FUND BALANCES

At June 30, 2004, portions of the General Fund fund balance were designated to future periods as follows:

	<u>2004</u>
General Fund:	
Public works asphalt paving	\$ 17,910
Public works administration employee training	1,381
Public works part time pay	5,726
Public works operations employee training	2,190
Public works vehicle maintenance employee training	980
Public works fuel	9,222
Fire Department – equipment safety upgrade	6,878
Fire Department – municipal holding tank	19,464
Fire Department – pumper truck North Scarborough	225,000
Fire Department – safety accountability system	54,397
Comprehensive Plan	32,921
Conservation Commission	325
Land Board	500
Marine Resources Office – Inventory management	2,020
Municipal building improvements	3,727
Skateboard park grant	(78,245)
State Revenue Sharing	9,015
Summer recreation	69,320
Cable TV programming	29,014
Town-wide computer purchases	51,462
Reserve for accrued sick pay	762,087
Total General Fund designated fund balance	\$ 1,225,294

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

RESERVED FUND EQUITY

At June 30, 2004, the Special Revenue fund equity for the School Lunch Program included a reserve for inventory on hand at June 30, 2004 of \$12,559. Also, at June 30, 2004, the Special Revenue fund equity was reserved in the Industrial Park Fund to reflect the noncurrent portion of notes receivable amounting to \$10,985. As of June 30, 2004, the General Fund fund balance was reserved in the amount of \$710,484, reflecting the non-current portion of the interfund loan receivable from the Municipal Building Fund in the amount of \$597,552, the Hunnewell House Fund deficit of \$437 and the Recreation Development Fund amount of \$112,495. At June 30, 2004, Permanent fund equity included a reserve for principal of \$99,715.

SCHOOL OPERATIONS UNDESIGNATED DEFICIT/BUDGETARY VS. GAAP BASIS

At June 30, 2004, School operations (General Fund and Adult Education) reported a fund balance of \$468,684 on a GAAP basis and a fund balance of \$2,536,721 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 \$2,499,868 and an education expenditure of \$2,499,868 have been included in the General Fund on Statement 2 and Statement 4 (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.

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

	GAAP basis	Summer salary accrual	On- behalf payments	Budgetary basis
Balance, June 30, 2003	\$ 214,783	1,986,296	-	2,201,079
Revenues and other sources	28,905,919	-	(2,499,868)	26,406,051
Transfer from Town fund balance	210,000	-	-	210,000
Expenditures and other uses	(28,862,018)	81,741	2,499,868	(26,280,409)
Balance June 30, 2004	\$ 468,684	2,068,037	-	2,536,721

The GAAP basis fund balance of \$468,684 is comprised of the following components:

General fund - undesignated	\$ 402,071
Adult Education	66,613
Total	\$ 468,684

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, 2004, \$1,700,000 of budgetary fund balance has been designated to fund summer salary obligations.

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, 2004, the Town's State valuation of \$2,158,300,000 was 8.2% of the County's State valuation of \$26,458,600,000. The Town's share is 8.2% or \$1,189,330 of Cumberland County's \$14,580,000 long-term debt outstanding as of June 30, 2004.

The Town is also served by the Portland Water District. At June 30, 2004, the Town's share of self-supporting bonded water debt is 12.0984% or \$3,147,407 of total debt of \$26,015,000.

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, 2004, outstanding "Incinerator Debt" of RWS totaled \$56,725,000 of which the Town of Scarborough's share, based on estimated tonnage to be delivered, amounted to 7.92% or \$4,495,177.

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, 2004, the Town's share is 6.3% or \$384,930 of RWS' outstanding MRF debt of \$6,110,000.

RWS operates a licensed balefill and ashfill site for which projected landfill closure and postclosure care costs approximate \$18,125,241 at June 30, 2003, the most recent date available. The Town's proportionate share of these estimated landfill closure and postclosure care costs is 7.74%, or \$1,462,532.

Total Debt and Contingencies

Governmental Unit	As of June 30, 2004			
	Direct debt	Overlapping debt	Contingent debt	Total debt
Town of Scarborough	\$ 62,952,163	-	-	62,952,163
Cumberland County	-	1,189,330	-	1,189,330
Portland Water District - water debt	-	3,147,407	-	3,147,407
Regional Waste Systems:				
Resource recovery system	-	-	4,495,177	4,495,177
Material recovery facility	-	-	384,930	384,930
Landfill closure/postclosure costs	-	-	1,462,532	1,462,532
Totals	\$ 62,952,163	4,336,737	6,342,639	73,631,539

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, 2004, 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, 2004. 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.

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.

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

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

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 of \$113,677 will be paid off in twelve 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 Maine State Retirement System Consolidated Plan for the year ended June 30, 2004 were \$44,221 including IUUAL payments of \$14,376.

Teacher Group - All school teachers, 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 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 \$2,499,868 (17.62%) for the fiscal year 2004. 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.

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

DEFINED CONTRIBUTION PENSION PLAN, CONTINUED

During the year, the Town's required and actual contributions amounted to \$354,763, which was 6% of its current year covered payroll. The covered payroll amounted to \$5,912,717, while the Town's total payroll was \$7,916,421.

Employee's required contributions amounted to \$354,763, 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 I.C.M.A. 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.

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	\$ 6,915,300
Maximum authorized captured value	6,900,000
Amount captured as of June 30, 2004	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, 2004	39,000,000

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).

TOWN OF SCARBOROUGH, MAINE
General Fund
Comparative Balance Sheets
June 30, 2004 and 2003

	2004	2003
ASSETS		
Cash and cash equivalents	\$ 6,885,074	9,194,945
Investments	2,692,139	907,364
Receivables:		
Taxes receivable	75,740	71,205
Tax liens	364,515	359,964
Accounts receivable	535,740	414,811
Due from State of Maine	52,814	26,087
Interfund loans receivable	1,438,719	1,172,604
Tax acquired property	7,231	7,231
Total assets	\$ 12,051,972	12,154,211
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable and payroll withholdings	809,838	666,405
Accrued wages	2,274,593	2,187,754
Accrued vacation and sick leave	375,384	341,810
Interfund loans payable	1,526,628	1,575,276
Taxes collected in advance	36,187	19,582
Deferred tax revenues	400,000	400,000
Total liabilities	5,422,630	5,190,827
Fund balance:		
Reserved	710,484	751,842
Unreserved:		
Designated - Town	1,225,294	1,542,291
Undesignated - Education	468,684	214,783
Undesignated - Town	4,224,880	4,454,468
Total fund balance	6,629,342	6,963,384
Total liabilities and fund balance	\$ 12,051,972	12,154,211

TOWN OF SCARBOROUGH, MAINE
 General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Budgetary Basis)
 Year ended June 30, 2004
 (with comparative actual amounts for the year ended June 30, 2003)

