



MOORS & CABOT
INVESTMENTS

Banking & Advisory Group

NEW ISSUE

Moody's: Aa2

S&P: AA

In the opinion of Drummond Woodsum & MacMahon, Bond Counsel, under existing statutes, regulations and court decisions, and assuming compliance with certain covenants, interest on the Bonds is excludable from the gross income of the owners thereof for federal income taxation purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and will not be treated as an item of tax preference for purposes of the federal alternative minimum tax imposed on 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, in adjusted current earnings of a corporation for purposes of calculation of 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 court decisions. **The Town will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.** See "THE BONDS—TAX MATTERS" and "APPENDIX B" herein.

TOWN OF KITTERY, MAINE

\$2,100,000

2013 GENERAL OBLIGATION REFUNDING BONDS

Dated: Date of Delivery

Due: December 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>
2013	\$210,000	1.50%	0.30	2018	\$210,000	2.00%	1.00
2014	210,000	1.50	0.40	2019	210,000	2.00	1.20
2015	210,000	1.50	0.50	2020	210,000	2.00	1.35
2016	210,000	1.50	0.60	2021	210,000	2.00	1.50
2017	210,000	1.55	0.80	2022	210,000	2.00	1.70

The 2013 General Obligation Refunding Bonds (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 Mellon Trust Company, N.A., Boston, Massachusetts, as Paying Agent. Interest on the Bonds will be payable on December 1, 2013 and semi-annually on each June 1 and December 1 thereafter until maturity.

The legal opinion of Bond Counsel, will be provided to the original purchaser and will indicate that the Bonds are valid general obligations of the Town of Kittery, Maine (the "Town") and unless paid from other sources, are payable as to both principal and interest from ad valorem taxes that 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 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 development districts either as tax increment financing districts or affordable housing development districts pursuant to Title 30-A, Chapters 206 and former (now repealed) 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 (see "TOWN FINANCES—TAX INCREMENT FINANCING DISTRICTS AND AFFORDABLE HOUSING DISTRICTS" herein). Bonds issued for school purposes by a school administrative unit for major capital expenses, bus purchases or current operating expenses, including tax or other revenue anticipation notes are payable from ad valorem taxes, which may be levied without limit as to rate or amount upon all taxable property within the school administrative unit. The Treasurer has certified that no agreements under Title 30-A, Chapter 223, Subchapter V, of the Maine Revised Statutes, as amended, to share assessed valuation with another municipality, or tax increment financing districts or affordable housing development districts pursuant to Title 30-A, Chapter 206, of the Maine Revised Statutes, as amended, now exist. 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.

The Bonds are not subject to redemption prior to their stated dates of maturity.

The Bonds are offered when, as and if issued, subject to the approval of legality by Drummond Woodsum & MacMahon 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 April 11, 2013.

UMB Bank, N.A.

No dealer, broker, salesman or other person has been authorized by the Town 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 Town 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 Town. 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 Town 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**

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**CERTIFICATE
CONCERNING OFFICIAL STATEMENT**

The information contained herein has been prepared by the Town of Kittery, Maine with the assistance of Moors & Cabot, Inc., its Financial Advisor, from the records of the Town and from various other public documents and sources which are believed to be reliable. There has been no independent investigation of such information by its Financial Advisor or by Drummond Woodsum & MacMahon, 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 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 or its agencies and authorities, since the date hereof.

To the best of the knowledge and belief of the Treasurer, 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 is not guaranteed as to accuracy, completeness or fairness, the Treasurer 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 Treasurer 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)] except for the omission from the Preliminary Official Statement of such information as is permitted by such Rule.

//s//Maryann Place
Treasurer
Town of Kittery, Maine

**OFFICIAL STATEMENT
TOWN OF KITTERY, MAINE
\$2,100,000
2013 GENERAL OBLIGATION REFUNDING BONDS**

This Official Statement is provided for the purpose of presenting certain information relating to the Town of Kittery, Maine (the “Town” or “Kittery”) in connection with the sale of its 2013 General Obligation Refunding Bonds (the “Bonds” or the “2013 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 April 11, 2013 and will bear interest, payable on December 1, 2013, and semi-annually thereafter on June 1 and December 1 of each year until maturity. The Bonds will mature annually as follows:

<u>Amount</u>	<u>Dec. 1,</u>	<u>CUSIP</u>	<u>Amount</u>	<u>Dec. 1,</u>	<u>CUSIP</u>
\$210,000	2013	498206FC0	\$210,000	2018	498206FH9
210,000	2014	498206FD8	210,000	2019	498206FJ5
210,000	2015	498206FE6	210,000	2020	498206FK2
210,000	2016	498206FF3	210,000	2021	498206FL0
210,000	2017	498206FG1	210,000	2022	498206FM8

It is expected that the Bonds will be available for delivery at DTC on or about April 11, 2013.

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 Mellon 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.

The Bonds maturing are not subject to redemption prior to their stated dates of maturity.

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 Bonds are being issued pursuant to the Town Charter; Title 30-A, Section 5772 of the Maine Revised Statutes, as amended; and a Resolution enacted by the Kittery Town Council at its meeting held on February 25, 2013. The purpose of the Bonds is to refund the Town's general obligation bonds dated November 1, 2002, in the original principal amount of \$4,220,000 (the "2002 Bonds"). The Town issued the 2002 Bonds to finance the costs of construction of additions and renovations at The Horace Mitchell Primary School (the "Project"). See "THE BONDS – THE REFUNDED BONDS" herein.

THE REFUNDED BONDS

The Town issued the 2002 Bonds pursuant to the Town Charter; Title 30-A, Section 5772 of the Maine Revised Statutes, as amended; enactments by the Kittery Town Council at its meetings held April 8, 2002, August 12, 2002, and November 6, 2002; and a Town referendum election held June 11, 2002. The 2002 Bonds maturing after December 1, 2012 are subject to redemption prior to their stated dates of maturity, at the option of the Town, on and after December 1, 2012 at any time at the redemption price of 101% (declining to 100.5% on and after December 1, 2013; 100% on and after December 1, 2014). The Town intends to use the proceeds of the 2013 Bonds, plus bid premium if any, to refund the \$2,100,000 remaining principal balance of the 2002 Bonds due on and after December 1, 2013 (the "2002 Refunded Bonds") on a current basis, on May 13, 2013. Bid premium will be used to pay for costs of issuance, including call premium. The Town achieved a Present Value savings of 13.8958%; or \$291,812.61, and an absolute savings of \$312,035.29. The following identifies certain information regarding the 2002 Refunded Bonds:

The 2002 Refunded Bonds

<u>Amount</u>	<u>Maturity</u>	<u>Coupon</u>	<u>CUSIP</u>
\$210,000	2013	4.00%	498206CA7
210,000	2014	4.125	498206CB5
210,000	2015	4.125	498206CC3
210,000	2016	4.375	498206CD1
210,000	2017	4.50	498206CE9
210,000	2018	4.75	498206CF6
210,000	2019	4.75	498206CG4
210,000	2020	5.00	498206CH2
210,000	2021	5.00	498206CJ8
<u>210,000</u>	2022	5.00	498206CK5
\$2,100,000			

SOURCE OF PAYMENT AND REMEDIES

General

The Bonds are valid general obligations of the Town and their payment is not limited to a particular fund or revenue source. The Bonds are payable as to both principal and interest from ad valorem taxes that 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 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 development districts either as tax increment financing districts or affordable housing development districts pursuant to Title 30-A, Chapters 206 and former (now repealed) 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. See “THE BONDS – SOURCE OF PAYMENTS AND REMEDIES - Limitation on Municipal Property Tax Levy” herein. The Treasurer has certified that no agreements under Chapter 223, Subchapter V, to share assessed valuation with another municipality, or tax increment financing districts or affordable housing development districts pursuant to Title 30-A, Chapter 206, now exist. 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.

The Town is subject to suit on the Bonds. 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 of the residents to satisfy debts of, or judgments against a municipality 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 (the “State”).

Limitation on Municipal Property Tax Levy

Effective July 1, 2005, the Legislature enacted LD 1, codified in part as Title 30-A, Section 5721-A of the Maine Revised Statutes, as amended, which, subject to certain procedural overrides, establishes a limit on municipal property tax levies. This limit is referred to as “Property Tax Levy Limit”. With certain exceptions, a municipality may not adopt a property tax levy that exceeds its Property Tax Levy Limit from one year to the next by more than a specified growth limitation factor. Therefore, in cases where the amount of the prior year’s Property Tax Levy Limit exceeds the amount of the Town’s actual property tax levy, the Town may carry-forward that difference in establishing its future years’ property tax levy. See “TOWN FINANCES - Property Tax Levy Limit” herein.

The growth limitation factor is: (a) the 10-year average real personal income growth (but no more than 2.75%) plus a property growth factor (when, as currently is the case, the state and local tax burden ranks in the highest 1/3 of all states); or (b) the 10-year average real personal income growth plus forecasted inflation plus a property growth factor (when the state and local tax burden ranks in the middle 1/3 of all states).

In addition, a municipality is required to lower its Property Tax Levy Limit in any year by an amount equal to net new Revenue Sharing funds provided by the State.

The Town may increase or exceed the Property Tax Levy Limit by a majority vote of the entire Town Council on a separate article that specifically identifies the intent to exceed the Property Tax Levy Limit. This action, however, is subject to override by initiative upon a petition signed by at least 10% of the number of voters voting in the last gubernatorial election in the municipality submitted within 30 days of the Council’s vote.

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

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

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

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

The Town does not expect that the Property Tax Levy Limit will have a material adverse effect on the Town's financial condition or on the ability of the Town to pay the principal of, and premiums, if any, and interest on the Bonds when due.

TAX MATTERS

The Bonds

Under existing statutes, regulations and court decisions interest on the Bonds is excludable from the gross income of the owners of the Bonds for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest on the Bonds will be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, in adjusted current earnings of a corporation for purposes of calculation of the alternative minimum tax and the foreign branch profits tax.

Bond Counsel's opinion will state that 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, as applicable, that Bond Counsel has examined the Arbitrage and Use of Proceeds Certificate, the General Certificate of Treasurer of the Town and the Issuer's Certificate Regarding Qualified and Designated Status (collectively the "Tax Certificates") all delivered concurrently

with the Bonds, which Tax Certificates will contain provisions and procedures regarding compliance with the requirements of the Code. The Town in executing the Tax Certificates, 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 Tax Certificates and assume that the Town will comply with the provisions and procedures set forth in the Tax Certificates.

Exemption of Interest on the Bonds from Taxation Within the State of Maine

In the opinion of Bond Counsel, interest payable on the Bonds is exempt from income taxation within the State pursuant to Title 30-A, Section 5772(9) of the Maine Revised Statutes, as amended. See “Proposed Form of Legal Opinion” in APPENDIX B herein.

Qualified Tax-Exempt Obligations

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

Original Issue Discount

Certain maturities of the Bonds (the “Discount Bonds”) may be sold at an initial offering price less than the principal amount payable on the Discount Bonds at maturity. The difference between the initial public offering price at which a substantial amount of each of the Discount Bonds is sold and the principal amount payable at maturity of each of the Discount Bonds constitutes original issue discount. Pursuant to section 1288 of the Code, original issue discount on the Discount Bonds accrues on the basis of economic accrual. The basis of an initial purchaser of a Discount Bond acquired at the initial public offering price of the Discount Bond will be increased by the amount of such accrued discount. Prospective purchasers of the Discount Bonds should consult their tax advisors with respect to the determination for federal income tax purposes of the original issue discount properly accruable with respect to the Discount Bonds and the tax accounting treatment of accrued interest.

Original Issue Premium

Certain maturities of the Bonds (the “Premium Bonds”) may be sold at an initial offering price in excess of the amount payable at the maturity date. The excess, if any, of the tax basis of the Premium Bonds to a purchaser (other than a purchaser who holds such Premium Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is amortizable bond premium, which is not deductible from gross income for federal income tax purposes. Amortizable bond premium, as it amortizes, will reduce the owner’s tax cost of the Premium Bonds used to determine, for federal income tax purposes, the amount of gain or loss upon the sale, redemption at maturity or other disposition of the Premium Bonds. Accordingly, an owner of a Premium Bond may have taxable gain from the disposition of the Premium Bond, even though the Premium Bond is sold, or disposed of, for a price equal to the owner’s original cost of acquiring the Premium Bond. Bond premium amortizes over the term of the Premium Bonds under the “constant yield method” described in regulations interpreting section 1272 of the Code. Prospective purchasers of the Premium Bonds should consult their tax advisors with respect to the calculation of the amount of bond premium which will be treated for federal income tax purposes as having amortized for any taxable year (or portion thereof) of the owner and with respect to other federal, state and local tax consequences of owning and disposing of the Premium Bonds.

Additional Federal Income Tax Consequences

In the case of certain corporate Holders of the Bonds, interest on the Bonds will be included in the calculation of the alternative minimum tax as a result of the inclusion of interest on the Bonds in “adjusted current earnings” of certain corporations.

Prospective purchasers of the Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the Bonds, may have additional federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty insurance companies, foreign corporations and certain S corporations. Prospective purchasers of the Bonds should consult their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

The Internal Revenue Service (the “IRS”) has an ongoing program of auditing state and local government obligations, which may include randomly selecting bond issues for audit, to determine whether interest paid to the Holders is properly excludable from gross income for federal income tax purposes. It cannot be predicted whether the Bonds will be audited. If an audit is commenced, under current IRS procedures Holders of the Bonds may not be permitted to participate in the audit process and the value and liquidity of the Bonds may be adversely affected.

Changes in Federal Tax Law

Federal, state or local legislation, administrative pronouncements or court decisions may affect the tax-exempt status of interest on the Bonds, gain from the sale or other disposition of the Bonds, the market value of the Bonds or the marketability of the Bonds. For example, the President of the United States has submitted proposals to Congress for legislation that would, among other things, limit the value of tax-exempt interest for higher-income taxpayers. No prediction can be made as to the ultimate outcome of these legislative proposals. If enacted into law, such proposals (or any other proposal involving a piecemeal or comprehensive review of the provisions of the Code, including provisions affecting the federal tax treatment of interest on tax-exempt bonds, that Congress might consider) could affect the exclusion from gross income of interest on, or the market price or marketability of, tax-exempt bonds (including the Bonds). Prospective purchasers of the Bonds should consult their tax and financial advisors regarding such matters.

Extent of Opinion

Bond Counsel expresses no opinion regarding any tax consequences of holding the Bonds other than its opinion with regard to (a) the exclusion of interest on the Bonds from gross income pursuant to section 103 of the Code, (b) interest on the Bonds not constituting an item of tax preference pursuant to section 57 of the Code and (c) the exemption of interest on the Bonds from taxation within the State pursuant to Title 30-A, Section 5772(9) of the Maine Revised Statutes, as amended. Prospective purchasers of the Bonds should consult their tax advisors with respect to all other tax consequences (including but not limited to those described above) of holding the Bonds.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC.

One-fully registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and each such certificate will be deposited with DTC.

DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated securities. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of securities deposited with DTC must be made by or through Direct Participants, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each security deposited with DTC ("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 securities deposited with DTC 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 securities deposited with DTC, except in the event that use of the book-entry system for such securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities 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 securities deposited with it; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities 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.

Redemption notices shall be sent to DTC. If less than all of a maturity is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with it unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent 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 securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC 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 detail information from the issuer of such 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 of such securities or its paying 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 of such securities or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The Town may decide to discontinue use of the system of book-entry-only 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.

RATINGS

The Bonds are rated "Aa2" by Moody's Investors Service ("Moody's") and "AA" by Standard & Poor's, Public Finance Ratings ("S&P"). The Town has furnished to 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. A rating is not a recommendation to buy, sell or hold the Bonds, and such rating should be evaluated independently.

Due to the ongoing uncertainty regarding the economy of the United States of America, including, without limitation, matters such as the future political uncertainty regarding the United States' debt limit, obligations issued by state and local governments in the United States, such as the Bonds, could be

subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States of America or of any of its agencies or political subdivisions, then such event could also adversely affect the market for, and ratings, liquidity, and market value of, outstanding debt obligations, including the Bonds.

Except as set forth in the Continuing Disclosure Certificate set forth in APPENDIX C and referred to under “THE BONDS – CONTINUING DISCLOSURE” herein, the Town has not undertaken any responsibility either to bring to the attention of the owners of the Bonds any proposed change in, or withdrawal of, any rating of the Bonds or to oppose any such change or withdrawal.

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.

The Rule was changed such that on and after July 1, 2009, filings were no longer filed with the four formerly recognized Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) but were instead to be filed to the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access System (“EMMA”). However, the Town inadvertently continued to file with the NRMSIRs, but not to EMMA. This confusion caused the Town to make duplicate submissions to EMMA on November 28, 2011 (for fiscal years 2006 through 2010) and on February 15, 2013 for fiscal year 2011.

Except for a late filing for the fiscal year 2009, since filed on February 11, 2011, 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. The following list summarizes the last eight filings by the Town:

<u>Financial Statements</u> <u>FY ended June 30,</u>	<u>Date</u> <u>Filed</u>	<u>Days after</u> <u>Fiscal Period end</u>	<u>Filed With</u>
2005	02/23/06	238	NRMSIRs
2006	03/06/07	249	NRMSIRs
2007	02/14/08	229	NRMSIRs
2008	03/05/09	248	NRMSIRs
2009	02/11/11	591	NRMSIRs
2010	02/04/11	219	NRMSIRs
2011	01/09/12	193	EMMA
2012	02/20/13	235	EMMA

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 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 on, or participate in an underwriting syndicate for the public distribution of, 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 Treasurer, 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 Drummond Woodsum & MacMahon 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 Mellon Trust Company, N.A., Everett, Massachusetts, which certificate will appear on the Bonds.

Certificate With Respect to Official Statement

At the time of the original delivery of and payment for the Bonds, the Town will deliver a certificate of the Treasurer to the effect that the Treasurer has examined this Official Statement and the financial and other data contained therein and that, to the best of the Treasurer knowledge and belief, both as of its date

and as of the date of delivery of the Bonds, the Official Statement does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, subject to the condition that while information in the Official Statement obtained from sources other than the Town is not guaranteed as to accuracy, completeness or fairness, the Treasurer has no reason to believe that such information is materially inaccurate or misleading.

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TOWN OF KITTERY

GENERAL

The Town of Kittery is located in the extreme southwestern part of the State of Maine and of the County of York, the State's southernmost county. The Town is approximately 50 miles southwest of Portland, the State's largest city, and approximately 65 miles northeast of Boston, Massachusetts. Kittery is bounded on the northwest by the Town of Eliot and the northeast by the Town of York. The Piscataqua River forms the Town's southwestern and southern borders separating Kittery from the City of Portsmouth, New Hampshire, also being a portion of the State's line. The Atlantic Ocean forms the Town's southeastern boundary. The Isle of Shoals, which lie about nine miles east of Kittery Point, are divided by the line between the states of Maine and New Hampshire, with five of the eight islands and certain adjacent rocks being part of the Town. The Town's Comprehensive Plan separates



Kittery into seven planning districts comprised of: *North Kittery*, a sparsely developed residential area; *West Kittery*, with a mix of residential and commercial uses; *Route 1*, the largest commercial district; *Downtown*, the most densely developed area in Kittery and its central business and service district; *Kittery Point*, a largely residential area mostly developed with single-family houses; *Bartlett Road*, the largest of the planning districts in total acreage with land use exclusively residential and includes large tracts of undeveloped land; and *Islands*, with scattered residential land and large areas of undeveloped land.

Convenient highway access to Kittery is provided by US Interstate Route 95 which intersects the Town's western plain in North and West Kittery, with interchanges in the Town; US Route 1 crosses the river from Portsmouth's to Kittery's downtowns, proceeds to Remick Corners at the northeast edge of the Downtown region, and then continues in a similar path along Interstate 95; and the US Route 1-Bypass, which originates at Portsmouth Circle in New Hampshire, crosses the river, traverses the Town and joins US Route 1 at Remick Corners. Each of the above three routes cross the Piscataqua River at separate intervals over separate bridges. Additional access to the Town is available via State Route 101, bisecting Kittery's North District and terminates at US Route 1; State Route 103 follows the Town's coastal plain from York to Kittery Point, then along the eastern bank of the Piscataqua River to South Eliot; and State Route 236 from Eliot, crossing US Interstate 95, US Route 1, and terminating at the Town's downtown.

The area encompassing Kittery was first settled in 1623, as Piscataqua Plantations, embracing Kittery, the Berwicks and Eliot. The plantation incorporated on October 20, 1647 as Maine's first town, taking the name Kittery from the manor of Kittery Court located at Kittery Point in Kingsweare, Devon, England. The inhabitants of the northern settlements of Kittery, denominated the "parish of Unity" and "the precinct of Berwick", applied for separation and, on June 9, 1713, this area became incorporated as the Town of Berwick. South Berwick was set off from Berwick on February 12, 1814 as its own town, with a further portion annexed to it, from Berwick, in 1881. Berwick was divided by a southeast line, with the part lying northeast separating and becoming incorporated as the Town of North Berwick on March 22, 1831 (the above being, collectively, the "Berwicks"). On March 1, 1810 Eliot set off and was incorporated, leaving the present Town of Kittery with its current territory.

Long famous for its quality shipbuilding, John Paul Jones' ship *Ranger* was built in Kittery in 1777. The Portsmouth Naval Shipyard was established on Seavey Island in 1800 to build ships and now refuels and overhauls nuclear submarines. Kittery is also home to the Kittery Historical and Naval Museum, the Fort Foster and Fort McClary historical sites, Fort McClary State Park, Crescent Beach and Seapoint Beach. Of recent, burgeoning groups of retail outlet stores align US Route 1.

Kittery is a coastal residential community with urban characteristics along its coastline and rural characteristics inland, encompassing 11,868 acres or 18.54 square miles. The land area comprising the territory of the Town is zoned for Mixed Use, Rural Residential, Suburban Residential, Urban Residential and Rural Conservation with small portions zoned for Local Business, Commercial and Industrial use.

GOVERNMENT

There are two basic forms of local government in Maine: the “Direct” form, often referred to as town meeting government, in which the town meeting serves as the legislative body, passing laws, approving the spending of monies; and the “Representational” form, in which an elected council serves as the legislative body. There are five basic variations of these two forms. Three variations of the Direct form are: *Town Meeting/Selectmen* form of government, the most common in Maine currently used by 209 municipalities in the state; *Town Meeting/Selectmen/Manager*, the second most common form of local government in Maine currently used by 135 towns; and *Council/Town Meeting/Manager* variation of the town meeting form of government, where the legislative functions of government are shared between the town meeting and an elected council. The two variations of the Representational form are: *Council/Manager* (36 cities or towns) and *Council/Mayor/Administrator* (five cities in Maine).

The Town operates under a charter originally adopted on October 16, 1967, as amended most recently on June 8, 2010 (the “Charter”) and, pursuant to Title 30-A, Chapter 123, Section 2631 of Maine Revised Statutes, as amended, the Town has adopted its form of government through the State’s Statutory Town Manager Plan and operates as a *Council/Town Meeting/Manager* form with a seven-member Town Council, all elected at-large for three-year 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, and providing for an annual budget and annual audit of the Town’s accounts. Capital bond ordinances require approval by referendum vote. Certain other specific actions require approval of the annual Town Meeting. These include certain changes to the Town’s comprehensive plan, the disposition of certain Town property (other than property acquired for non-payment of taxes), that part of the capital program which is proposed for the ensuing fiscal year, and certain expenditures and appropriations in excess of \$125,000 which have not been fully funded by bond issue approved at referendum or a dedicated reserve account. 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, highways, streets and sidewalks, wastewater treatment, solid waste transfer, social services, parks and recreation areas. Public education is provided for grades Kindergarten through 12 under the Town’s individual supervision. The Town operates its own sewer system.

Water service is provided by the Kittery Water District, a wholly separate quasi-municipal entity whose operation and obligations are not part of the Town.

Public Safety

The Police Department is located at the Town’s Municipal Complex. The department is staffed by employees who include one Police Chief, currently being shared from neighboring Town of Eliot, one lieutenant, three Sergeants, two detectives, 11 Patrol Officers, one full-time Administrative Assistant, six dispatchers and one part-time Court Officer. The Police Department maintains 12 vehicles, which are in good repair.

Two fire stations, each constructed in 2006, serve Kittery: the Central Fire Station and the Kittery Point Fire Station equipped with six vehicles and three vehicles, respectively. In addition to these facilities the Portsmouth Naval Shipyard has its own fire station and provides back-up to the Town. The Fire Department is operated by one Fire Chief, one Assistant Fire Chief, two Deputy Fire Chiefs, two Captains, five Lieutenants and approximately 43 call firemen.

The public safety roster also includes a part-time Animal Control Officer, a Harbor Master, a part-time Deputy Harbor Master, a Forest Fire Warden and three Deputy Forest Fire Wardens. The Town also has one Code Enforcement Officer, an Assistant Code Enforcement Officer a Planner and an Assistant Planner.

Public Works

The Public Works Department is comprised of three divisions: Highway, Parks and Solid Waste. The department provides maintenance of roads, Town properties, storm drainage systems and for capital improvement projects including road reconstruction and storm drainage improvements. The Department is staffed with one Public Works Director and approximately 20 full-time employees. The Department maintains over 100 vehicles and pieces of equipment, most of which are in good repair.

Residents of the Town dispose of their solid waste through curbside pick-up by a private hauler, or deposit their refuse at the Town's Waste Disposal and Recycling facility. Waste received at the disposal facility is currently transferred to the Turnkey Landfill in Rochester, New Hampshire which is privately owned by Waste Management Inc. ("WMI"). The Town's three-year contract with WMI permits annual increases in the tipping fee based upon the *All Cities Consumer Price Index*. In 2012 the tipping fee was \$63.38/ton of solid waste disposed, with a transportation cost of \$19.74/ton of solid waste.

Under State law, Maine communities had until December 31, 1992 to close existing landfills under an approved plan with the State of Maine, acting by and through its Department of Environmental Protection (the "DEP"). The Town's demolition debris and materials solid waste landfill was closed and capped in the fall of 1990. In March of 1994 the Town applied to DEP, under the I.C.A.G. program, for reimbursement of 75% of the \$71,775 expended by the Town for closure expenses. The Town has received the \$53,831 reimbursement from DEP.

Sewer Department

Portions of the Town, representing approximately 10% of its acreage and serving approximately 25% of its residents, are presently served by a wastewater collection system consisting of 28 miles of gravity sewers or force mains and 21 pumping stations; and through the Town's Sewer Department, maintains a Wastewater Treatment Plant (the "Treatment Plant") which processes flow, total suspended solids ("TSS"), and oxygen depleting organic pollutants (Biochemical Oxygen Demand or "BOD") from municipal sewers. The Portsmouth Naval Shipyard and portions of the Town of Eliot also send wastewater to be treated at the Plant. The Sewer Department is staffed by one Superintendent and five employees.

The Treatment Plant (the "Plant") was constructed in 1970, becoming operational on May 30, 1970, and was originally designed to treat 1.225 million gallons per day ("MGD") of flow. Due to overcapacity and in compliance with an Administrative Order from the United States Environmental Protection Agency, the Plant was expanded in 1994 to treat its current design of 2.4 MGD of flow. The Plant was relicensed by the State Department of Environmental Protection in 2006. The Portsmouth Naval Shipyard contributes an average of 321,347 MGD of flow, or 28% of total flow; the Town of Eliot contributes an average of 125,795 MGD, or 11% of total flow; and Kittery residents and business send an average of

1,132,825 MGD, or 61% of total flow; for a consolidated average flow of 1,579 MGD (or 65.8% of design capacity).

The Sewer Department is established as an Enterprise Activity in that the intent of the Town is for the department to provide wastewater treatment services on a continuing basis financed entirely through user charges.

Recreation Department

Recreation programs for the Town's residents are provided by the Kittery Recreation Department, managed by a Recreation Coordinator. The facilities are maintained by the Parks Division of the Public Works Department comprised of two full-time employees, each assisted by an additional summer seasonal employee, by the Recreation Department, or the School Department. The recreation facilities include the Town-owned Fort Foster, Crescent Beach and Seapoint Beach, Shapleigh Recreational Complex, a swimming pool at Memorial Field the Kittery Community Center in Admiralty Village and various athletic fields throughout the Town. In addition, the Town issued \$5,500,000 of its bonds, in January 2012, to provide funds to pay for the costs to construct and equip additions to and renovations of the former Frisbee Elementary School, a 50,000 square foot facility on 13 acres of land at 120 Rogers Road in the Town, that now serves as the Kittery Community Center. The Fort McClary State Park and the Rachel Carson Wildlife Refuge, also in the Town, provide additional leisure facilities for Kittery residents.

Kittery Port Authority

The Kittery Port Authority (the "Port Authority") was established by Chapter 163 of the Private and Special Laws of Maine (1961) to, in cooperation with the Town's Planning Board, plan for the maintenance and development of the port and harbor within the jurisdiction of the Town; and to aid in the development of salt water fisheries, ship and boat building, and oversee pleasure boating, swimming and other recreational uses of these areas. The Port Authority is comprised of a seven-member board who serve five-year staggered terms. Six of the board members are appointed by the Town Council. The Chairman of the Planning Board also serves on the board as an *ex officio*, voting member. The board appoints a Harbor Master who supervises the activities of the Port Authority. Through the Port Authority the Town assigns and maintains approximately 400 moorings. The Port Authority is also responsible for the Town's wharves, the boat launch at Traip Academy and has the authority to establish, operate and maintain foreign-trade zones within its venue.

PUBLIC EDUCATION

Department of Education

The Town operates its education program for grades Kindergarten ("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 Superintending School Committee (the "School Committee") comprised of seven members, elected at-large for three-year staggered terms. The School Committee performs all duties and functions in regard to the care and management of the public schools of the Town and governs the affairs of the Kittery School Department. The School Committee 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 Department's staff consists of a Superintendent, Business Manager, three full-time principals, one Assistant Principal/Activities Director, one Special Education Director and one Director of Curriculum/Technology. The Town's schools and enrollment trends are listed as follows:

Schools	Grade	Estimated Capacity	Enrollment
Horace Mitchell Primary School	K-3	315	396
Shapleigh Middle School	4-8	500	403
Robert W. Traip Academy	9-12	550	278

Enrollment Trends

Oct 1,	Grades					Total
	K-3	(*)	4 to 8	9 to 12	Other	
2012	396		403	278	3	1,080
2011	378		363	273	7	1,021
2010	375		364	276	7	1,022
2009	326		365	278	0	969
	K to 2	3 to 5	6 to 8	9 to 12	Other	Total
2008	244	218	223	309	NA	994
2007	237	229	226	360	NA	1,052
2006	238	245	243	356	NA	1,082
2005	258	225	258	341	NA	1,082
2004	268	230	294	321	NA	1,113
2003	281	240	306	340	NA	1,167

SOURCE: State of Maine, Department of Education, "Public School October 1st Attending Enrollment".

NOTE: (*) The Frisbee Elementary School was closed on September 2009. Grades were reconfigured accordingly.

Technical Education

Title 20-A, Chapter 313 of the Maine Revised Statutes, as amended, provides for "applied technology education" or a course or program of education which is designed to create or improve job-related skills that are part of a secondary school curriculum. The programs may be offered via an applied technology center (a "Center") or an applied technology region (a "Region"). A Region is a quasi-municipal corporation established by the Legislature for the delivery of applied technology programs, comprised of two or more school administrative units and governed by a cooperative board. Each school administrative unit is responsible for its proportionate share of its Region's operating expenses, including debt repayment, which is included in the respective unit's annual assessment by the Region. A Center is comprised of a single school administrative unit and its obligations are those of the unit.

Students of the Town may opt to receive applied technology education at either the Portsmouth Vocational Technical School ("PVTS") at the Portsmouth High School in New Hampshire, or to attend the Sanford Regional Technical Center ("SRTC") in Sanford, Maine, 30 miles distant. The program at PVTS is a part-time curriculum where the attending students continue to take a portion of their classes at Traip Academy and, at graduation, receive a Traip Academy diploma. The SRTC program is full-time but students, at graduation, are eligible for either a Traip Academy, a SRTC, or a dual Traip/SRTC diploma.

The Town had entered into a cooperative agreement (the "Cooperative Agreement") between the former M.S.A.D. No. 35 (Eliot and South Berwick) now RSU 35, former M.S.A.D. No. 57 (Alfred, Limerick, Lyman, Newfield, Shapleigh and Waterboro) now RSU 57, former M.S.A.D. No. 60 (Berwick, Lebanon and North Berwick) now RSU 60, former M.S.A.D. No. 71 (Kennebunk and Kennebunkport) now, with the addition of Arundel, RSU 21, Wells-Ogunquit C.S.D. and the towns of Kittery and York (collectively the "Member Units") to allow its students to attend the Sanford Regional Technical Center. While the SRTC is owned, operated and maintained by the of the City of Sanford, acting by and through its

Department of Education, the Cooperative Agreement provides for an Advisory Board, made up of representatives from the Member Units, to plan, develop, coordinate and recommend educational services for vocational students enrolled by the Member Units. The school first opened for secondary students for grades 10 to 12 in 1970. The Town currently sends six students to the Sanford facility.