	2003 carryforward	2004		2003 Actual	Variance positive (negative)	2003 Actual
		Budget	Total Available			
Revenues:						
Taxes:						
Property taxes	\$ -	32,883,070	32,883,070	32,861,926	(21,144)	30,230,099
Change in deferred property tax revenue	-	-	-	-	-	317,000
Excise taxes	-	3,870,000	3,870,000	4,170,216	300,216	3,855,564
Interest and costs on taxes	-	62,000	62,000	72,420	10,420	178,986
Total taxes	-	36,815,070	36,815,070	37,104,562	289,492	34,581,649
Licenses and permits:						
Plumbing fees	-	22,000	22,000	22,169	169	24,600
Town Clerk fees	-	63,995	63,995	89,014	25,019	71,538
Building permits	-	215,000	215,000	236,511	21,511	218,406
Electrical permits	-	20,000	20,000	21,966	1,966	18,550
Zoning Board of Appeals	-	6,000	6,000	7,900	1,900	7,379
License plate fees	-	58,600	58,600	66,430	7,830	68,320
Subdivision fees	-	12,000	12,000	36,450	24,450	19,800
Total licenses and permits	-	397,595	397,595	480,440	82,845	428,593
Intergovernmental:						
Education state subsidies	-	4,636,228	4,636,228	4,669,174	32,946	5,352,036
FEMA Fire Act	-	-	-	170,000	170,000	-
Homeland Security	-	17,784	17,784	17,784	-	-
State Revenue Sharing	(20,429)	1,370,000	1,349,571	1,358,586	9,015	1,347,996
Homestead exemption	-	339,002	339,002	341,272	2,270	453,515
URIP (D.O.T. block grant)	-	200,000	200,000	240,980	40,980	265,384
Federal FEMA reimbursement	-	-	-	23,189	23,189	-
Adult education State subsidies	-	28,000	28,000	28,915	915	28,354
General assistance reimbursement	-	11,500	11,500	2,657	(8,843)	3,563
COPS Fast Grant	-	-	-	-	-	24,861
Federal HIDTA revenues	-	130,000	130,000	88,470	(41,530)	8,747
Other Federal and State revenues	-	868,452	868,452	315,470	(552,982)	137,764
Total intergovernmental	(20,429)	7,600,966	7,580,537	7,256,497	(324,040)	7,622,220
Interest earned	-	120,000	120,000	105,034	(14,966)	123,995
Unclassified:						
School Department	-	135,600	135,600	235,047	99,447	190,229
Adult education	-	19,500	19,500	13,513	(5,987)	11,679
Community services	-	1,091,869	1,091,869	1,173,913	82,044	1,159,340
Police court time	-	30,000	30,000	22,477	(7,523)	29,307
Beaches	-	113,000	113,000	113,100	100	90,572
Snow plowing service	-	-	-	4,100	4,100	-
Alarm repair reimbursements	-	-	-	7,750	7,750	-
Insurance reimbursements	-	6,500	6,500	23,908	17,408	56,328
Parking violations	-	11,000	11,000	13,765	2,765	10,678
Special police	-	100,000	100,000	106,722	6,722	82,559
Inspection/review fees	-	76,500	76,500	61,510	(14,990)	98,427
Rescue donations	-	330,000	330,000	330,000	-	330,000
Regional Waste payment in lieu of taxes	-	71,450	71,450	77,148	5,698	71,450
Rental income	-	30,198	30,198	44,659	14,461	35,473
Sale of Town-owned property	-	232,071	232,071	64,279	(167,792)	27,899
Rental of portable classrooms	-	61,000	61,000	-	(61,000)	65,855
Legal/engineering salary reimbursement	-	283,294	283,294	243,937	(39,357)	497,845
Vehicle fuel reimbursement	-	207,677	207,677	202,943	(4,734)	-
Vehicle maintenance reimbursement	-	353,325	353,325	243,791	(109,534)	-
Miscellaneous	-	68,179	68,179	80,339	12,160	278,869
Total unclassified	-	3,221,163	3,221,163	3,062,901	(158,262)	3,036,510
Total revenues	(20,429)	48,154,794	48,134,365	48,009,434	(124,931)	45,792,967

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

	2003 carryforward	2004		Variance positive (negative)	2003 Actual	
		Budget	Total available			Actual
Expenditures:						
Current:						
General government:						
Town Council	\$ -	11,573	11,573	11,572	1	10,967
Administration	-	221,475	221,475	224,525	(3,050)	214,387
Town Clerk	-	142,761	142,761	166,612	(23,851)	157,467
Planning	26,008	613,468	639,476	649,805	(10,329)	653,197
Assessing department	-	205,178	205,178	203,286	1,892	199,209
Human resources	1,275	168,898	170,173	169,013	1,160	-
Personnel benefits	696,435	29,000	725,435	41,427	684,008	59,087
Computer systems management	-	464,517	464,517	457,308	7,209	437,306
Municipal building	-	248,152	248,152	234,793	13,359	203,520
General government	-	64,745	64,745	67,170	(2,425)	74,049
Finance	-	737,504	737,504	706,178	31,326	681,915
Legal	-	69,000	69,000	105,115	(36,115)	136,641
Risk management	-	368,915	368,915	447,532	(78,617)	338,261
Public information	-	9,600	9,600	1,847	7,753	15,364
Engineering	-	38,000	38,000	22,119	15,881	129,030
Grants management	-	-	-	3,298	(3,298)	6,407
Outside agencies	-	58,311	58,311	56,703	1,608	78,511
Total general government	723,718	3,451,097	4,174,815	3,568,303	606,512	3,395,318
Public services:						
Library	-	606,395	606,395	606,395	-	570,100
Public health and welfare	-	23,500	23,500	6,040	17,460	164,297
Enterprise Park tax rebate	-	-	-	29,136	(29,136)	6,246
Economic Development Corporation	-	175,301	175,301	174,258	1,043	164,871
Land acquisition	-	-	-	-	-	91,453
Community services	125,217	1,619,933	1,745,150	1,756,560	(11,410)	1,656,799
Total public services	125,217	2,425,129	2,550,346	2,572,389	(22,043)	2,653,766
Public safety:						
Fire Department	-	1,295,039	1,295,039	1,388,724	(93,685)	1,097,272
Police Department	87,206	3,471,518	3,558,724	3,583,635	(24,911)	3,294,568
Civil Emergency Preparedness	-	34,605	34,605	32,504	2,101	24,996
Marine resources	-	69,461	69,461	62,128	7,333	66,113
Rescue protection	-	908,640	908,640	866,603	42,037	792,093
Total public safety	87,206	5,779,263	5,866,469	5,933,594	(67,125)	5,275,042
Public works:						
Public Works Department	17,482	2,168,100	2,185,582	1,889,019	296,563	2,073,513
Vehicle maintenance	-	1,234,377	1,234,377	1,217,135	17,242	976,297
Water charges	-	167,972	167,972	153,230	14,742	158,837
Street lighting	-	138,400	138,400	131,859	6,541	133,161
Traffic signals	-	109,963	109,963	89,677	20,286	89,423
Cemetery care	-	25,055	25,055	22,246	2,809	19,822
Memorials	-	8,475	8,475	6,000	2,475	9,626
Shade trees	-	14,250	14,250	22,970	(8,720)	5,491
Engineering services	-	20,000	20,000	12,123	7,877	14,496
Solid waste program	-	1,370,178	1,370,178	1,332,952	37,226	1,315,987
Total public works	17,482	5,256,770	5,274,252	4,877,211	397,041	4,796,653
Education:						
Regular high school (9-12)	-	4,007,835	4,007,835	3,976,401	31,434	3,610,976
Regular middle school (6-8)	-	3,169,791	3,169,791	3,108,798	60,993	2,906,594
Regular elementary school (3-5)	-	3,115,180	3,115,180	3,021,894	93,286	2,880,643
Regular elementary school (K-2)	-	2,914,609	2,914,609	2,846,226	68,383	2,747,679
Special services	-	4,583,871	4,583,871	4,086,336	497,535	3,564,973
Transportation	-	1,161,954	1,161,954	1,160,370	1,584	857,491
Maintenance	-	1,657,443	1,657,443	1,673,667	(16,224)	1,527,404
Central office	-	693,884	693,884	607,693	86,191	631,454
Debt service	-	3,963,001	3,963,001	3,853,190	109,811	3,500,195
System-wide	-	1,679,091	1,679,091	1,576,593	102,498	1,594,435
Computer systems management	-	298,547	298,547	288,880	9,667	268,132
Adult education	-	113,509	113,509	80,361	33,148	81,368
Total education	-	27,358,715	27,358,715	26,280,409	1,078,306	24,171,344