THE PUBLIC LIBRARY

The Rice Public Library (the “Library”) was established in 1874 with a bequest from Miss Anabella Rice of Portsmouth, New Hampshire, who left money for a free public library in memory of her father, Robert Rice, a seaman and native of Kittery. The Rice Building was erected in 1888, being an example of the Queen Anne Style of architecture and is listed on the National Register of Historic Places. In 1989, due to the large size of the Library’s collection, the Library Board of Directors purchased and renovated the Taylor Building, across the street, as an additional facility. The Rice Building houses adult non-fiction books, reference materials and back issues of magazines. The Taylor Building houses fiction books, the Children’s Room, audiovisual materials and current periodicals.

The Library is a non-profit institution, not a department of the Town. However, the Library receives a major portion of its operating budget from the Town, at the Town's discretion, from year to year; and is managed by a seven-member Board of Directors (the “Board”) who serve three-year staggered terms. Board members are appointed by the current Board members, with the advice of the Town Council. The Library’s staff consists of a Head Librarian, a Technical Services Librarian, a Circulation Librarian and five library assistants. The Library has enrolled over 3,000 registered borrowers. The Library’s collection includes approximately 56,000 books, subscriptions to 98 periodicals, and various videotapes and audiocassettes.

LABOR RELATIONS

The Town employs approximately 300 full-time and various part-time personnel, of which approximately 215 employees 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:

<u>Union</u> ⁽¹⁾	<u>Bargaining Unit</u>	<u>Date of Contract</u> ⁽²⁾	
		<u>Effective</u>	<u>Expiration</u>
Teamsters	Administrative/Clerical	July 1, 2010	June 30, 2012
Teamsters	Police Dispatchers	July 1, 2010	June 30, 2012
Teamsters	Police Supervisors	July 1, 2010	June 30, 2012
Teamsters	Police Patrolmen	July 1, 2010	June 30, 2012
Teamsters	Professional	July 1, 2010	June 30, 2012
Teamsters	Public Works	July 1, 2010	June 30, 2012
Teamsters	Public Works Technical	July 1, 2010	June 30, 2012
KEA	Professional Teachers	Sept. 1, 2012	Aug. 31, 2015
KEA, Unit C	School Support Staff	Sept. 1, 2012	Aug. 31, 2015
P&AT	School Custodial	July 1, 2012	June 30, 2014

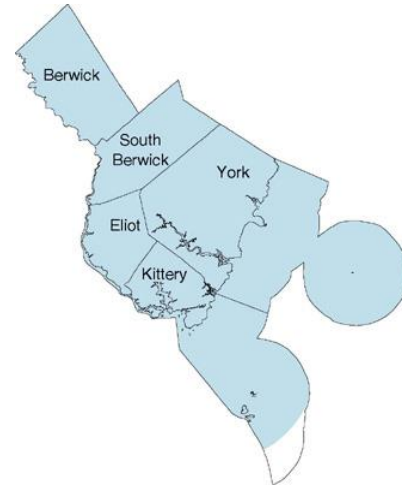
NOTE: ⁽¹⁾ “Teamster’s” indicates Local Union No. 340 of the International Brotherhood of Teamsters, which are affiliated, as separate bargaining units; “MEA” indicates the Maine Education Association of which the Kittery Education Association (“KEA”) is associated; “P&AT” indicates District Council #10 of the Painters and Allied Trades, affiliated with the American Federation of Labor & Congress of Industrial Organizations (“AFL-CIO”).

⁽²⁾ The respective unit and the Town are, or will be, negotiating the terms of a new contract. The employees continue to perform duties pursuant to the terms of the expired contract. The Town has provided in its budget amounts that it expects that the Town would incur in the successor contract.

EMPLOYMENT

Kittery-York Labor Market Area

The U.S. Department of Commerce, Bureau of the Census formally defined a metropolitan statistical area (“MSA”) as an area that includes at least one city with 50,000 or more inhabitants, or a Census Bureau-defined urbanized area (of at least 50,000 inhabitants) and a total metropolitan population of at least 75,000 (in New England). An MSA is also considered a labor market area (“LMA”). The Kittery-York LMA was comprised of five towns.



SOURCE: Maine Department of Labor, Labor Market Information Services

Commuter Trends

The Town is a leading labor center in Maine’s South Coast region. 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.

Commuters to Kittery, but live in:	Number of Workers	% Kittery Workforce	Residents of Kittery, but work in:	Number of Workers	% Kittery Workers
Kittery	2,012	20.71%	Kittery	2,012	39.44%
Eliot	703	7.23	Portsmouth NH	1,056	20.70
Sanford	637	6.56	York	386	7.57
York	549	5.65	Newington NH	161	3.16
Portsmouth NH	521	5.36	Exeter NH	134	2.63
South Berwick	447	4.60	Dover NH	125	2.45
Dover NH	391	4.02	Eliot	115	2.25
Rochester NH	363	3.74	Greenland NH	93	1.82
Somersworth NH	295	3.04	Biddeford	72	1.41
Wells	283	2.91	Wilmington MA	63	1.24
Berwick	276	2.84	Barrington NH	49	0.96
North Berwick	209	2.15	Kennebunk	44	0.86
Lebanon	207	2.13	Hampton NH	42	0.82
Biddeford	169	1.74	Seabrook MH	42	0.82
Hampton NH	157	1.62	Saco	41	0.80
Saco	139	1.43	Scarborough	40	0.78
Newmarket NH	124	1.28	South Berwick	39	0.76
Waterboro	98	1.01	Boston MA	34	0.67
Barrington NH	96	0.99	Durham NH	29	0.57
Kennebunk	90	0.93	Waltham MA	28	0.55
Old Orchard Beach	77	0.79	Somersworth NH	28	0.55
Exeter NH	74	0.76	Ogunquit	26	0.51
All other	1,800	18.52	All other	442	8.66
	9,717	100.00%		5,101	100.00%

SOURCE: State of Maine, Department of Labor, Labor Market Information Services; U.S. Department of Commerce, Bureau of Census - 2010 data.

Representative Employers	Type of Business	Approximate Number of Employees
Portsmouth Naval Shipyard	United States Naval Facility	4,400
Kittery Outlet Stores	Retail Stores	1,000
Kittery Trading Post	Retail Store	300
Weathervane Seafoods	Restaurant	250
Kittery School Department	Town Government	248
Parker-Hannifin	Pneumatic Manufacturer	201
Wilson 5 Service	Janitorial Contractors	180
Warren's Lobster House	Restaurant	100
Greenpages	Computer Brokers	109
McDonald's	Restaurant	70

RETAIL TRADE

Mall Road Commercial District

The growing collection of shopping malls and discount factory outlets has established a definite presence in the Town in recent years, the majority of which have been built since 1980. The growth has been concentrated in a fairly well-defined area, primarily oriented along U.S. Route 1, named *Mall Road*. The Mall Road Commercial District is comprised of a variety of strip malls along both sides of this portion of U.S. Route 1. The area embraces 13 separate outlet malls and a variety of free-standing buildings, which provide approximately 575,000 square feet of consolidated retail floor space, attracting over 125 shops, bank branches and restaurants.

These stores have established Kittery as a year-round destination point for a primary market that includes southern Maine, southern New Hampshire and eastern Massachusetts. In addition, due to its proximity to and high visibility from Interstate 95 as it enters the State, Kittery attracts the multi-seasonal tourist population as a secondary market for its sales. The following table displays the performance of certain sectors of the Town's economy, as measured in retail sales, by product group and by consumer sales:

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
2012	7,304.8	2,956.3	8,015.9	124,962.0	70,022.3	2,953.0	43,646.4	259,860.7	252,555.9
2011	5,964.9	2,918.7	7,786.3	126,031.9	67,470.1	2,785.7	39,831.4	252,789.0	246,824.1
2010	5,221.6	2,767.8	7,330.7	120,339.2	65,687.0	2,746.9	37,255.2	241,348.4	236,126.8
2009	4,932.8	3,005.1	6,736.5	112,288.8	65,787.3	2,784.8	34,893.3	230,428.6	225,495.8
2008	6,425.6	3,539.2	5,648.5	123,605.3	61,917.8	3,071.1	34,332.3	238,539.8	232,114.2
2007	6,073.9	3,442.6	4,688.1	123,965.0	65,342.8	4,414.9	32,864.6	240,791.9	234,718.0
2006	5,525.2	3,297.2	4,825.6	123,019.2	62,672.8	4,717.7	32,156.1	236,213.8	230,688.6
2005	5,805.6	2,212.5	5,347.3	116,189.2	60,446.4	5,018.3	28,994.6	224,013.9	218,208.3
2004	4,793.0	2,383.9	5,404.1	113,841.4	61,287.3	5,323.0	29,092.3	222,125.0	217,332.0
2003	3,705.6	3,254.8	5,201.1	110,017.3	62,941.3	5,129.0	27,767.7	218,016.8	214,311.2

SOURCE: State of Maine, Maine Revenue Services ("MRS"), Sales Tax Section. Subject to annual revision. The MRS cautions that the 2003 statistics are correcting for an overstatement in 2002 on a statewide basis.

BUILDING PERMITS

Fiscal Year Ended June 30,	Commercial	Residential	Total
2012	\$871,416	\$8,735,646	\$9,607,062
2011	3,022,003	6,334,913	9,356,916
2010	5,934,239	11,901,643	17,835,882
2009	2,093,185	11,046,556	13,139,741
2008	4,771,962	21,734,411	26,506,373
2007	3,083,660	14,682,757	17,766,417
2006	2,482,772	19,052,242	21,535,014
2005	3,954,810	25,864,560	29,819,370
2004	3,348,366	17,776,008	21,124,374
2003	1,728,230	11,351,015	13,079,245

PORTSMOUTH NAVAL SHIPYARD

Portsmouth Naval Shipyard (“PNSY”), Cradle of American Shipbuilding, is located in the Piscataqua River Estuary between New Hampshire and Maine where, in 1690, the first naval warship in North America was built. Established in June 1800 when President Thomas Jefferson approved the purchase of an island in the Piscataqua River as a site for a naval shipyard, PNSY is the oldest naval shipyard continuously operated by the United States Government.

The shipyard launched its first product in 1815, the 74-gun warship USS WASHINGTON. During World War I, the PNSY workforce expanded to nearly 5,000 people as it took on a new role, the construction of submarines, in addition to the overhaul and repair of surface vessels. World War II saw the civilian employment rolls swell to over 25,000 men and women. During World War II over 70 submarines were constructed at PNSY, including four submarines that were launched on the same day. Following World War II, PNSY was the Navy’s center for submarine design and development. The research submarine, USS ALBACORE, with its revolutionary tear-drop shaped hull and round cross section, set the standard for all subsequent submarine hull design world-wide.

PNSY’s primary mission is the overhaul, repair and modernization of *Los Angeles*-class submarines. Portsmouth Naval Shipyard provides the U.S. Navy’s nuclear powered submarine fleet with quality overhaul work in a safe, timely and affordable manner. This includes a full spectrum of in-house support-from engineering services and production shops, to unique capabilities and facilities, to off-site support-all of which serves the multifaceted assortment of fleet requirements. With the commissioning of the *Virginia*-class submarine, USS *New Hampshire* (SSN 778) in 2008, the shipyard and the Seacoast Communities got their first look at the next generation of submarine technology and the future of ship repair. PNSY performed the first extended availability on the new class of submarine on USS *Virginia* (SSN 774) gaining valuable knowledge and experience for future *Virginia*-class availabilities. PNSY is committed to maximizing the material readiness of the fleet by delivering on-time, affordable quality, safely achieved.

PNSY is one of four remaining naval shipyards in the nation. Centrally located about 50 miles from Boston, Massachusetts, Portland, Maine and Manchester, New Hampshire, at the southernmost tip of Maine, the shipyard fully encompasses Seavey Island PNSY, comprised of over 297 acres as the main base, that sits at the mouth of the Piscataqua River, and a family housing site off base in Kittery. This federally-owned island is across the harbor from Portsmouth, New Hampshire, with access to the mainland by two bridges that connect to Kittery.

There are 179 buildings with over 3 million square feet of space including 49 ship repair/overhaul buildings. Many of the buildings located at the shipyard are in an historic district and 50 buildings are listed on the National Register of Historic Places. PNSY has 6,224 lineal feet of berthing and has three dry docks and is capable of docking all active classes of submarines including the *Los Angeles*, *Ohio* and *Virginia* classes. Drydock No. 2 is a state of the art submarine overhaul and refueling complex with the capability of fully enclosing a submarine in a climate controlled facility.

PNSY has a plant value for real property (structures) in excess of \$1 billion, with plant equipment valued at approximately \$500 million. PNSY employs approximately 4,700 civilian employees; has an active apprentice and engineer recruitment program; and approximately 100 naval officers and enlisted personnel assigned to the shipyard with a combined annual payroll of approximately \$283 million. Significant investment in the PNSY infrastructure ensures state-of-the-art facilities for US Navy depot maintenance and, in recent years, a total of \$152.3 million has been invested for facility upgrades such as a new Dry Dock Complex. Finally, PNSY has converted two of its four Power Plant boilers to natural gas, part of an award winning comprehensive energy management program. This project invested millions of dollars to implement a major power plant and utility distribution recapitalization effort utilizing a U.S Army Corps of Engineers Regional Energy Savings Performance Contract.

SOURCE: <http://www.navsea.navy.mil/shipyards/portsmouth> No independent investigation or inquiry has been made by the Town and any information above reported by the Town is from a variety of public sources.

ECONOMIC CHARACTERISTICS

		-----% Change-----		
Population	Town of Kittery	Town	State	USA
1970	11,028	3.2	2.4	13.4
1980	9,314	(15.5)	13.4	11.4
1990	9,408	1.0	9.2	9.8
2000	9,543	1.4	9.2	9.8
2010	9,490	(0.6)	4.2	8.9

Population Characteristics^(a)	Town of Kittery	York County	State of Maine	USA
Median age (years)	43.2	43.0	41.7	37.2
% school age	11.8%	16.1%	18.2%	20.4%
% working age	61.3%	59.8%	63.4%	62.9%
% 65 and over	17.7%	15.4%	15.9%	13.0%
Persons/household	2.17	2.40	2.32	2.58

Income^(a)	Town of Kittery	York County	State of Maine	USA
Median family income	\$63,297	\$65,077	\$58,185	\$62,982
% below poverty level	8.5%	8.5%	12.6%	13.8%
Per capita income	\$29,228	\$27,137	\$25,385	\$27,334

Housing	Town of Kittery	York County	State of Maine	USA
% owner occupied ^(a)	65.7%	73.4%	71.3%	65.1%
% Built before 1939 ^(b)	29.2%	23.0%	29.1%	15.0%
% Built since 1990 ^(b)	8.9%	15.0%	14.6%	17.0%
Owner occupied med. value ^(a)	\$280,400	\$233,300	\$176,200	\$188,400
Median gross rent ^(a)	\$1,150	\$814	\$707	\$841
Occupied housing units ^(a)	4,302	81,009	557,219	-

SOURCE: ^(a) 2010 Census; ^(b) 2000 Census, U.S. Department of Commerce, Bureau of the Census.