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

			2004		Variance positive (negative)	2003 Actual
	2003 carryforward	Budget	Total available	Actual		
Expenditures, continued:						
Current, continued:						
County tax	\$ -	1,441,610	1,441,610	1,441,610	-	1,306,425
Tax abatements	-	-	-	-	-	148,018
Debt service (excluding education):						
Principal	-	2,462,204	2,462,204	3,812,154	(1,349,950)	2,345,909
Interest	-	1,313,527	1,313,527	1,234,088	79,439	846,103
Total debt service	-	3,775,731	3,775,731	5,046,242	(1,270,511)	3,192,012
Capital improvements	568,239	329,946	898,185	653,352	244,833	1,209,004
Total expenditures	1,521,862	49,818,261	51,340,123	50,373,110	967,013	46,147,582
Excess (deficiency) of revenues over (under) expenditures	(1,542,291)	(1,663,467)	(3,205,758)	(2,363,676)	842,082	(354,615)
Other financing sources (uses):						
Operating transfers - in	-	1,648,006	1,648,006	1,304,889	(343,117)	640,584
Operating transfers - out	-	(755,514)	(755,514)	(755,514)	-	(897,846)
General obligation bonds	-	162,000	162,000	1,562,000	1,400,000	1,210,085
Utilization of prior year surplus and carryforward balance	1,542,291	730,000	2,272,291	-	(2,272,291)	-
Overlay	-	(121,025)	(121,025)	-	121,025	-
Total other financing sources (uses)	1,542,291	1,663,467	3,205,758	2,111,375	(1,094,383)	952,823
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	-	-	(252,301)	(252,301)	598,208
Reconciliation to GAAP:						
Change in accrued salaries				(81,741)		(187,837)
Fund balances, beginning of year				6,963,384		6,553,013
Fund balances, end of year				\$ 6,629,342		6,963,384

OTHER GOVERNMENTAL FUNDS

TOWN OF SCARBOROUGH, MAINE
Combining Balance Sheet
All Other Governmental Funds
June 30, 2004

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
ASSETS				
Cash	\$ 420,472	-	-	420,472
Investments	5,114,115	-	158,842	5,272,957
Accounts receivable	1,341	-	-	1,341
Notes receivable	18,995	-	-	18,995
Due from State of Maine	6,410	-	-	6,410
Interfund loans	1,290,478	-	9,548	1,300,026
Inventory	29,797	-	-	29,797
Total assets	\$ 6,881,608	-	168,390	7,049,998
LIABILITIES AND FUND BALANCES				
Liabilities:				
Performance bonds	1,032,722	-	-	1,032,722
Accounts payable	363,685	-	-	363,685
Accrued wages	456	-	-	456
Interfund loans	450,257	597,552	132	1,047,941
Total liabilities	1,847,120	597,552	132	2,444,804
Fund balances (deficit):				
Reserved for:				
Noncurrent notes receivable	10,985	-	-	10,985
Inventory	12,559	-	-	12,559
Principal	-	-	99,715	99,715
Unreserved, undesignated	5,010,944	(597,552)	68,543	4,481,935
Total fund balance (deficit)	5,034,488	(597,552)	168,258	4,605,194
Total liabilities and fund balances	\$ 6,881,608	-	168,390	7,049,998

TOWN OF SCARBOROUGH, MAINE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
All Other Governmental Funds
For the year ended June 30, 2004

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Other Governmental Funds
Revenues:				
Intergovernmental	\$ 1,049,027	-	-	1,049,027
Contributions	120,301	-	-	120,301
Assessments and impact fees	406,401	-	-	406,401
Sale of lots	9,548	-	9,547	19,095
Other revenue	994,773	-	-	994,773
Interest revenue	22,957	-	568	23,525
Total revenues	2,603,007	-	10,115	2,613,122
Expenditures:				
Current:				
Capital expenditures	140,674	-	-	140,674
Program expenditures	2,004,675	-	-	2,004,675
Other	1,259	-	132	1,391
Total expenditures	2,146,608	-	132	2,146,740
Excess of revenues over expenditures	456,399	-	9,983	466,382
Other financing sources (uses):				
Transfer from other funds	680,157	113,574	-	793,731
Transfer to other funds	(1,154,473)	(81,750)	-	(1,236,223)
Total other financing sources (uses)	(474,316)	31,824	-	(442,492)
Excess of revenues and other financing sources over expenditures and other financing uses	(17,917)	31,824	9,983	23,890
Fund balances (deficit), beginning of year	5,052,405	(629,376)	158,275	4,581,304
Fund balances (deficit), end of year	\$ 5,034,488	(597,552)	168,258	4,605,194

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 (Formerly Pine Point Beach)

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 Pine Point Beach 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.

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.

NONMAJOR SPECIAL REVENUE FUNDS, CONTINUED

Road Impact Fees

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

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.

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 purpose of this fund is 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 Friends of the Scarborough Marsh and by the Town Manager. Approved June 29, 2004.

Pleasant Hill Area Drainage

This fund accounts for funds that have been 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.