Unemployment	Town of Kittery	York County	State of Maine	USA
2012	5.1%	6.6%	7.3%	8.1%
2011	4.9	6.8	7.5	8.9
2010	5.7	7.6	7.9	9.6
2009	6.1	7.6	8.0	9.3
2008	4.1	4.9	5.4	5.8
2007	3.6	4.1	4.6	4.7
2006	3.7	3.7	4.6	4.6
2005	3.6	4.1	4.8	5.1
2004	3.5	3.9	4.6	5.5
2003	4.4	4.9	5.1	6.0

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

TOWN FINANCES

BUDGETARY PROCESS

Article VI 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 requires the Town Manager to submit a budget to the Town Council at least 45 days prior to the beginning of each budget year. The budget is compiled from detailed information furnished by the administrative officers and boards designated by the Town Manager. Section 4.05 of the Charter provides that the School Committee shall submit its annual school budget to the Town Manager at least 90 days prior to the next budget year; and estimated receipts not less than 50 days before the budget year. The budget provides a complete financial plan for use of all Town funds and indicates the proposed tax levy and proposed expenditures for the Town's activities. After receipt of the budget, the Town Council holds a public hearing. After the public hearing, the Town Council may adopt the budget, with or without amendment. If the Appropriation Resolve establishes a property tax levy that exceeds the Property Tax Levy Limit, then the excess of the appropriation must be approved in a separate article by a majority of the entire Town Council (i.e., a "super majority"). The Property Tax Levy Limit of one year may not exceed the Property Tax Levy Limit from the prior year by more than a specified Growth Limitation Factor. The school budget is voted on by the School Board, then presented to the Town Council at a Budget Meeting and is then subject to referendum by the voters of the Town through a Budget Validation process. The Charter directs that the Town Council adopt the budget on or before the first day of July. If it fails to adopt the budget by this date, the Town Council may, by resolution, extend the adoption deadline by one month with the amount appropriated for the previous budget year deemed adopted for the current budget year, on a pro-rata (1/12 basis) basis. If the Town Council does not adopt a budget by the first day of August, the budget shall be deemed adopted for the budget year, as presented. A copy of the final budget, as adopted, is certified by the Town Manager and filed with the Town Assessor, who establishes a property tax levy.

Budgets for Fiscal Year Ending June 30,

	2009	2010	2011	2012	2013
REVENUES					
Taxes	\$20,080,601	\$20,126,151	\$20,754,281	\$21,249,472	\$20,804,216
Intergovernmental	2,150,735	2,146,146	1,917,140	1,708,628	3,300,626
Charges for services	848,685	718,340	722,370	776,614	941,055
Investment income	180,000	144,000	50,000	50,000	20,000
Other revenue	115,000	92,000	96,000	416,409	993,024
Transfers from other	43,000	34,400	181,400	14,400	67462
TOTAL REVENUES	23,418,021	23,261,037	23,721,191	29,541,065	26,126,383
EXPENDITURES					
General government	1,603,897	1,596,871	1,635,969	1,665,165	1,755,943
Public safety	3,145,631	3,064,673	3,087,669	3,089,328	3,123,258
Public works	1,057,953	1,081,693	1,081,693	1,081,693	1,069,240
Recreation and culture	1,072,270	1,006,591	994,714	994,715	1,967,686
Health and sanitation	694,456	673,635	673,635	673,635	723,582
Social services	56,859	56,298	56,298	174,494	54,574
Education	14,238,363	13,968,639	13,997,596	14,116,513	14,472,231
County tax	763,468	792,584	862,802	842,538	817,322
Debt service	262,881	427,317	390,302	387,280	691,179
Overlay	230,000	270,442	130,210	130,210	93,000
Designated	85,340	57,200	165,715	2,028,991	1,208,976
Transfers (or Misc 2010 & 2011)	928,303	583,064	1,310,908	293,257	192,931
TOTAL EXPENDITURES	\$24,139,421	\$23,579,007	\$24,387,511	\$25,477,819	\$26,169,921
Use of fund balance	(721,400)	(317,970)	(666,320)	(594,659)	(43,538)

PROPERTY TAX LEVY LIMIT

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

Fiscal year:	<u>2007/2008</u>	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>	<u>2011/2012</u>	<u>2012/2013</u>
State Personal Income Factor:	2.47%	2.24%	2.28%	1.78%	1.66%	1.43%
Town Property Growth Factor:	<u>2.71</u>	<u>1.64</u>	<u>1.15</u>	<u>1.48</u>	<u>2.57</u>	<u>1.90</u>
Growth Limitation Factor:	5.18%	3.88%	3.43%	3.26%	4.23%	3.33%
Property Tax Levy Limit:	\$3,428,917	\$4,392,291	\$4,701,802	\$5,061,591	\$5,253,087	\$5,352,673
Property Tax Levy:	<u>3,135,644</u>	<u>4,335,688</u>	<u>4,877,645</u>	<u>5,035,272</u>	<u>5,245,736</u>	<u>5,753,778</u>
Over/(below) Property Tax Levy Limit:	(\$293,273)	(\$56,603)	\$175,843	(\$26,319)	(\$7,351)	\$401,105

CAPITAL IMPROVEMENT PLAN

Article VI, Section 6.05 of the Town's Charter provides that the Town will have a capital improvement program ("CIP") to be prepared and presented with the annual budget. The CIP includes necessary capital expenditures and infrastructural needs for the Town. The CIP includes: (1) a general summary of its contents; (2) a list of capital improvements proposed to be undertaken over the next five fiscal years; (3) cost estimates, method of financing and time schedules for the respective improvement; and (4) the estimated annual cost to operate and maintain the improvement. Section 6.08 of the Charter provides that the Town Council hold a public hearing to consider the CIP. Following the public hearing, the Town Council may adopt the CIP, with or without amendment, but must do so on or before the first day of March preceding the next budget year.

The Capital Improvement Program includes an inventory of possible capital projects, some of which may ultimately be financed through the issuance of indebtedness. The issuance of debt, however, is subject to the prior review and approval of the Town Council. Pursuant to Article VI, Section 6.07 of the Charter, the Town Council may incur indebtedness to provide funds to finance projects in the CIP, through a bond ordinance. However, the bond ordinance must be submitted to the voters of the Town for their approval at regular or special election. A Charter Change in 2003 changed the CIP from a 5-yr. plan to an annual plan that must be voted on by the Town each June. The yearly capital depreciation accounts for replacement equipment and vehicles are built within the operating budget and listed as capital.

INVESTMENT POLICY

The Town established and follows a formal Investment Policy, amended on July 28, 2002. Pursuant to its policy and 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.

FUND BALANCE POLICY

The Town instituted a formal Fund Balance Policy, amended on July 28, 2002, recognizing the importance of maintaining an appropriate level of Unencumbered Surplus Revenue or Undesignated Fund Balance. After evaluating the Town's operating characteristics, diversity of tax base, reliability of non-property tax revenue sources, working capital needs, impact on bond rating, State and local economic outlooks, emergency and disaster risk, and other contingent issues the Town establishes the goals regarding the Unencumbered Surplus Revenue or Undesignated Fund Balance of the General Fund for the Town. The policy provided that the Undesignated General Fund be the greater of 1/12th (or 8.34%) of the Town's General Fund Budget (which is typically a floor) or an amount equal to 2½ months (or 20.83%) of monthly operating expenses (which is typically a cap).

Governmental Accounting Standards Board ("GASB") recently promulgated Statement 54 ("GASB 54"). Due to unforeseen staffing changes the Town has had to delay transition to GASB 54 recommendations. It is expected that the Town Council will repeal all previous Fund Balance Policies and replace the General Fund Balance Policy with a General Fund – Fund Balance Policy in accordance with GASB 54 in the next several months. The following table displays fund balance results over the last five audited fiscal years under its current policy:

Fund Balance as % Revenues

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012
Assigned and Unassigned ⁽¹⁾ General Fund Balance	\$6,725,397	\$5,972,870	\$6,074,345	\$4,344,502	\$4,317,992
Total Revenues (Current Year)	23,992,604	24,557,775	23,507,621	24,981,265	25,243,332
Fund Bal as % Revenues	28.03%	24.32%	25.84%	17.39%	17.11%
Unassigned ⁽²⁾ General Fund Balance	\$5,495,269	\$4,286,501	\$4,699,586	\$4,344,502	\$4,317,992
Total Revenues (Current Year)	23,992,604	24,557,775	23,507,621	24,981,265	25,243,332
Fund Bal as % Revenues	22.90%	17.45%	19.99%	17.39%	17.11%

NOTE: ⁽¹⁾ The Town implemented GASB 54 in FY 2011. Prior year amounts represent balances previously reported as "Unreserved".

⁽²⁾ The Town implemented GASB 54 in FY 2011. Prior year amounts represent balances previously reported as "Undesignated".

FINANCIAL STATEMENTS

Title 30-A, Chapter 223, Subchapter VIII of the Maine Revised Statutes, as amended, and Article II, Section 2.07(5) 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 RHR Smith & Company ("RHR Smith"), Certified Public Accountants for this review.

The Town's fiscal year 2012 Annual Financial Report, audited by RHR Smith is presented as APPENDIX A to this Official Statement. The Town has not requested the consent of RHR Smith 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. A fund is a separate 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. The Town has the following fund types:

Governmental Funds are used to account for most governmental functions of the Town. Governmental Funds include the following fund types:

General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds account for revenue sources (not including expendable trusts or major capital projects) that are legally restricted to expenditure for specific purposes.

Capital Projects Fund is used to account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or non-expendable trust funds.

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting governments' programs.

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Town Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary Funds account for assets held by the Town in a trustee capacity or as an agent on behalf of others. The Town's Fiduciary Funds include the following types:

Private Purpose Trust Funds are used to report any trust arrangements under which principal and income benefit individuals, private organizations, and other governments and that are not accounted for in other fiduciary funds.

Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency Funds are accounted for using the accrual basis of accounting. The funds are used to account for assets that the Town holds for others in an agency capacity.

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

	2012	2011	2010	2009	2008
ASSETS					
Cash	\$5,882,077	\$9,670,152	\$6,295,330	\$6,046,423	\$6,806,183
Investments	4,677,535	1,178,803	1,172,510	1,171,644	1,142,323
Receivables:					
Taxes and liens	882,384	1,017,253	986,056	883,542	797,427
Due from other governments	94,233	0	0	54,853	24,110
Other	0	0	1,468	29,611	82,249
Prepaid expenses	0	2,350	9,415	65,506	0
Due from other funds	981,105	479,016	296,133	447,446	698,782
TOTAL ASSETS	12,517,334	12,347,574	8,760,912	8,699,025	9,551,074
LIABILITIES					
Accounts payable	281,850	159,888	232,275	288,664	307,564
Accrued payroll	743,277	809,022	851,575	873,997	889,339
Payroll related	0	0	0	3,813	5,741
Due to other funds	5,141,012	5,320,940	1,626,193	778,063	1,022,238
Prepaid taxes	95,188	12,380	7,376	3,003	38,771
Deferred revenue	719,885	673,589	721,255	617,622	524,409
Other	247,857	46,213	2,483	160,993	37,615
TOTAL LIABILITIES	7,229,069	7,022,032	3,441,157	2,726,155	2,825,677
FUND BALANCE					
Non-spendable (Reserved)	-	-	0	0	0
Unreserved:					
Restricted (Designated)	-	-	1,136,817	1,686,369	1,230,128
Unassigned (Undesignated)	-	-	4,182,938	4,286,501	5,495,269
Non-spendable ⁽¹⁾	0	2,350	-	-	-
Restricted ⁽¹⁾	970,273	978,690	-	-	-
Committed ⁽¹⁾	0	0	-	-	-
Assigned ⁽¹⁾	0	0	-	-	-
Unassigned ⁽¹⁾	4,317,992	4,344,502	-	-	-
TOTAL FUND BALANCE	5,288,265	5,325,542	5,319,755	5,972,870	6,725,397
TOTAL LIABILITIES AND FUND BALANCE	\$12,517,334	12,347,574	\$8,760,912	\$8,699,025	\$9,551,074

Prepared from Audited Financial Statements

NOTE: ⁽¹⁾ Redefined, pursuant to GASB 54.

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

	2012	2011	2010	2009	2008
REVENUES					
Taxes	\$21,128,812	\$20,861,570	\$20,226,605	\$19,692,100	\$19,586,185
Intergovernmental	1,745,857	1,934,398	2,217,942	2,433,015	2,815,742
Charges for services	905,769	803,292	761,608	649,652	1,101,383
Investment income	55,090	27,074	28,625	103,197	161,096
State of Maine on-behalf	950,856	1,195,709	1,164,450	1,207,086	0
Other	456,948	159,222	240,403	472,725	328,198
TOTAL REVENUES	25,243,332	24,981,265	24,639,633	24,557,775	23,992,604
EXPENDITURES					
General government	1,652,054	1,564,941	1,543,420	1,509,728	1,550,909
Public safety	3,202,649	3,091,473	3,084,807	3,073,732	3,016,284
Public works	1,017,302	1,089,664	1,082,750	1,042,622	1,032,312
Recreation and culture	1,029,281	992,567	1,011,292	1,032,097	1,246,494
Health and sanitation	653,819	669,727	670,734	618,990	657,070
Social services	166,480	55,722	66,905	67,810	46,548
Education	13,146,240	13,712,967	13,549,679	13,758,211	14,195,731
County tax	842,537	862,802	792,584	763,467	728,991
State of Maine on-behalf	950,856	1,195,709	1,164,450	1,207,086	0
Debt service	396,486	390,301	427,317	262,881	553,761
Overlay	0	101,600	-	-	-
Designated	250,784	156,019	0	888,357	782,348
TOTAL EXPENDITURES	23,308,488	23,883,492	23,393,938	24,224,981	23,810,448
EXCESS OF REVENUES OVER EXPENDITURES	1,934,844	1,097,773	1,245,695	332,794	182,156
OTHER FINANCING SOURCES:					
Operating transfers in	18,000	218,922	30,500	43,000	335,850
Operating transfers (out)	(1,990,121)	(1,310,908)	(1,929,310)	(1,128,321)	(635,985)
TOTAL OTHER FINANCING:	(1,972,121)	(1,091,986)	(1,898,810)	(1,085,321)	(300,135)
NET CHANGE IN FUND BAL	(37,277)	5,787	(653,115)	(752,527)	(117,979)
FUND BALANCE:					
BEGINNING OF YEAR	5,325,542	5,319,755	5,972,870	6,725,397	6,843,376
END OF YEAR	\$5,288,265	\$5,325,542	\$5,319,755	\$5,972,870	\$6,725,397

Prepared from Audited Financial Statements

PROPERTY TAXATION

The principal tax of the Town is the tax on real and personal property. A single tax applies for each fiscal year to the assessed value of the taxable real or personal property. The Town's Tax Collector receives the tax commitment from the Town Assessor, with assessed values as of April 1 of each year, after which time the tax bills are mailed. For fiscal 2012/2013 the tax due dates are October 31, 2012, February 15, 2014 and May 31, 2014. All taxes paid after the due date will be subject to interest, at the rate of 7.0% per annum.

Real Estate Taxes

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.

Business Personal Property Taxes

In 2006 the Maine Legislature enacted LD 2056, codified as Title 36, Chapter 105, Subchapter 4-C of the Maine Revised Statutes, as amended, which exempts from taxation, beginning with the April 1, 2008 tax year, most types of tangible business personal property subject to an allowance for depreciation and some specialty types of real property improvements. The exemption does not apply to: office furniture; lamps and lighting fixtures used to provide general purpose office or worker lighting; property owned or used by public utilities and persons providing certain television/telecommunications services; telecommunications personal property subject to the tax imposed by section 457 of Title 36; gambling machines or devices and associated equipment; property located at a retail sales facility unless such facility is more than 100,000 square feet in size and owned by a business whose Maine-based operations derive less than 30% of their total annual revenue from sales in the State.

Through the Business Equipment Tax Exemption Program ("BETE") the State will reimburse municipalities with respect to the lost property taxes associated with this new exemption through one of two formulas, whichever is most beneficial to the municipality, as follows:

1. Basic reimbursement formula - For all municipalities in the first year after the exemption, and for a majority of the municipalities thereafter, the reimbursement would be 100% for the lost property taxes in the first tax year after the exemption takes effect (i.e., FY 2009), 90% in the second year after the exemption takes effect (i.e., FY 2010), 80% in FY 2011, 70% in 2012, 60% in 2013, and 50% in 2014 and every subsequent year. The State Constitution requires a minimum reimbursement of at least 50%.
2. Enhanced formula - Municipalities that have a total property tax base that is made up of at least 5% personal property will be eligible for an alternative reimbursement formula if it provides a higher level of reimbursement in any year than the basic reimbursement formula. Those municipalities will be eligible to receive the 50% minimum reimbursement plus 50% of their tax base percentage that is made up of personal property. For example, if a town's tax base is 64% personal property, it would be eligible for a reimbursement rate of 82%, which is a combination of the minimum 50% reimbursement *plus* one-half of that municipality's 64% "personal property factor".

For the purposes of identifying the municipality's valuation for determining the local property tax rate, the value of all property made exempt by this legislation in the municipality must be considered part of that municipality's local valuation to the extent the municipality is being reimbursed for its lost property taxes by the State with an additional adjustment for property in a tax increment financing district.

The value of all property made exempt by this law in the Town will also be considered part of that municipality's equalized State Valuation to the extent the Town is being reimbursed for its lost property taxes by the state with an additional adjustment for exempt property in a tax increment financing district. The law provides some additional security for the municipal reimbursement system by funding the reimbursements described above directly from State Income Tax receipts before those receipts are deposited into the State's General Fund, rather than as an annual General Fund appropriation.

Proposed Changes to BETE

Governor Paul LePage, in his proposed 2013 Supplemental Budget and 2014/2015 Biennial Budget dated January 11, 2013 (the "Governor's Budget Proposal"), would modify BETE as follows: effective with tax years beginning on and after April 1, 2014, currently taxable personal property that qualified for State reimbursement under the Business Equipment Tax Reimbursement ("BETR") program would become completely exempt from property tax under BETE. At the same time, State reimbursement to municipalities will be increased to 60% for property tax year 2014, 55% for property tax year 2015, and 50% thereafter. This change excludes property located at a retail sales facility and used in a retail sales activity.

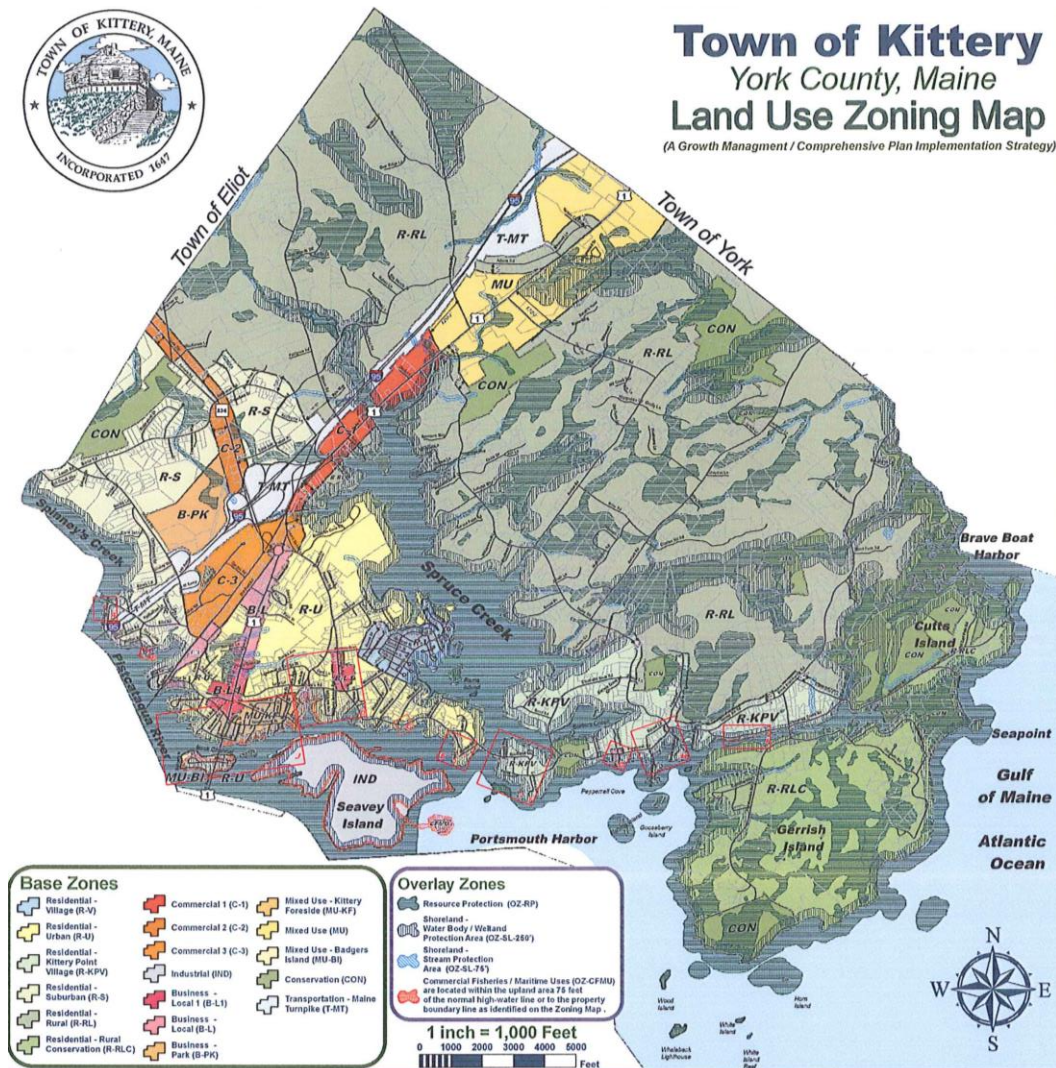
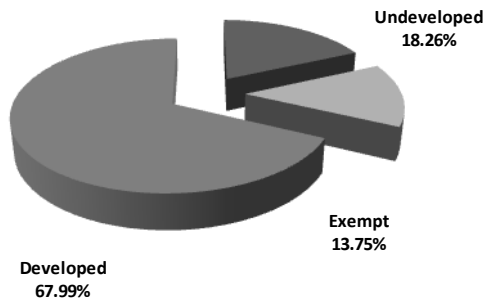
Tax Levy and Collections

Fiscal Yr. End June 30,	Equalized State Valuation (000)	Assessed Valuation (000)	Tax Rate (000)	Tax Levy (000)	Collections (after Supplements and Abatements)		
					Year End (000)	% of Levy	% of Levy A/O 8/31/12
2013	\$1,488,100	1,375,578	\$15.14	\$20,826	----- In Process -----		
2012	1,509,300	1,367,134	14.45	19,755	\$19,720	99.82%	99.72%
2011	1,608,850	1,363,803	14.26	19,403	18,681	96.20	99.20
2010	1,701,400	1,355,803	14.08	18,969	18,791	99.06	99.99
2009	1,657,000	1,327,194	14.04	18,634	18,278	98.09	99.99
2008	1,623,050	1,307,079	14.00	18,310	18,138	99.06	99.99
2007	1,512,000	1,296,263	13.62	17,521	17,312	98.80	99.99
2006	1,391,100	1,251,541	13.38	16,583	16,803	99.00	99.99
2005	1,226,100	1,219,563	13.32	16,245	15,767	97.06	99.99
2004	1,204,700	1,199,697	12.90	15,476	14,690	94.92	99.99
2003	1,049,100	712,990	19.84	14,146	13,326	94.20	99.99

CURRENT TAX BASE AND TAX BASE GROWTH

The Town's land area is comprised of 9,969.7 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>2010</u>
Undeveloped	1,820.3
Exempt	1,370.8
Greenspace	NA
Developed	<u>6,778.6</u>
Total	



LARGEST TAXPAYERS

Taxpayer	Business	As of April 1, 2012		
		Assessed Total	Property Tax	% of Levy
CPG Kittery Holdings LLC	Retail Outlet Mall	\$26,372,100	\$399,274	1.9%
F/C Kittery Dev LLC	Retail Outlet Mall	18,960,600	287,063	1.4
Kevin Inc	Retail Outlet Mall	12,212,700	184,900	0.9
Tanger Properties LTD	Retail Outlet Mall	7,103,500	107,547	0.5
Kittery Retirement Resid LLC	Com Sr. Housing	6,980,700	105,688	0.5
Spruce Creek Ret Out LLC	Retail Outlet Mall	6,084,700	92,274	0.4
Ripley Road Ass LLC	Retail Outlet Mall	5,998,400	90,816	0.4
Kittery Commons LLC	Nursing Home	5,940,000	89,932	0.4
Central Maine Power	Electric Utility	5,457,400	82,625	0.4
Vernon Continuing Care LLC	Com Sr. Housing	<u>4,518,700</u>	<u>68,413</u>	<u>0.3</u>
	% Levy of Total Levy	\$99,628,800	\$1,508,532	7.2%

TAX INCREMENT FINANCING DISTRICTS AND AFFORDABLE HOUSING DEVELOPMENT DISTRICTS

Chapter 206 and former 207 (now repealed) 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 development district”) and for a period of up to 30 years 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 development 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 TIF districts and all housing development districts within the municipality as of the April 1st preceding the date the Commissioner of the Department of Economic and Community Development, with respect to TIF Districts, or the Director of the Maine State Housing Authority, with respect to housing districts, approves the designation of any such district each cannot exceed 5% of the municipality’s total value of 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. In addition, the foregoing limitations do not apply to approved downtown TIF districts, TIF districts included within Pine Tree Development Zones or TIF districts that consist solely of one or more community wind power generation facilities owned by a community wind power generator that has been certified by the Public Utilities Commission pursuant to Title 35-A, Section 3403, Subsection 3 of the Maine Revised Statutes, as amended.

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 5702 of the Maine Revised Statutes, as amended.

The City has designated numerous TIF districts and is actively considering proposals for other districts on an ongoing basis. All districts will be evaluated based upon the City's comprehensive plan for economic development, which includes TIF as one of its aspects. In no event will the City's districts exceed the statutory limitation of total area to not more than 5% of the City'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 City's total equalized value of taxable property.

REVENUES FROM THE STATE

The State provides revenue to the Town in a number of areas including aid to the Town in a number of areas including education and road maintenance, reimbursement for general assistance, homestead exemption and BETE and revenue sharing. The amount of revenue in each category is based upon a number of formulas, many of which contain variables that change annually. Further, most categories of State disbursements are governed by laws that may be changed by the State Legislature are subject to appropriation by the State Legislature in its budgetary process.

The State subsidizes most local school administrative units through the Essential Programs and Services ("EPS") model of calculating and distributing state education aid. EPS utilizes a number of factors that are subject to change each year. In addition, the EPS model itself is subject to change by the Legislature. Furthermore, subsidies for school administrative units are an annual item in the State's budgetary process and are subject to legislative appropriation in that process. The following table displays revenue received by the Town from the State for the last five audited fiscal periods. Revenues received by the Town from the State in future years could, however, be less than any of the amounts set forth in the following table.

Fiscal Yr. End June 30,	State Revenue Sharing	Education Subsidy	Homestead Exemption	General Assistance	Other State Aid	Total From State
2012	\$588,402	\$649,676	\$128,828	\$36,929	\$82,147	\$1,485,982
2011	550,186	977,680	91,767	37,540	22,465	1,679,638
2010	607,240	982,752	130,476	23,456	190,803	1,934,727
2009	749,341	1,096,505	120,131	24,266	117,783	2,108,026
2008	778,833	1,247,200	146,230	15,916	398,875	2,587,054

Proposed Changes to State Revenues

Under the Governor's Budget Proposal, State revenues to the City would be affected as follows:

- The State's municipal revenue sharing to municipalities would be suspended for FY14 and FY15;
- The Homestead Property Tax Exemption would be doubled from \$10,000 to \$20,000 but limited to resident homeowners age 65 and older, effective on or after April 1, 2014;
- The State's public K-12 EPS would be flat funded for FY13, FY14 and FY15;
- Reduction in the State's funding of teachers' retirement premium from 100% to 50%. See "RETIREMENT - DEFINED BENEFIT PENSION PLAN-TEACHERS GROUP" herein; and
- The State's General Assistance Program would be capped at \$10.1 million in FY13, FY14 and FY15.

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, 2013 the Town’s equalized state valuation (“equalized State Valuation”) is \$1,488,100,000. The 15% debt limit is \$223,215,000. As of June 30, 2012 the Town’s long-term debt was \$22,218,636 or 1.49% 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

Year or Series	Date of Issue	Issue Amount	Date of Final Mat	FY End June 30, 2012	Payments 2012/2013	FY End June 30, 2013
1992 ⁽¹⁾	10/01/92	\$4,000,000	10/01/12	\$200,000	(\$200,000)	\$0
2002	11/01/02 ⁽²⁾	4,220,000	12/01/22	2,310,000	(2,310,000)	0
2003 ⁽¹⁾	04/01/03	1,323,000	10/01/22	773,258	(65,038)	708,221
2006	08/15/06	3,105,000	11/01/15	1,380,000	(345,000)	1,035,000
2006	08/15/06	2,660,000	11/01/26	1,885,000	(155,000)	1,730,000
2010 ⁽¹⁾	04/02/10	3,268,766	04/01/30	2,970,378	(151,439)	2,818,942
2010	07/15/10	675,000	09/01/31	675,000	(35,000)	640,000
2010	07/15/10	6,570,000	09/01/31	6,525,000	(325,000)	6,200,000
2012	01/15/12	5,500,000	01/15/32	5,500,000	(275,000)	5,225,000
Sub-total				\$22,218,636	(\$3,861,477)	\$18,357,163
2013	04/11/13	\$2,100,000	12/01/22		\$0	2,100,000
Totals					(\$3,861,477)	\$20,457,163

NOTE: ⁽¹⁾ Eligible wastewater facilities were financed under the State Revolving Loan Fund Program (“SRF”) administered jointly by the Maine Municipal Bond Bank (“MMBB”) and the State of Maine, acting by and through its Department of Environmental Protection (“DEP”).

⁽²⁾ The shading of the row in the above “DEBT SUMMARY” table indicates the Bonds to be Refunded.

DEBT SUMMARY, BY FUND TYPE

Series	Purpose	By Fund Type (as of June 30, 2012)			
		General	School	Enterprise	Total
1992	Wastewater			\$200,000	\$200,000
2002	School		\$2,310,000		2,310,000
2003	Wastewater			773,259	773,259
2006	School		1,380,000		1,380,000
2006	Fire Stations	\$1,885,000			1,885,000
2010	Wastewater			2,970,378	2,970,378
2010	PWD	675,000			675,000
2010	School		6,525,000		6,525,000
2012	Com Center	5,500,000			5,500,000
Totals		\$8,060,000	\$10,215,000	\$3,943,637	\$22,218,636
As% of Total Debt		36.28%	45.97%	17.75%	100.00%

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	Equalized State Val. (000)	Assessed Valuation (000)	Total Debt	Debt as % Eq. Val.	Per Capita Debt
2013	9,490	\$1,488,100	1,375,578	\$20,457,163	1.37%	\$2,155.65
2012	9,490	1,509,300	1,367,134	22,218,636	1.47	2,341.27
2011	9,490	1,608,850	1,363,803	17,972,728	1.12	1,893.86
2010	9,490	1,701,400	1,355,809	20,044,490	1.15	2,112.17
2009	9,543	1,657,000	1,327,194	10,760,334	0.65	1,127.56
2008	9,543	1,623,050	1,307,079	12,499,147	0.77	1,309.77
2007	9,543	1,512,000	1,296,263	14,237,256	0.94	1,491.91
2006	9,543	1,391,100	1,251,541	13,264,632	0.95	1,389.99
2006	9,543	1,391,100	1,251,541	15,579,632	1.12	1,632.57
2005	9,543	1,226,100	1,219,563	14,951,324	1.22	1,566.73

DEBT SERVICE COMPONENT OF OPERATING EXPENDITURES

	Audited					Budgeted
	2008	2009	2010	2011	2012	2013
Total Current Year Debt Service:	\$1,598,071	\$1,533,668	\$2,091,939	\$2,145,148	\$2,393,044	\$2,143,014
(less Subsidized School Debt):	(993,361)	(954,199)	(1,358,402)	(1,378,970)	(1,225,344)	(1,195,050)
(less Self Supporting Sewer Debt):	(409,639)	(396,401)	(306,221)	(504,026)	(475,113)	(268,552)
Net Tax-backed Debt:	\$195,071	\$183,068	\$427,316	\$262,152	\$692,588	\$679,413
Budgeted Operating Expense:	25,035,962	24,139,421	23,521,806	23,969,782	24,252,593	26,169,921
Debt Service as % Oper. Expend.:	0.78%	0.76%	1.82%	1.09%	2.86%	2.59%

PROJECTED PRINCIPAL PAYMENTS, BY ISSUE

Yr. End June 30,	1992 SRF	2002	2003 SRF	2006 Ref'd'g	2006	2010 SRF	2010	2012	2013 Ref'd'g	Total Debt
2013	200	210	65	345	155	151	360	275	0	1,761
2014		210	66	345	155	153	360	275	210	1,564
2015		210	67	345	155	154	360	275	210	1,566
2016		210	68	345	155	156	360	275	210	1,569
2017		210	69		125	158	360	275	210	1,197
2018		210	70		125	159	360	275	210	1,199
2019		210	71		115	161	360	275	210	1,192
2020		210	72		115	162	360	275	210	1,195
2021		210	74		115	164	360	275	210	1,198
2022		210	75		115	166	360	275	210	1,201
2023		210	76		115	167	360	275	210	1,204
2024					110	169	360	275		914
2025					110	171	360	275		916
2026					110	172	360	275		917
2027					110	174	360	275		919
2028						176	360	275		811
2029						178	360	275		813
2030						179	360	275		814
2031							360	275		635
2032							360	275		635
Totals	200	210	773	1,380	1,885	2,970	7,200	5,500	2,100	22,219

NOTE: The shading of the column in the above table indicates the Bonds to be Refunded and are preliminary, subject to change.