TOWN OF SCARBOROUGH, MAINE
 Non-major Special Revenue Funds
 Combining Balance Sheet
 June 30, 2004

	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	\$ -	-	89,500	-	-	-	-	-	-	25,715	-
Investments	160,155	181,662	-	-	189,125	67,270	1,080	744,612	20,842	1,169,890	180,549
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-
Notes receivable	-	-	-	-	-	-	-	18,995	-	-	-
Due from State of Maine	-	-	-	-	-	-	-	-	-	-	-
Interfund loans receivable	3,741	-	-	991,247	-	-	-	9,279	-	-	-
Inventory	-	-	-	-	7,690	9,548	-	-	-	-	-
Total assets	\$ 163,896	181,662	89,500	991,247	196,815	76,818	1,080	772,886	20,842	1,195,605	180,549
LIABILITIES AND FUND BALANCES											
Liabilities:											
Performance bond deposits	-	-	-	-	-	-	-	-	-	1,032,722	-
Accounts payable	-	-	-	-	-	-	-	-	-	-	-
Accrued wages	-	-	-	-	-	-	-	-	-	-	-
Interfund loans payable	-	54,320	201,995	-	-	-	-	-	-	162,883	18,924
Total liabilities	-	54,320	201,995	-	-	-	-	-	-	1,195,605	18,924
Fund balances:											
Reserved	-	-	-	-	-	-	-	10,985	-	-	-
Unreserved:											
Undesignated	163,896	127,342	(112,495)	991,247	196,815	76,818	1,080	761,901	20,842	-	161,625
Total fund balances (deficit)	163,896	127,342	(112,495)	991,247	196,815	76,818	1,080	772,886	20,842	-	161,625
Total liabilities and fund balances	\$ 163,896	181,662	89,500	991,247	196,815	76,818	1,080	772,886	20,842	1,195,605	180,549

Payne Road Impact Fees	Police Asset Forfeiture	Hunnewell House	Rescue Equipment	Fire Department	School Development Impact Fees	Friends of the Scarborough Marsh	Pleasant Hill Area Drainage	School Categorical Programs	School Lunch Program	Computer Replacement Fund	Totals
250,505	-	-	-	-	-	-	17,849	8,474	28,429	-	420,472
1,380,346	2,390	3	124,671	2,760	613,255	-	-	193,775	-	81,730	5,114,115
-	-	-	-	-	-	-	-	1,341	-	-	1,341
-	-	-	-	-	-	-	-	-	-	-	18,995
-	-	-	-	-	-	-	-	-	6,410	-	6,410
73,981	5,211	-	84,643	376	112,000	10,000	-	-	-	-	1,290,478
-	-	-	-	-	-	-	-	-	12,559	-	29,797
1,704,832	7,601	3	209,314	3,136	725,255	10,000	17,849	203,590	47,398	81,730	6,881,608
-	-	-	-	-	-	-	-	-	-	-	1,032,722
250,504	-	-	-	-	-	-	-	72,459	40,482	240	363,685
-	-	-	-	-	-	-	-	-	456	-	456
-	-	440	-	-	-	-	-	-	-	11,695	450,257
250,504	-	440	-	-	-	-	-	72,459	40,938	11,935	1,847,120
-	-	-	-	-	-	-	-	-	12,559	-	23,544
1,454,328	7,601	(437)	209,314	3,136	725,255	10,000	17,849	131,131	(6,099)	69,795	5,010,944
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
1,704,832	7,601	3	209,314	3,136	725,255	10,000	17,849	203,590	47,398	81,730	6,881,608

TOWN OF SCARBOROUGH, MAINE
Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2004

	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	896	1,450	-	-	967	380	6	6,091	118	-	1,032
Contributions	5,000	-	-	-	7,689	-	-	-	-	-	-
Sale of Lots	-	-	-	-	-	9,548	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Assessments and impact fees	-	-	28,750	28,470	-	-	-	-	-	-	-
Total revenues	5,896	1,450	28,750	28,470	8,656	9,928	6	6,091	118	-	1,032
Expenditures:											
Construction and acquisitions	-	54,320	-	-	-	-	-	-	-	-	18,924
Benefits paid	1,259	-	-	-	-	-	-	-	-	-	-
Program expenditures	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	1,259	54,320	-	-	-	-	-	-	-	-	18,924
Excess (deficiency) of revenues over (under) expenditures	4,637	(52,870)	28,750	28,470	8,656	9,928	6	6,091	118	-	(17,892)
Other financing sources (uses):											
Operating transfers - in	-	-	-	641,940	-	-	-	-	-	-	-
Operating transfers - out	-	-	(19,821)	(933,235)	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	(19,821)	(291,295)	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	4,637	(52,870)	8,929	(262,825)	8,656	9,928	6	6,091	118	-	(17,892)
Fund balances (deficit), beginning of year	159,259	180,212	(121,424)	1,254,072	188,159	66,890	1,074	766,795	20,724	-	179,517
Fund balances (deficit), end of year	\$ 163,896	127,342	(112,495)	991,247	196,815	76,818	1,080	772,886	20,842	-	161,625

Payne Road Impact Fees	Police Asset Forfeiture	Hunnewell House	Rescue Equipment	Fire Department	School Development Impact Fees	Friends of the Scarborough Marsh	Pleasant Hill Area Drainage	School Categorical Programs	School Lunch Program	Computer Replacement Fund	Totals
-	45,566	-	-	-	-	-	-	836,063	167,398	-	1,049,027
7,795	102	2	730	15	2,779	-	-	-	-	594	22,957
-	-	603	84,643	12,366	-	10,000	-	-	-	-	120,301
-	-	-	-	-	-	-	-	-	-	-	9,548
-	-	-	-	-	-	-	21,000	141,571	832,202	-	994,773
73,981	-	-	-	-	275,200	-	-	-	-	-	406,401
81,776	45,668	605	85,373	12,381	277,979	10,000	21,000	977,634	999,600	594	2,603,007
-	40,355	-	-	11,989	-	-	3,151	-	-	11,935	140,674
-	-	-	-	-	-	-	-	-	-	-	1,259
-	-	-	-	-	-	-	-	932,229	1,072,446	-	2,004,675
-	40,355	-	-	11,989	-	-	3,151	932,229	1,072,446	11,935	2,146,608
81,776	5,313	605	85,373	392	277,979	10,000	17,849	45,405	(72,846)	(11,341)	456,399
38,217	-	-	-	-	-	-	-	-	-	-	680,157
(38,217)	-	-	-	-	(163,200)	-	-	-	-	-	(1,154,473)
-	-	-	-	-	(163,200)	-	-	-	-	-	(474,316)
81,776	5,313	605	85,373	392	114,779	10,000	17,849	45,405	(72,846)	(11,341)	(17,917)
1,372,552	2,288	(1,042)	123,941	2,744	610,476	-	-	85,726	79,306	81,136	5,052,405
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

TOWN OF SCARBOROUGH, MAINE
School Categorical Funds - Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2004

	Fund balances beginning of year	Revenues		Program expenditures	Fund balances end of year
		Grants	Other		
Federal education grant programs:					
NCLB/Title IA	\$ 9,755	141,469	-	149,322	1,902
NCLB/Title IIA	(2,571)	71,796	-	49,613	19,612
NCLB/Title IID	-	4,596	-	3,742	854
NCLB/Title IVA	4,526	12,955	-	9,748	7,733
NCLB/Title VA	-	19,113	-	15,215	3,898
Refugee Resettlement	2,321	1,920	-	-	4,241
Local Entitlement	38,032	481,135	-	463,718	55,449
Title II (Eisenhower Math and Science)	4,108	-	-	-	4,108
Goals 2000	48	-	-	-	48
Total federal education grant programs	56,219	732,984	-	691,358	97,845
Other State grant programs:					
State Agency Clients	(1,328)	71,109	-	69,780	1
Professional Development Grant	9,684	31,970	-	28,084	13,570
Total other state grant programs	8,356	103,079	-	97,864	13,571
Co-curricular programs:					
Red Storm Football	(2,385)	-	22,972	20,335	252
Ice Hockey	79	-	10,000	9,129	950
HS Girls Ice Hockey	(82)	-	8,500	7,833	585
HS Lacrosse	3,386	-	7,803	8,480	2,709
MS Lacrosse	(1,745)	-	6,700	6,847	(1,892)
Gym Dandies	34	-	23,642	23,411	265
Varsity Track	(158)	-	-	(158)	-
MS Baseball	93	-	-	1,225	(1,132)
Freshman Baseball	(92)	-	-	-	(92)
Softball Expansion	1,221	-	-	-	1,221
High/Middle school swim	2,749	-	4,000	5,838	911
Field Hockey	1	-	11,451	11,452	-
Arts & Humanities	(207)	-	3,660	3,453	-
SEEC Project	1,133	-	-	1,133	-
Foreign Language Club	(59)	-	-	-	(59)
HS Volleyball	-	-	4,850	3,383	1,467
HS Wrestling	44	-	11,150	8,258	2,936
Maine Nutrition Program	500	-	-	-	500
Community Services transportation	-	-	21,424	21,424	-
Community Foundation Grant	98	-	-	-	98
Band	(259)	-	-	(259)	-
Scarborough Learning	(16,823)	-	50	3,485	(20,258)
MS Health Grant	(388)	-	-	-	(388)
Learning Center Math	44	-	-	-	44
Total co-curricular programs	(12,816)	-	136,202	135,269	(11,883)
Other special programs:					
Wellness Activities	(72)	-	3,079	2,923	84
Winslow Homer Auditorium	6,937	-	2,290	4,815	4,412
Beacon Learning Center	27,102	-	-	-	27,102
Total other special programs	33,967	-	5,369	7,738	31,598
Total school categorical programs	\$ 85,726	836,063	141,571	932,229	131,131

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.

TOWN OF SCARBOROUGH, MAINE
Nonmajor Capital Project Fund
Balance Sheet
June 30, 2004

		Municipal Building Fund
ASSETS		
Cash and cash equivalents	\$	-
Interfund loans receivable		-
Total assets	\$	-
LIABILITIES AND FUND BALANCE		
Liabilities:		
Interfund loans payable		597,552
Total liabilities		597,552
Fund balance:		
Unreserved:		
Designated		-
Undesignated		(597,552)
Total fund deficit		(597,552)
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, 2004

	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	113,574
Operating transfers - out	(81,750)
Proceeds of general obligation bonds	-
Total other financing sources (uses)	31,824
Excess of revenues and other financing sources over expenditures and other financing uses	31,824
Fund deficit, beginning of year	(629,376)
Fund deficit, end of year	\$ (597,552)

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.

TOWN OF SCARBOROUGH, MAINE
 Nonmajor Permanent Funds
 Combining Balance Sheet
 June 30, 2004

	Scarborough Memorial Cemetery	Dunstan Perpetual Care	Mary A. Tucker Fund	Totals
ASSETS				
Investments	\$ 131,099	24,957	2,786	158,842
Interfund loans receivable	9,548	-	-	9,548
Total assets	\$ 140,647	24,957	2,786	168,390
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund loans payable	-	132	-	132
Total liabilities	-	132	-	132
Fund balances:				
Principal	85,848	13,367	500	99,715
Unexpended income	54,799	11,458	2,286	68,543
Total fund balances	140,647	24,825	2,786	168,258
Total liabilities and fund balances	\$ 140,647	24,957	2,786	168,390

TOWN OF SCARBOROUGH, MAINE
Nonmajor Permanent Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2004

	Scarborough Memorial Cemetery	Dunstan Perpetual Care	Mary A. Tucker Fund	Totals
Revenues:				
Interest and dividends	\$ 434	132	2	568
Sale of lots/perpetual care deposits	9,547	-	-	9,547
Total revenues	9,981	132	2	10,115
Expenditures:				
Earnings retained by General Fund	-	132	-	132
Other	-	-	-	-
Scholarships awarded	-	-	-	-
Total expenditures	-	132	-	132
Excess of revenues over expenditures	9,981	-	2	9,983
Fund balances, beginning of year	130,666	24,825	2,784	158,275
Fund balances, end of year	\$ 140,647	24,825	2,786	168,258

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.

TOWN OF SCARBOROUGH, MAINE
Trust Funds - Private-purpose
Combining Statement of Fiduciary Net Assets
June 30, 2004

	Mary Campbell Peterson Fund	Shirley Grover Fund	Edith Wurga Art Scholarship	Packy McFarland Scholarship Fund	Roy Nelson Scholarship Fund	Daniel Tranchemontagne Scholarship Fund	Evelyn J. Chaddon Men. Scholarship Fund	S. Dwight Howard Men. Scholarship Fund	Bertha Libby-Lary Scholarship Fund	Academic Decathlon Scholarship Fund	Kathy Pearson Scholarship Fund	Totals
ASSETS												
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	-
Investments	93,169	1,373	104,008	2,824	1,096	-	263	3,249	12,745	2,586	3,934	225,247
Accounts receivable	-	-	-	450	75	1,000	-	-	-	-	-	1,525
Total assets	\$ 93,169	\$ 1,373	104,008	3,274	1,171	1,000	263	3,249	12,745	2,586	3,934	226,772
LIABILITIES AND NET ASSETS												
Liabilities:												
Accounts payable	2,000	-	4,000	-	300	-	200	-	1,750	650	250	9,150
Total liabilities	2,000	-	4,000	-	300	-	200	-	1,750	650	250	9,150
Net assets:												
Principal	87,680	1,240	100,000	-	-	-	500	2,026	3,500	-	3,810	198,756
Undesignated	3,489	133	8	3,274	871	1,000	(437)	1,223	7,495	1,936	(126)	18,866
Total net assets	91,169	1,373	100,008	3,274	871	1,000	63	3,249	10,995	1,936	3,684	217,622
Total liabilities and net assets	\$ 93,169	\$ 1,373	104,008	3,274	1,171	1,000	263	3,249	12,745	2,586	3,934	226,772