PROJECTED DEBT SERVICE REQUIREMENTS

Fiscal Yr. End June 30,	Prior Debt				Projected Debt (This Issue)			Projected Total Debt Service
	Principal	Interest	(Less 2002 Bonds)	Total Debt	Principal	Interest	Total Debt	
2013	\$1,761,474	631,571	\$0	\$2,393,044	\$0	\$0	\$0	\$2,393,044
2014	1,563,909	579,105	(301,613)	1,841,402	210,000	40,399	250,399	2,091,800
2015	1,566,399	532,863	(293,081)	1,806,180	210,000	32,130	242,130	2,048,310
2016	1,568,946	486,431	(284,419)	1,770,958	210,000	28,980	238,980	2,009,938
2017	1,196,552	448,116	(275,494)	1,369,175	210,000	25,830	235,830	1,605,005
2018	1,199,219	417,779	(266,175)	1,350,824	210,000	22,628	232,628	1,583,451
2019	1,191,950	386,761	(256,463)	1,322,249	210,000	18,900	228,900	1,551,149
2020	1,194,745	354,740	(246,488)	1,302,997	210,000	14,700	224,700	1,527,697
2021	1,197,609	321,711	(236,250)	1,283,070	210,000	10,500	220,500	1,503,570
2022	1,200,542	287,899	(225,750)	1,262,692	210,000	6,300	216,300	1,478,992
2023	1,203,548	253,339	(215,250)	1,241,637	210,000	2,100	212,100	1,453,737
2024	913,952	222,969		1,136,922				1,136,922
2025	915,642	198,667		1,114,309				1,114,309
2026	917,348	172,773		1,090,122				1,090,122
2027	919,072	144,825		1,063,897				1,063,897
2028	810,812	119,334		930,147				930,147
2029	812,571	95,614		908,184				908,184
2030	814,346	71,875		886,222				886,222
2031	635,000	38,513		673,513				673,513
2032	635,000	15,863		650,863				650,863
TOTAL	\$22,218,637	\$5,780,749	(\$2,600,981)	\$25,398,404	\$2,100,000	202,467	\$2,302,467	\$27,700,871

OVERLAPPING DEBT

County of York

The Town is subject to an annual assessment of its proportional share of the County of York'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, 2013 the Town's proposed equalized State Valuation of \$1,488,100,000 is 5.13% of the County's proposed equalized State Valuation of \$29,012,250,000. The Town's share is 5.13%, or \$456,500, of the County's \$8,900,000 long-term debt projected to be outstanding as of December 31, 2012.

CONTINGENT DEBT

The Town does not have any obligations which it is responsible for on a contingent basis.

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. Capital bond ordinances require approval by referendum vote. Certain other specific actions require approval of the annual Town Meeting. These include certain changes to the Town's comprehensive plan, the disposition of certain Town property (other than property acquired for non-payment of taxes), that part of the capital program which is proposed for the ensuing fiscal year, and certain expenditures and appropriations in excess of \$50,000 which have not been fully funded by bond issue approved at referendum or a dedicated reserve account. The following are projects that have been authorized but, following the financing of the Bonds, remain unissued.

Sewer System Projects

The Town commissioned a study to evaluate the future infrastructure needs for the collection, treatment and disposal of its wastewater facilities. In addition to various pump station, treatment facility and sewer system improvements (the "Infrastructure Projects"), the study identified a sewer system expansion project in the Business Park west of US Interstate 95; Dana Avenue and Martin Road areas (the last two being the "Route 236 Sewer Extensions") (collectively, the "Sewer Projects"). The Sewer Projects would potentially be constructed in three phases: Phase 1 at \$3,433,925; Phase 2 at \$2,119,500; Phase 3 at \$2,033,100, for a consolidated \$7,586,525.

At its March 11, 2013 meeting the Town Council has been asked to schedule public hearings, to consider authorization of the Council to send the question of issuing \$4,403,500 bonds to provide funds to finance the Infrastructure Projects and \$7,586,525 bonds to provide funds to finance the Sewer Projects to the voters. It is expected that, if authorized by the Council, that the question(s) will be voted on in a special municipal election to be held in June 2013. Should the voters approve the financing(s) then the projects are expected to be bonded in calendar year 2015. While the bonds, if issued, will be general obligations of the Town, the Town expects that associated debt service will be paid from a combination of sewer impact fees and user fees.

Bonds to finance the potential Infrastructure or Sewer Projects will not be authorized unless and until approved by Town Council and ratified at Town referendum election. 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 is a “participating local district” pursuant to Regular Plan AC and Special Plan 1C (Police) of the Consolidated Plan for Participating Local Districts (“CPPLD”) and contributes to Maine Public Employees Retirement System’s (“MainePERS”) successor to the Maine State Retirement System (“MSRS”), a cost-sharing multiple-employer defined benefit pension plan. The MSRS was established in 1942, and effective September 20, 2007, by virtue of Chapter 58 of the Public Laws of 2007, MSRS was renamed MainePERS, successor to the Maine State Retirement System (“MSRS”). MainePERS was established and is administered under the Maine State Retirement System Laws, Title 5, Chapters 421, 423 and 425 of the Maine Revised Statutes, as amended. The MainePERS CPPLD 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 MainePERS issues a publicly available financial report that includes financial statements and required supplementary information for the CPPLD. That report may be obtained by writing the Maine Public Employees Retirement System, 46 State House Station, Augusta, Maine 04433-0046 or by calling (800) 451-9800.

Funding Policy

Plan members (Town employees other than those served by the Teachers Retirement Plan, described in B, below) 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. The initial unfunded unpooled actuarial liability (“IUUAL”) obligation is being amortized over ten years (from July 1, 2010). The current rate is 4.4% of annual covered payroll for Regular Plan AC, Town employees and 10.2% for Special Plan 1C, Police supervisory. The contribution rates of plan members and the Town are established and may be amended by the Maine Public Employees Retirement System Board of Trustees. The Town’s contributions to the MainePERS-CRP for the year ended June 30, 2012 are paid by portions of a IUUAL credit that is deducted in the amounts of \$407,315, \$426,314 and \$339,339 for the years ended June 30, 2012, 2011 and 2010, respectively.

Employer Contribution Rates

The MainePERS Board of Trustees has increased employer contribution rates for the PLD Consolidated Plan based upon actuarial recommendations. The following table shows the rate for fiscal year ended June 30, 2011, June 30, 2012 and June 30, 2013:

<u>Plan</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Regular AC	3.5%	4.4%	5.3%
Special 1C	8.1%	10.2%	12.2%
Special 2C	5.0%	6.3%	7.5%

The Town recognizes the fiscal impact of these increases and is taking these rates into consideration in its budgeting process as well as in its negotiations with collective bargaining unit(s).

B. DEFINED BENEFIT PENSION PLAN – TEACHERS GROUP

Description of the Plan

All schoolteachers, plus other qualified educators, participate in the MainePERS' teacher group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State legislature. MainePERS 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. MainePERS' 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 Public Employees 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. This amount has been reported as an intergovernmental revenue and retirement expenditure in the Town's GAAP basis financial statements. Contributions paid by the State were approximately \$950,856 for the year ended June 30, 2012. There is no contribution required by the Town's School Department except for federally funded teachers. The Town's contributions to the plan were \$307,265, \$332,719 and \$272,123 for the years ended June 30, 2012, 2011 and 2010, respectively.

C. DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan through the International City Manager's Association Retirement Corporation ("ICMA-RC") 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 ("GASB") 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 liability of the plan.

D. OTHER POST EMPLOYMENT BENEFITS

GASB Statement 45 ("GASB 45"), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented, as required, by the Town for the year ended June 30, 2009. Under this pronouncement the long-term cost of retirement health care and obligations for other post employment benefits ("OPEB") must be determined on an actuarial basis and reported similar to pension plans.

The Town is a member of the Maine Municipal Employees Health Trust (the "Health Trust"). The Health Trust contracted with an outside consultant to assist in the determination and valuation of the Town's OPEB liability under GASB 45 whereby an OPEB liability actuarial valuation was completed by the consultants based on an actuarial valuation date of June 30, 2011. GASB 45 advises that valuations should be conducted at least triennially for plans with a total membership of fewer than 200 plan members. The Town has 50 active and 14 retiree/spouse members. Accordingly, the Town expects to receive a new valuation in three years.

Plan Descriptions - In addition to providing pension benefits, the Town provides health care benefits for certain retired employees. Eligibility to receive health care benefits follows the same requirements as

MainePERS. Eligible retirees are required to pay 100% of the health insurance premiums to receive health benefit coverage.

Funding Policy and Annual OPEB Cost - GASB 45 does not mandate the prefunding of postemployment benefits liability. The Town currently plans to fund these benefits on a pay-as-you-go basis. No assets have been segregated and restricted to provide postemployment benefits. The annual required contribution ("ARC"), an actuarial determined rate, represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed 30 years.

Funding Status and Funding Progress - The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending June 30, 2012 was:

Annual required contribution ("ARC"):	\$285,954
Interest:	5,553
Adjustment to Annual Required Contribution:	<u>0</u>
Annual OPEB cost:	291,507
Actual contribution:	<u>(115,000)</u>
Increase in net OPEB obligation:	176,507
Net OPEB obligation, beginning of year:	<u>1,016,055</u>
Net OPEB obligation, beginning of year:	\$1,192,562

The Town's OPEB cost, percentage of annual OPEB cost and the net OPEB obligation for the most current three years available are:

FY ended:	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>June 30, 2011</u>
Annual OPEB Cost (AOC):	\$448,446	\$615,594	\$291,507
Actual Contribution:	115,000	115,000	115,000
% AOC Contributed:	25.6%	18.7%	39.5%
Net OPEB:	\$387,618	\$1,013,055	\$1,192,562

The amortization method used to calculate the unfunded actuarial accrued liability ("UAAL") is as follows:

	<u>Level Dollar</u>	<u>Level % Pay</u>
Discount rate:	4.00%	4.00%
Payroll growth assumptions:	NA	3.00%
Accrued liability:	\$3,146,751	\$3,146,751
Value of assets:	<u>0</u>	<u>0</u>
Unfunded liability:	\$3,146,751	\$3,146,751
Normal cost:	\$105,423	\$105,423
Amortization of UAAL:	174,978	120,245
Interest:	<u>5,553</u>	<u>4,469</u>
Annual required contribution:	\$285,954	\$230,137

The Town does not believe that its OPEB liabilities, as determined pursuant to GASB 45, have a material impact on its current financial condition or operations. The Town has monitored, and will continue to monitor, its OPEB liabilities as determined pursuant to GASB 45. The Town does not, however, offer any assurance as to the impact, if any, of future OPEB liabilities, as determined pursuant to GASB 45, on the Town's future financial condition or operations. For additional information about the Town's OPEB liabilities, see "Other Post Employment Benefits" in Notes to Basic Financial Statements in APPENDIX A hereto.

ENVIRONMENTAL MATTERS

Securities and Exchange Commission Regulation 229.103 (the “Regulation”) requires that issuers subject to the disclosure requirements of the Securities Exchange Act of 1934 disclose, among other things, any material pending legal proceedings, including without limitation, legal proceedings involving environmental issues. The Regulation states that no information need be given with respect to any proceeding that involves primarily a claim for damages if the amount involved, exclusive of interest and costs, does not exceed ten percent (10%) of the current assets of the issuer, and, if a governmental authority is a party to such proceeding and such proceeding involves potential monetary sanctions, unless the issuer reasonably believes that such proceeding will result in no monetary sanctions, or in monetary sanctions, exclusive of interest and costs, of less than \$100,000. Although the Town, as an issuer of municipal securities, is not subject to the provisions of the Regulation or the Securities Exchange Act of 1934, the Town is voluntarily making the following disclosure with respect to environmental liabilities:

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.

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.

APPENDIX A

**TOWN OF KITTERY, MAINE
ANNUAL FINANCIAL STATEMENTS
AND SUPPORTING SCHEDULES
FOR THE
YEAR ENDED JUNE 30, 2012**

(With Report of Independent Auditors' Thereon)

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Federal Compliance Audit

Town of Kittery, Maine

June 30, 2012



Proven Expertise and Integrity

TOWN OF KITTERY, MAINE

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JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

November 8, 2012

Town Council
Town of Kittery
Kittery, Maine

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kittery, Maine, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining information of the Town of Kittery, Maine as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2012 on our consideration of the Town of Kittery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Kittery's financial statements as a whole. The combining and individual non major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RHR Smith & Company

Certified Public Accountants

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

(UNAUDITED)

The following management's discussion and analysis of Town of Kittery, Maine's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Town's financial statements.

Financial Statement Overview

The Town of Kittery's basic financial statements include the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes required supplementary information which consists of the general fund budgetary comparison schedule, and other supplementary information which includes combining and other schedules.

Basic Financial Statements

The basic financial statements include financial information in two differing views: the government-wide financial statements and the fund financial statements. These basic financial statements also include the notes to financial statements that explain in more detail certain information in the financial statements and also provide the user with the accounting policies used in the preparation of the financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad view of the Town's operations in a manner that is similar to private businesses. These statements provide both short-term as well as long-term information in regards to the Town's financial position. These financial statements are prepared using the accrual basis of accounting. This measurement focus takes into account all revenues and expenses associated with the fiscal year regardless of when cash is received or paid. The government-wide financial statements include the following two statements:

The Statement of Net Assets – this statement presents *all* of the government's assets and liabilities with the difference being reported as net assets.

The Statement of Activities – this statement presents information that shows how the government's net assets changed during the period. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Both of the above mentioned financial statements have separate columns for the two different types of town activities. The types of activities presented for the Town of Kittery are:

- *Governmental activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most of the Town's basic services are reported in governmental activities, which include general government, public safety, public works, education, health and sanitation, recreation and culture, social services and other.
- *Business-type activities* – These activities are normally intended to recover all or a significant portion of their costs through user fees and/or charges to external users for goods and/or services. These activities for the Town of Kittery include the school lunch program and sewer department.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Kittery, like other local governments uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. All of the funds of the Town of Kittery can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: Most of the basic services provided by the Town are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balance of spendable resources available at the end of the fiscal year. Such information will be useful in evaluating the government's near-term financing requirements. This approach is known as the current financial resources measurement focus and the modified accrual basis of accounting. Under this approach revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the City's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the Town.

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

The Town of Kittery presents four columns in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances. The Town's major governmental funds are the general fund, the Mitchell Shapleigh Building Project and the Community Center Fund. All other funds are shown as nonmajor and are combined in the "Other Governmental Funds" column on these statements.

The general fund is the only fund for which the Town legally adopted a budget. The Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual – General Fund provides a comparison of the original and final budget and the actual expenditures for the current year.

Proprietary Funds: The Town of Kittery maintains two proprietary funds, the School lunch fund and sewer fund. These funds are used to show activities that operate more like those of commercial enterprises. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

Fiduciary Funds: These funds are used to account for resources held for the benefit of parties outside the Town of Kittery. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Town's own programs. The accounting used for fiduciary funds are much like that of proprietary funds. They use the accrual basis of accounting.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The Notes to Financial Statements can be found following the Fiduciary Fund Financial Statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual – General Fund.

Other Supplementary Information

Other supplementary information follows the required supplementary information. These combining and other schedules provide information in regards to nonmajor funds, capital asset activity and other detailed budgetary information for the general fund.

Government-Wide Financial Analysis

Our analysis below focuses on the net assets, and changes in net assets of the Town's governmental activities. The Town's total net assets for governmental funds are \$31.6 million compared to \$31.3 million in the prior year, an increase of 0.85%. For the business-type activities total net assets are \$10.66 million as compared to \$10.69 million in the prior year, a decrease of 0.28%.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is \$7.01 million at the end of this year for governmental activities and \$194,491 for the business-type activities.