TOWN OF SCARBOROUGH, MAINE
Trust Funds - Private-purpose

Combining Statement of Changes in Fiduciary Net Assets
Year ended June 30, 2004

	Shirley Grover Fund	Mary Campbell Peterson Fund	Edith Wurga Art Scholarship	Packy McFarland Scholarship Fund	Roy Nelson Scholarship Fund	Daniel Tranchemontagne 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	Totals
Additions												
Donations	-	-	-	450	75	1,000	-	-	-	-	-	1,525
Interest and dividends	7	493	541	15	6	-	1	12	19	15	16	1,125
Total additions	7	493	541	465	81	1,000	1	12	19	15	16	2,650
Deductions:												
School scholarships	-	2,000	4,000	-	300	-	-	-	-	650	-	6,950
Total deductions	-	2,000	4,000	-	300	-	-	-	-	650	-	6,950
Changes in net assets	7	(1,507)	(3,459)	465	(219)	1,000	1	12	19	(635)	16	(4,300)
Net assets, beginning of year	1,366	92,676	103,467	2,809	1,090	-	62	3,237	10,976	2,571	3,668	221,922
Net assets, end of year	\$ 1,373	\$ 91,169	\$ 100,008	\$ 3,274	\$ 871	\$ 1,000	\$ 63	\$ 3,249	\$ 10,995	\$ 1,936	\$ 3,684	\$ 217,622

CAPITAL ASSETS

TOWN OF SCARBOROUGH, MAINE
Capital Assets Used in the Operation of Governmental Funds - By Source
June 30, 2004

General fixed assets:	
Land and land improvements	\$ 3,685,100
Buildings	39,321,595
Equipment and furniture	2,539,877
Vehicles	7,787,278
Infrastructure	18,871,601
Construction in progress	14,896,375

Total governmental fund capital assets	\$ 87,101,826
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Investments in general fixed assets by source:	
General Fund	72,205,451
Capital Project Funds	14,896,375

Total governmental fund capital assets	\$ 87,101,826
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TOWN OF SCARBOROUGH, MAINE
 Schedule of General Fixed Assets - By Function and Activity
 Year ended June 30, 2004

Function and Activity	Land and improvements	Buildings	Equipment and furniture	Vehicles	Infrastructure	Construction in Progress	Total
General government	\$ 3,644,174	13,245,032	1,053,144	90,803	-	8,024,287	26,057,440
Education	40,926	26,076,563	577,613	1,877,302	-	6,872,088	35,444,492
Public safety	-	-	529,925	3,103,650	-	-	3,633,575
Public works	-	-	281,170	2,637,328	18,871,601	-	21,790,099
Public service	-	-	98,025	78,195	-	-	176,220
Total general fixed assets	\$ 3,685,100	39,321,595	2,539,877	7,787,278	18,871,601	14,896,375	87,101,826

Exhibit G-3

Schedule of Changes in General Fixed Assets - By Function and Activity
 For the year ended June 30, 2004

Function and Activity	Balance 2003	Additions	Deletions	Balance 2004
General government	\$ 20,362,071	6,002,948	307,579	26,057,440
Education	28,639,295	6,805,197	-	35,444,492
Public safety	3,283,888	652,489	302,802	3,633,575
Public works	21,462,906	368,355	41,162	21,790,099
Public service	176,220	-	-	176,220
Totals	\$ 73,924,380	13,828,989	651,543	87,101,826

GENERAL LONG-TERM DEBT

TOWN OF SCARBOROUGH, MAINE
Statement of Changes in Long-term Debt
Year ended June 30, 2004

	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>							
1987 Capital Improvements	Varies	2008	\$ 125,000 to 2008	625,000	-	125,000	500,000
1988 Capital Improvements	Varies	2009	275,000 to 2009	1,650,000	-	275,000	1,375,000
1989 Capital Improvements	Varies	2009	120,000 in 2005 110,000 to 2008				
1990 Capital Improvements	Varies	2011	100,000 in 2009 335,000 to 2007	675,000	-	125,000	550,000
1992 Capital Improvements	Varies	2013	325,000 to 2010	2,640,000	-	335,000	2,305,000
1993 Capital Improvements	Varies	2013	150,000 to 2013	1,500,000	-	1,500,000	
1994 Capital Improvements	Varies	2015	25,000 to 2013	250,000	-	25,000	225,000
1995 Capital Improvements	6.00%	2006	430,000 to 2005 230,000 to 2015	3,160,000	-	430,000	2,730,000
1995 Capital Improvements	Varies	2016	11,729.43 in 2005 12,433.22 in 2006	35,228	-	11,066	24,163
1997 Capital Improvements	Varies	2017	305,000 to 2006 265,000 to 2016	3,565,000	-	305,000	3,260,000
1998 Capital Improvements	Varies	2008	205,000 to 2007 110,000 to 2017	1,920,000	-	205,000	1,715,000
1999 Capital Improvements	Varies	2019	100,000 to 2007 85,000 in 2008	485,000	-	100,000	385,000
2000 Capital Improvements	Varies	2020	400,000 to 2007 395,000 to 2009 70,000 to 2019	3,450,000	-	760,000	2,690,000
2001 Capital Improvements	Varies	2021	445,000 in 2005 210,000 to 2008 205,000 to 2010 155,000 to 2020	3,100,000	-	465,000	2,635,000
2002 Capital Improvements	2.000% 2.375% 2.700%	2007	535,000 in 2005 510,000 in 2006 190,000 in 2007 180,000 to 2011 120,000 in 2012 115,000 to 2021	3,675,000	-	565,000	3,110,000
2003 Capital Improvements	Varies	2033	875,000 in 2005 850,000 in 2006 845,000 in 2007 870,000 in 2008 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 760,000 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	3,450,000	-	880,000	2,570,000
2004 Capital Improvements	2.250%	2034	655,000 in 2033 823,000 in 2005 830,000 in 2006 975,000 in 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 500,000 in 2034	24,579,000	329,000	24,250,000	
Total bonds				54,759,228	14,628,000	6,435,066	62,952,163
Total long-term debt			\$	54,759,228	14,628,000	6,435,066	62,952,163

STATISTICAL SECTION

STATISTICAL INFORMATION

The following statistical tables are provided to give a historical perspective and to assist in assessing the current financial status of the Town. The tables do not provide full financial information for prior years and are provided for supplementary analysis purposes only.