Table 1
Town of Kittery, Maine
Net Assets
June 30,

	Governmental Activities		Business-Type Activities	
	2011		2011	
	2012	(Restated)	2012	(Restated)
Assets:				
Current and Other Assets	\$ 12,831,151	\$ 15,438,330	\$ 324,445	\$ 623,909
Capital Assets	40,744,745	35,233,432	14,383,960	14,542,683
Other Assets	-	-	5,473	9,867
Total Assets	<u>\$ 53,575,896</u>	<u>\$ 50,671,762</u>	<u>\$ 14,713,878</u>	<u>\$ 15,176,459</u>
Liabilities:				
Current Liabilities	\$ 3,288,282	\$ 5,191,365	\$ 431,807	\$ 440,521
Long-Term Debt Outstanding	18,710,864	14,169,941	3,619,756	4,044,199
Total Liabilities	<u>\$ 21,999,146</u>	<u>\$ 19,361,306</u>	<u>\$ 4,051,563</u>	<u>\$ 4,484,720</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 21,623,848	\$ 21,359,381	\$ 10,440,324	\$ 10,180,445
Restricted	2,939,093	4,107,830	27,500	-
Unrestricted	7,013,809	5,843,245	194,491	511,294
Total Net Assets	<u>\$ 31,576,750</u>	<u>\$ 31,310,456</u>	<u>\$ 10,662,315</u>	<u>\$ 10,691,739</u>

Table 2
Town of Kittery, Maine
Change in Net Assets
For the Years Ended June 30,

	Governmental Activities		Business-type Activities	
	2012	2011 (Restated)	2012	2011 (Restated)
Revenues				
<i>Program Revenues:</i>				
Charges for services	\$ 905,769	\$ 803,292	\$ 2,039,271	\$ 2,045,734
Operating grants and contributions	1,718,566	2,231,596	179,930	165,301
Capital grants and contributions	198,095	-	-	-
<i>General Revenues:</i>				
Taxes	21,175,108	20,813,904	-	-
Grants and contributions not restricted to specific programs	1,807,719	1,655,065	-	-
Investment income	80,305	120,628	-	-
Miscellaneous	7,123,573	1,390,547	49,299	75,032
Total Revenues	<u>33,009,135</u>	<u>27,015,032</u>	<u>2,268,500</u>	<u>2,286,067</u>
Expenses				
General government	7,788,325	1,053,425	-	-
Public safety	3,841,228	3,480,447	-	-
Public works	1,826,140	2,006,465	-	-
Health and welfare	661,963	669,727	-	-
Social Services	166,480	55,722	-	-
Recreation and culture	1,037,285	1,009,959	-	-
Education	14,498,800	15,609,157	-	-
County tax	842,537	862,802	-	-
Capital outlay	507,780	2,062,668	-	-
Grant funds/misc. accounts	250,784	156,019	-	-
Overlay	-	101,600	-	-
Unallocated depreciation (Note 4)	115,440	112,027	-	-
Interest on long-term debt	125,746	105,301	-	-
State of Maine on - behalf payments	950,856	1,195,709	-	-
Enterprise funds	-	-	2,427,401	2,239,374
Total Expenses	<u>32,613,364</u>	<u>28,481,028</u>	<u>2,427,401</u>	<u>2,239,374</u>
Total transfers	<u>(129,477)</u>	<u>(208,032)</u>	<u>129,477</u>	<u>208,032</u>
Change in Net Assets	266,294	(1,674,028)	(29,424)	254,725
Net Assets - July 1	<u>31,310,456</u>	<u>32,984,484</u>	<u>10,691,739</u>	<u>10,437,014</u>
Net Assets - June 30	<u>\$ 31,576,750</u>	<u>\$ 31,310,456</u>	<u>\$ 10,662,315</u>	<u>\$ 10,691,739</u>

Revenues and Expenses

Revenues for the Town's governmental activities increased by 22.19%, while total expenses increased by 14.51%. The biggest increase in expenses was in general government while the biggest increase in revenues was in miscellaneous revenue. These large increases can mostly be attributed to the community center project.

Revenues decreased by 0.77% in the Town's business type activities, while the total expenses increased by 8.40%. Most of the proprietary funds expenses were consistent with the previous year with minor increases or decreases. The biggest decrease in revenues was in the miscellaneous.

Financial Analysis of the Town's Fund Statements

Governmental funds: The financial reporting focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the Town's financial requirements. In particular, unassigned fund balance may serve as a useful measure of a government's financial position at the end of the year, and the net resources available for spending.

Table 3
Town of Kittery, Maine
Fund Balances - Governmental Funds
June 30,

	<u>2012</u>	<u>2011</u>
Major Funds:		
General Fund:		
Nonspendable	\$ -	\$ 2,350
Restricted	970,273	978,690
Unassigned	4,317,992	4,344,502
Mitchell/Shapleigh building project:		
Restricted	23,923	1,057,513
Community center:		
Committed	308,655	-
Unassigned	-	(280,513)
Total Major Funds	<u><u>\$ 5,620,843</u></u>	<u><u>\$ 6,102,542</u></u>
Nonmajor Funds:		
Permanent funds:		
Restricted	\$ 1,031,361	\$ 1,074,064
Capital project funds:		
Nonspendable	69,700	-
Restricted	852,631	776,259
Committed	2,151,358	1,467,072
Unassigned	(119,062)	(29,089)
Special revenue funds:		
Restricted	60,905	221,304
Committed	1,216,081	1,105,035
Assigned	41,426	117,905
Unassigned	(570,091)	(329,207)
Total Nonmajor Funds	<u><u>\$ 4,734,309</u></u>	<u><u>\$ 4,403,343</u></u>

The general fund total fund balance decreased by \$37,277 from the prior fiscal year. The Mitchell Shapleigh Building Project decreased by \$1,033,590 and the Community Center increased by \$589,168. The non-major fund balances increased by \$330,966 from the prior fiscal year.

Proprietary funds: The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The school lunch fund had an operating income for the current year of \$842, while the sewer fund had an operating loss of \$79,861.

Budgetary Highlights

There were significant differences between the original and final budget for the general fund. These differences were budget adjustments done by the Town for special town meetings or adjustments between departments as well as use of restricted and unassigned fund balances.

The general fund actual revenues exceeded the budget by \$94,953. This was a result of all revenues being receipted over budget with the exception of general tax revenue.

The general fund actual expenditures were under the budget by \$1,130,066. The following expenditures were under budget which accounts for most of the balance:

Education	\$970,273
Overlay	130,210

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2012, the net book value of capital assets recorded by the Town increased by \$5,352,590. The increase was caused by capital additions of \$7,686,681 primarily resulting from the Mitchell/Shapleigh and Community Center projects less current year depreciation of \$2,334,091. Refer to Note 4 of Notes to Financial Statements for additional information.

Table 4
Town of Kittery, Maine
Capital Assets (Net of Depreciation)
June 30,

	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 12,571,938	\$ 12,661,066
Buildings and improvements	27,594,958	21,946,084
Machinery and equipment	1,038,810	979,688
Vehicles	1,609,412	1,705,600
Construction in progress	9,125,442	9,901,019
Infrastructure	<u>3,188,145</u>	<u>2,582,658</u>
Total	<u>\$ 55,128,705</u>	<u>\$ 49,776,115</u>

Debt

At June 30, 2012, the Town had \$22.22 million in bonds outstanding versus \$17.98 million last year, an increase of 23.53%. Other obligations include capital leases payable and accrued vacation and sick time. Refer to Note 5 of Notes to Financial Statements for more detailed information.

Economic Factors and Next Year's Budgets and Rates

The Town has steadily maintained a sufficient unassigned fund balance to sustain government operations for a period of approximately two months, while also maintaining significant reserve accounts for future capital and program needs.

Contacting the Town's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Finance Dept. at, 200 Rogers Road Ext., P.O. Box 808, Kittery, Maine 03904-0808.

STATEMENT A

TOWN OF KITTERY, MAINE

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,017,353	\$ -	\$ 6,017,353
Investments	5,364,626	-	5,364,626
Accounts receivable (net of allowance for uncollectibles):			
Taxes	878,542	-	878,542
Other	96,323	392,501	488,824
Due from other governments	309,638	8,282	317,920
Prepaid expenses	69,700	-	69,700
Inventory	-	18,631	18,631
Internal balances	94,969	(94,969)	-
Total current assets	12,831,151	324,445	13,155,596
Noncurrent assets:			
Capital assets:			
Land, infrastructure, and other assets not being depreciated	16,341,606	4,009,942	20,351,548
Buildings and vehicles net of accumulated depreciation	24,403,139	10,374,018	34,777,157
Total noncurrent assets	40,744,745	14,383,960	55,128,705
Other assets:			
Bond issuance costs (net of amortization)	-	5,473	5,473
TOTAL ASSETS	\$ 53,575,896	\$ 14,713,878	\$ 68,289,774
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 669,792	\$ 11,988	\$ 681,780
Accrued expenses	743,277	-	743,277
Deferred revenue	-	3,345	3,345
Prepaid taxes	95,188	-	95,188
Other liabilities	247,857	-	247,857
Current portion of long-term obligations	1,532,168	416,474	1,948,642
Total current liabilities	3,288,282	431,807	3,720,089
Noncurrent liabilities			
Noncurrent portion of long-term obligations:			
Bonds payable	16,930,000	3,527,162	20,457,162
Capital lease payable	658,729	-	658,729
Accrued compensated absences	1,122,135	92,594	1,214,729
Total noncurrent liabilities	18,710,864	3,619,756	22,330,620
TOTAL LIABILITIES	21,999,146	4,051,563	26,050,709
NET ASSETS			
Invested in capital assets, net of related debt	21,623,848	10,440,324	32,064,172
Restricted	2,939,093	27,500	2,966,593
Unrestricted	7,013,809	194,491	7,208,300
TOTAL NET ASSETS	31,576,750	10,662,315	42,239,065
TOTAL LIABILITIES AND NET ASSETS	\$ 53,575,896	\$ 14,713,878	\$ 68,289,774

See accompanying independent auditors' report and notes to financial statements.

STATEMENT B

TOWN OF KITTERY, MAINE

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

		Program Revenues			Net (Expense) Revenue & Changes in Net Assets		
		Charges for	Operating	Capital		Business-	
Functions/Programs	Expenses	Services	Grants & Contributions	Grants & Contributions	Governmental Activities	type Activities	Total
<u>Governmental activities:</u>							
General government	\$ 7,788,325	\$ 309,103	\$ 36,929	\$ -	\$ (7,442,293)	\$ -	\$ (7,442,293)
Public safety	3,841,228	84,613	-	29,783	(3,726,832)	-	(3,726,832)
Public works	1,826,140	-	-	168,312	(1,657,828)	-	(1,657,828)
Recreation and culture	1,037,285	266,529	-	-	(770,756)	-	(770,756)
Health and sanitation	661,963	245,524	-	-	(416,439)	-	(416,439)
Social services	166,480	-	-	-	(166,480)	-	(166,480)
Education	14,498,800	-	730,781	-	(13,768,019)	-	(13,768,019)
County tax	842,537	-	-	-	(842,537)	-	(842,537)
State of Maine on-behalf payments	950,856	-	950,856	-	-	-	-
Capital outlay	507,780	-	-	-	(507,780)	-	(507,780)
Grant funds/misc. accounts	250,784	-	-	-	(250,784)	-	(250,784)
Overlay	-	-	-	-	-	-	-
Unallocated depreciation (Note 4)	115,440	-	-	-	(115,440)	-	(115,440)
Interest on long-term debt	125,746	-	-	-	(125,746)	-	(125,746)
Total governmental activities	<u>32,613,364</u>	<u>905,769</u>	<u>1,718,566</u>	<u>198,095</u>	<u>(29,790,934)</u>	<u>-</u>	<u>(29,790,934)</u>
<u>Business-type activities:</u>							
Sewer department	1,998,400	1,800,484	-	-	-	(197,916)	(197,916)
School lunch program	429,001	238,787	179,930	-	-	(10,284)	(10,284)
Total business-type activities	<u>2,427,401</u>	<u>2,039,271</u>	<u>179,930</u>	<u>-</u>	<u>-</u>	<u>(208,200)</u>	<u>(208,200)</u>
Total government	<u>\$ 35,040,765</u>	<u>\$ 2,945,040</u>	<u>\$ 1,898,496</u>	<u>\$ 198,095</u>	<u>(29,790,934)</u>	<u>(208,200)</u>	<u>(29,999,134)</u>

STATEMENT B (CONTINUED)

TOWN OF KITTERY, MAINE

STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

	Governmental Activities	Business- type Activities	Total
Changes in net assets:			
Net (expense) revenue	<u>(29,790,934)</u>	<u>(208,200)</u>	<u>(29,999,134)</u>
General revenues:			
Taxes:			
Property taxes, levied for general purposes	19,766,701	-	19,766,701
Excise taxes	1,408,407	-	1,408,407
Grants and contributions not restricted to specific programs	1,807,719	-	1,807,719
Investment income	80,305	-	80,305
Miscellaneous	7,123,573	49,299	7,172,872
Transfers	<u>(129,477)</u>	<u>129,477</u>	<u>-</u>
Total general revenues and transfers	<u>30,057,228</u>	<u>178,776</u>	<u>30,236,004</u>
Change in net assets	266,294	(29,424)	236,870
NET ASSETS - JULY 1, RESTATED	<u>31,310,456</u>	<u>10,691,739</u>	<u>42,002,195</u>
NET ASSETS - JUNE 30	<u>\$ 31,576,750</u>	<u>\$ 10,662,315</u>	<u>\$ 42,239,065</u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT C

TOWN OF KITTERY, MAINE

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Mitchell/ Shapleigh Bldg Project	Community Center	Other Governmental Funds	Totals Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 5,882,077	\$ -	\$ -	\$ 135,276	\$ 6,017,353
Investments	4,677,535	-	-	687,091	5,364,626
Accounts receivables (net of allowance for uncollectibles):					
Taxes/liens	878,542	-	-	-	878,542
Other	3,842	-	5,460	87,021	96,323
Due from other governments	94,233	-	-	215,405	309,638
Prepaid expenses	-	-	-	69,700	69,700
Due from other funds	981,105	23,923	413,195	4,679,214	6,097,437
TOTAL ASSETS	\$ 12,517,334	\$ 23,923	\$ 418,655	\$ 5,873,707	\$ 18,833,619
LIABILITIES					
Accounts payable	\$ 281,850	\$ -	\$ 110,000	\$ 277,942	\$ 669,792
Accrued payroll	743,277	-	-	-	743,277
Due to other funds	5,141,012	-	-	861,456	6,002,468
Prepaid taxes	95,188	-	-	-	95,188
Deferred tax revenues	719,885	-	-	-	719,885
Other liabilities	247,857	-	-	-	247,857
TOTAL LIABILITIES	7,229,069	-	110,000	1,139,398	8,478,467
FUND BALANCES					
Nonspendable	-	-	-	69,700	69,700
Restricted	970,273	23,923	-	1,944,897	2,939,093
Committed	-	-	308,655	3,367,439	3,676,094
Assigned	-	-	-	41,426	41,426
Unassigned	4,317,992	-	-	(689,153)	3,628,839
TOTAL FUND BALANCES	5,288,265	23,923	308,655	4,734,309	10,355,152
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,517,334	\$ 23,923	\$ 418,655	\$ 5,873,707	\$ 18,833,619

See accompanying independent auditors' report and notes to financial statements.

TOWN OF KITTERY, MAINE

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

	Total Governmental Funds
Total Fund Balances	\$ 10,355,152
Amounts reported for governmental activities in the statement are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	40,744,745
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds shown above:	
Taxes and liens receivable	719,885
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(18,275,000)
Capital lease payable	(845,897)
Accrued compensated absences	<u>(1,122,135)</u>
Net assets of governmental activities	<u><u>\$ 31,576,750</u></u>

See accompanying independent auditors' report and notes to financial statements.