TOWN OF SCARBOROUGH, MAINE
General Government Revenues by Source
Last Ten Fiscal Years

Fiscal year	Taxes	Licenses and permits	Inter-governmental	Interest earned	Other	Totals
June 30, 1995	\$ 20,314,942	209,042	3,641,941	198,371	1,142,289	25,506,585
June 30, 1996	21,988,467	330,247	6,196,886	188,183	1,296,911	30,000,694
June 30, 1997	23,257,699	389,857	6,183,673	236,414	1,352,059	31,419,702
June 30, 1998	25,014,790	385,785	5,073,040	265,505	1,563,478	32,302,598
June 30, 1999	25,259,846	419,077	6,235,662	190,085	1,784,894	33,889,564
June 30, 2000	27,560,090	652,955	7,238,524	260,053	1,957,249	37,668,871
June 30, 2001	29,311,032	432,830	8,090,015	301,979	2,058,516	40,194,372
June 30, 2002	32,380,000	412,845	7,522,528	157,722	2,375,769	42,848,864
June 30, 2003	34,581,649	428,593	7,622,220	123,995	3,036,510	45,792,967
June 30, 2004	37,104,562	480,440	7,256,497	105,034	3,062,901	48,009,434

TOWN OF SCARBOROUGH, MAINE
General Governmental Tax Revenues by Source
Last Ten Fiscal Years

Fiscal year		Property tax	Vehicle excise tax	Boat excise tax	Total
June 30, 1995	\$	17,518,309	1,944,316	22,522	19,485,147
June 30, 1996		19,662,642	2,167,432	20,792	21,850,866
June 30, 1997		20,752,185	2,434,170	21,825	23,208,180
June 30, 1998		21,890,693	2,657,994	22,054	24,570,741
June 30, 1999		22,201,429	2,928,992	27,172	25,157,593
June 30, 2000		24,145,214	3,269,221	25,912	27,440,347
June 30, 2001		25,777,523	3,411,769	19,574	29,208,866
June 30, 2002		28,611,220	3,637,309	26,535	32,275,064
June 30, 2003		32,861,926	3,828,589	26,975	36,717,490
June 30, 2004		32,861,926	4,143,239	26,977	37,032,142

Table 2

TOWN OF SCARBOROUGH, MAINE
General Government Expenditures by Function
Last Ten Fiscal Years

Fiscal year	General government	Public service	Public safety	Public works	Education	County tax	Debt service	Other	Capital expenditures	Totals
June 30, 1995	\$ 2,713,163	1,417,874	2,554,308	2,311,365	12,842,825	685,640	2,343,918	57,902	120,345	25,047,340
June 30, 1996*	1,963,532	1,913,150	3,180,950	3,118,819	15,412,995	862,405	2,587,597	64,551	-	29,103,999
June 30, 1997	2,220,691	1,668,095	3,395,258	3,017,375	16,930,998	881,666	2,329,561	93,452	-	30,537,096
June 30, 1998	2,357,794	1,960,284	3,551,556	3,318,028	16,297,842	899,690	2,468,135	92,262	-	30,945,591
June 30, 1999	2,538,025	1,995,691	3,850,207	3,641,534	17,402,975	901,674	2,451,785	47,247	-	32,829,138
June 30, 2000	2,755,848	2,304,933	4,270,802	3,584,832	19,138,441	841,774	2,818,666	50,974	-	35,766,270
June 30, 2001	2,923,128	2,503,686	4,464,600	4,103,021	20,720,868	933,364	3,046,310	56,665	-	38,751,642
June 30, 2002**	3,041,249	2,325,304	4,705,436	4,108,009	22,687,932	1,061,578	3,039,920	102,550	1,233,457	42,305,435
June 30, 2003	3,425,194	2,653,341	5,275,042	4,767,202	24,171,344	1,306,425	3,192,012	148,018	1,209,004	46,147,582
June 30, 2004	3,568,303	2,572,389	5,933,594	4,877,211	26,280,409	1,441,610	5,046,242	-	653,352	50,373,110

* Effective June 30, 1996, the Town has classified certain personnel benefits to the individual departments. Previous to that time, these costs were reported in general government.

** Effective June 30, 2002, the Town has accounted for capital expenditures in the general fund. Prior to that, these expenditures were reported in a budgeted capital project fund.

TOWN OF SCARBOROUGH, MAINE
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal year	Property tax levy (1)	Collected in fiscal year (2)	Percent collected
June 30, 1995	\$ 18,252,782	17,518,309	95.98%
June 30, 1996	19,662,643	18,996,745	96.61%
June 30, 1997	20,753,098	20,114,112	96.92%
June 30, 1998	21,888,873	21,381,876	97.68%
June 30, 1999	22,202,538	21,745,877	97.94%
June 30, 2000	24,185,214	23,716,155	98.06%
June 30, 2001	25,765,523	25,339,458	98.35%
June 30, 2002	28,450,220	28,120,508	98.84%
June 30, 2003	30,348,015	30,103,820	99.20%
June 30, 2004	32,969,169	32,747,946	99.33%

(1) Includes supplemental taxes

(2) Includes abated taxes

TOWN OF SCARBOROUGH, MAINE
Assessed Valuations and Tax Levies
Last Ten Fiscal Years

Fiscal year	Real estate valuation	Personal property valuation	Total assessed valuation	Tax rate	Tax levy
June 30, 1995	\$ 1,024,105,500	46,529,500	1,070,635,000	17.00	18,200,795
June 30, 1996	1,046,396,300	50,288,700	1,096,685,000	17.90	19,630,662
June 30, 1997	1,083,312,500	55,651,900	1,138,964,400	18.20	20,729,152
June 30, 1998	1,125,959,800	60,195,500	1,186,155,300	18.40	21,825,258
June 30, 1999	1,138,292,400	67,851,500	1,206,143,900	18.40	22,193,048
June 30, 2000	1,180,279,400	79,050,700	1,259,330,100	19.20	24,179,138
June 30, 2001	1,230,378,400	83,305,800	1,313,684,200	19.60	25,748,210
June 30, 2002	1,764,041,300	94,303,500	1,858,344,800	15.30	28,432,675
June 30, 2003	1,831,117,100	99,459,200	1,930,576,300	15.70	30,310,048
June 30, 2004	1,903,869,500	99,117,700	2,002,987,200	16.46	32,969,169

Table 5

TOWN OF SCARBOROUGH, MAINE
Assessed and Estimated Actual Value of Property
Last Ten Fiscal Years

Fiscal year	Real Property		Personal Property		Total		Ratio of total assessed value to total estimated actual value
	Assessed value	Estimated actual value	Assessed value	Estimated actual value	Assessed value	Estimated actual value	
June 30, 1995	\$ 1,024,105,500	1,024,105,500	46,529,500	46,529,500	1,070,635,000	1,070,635,000	100.00%
June 30, 1996	1,046,396,300	1,046,396,300	50,288,700	50,288,700	1,096,685,000	1,096,685,000	100.00%
June 30, 1997	1,083,312,500	1,083,312,500	55,651,900	55,651,900	1,138,964,400	1,138,964,400	100.00%
June 30, 1998	1,125,959,800	1,125,959,800	60,195,500	60,195,500	1,186,155,300	1,186,155,300	100.00%
June 30, 1999	1,138,292,400	1,138,292,400	67,851,500	67,851,500	1,206,143,900	1,206,143,900	100.00%
June 30, 2000	1,180,279,400	1,180,279,400	79,050,700	79,050,700	1,259,330,100	1,259,330,100	100.00%
June 30, 2001	1,230,378,400	1,230,378,400	83,305,800	83,305,800	1,313,684,200	1,313,684,200	100.00%
June 30, 2002	1,764,041,300	1,764,041,300	94,303,500	94,303,500	1,858,344,800	1,858,344,800	100.00%
June 30, 2003	1,831,117,100	1,831,117,100	99,459,200	99,459,200	1,930,576,300	1,930,576,300	100.00%
June 30, 2004	1,903,869,500	1,903,869,500	99,117,700	99,117,700	2,002,987,200	2,002,987,200	100.00%

Table 6

TOWN OF SCARBOROUGH, MAINE
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal year	Town	School	Community services	County tax	Tax		Overlay	State Revenue Sharing	Total property tax rates by year
					Increment Financing District	(1)			
June 30, 1995	\$ 6.406	9.567	0.285	0.640	0.387	0.385	(0.671)	17.00	
June 30, 1996	7.082	9.701	0.405	0.786	0.398	0.260	(0.729)	17.90	
June 30, 1997	7.116	10.009	0.338	0.774	0.390	0.319	(0.746)	18.20	
June 30, 1998	6.919	10.333	0.346	0.758	0.642	0.160	(0.759)	18.40	
June 30, 1999	6.826	11.107	0.349	0.748	0.702	0.103	(1.435)	18.40	
June 30, 2000	7.169	11.640	0.356	0.668	0.701	0.141	(1.476)	19.20	
June 30, 2001	7.250	12.168	0.327	0.710	0.686	0.104	(1.646)	19.60	
June 30, 2002	5.507	9.393	0.231	0.571	0.378	0.210	(0.991)	15.30	
June 30, 2003	5.487	9.848	0.224	0.677	0.373	0.051	(0.960)	15.70	
June 30, 2004	5.554	10.410	0.191	0.720	0.364	0.041	(0.820)	16.46	

(1) The State of Maine State Revenue Sharing is to be used solely to reduce each municipalities property tax.

TOWN OF SCARBOROUGH, MAINE

Principal Taxpayers

June 30, 2004

Taxpayer	Type of Business	2004 Assessed valuation	Amount of tax	Percentage of total assessed valuation
Maine Life Care	Senior Housing	\$ 46,308,800	762,243	2.31%
Hannaford Brothers	Office/Supermarket Chain	27,443,700	451,723	1.37%
Wal-Mart / Sam's Club	Wholesale Club Chain/retail	20,896,700	343,960	1.04%
Gavin Ruotolo	Commercial Leases/Retail	10,744,400	176,853	0.54%
Maine Historic Hotels	Hotel/Restaurant	9,863,000	162,345	0.49%
ERP	Apartment Houses	8,886,400	146,270	0.44%
Central Maine Power	Electric Transmission	8,430,700	138,769	0.42%
Shaw's Supermarket	Supermarket/Truck Terminal	7,561,800	124,467	0.38%
Darvic Marine Corp	Harness Racing/Off Track Betting	7,144,400	117,597	0.36%
CNL Hospitality Partners	Hotel	6,746,500	111,047	0.34%
Total		\$ 154,026,400	2,535,274	7.69%

TOWN OF SCARBOROUGH, MAINE
Ten Largest Employers
June 30, 2004

Name	Nature of Business	Approximate Number Employed
Town of Scarborough	Municipal and Schools	1,384
Hannaford Brothers	Supermarket Chain, Corporate Office	882
Wal-Mart	Retail Department Store	294
Maine Medical Center	Medical	180
Shaw's	Supermarket/Trucking Terminal	150
R.C. Moore Trucking	Trucking	150
Sam's Wholesale Club	Wholesale Department Store	123
Konica Quality Photo	Photo Processing and Supply	108
Rich Tool & Die	Metals Fabrication	90
RTS Packaging	Packaging Materials	85

TOWN OF SCARBOROUGH, MAINE
Ratio of Annual Debt Service Expenditures
for General Obligation Bonded Debt
to Total General Fund Expenditures
Last Ten Fiscal Years

Fiscal year	Principal	Interest	Total debt service	Total General Fund expenditures	Ratio of debt service to General Fund expenditures
June 30, 1995	\$ 2,643,700	1,624,206	4,267,906	26,131,032	16.33%
June 30, 1996	3,018,700	1,766,998	4,785,698	29,854,641	16.03%
June 30, 1997	2,772,359	1,889,824	4,662,183	30,051,375	15.51%
June 30, 1998	3,192,801	1,990,809	5,183,610	30,945,591	16.75%
June 30, 1999	3,203,269	1,927,058	5,130,327	32,829,138	15.63%
June 30, 2000	3,781,765	1,905,017	5,686,782	35,766,270	15.90%
June 30, 2001	4,204,291	1,857,874	6,062,165	38,751,642	15.64%
June 30, 2002	4,691,848	1,895,150	6,586,998	42,305,435	15.57%
June 30, 2003	4,915,439	1,634,029	6,549,468	46,463,233	14.10%
June 30, 2004	6,435,066	2,357,996	8,793,061	50,373,110	17.46%

APPENDIX B

**PROPOSED FORM
OF
LEGAL OPINION**

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100 Middle Street, West Tower, P.O. Box 9729, Portland, Maine 04104-5029
 207-774-1200 Fax 207-774-1127
 Internet: bernsteinshur.com

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

(Date of Closing)

(Purchaser)

We have examined the law and certified proceedings submitted in connection with the issuance and sale of \$10,665,000 aggregate principal amount of 2005 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 March 15, 2005, 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, 2005, at the respective rates per annum, as follows:

<u>Nov. 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Nov. 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2005	\$ 315,000		2020	\$ 280,000	
2006	\$ 340,000		2021	\$ 280,000	
2007	\$ 510,000		2022	\$ 290,000	
2008	\$ 520,000		2023	\$ 300,000	
2009	\$ 525,000		2024	\$ 315,000	
2010	\$ 385,000		2025	\$ 325,000	
2011	\$ 390,000		2026	\$ 340,000	
2012	\$ 395,000		2027	\$ 355,000	
2013	\$ 305,000		2028	\$ 370,000	
2014	\$ 315,000		2029	\$ 385,000	
2015	\$ 250,000		2030	\$ 405,000	
2016	\$ 230,000		2031	\$ 420,000	
2017	\$ 240,000		2032	\$ 440,000	
2018	\$ 250,000		2033	\$ 460,000	
2019	\$ 260,000		2034	\$ 480,000	

The Bonds maturing on and before November 1, 2015 are not subject to redemption prior to their respective dates of maturity. The Bonds maturing after November 1, 2015 are subject to redemption prior to maturity, at the option of the Issuer, on and after November 1, 2015.

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. 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 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 development districts pursuant to Title 30-A, Chapter 206 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 \$10,665,000 2005 General Obligation Bonds, dated as of March 15, 2005 (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 March __, 2005 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, 2005, 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: _____, 2005

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@dpcdata.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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