STATEMENT E

TOWN OF KITTERY, MAINE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Mitchell/ Shapleigh Bldg Project	Community Center	Nonmajor Funds	Totals Governmental Funds
REVENUES					
General tax revenue	\$ 21,128,812	\$ -	\$ -	\$ -	\$ 21,128,812
Intergovernmental revenue	1,745,857	-	-	1,027,667	2,773,524
Charges for services	905,769	-	-	-	905,769
Investment income	55,090	-	-	25,215	80,305
State of Maine on - behalf payments	950,856	-	-	-	950,856
Other revenue	456,948	-	5,629,456	1,037,169	7,123,573
TOTAL REVENUES	25,243,332	-	5,629,456	2,090,051	32,962,839
EXPENDITURES					
Current:					
General government	1,652,054	-	5,060,288	724,973	7,437,315
Public safety	3,202,649	-	-	307,739	3,510,388
Public works	1,017,302	-	-	409,976	1,427,278
Recreation and culture	1,029,281	-	-	-	1,029,281
Health and sanitation	653,819	-	-	-	653,819
Social services	166,480	-	-	-	166,480
Education	13,146,240	-	-	1,352,560	14,498,800
County tax	842,537	-	-	-	842,537
State of Maine on - behalf payments	950,856	-	-	-	950,856
Overlay	-	-	-	-	-
Grant funds/misc. accounts	250,784	-	-	-	250,784
Debt service	396,486	-	-	-	396,486
Capital outlay	-	1,033,590	-	786,481	1,820,071
TOTAL EXPENDITURES	23,308,488	1,033,590	5,060,288	3,581,729	32,984,095
EXCESS REVENUES OVER (UNDER)					
EXPENDITURES	1,934,844	(1,033,590)	569,168	(1,491,678)	(21,256)
OTHER FINANCING SOURCES					
Operating transfers in	18,000	-	20,000	2,037,822	2,075,822
Operating transfers (out)	(1,990,121)	-	-	(215,178)	(2,205,299)
TOTAL OTHER FINANCING SOURCES (USES)	(1,972,121)	-	20,000	1,822,644	(129,477)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(37,277)	(1,033,590)	589,168	330,966	(150,733)
FUND BALANCES - JULY 1, RESTATED	5,325,542	1,057,513	(280,513)	4,403,343	10,505,885
FUND BALANCES - JUNE 30	\$ 5,288,265	\$ 23,923	\$ 308,655	\$ 4,734,309	\$ 10,355,152

See accompanying independent auditors' report and notes to financial statements.

TOWN OF KITTERY, 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, 2012

Net change in fund balances - total governmental funds (Statement E)	<u>\$ (150,733)</u>
Amounts reported for governmental activities in the Statement of Activities (Statement B) are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense allocated to those expenditures over the life of the assets:	
Capital asset purchases capitalized	13,589,087
Capital asset disposals	(6,187,352)
Depreciation expense	<u>(1,890,422)</u>
	<u>5,511,313</u>
Revenues in the Statement of Activities that do not provide current financial resources are not reported.	
Taxes and liens receivable	<u>46,296</u>
Debt proceeds provide current financial resources to governmental funds, but long-term liabilities in the Statement of Net Assets.	
	<u>(6,153,024)</u>
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets	
	<u>906,178</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Accrued compensated absences	<u>106,264</u>
Change in net assets of governmental activities (Statement B)	<u><u>\$ 266,294</u></u>

See accompanying independent auditors' report and notes to financial statements.

TOWN OF KITTERY, MAINE

BALANCE SHEET – PROPRIETARY FUNDS
JUNE 30, 2012

	Enterprise Funds		
	Sewer Department	School Lunch Program	Totals
ASSETS			
Current assets:			
Accounts receivable(net of allowance for uncollectibles)	\$ 392,501	\$ -	\$ 392,501
Inventory	-	18,631	18,631
Due from other governments	-	8,282	8,282
Due from other funds	-	24,680	24,680
Total current assets	392,501	51,593	444,094
Noncurrent assets:			
Land and buildings	275,200	-	275,200
Construction in progress	3,734,742	-	3,734,742
Vehicles and equipment	605,529	98,255	703,784
Plant / infrastructure	14,931,900	-	14,931,900
Total capital assets	19,547,371	98,255	19,645,626
Less: accumulated depreciation	(5,164,911)	(96,755)	(5,261,666)
Net capital assets	14,382,460	1,500	14,383,960
Other assets:			
Bond issuance costs(net of amortization)	5,473	-	5,473
TOTAL ASSETS	\$ 14,780,434	\$ 53,093	\$ 14,833,527
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 11,773	\$ 215	\$ 11,988
Accrued payroll	-	-	-
Deferred revenue	-	3,345	3,345
Due to other funds	119,649	-	119,649
Current portion of long-term debt	416,474	-	416,474
Total current liabilities	547,896	3,560	551,456
Noncurrent liabilities:			
Bonds payable	3,527,162	-	3,527,162
Accrued compensated absences	92,594	-	92,594
Total noncurrent liabilities	3,619,756	-	3,619,756
TOTAL LIABILITIES	4,167,652	3,560	4,171,212
NET ASSETS			
Invested in capital assets, net of related debt	10,438,824	1,500	10,440,324
Restricted	27,500	-	27,500
Unrestricted	146,458	48,033	194,491
TOTAL NET ASSETS	10,612,782	49,533	10,662,315
TOTAL LIABILITIES AND NET ASSETS	\$ 14,780,434	\$ 53,093	\$ 14,833,527

See accompanying independent auditors' report and notes to financial statements.

TOWN OF KITTERY, MAINE

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds		Totals
	Sewer Department	School Lunch Program	
OPERATING REVENUES			
Intergovernmental revenue	\$ -	\$ 179,930	\$ 179,930
Charges for services	1,800,484	238,787	2,039,271
Other	38,173	11,126	49,299
TOTAL OPERATING REVENUES	1,838,657	429,843	2,268,500
OPERATING EXPENSES			
Payroll and taxes	161,833	151,615	313,448
Benefits	138,217	21,380	159,597
Treatment plant	819,997	-	819,997
Pump stations	304,628	-	304,628
Food expense	-	191,423	191,423
Supplies	-	13,958	13,958
Line expense	21,177	-	21,177
Depreciation	442,135	1,534	443,669
Other	30,531	49,091	79,622
TOTAL OPERATING EXPENSES	1,918,518	429,001	2,347,519
OPERATING INCOME (LOSS)	(79,861)	842	(79,019)
NON-OPERATING INCOME (EXPENSE)			
Operating transfers in	52,925	76,552	129,477
Operating transfers (out)	-	-	-
Interest expense	(79,882)	-	(79,882)
TOTAL NON-OPERATING INCOME (EXPENSE)	(26,957)	76,552	49,595
CHANGE IN NET ASSETS	(106,818)	77,394	(29,424)
NET ASSETS - JULY 1, RESTATED	10,719,600	(27,861)	10,691,739
NET ASSETS - JUNE 30	\$ 10,612,782	\$ 49,533	\$ 10,662,315

See accompanying independent auditors' report and notes to financial statements.

TOWN OF KITTERY, MAINE

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds		
	Sewer Department	School Lunch Program	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,808,136	\$ 213,836	\$ 2,021,972
Intergovernmental receipts	-	-	-
Other receipts	38,173	191,056	229,229
Internal activity - receipts (payments) from/to other funds	348,088	-	348,088
Payments to employees	(303,726)	(151,615)	(455,341)
Payments to suppliers	(1,160,166)	(329,829)	(1,489,995)
Net cash provide (used) by operating activities	<u>730,505</u>	<u>(76,552)</u>	<u>653,953</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest payments on bond payable	(79,882)	-	(79,882)
Principal payments on bond payable	(418,602)	-	(418,602)
Transfers	52,925	76,552	129,477
(Purchase) sale of fixed assets	(284,946)	-	(284,946)
Net cash provided (used) by capital and related financing activities	<u>(730,505)</u>	<u>76,552</u>	<u>(653,953)</u>
NET INCREASE (DECREASE) IN CASH	-	-	-
CASH AND CASH EQUIVALENTS - JULY 1	-	-	-
CASH AND CASH EQUIVALENTS - JUNE 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss) and other financing	\$ (79,861)	\$ 842	\$ (79,019)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense	442,135	1,534	443,669
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	7,652	2,097	9,749
(Increase) decrease in inventory	-	(2,368)	(2,368)
(Increase) decrease in due from other governments	-	-	-
(Increase) decrease in due from other funds	228,439	(24,680)	203,759
(Increase) decrease in bond costs	4,394	-	4,394
(Decrease) increase in deferred revenue	-	(1,389)	(1,389)
(Decrease) increase in accounts payable	11,773	20	11,793
(Decrease) increase in accrued payroll	-	(21,283)	(21,283)
(Decrease) increase in due to other funds	119,649	(31,325)	88,324
(Decrease) increase in compensated absences	(3,676)	-	(3,676)
NET CASH PROVIDED (USED) BY ACTIVITIES	<u>\$ 730,505</u>	<u>\$ (76,552)</u>	<u>\$ 653,953</u>

See accompanying independent auditors' report and notes to financial statements.

TOWN OF KITTERY, MAINE

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Agency Funds</u> <u>Student</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 67,332
Investments	<u>-</u>
TOTAL ASSETS	<u><u>\$ 67,332</u></u>
LIABILITIES	
Accounts payable	\$ -
Deposits held for others	<u>67,332</u>
TOTAL LIABILITIES	<u><u>\$ 67,332</u></u>

See accompanying independent auditors' report and notes to financial statements.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Town of Kittery was incorporated under the laws of the State of Maine. The Town operates under Town council-manager form of government and provides the following services: general government services, public safety, public works, health and sanitation, education, recreation and culture and social services.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so.

The Town's combined financial statements include all accounts and all operations of the Town. We have determined that the Town has no component units as described in GASB Statement No. 14 and amended by GASB Statement No. 39.

Government –Wide and Fund Financial Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds).

Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's sewer department and school lunch funds are categorized as a business-type activities. All other activities of the Town are categorized as governmental.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions and business-type activities (general government, public safety, etc.). The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, miscellaneous revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. For the most part, the interfund activity has been eliminated from these government-wide financial statements.

The net costs (by function) are normally covered by general revenue (taxes, certain intergovernmental revenues and charges for services, etc.).

The Town does not allocate indirect costs. All costs are charged directly to the corresponding department.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

Measurement Focus - Basic Financial Statements & Fund Financial Statements

The financial transactions of the Town are reported in the individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the Town:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

- a. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- b. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.
- c. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment.
- d. Permanent Funds are used to account for assets held by the Town in trust for specific purposes.

2. Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Operating revenues include charges for services, intergovernmental reimbursements and other miscellaneous fees which are a direct result of the proprietary activity. Non-operating revenues are any revenues which are generated outside of the general proprietary activity, i.e. interest income. The following is a description of the proprietary funds of the Town:

- a. Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) established fees and charges based on a pricing policy designed to recover similar costs.

3. Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net assets and is reported using accounting principles similar to proprietary funds.

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column, GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenses of either the fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

1. Accrual

Governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget

The Town's policy is to adopt an annual budget for operations. The budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

In accordance with Governmental Accounting Standards Board Statement No. 24, *Accounting and Reporting for Certain Grants and Other Financial Assistance*, payments made by the State of Maine to the Maine State Retirement System for teachers and certain other school employees are reported as offsetting revenues and expenditures of the general fund.

Revenues per budgetary basis	\$24,310,476
Add: On-behalf payments	<u>950,856</u>
Total GAAP basis	<u>\$25,261,332</u>
Expenditures per budgetary basis	\$24,347,753
Add: On-behalf basis	<u>950,856</u>
Total GAAP basis	<u>\$25,298,609</u>

The following procedures are followed in establishing budgetary data reflected in the financial statements:

1. Early in the second half of the year the Town prepares a budget for the fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Town Council was called for the purpose of adopting the proposed budget after public notice of the meeting was given.
3. The budget was adopted subsequent to passage by the Town Council.
4. The Town does not adopt budgets for Special Revenue Funds.

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

It is the Town's policy to value investments at fair value. None of the Town's investments are reported at amortized cost. For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be a cash equivalent. The Town Treasurer is authorized by State Statutes to invest all excess funds in the following:

- Obligations of the U.S. Government, its agencies and instrumentalities.
- Certificates of deposits and other evidences of deposits at banks, savings and loan associations.
- Prime bankers acceptances
- Prime commercial papers
- Repurchase agreements whose underlying collateral consist of the foregoing
- Money market mutual funds whose portfolios consist of the foregoing

It is the policy of the Town of Kittery, Maine to invest public funds in a manner in which will provide safety of principal with a market rate of return while meeting the daily cash flow demands of the town, and conforming to all state and local statutes governing the investment of public funds.

Inventories

Inventories of supplies are considered to be expenditures at the time of purchase and are not included in the general fund balance sheet. The enterprise fund inventory consists of school lunch supplies and food on hand at the end of the year, valued at cost. The cost value is determined using the first-in, first-out (FIFO) method.

Interfund Receivables and Payables

Any residual balances outstanding between governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances". Interfund balances and transactions have been eliminated in the government-wide financial statements.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is estimated to be \$40,000 as of June 30, 2012. The allowance is for estimated uncollected personal property/real estate taxes in the general fund.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Infrastructure such as streets, traffic signals, and signs are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives.

The assets are valued at historical cost when available and estimated historical cost where actual invoices or budgetary data was unavailable. Donated fixed assets are valued at their estimated fair market value on the date received. All retirements have been recorded by eliminating the net carrying values.

Infrastructure assets include roads, bridges, underground pipe (other than related to independently owned utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. The Town has not retroactively recorded infrastructure.

Estimated useful lives are as follows:

Buildings	20 - 50 years
Infrastructure	50 - 100 years
Machinery and equipment	3 - 50 years
Vehicles	3 - 25 years

Long-term Obligations

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in government-wide statements. The long-term debt consists primarily of notes or bonds payable and compensated absences.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The Town's policies regarding vacation and sick time do permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. As of June 30, 2012 the Town's liability for compensated absences is \$1,214,729.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Balance

In the fund financial statements, fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – This includes amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – This includes amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Committed – This includes amounts that can be used only for specific purposes determined by a formal action of the inhabitants of the Town. The inhabitants of the Town through Town meetings are the highest level of decision-making authority of the Town. Commitments may be established, modified, or rescinded only through a Town meeting vote.

Assigned – This includes amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The authority for assigning fund balance is expressed by the Town Council.

Unassigned – This includes all other spendable amounts. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Town meeting vote has provided otherwise in its commitment or assignment actions.

The Town is in the process of adopting a set of financial policies to guide the financial operation of the Town. Included in the policies will be guidelines for accumulating and maintaining an operating position in certain budgeted governmental funds such that annual expenditures shall not exceed annual resources, including fund balances. Other funds shall be fully self-supporting to the extent that the fund balance or retained earnings of each fund shall be zero or greater.

Revenue Recognition - Property Taxes - Modified Accrual Basis

The Town's property tax for the current year was levied September 26, 2011 on the assessed value listed as of April 1, 2011, for all real and personal property located in the Town. Taxes were due on October 31, 2011. Interest on unpaid taxes commenced on November 1, 2011, at 7% per annum.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year end. The remaining receivables have been recorded as deferred revenues.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Town is permitted by the laws of the State of Maine to levy taxes 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 \$130,210 for the year ended June 30, 2012.

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

Program Revenues

Program revenues include all directly related income items applicable to a particular program (grant income/expenses).

Operating/Non-operating Proprietary Fund Revenues

Operating revenues consist mainly of direct revenue sources and/or charges for services applicable to that fund.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end. The Town does not utilize encumbrance accounting for its general fund.

Use of Estimates

During the preparation of the Town's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent items as of the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from these estimates.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Town's investment policies, which follow state statutes, require that all investments be made considering the safe and sound investment of principal and preservation of capital in the overall portfolio, maintenance of sufficient liquidity to meet day-to-day operations and other cash requirements and maximization of income, within established investment risk guidelines, with consistent cash flows throughout the budgetary cycle. These investment policies apply to all Town funds.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits:

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Town will not be able to recover its deposits. The Town does not have a policy covering custodial credit risk for deposits. However, the Town maintains deposits in qualifying financial institutions that are a member of the FDIC or NCUSIF as defined in Title 30-A, Section 5706 of the Maine Revised Statutes. At June 30, 2012, the Town's cash balance of \$6,017,353 was comprised of bank deposits amounting to \$6,586,729 and cash equivalents of \$15,232. Of these bank deposits, \$6,586,729 was insured by federal depository insurance or covered with an irrevocable standby letter of credit and consequently not exposed to custodial credit risk. The cash equivalents of \$15,232 were registered in the Town's name and fully covered by the Securities Investor Protection Corporation (SIPC) and consequently were not exposed to custodial credit risk.

<u>Account Type</u>	<u>Bank Balance</u>
Checking accounts	\$ 584,119
Savings	10,340
Money market	105,779
Sweep account	5,886,492
Cash equivalents	15,232
	<u>\$ 6,601,961</u>

Investments:

Custodial credit risk for investments is that, in the event of failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Currently, the Town does not have a policy for custodial credit risk for investments. However, in accordance with its investment policy, the Town seeks to minimize custodial credit risk by doing business with authorized institutions, depositories and broker/dealers. As such, the Town's investments in fixed income and equity securities for \$687,091 and certificates of deposit of \$4,677,535 are not exposed to custodial credit risk because those securities are registered in the Town's name and are fully insured or fully covered by the Securities Investor Protection Corporation (SIPC).

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2012, the Town had the following investments and maturities:

Investment Type	Fair Value	N / A	< 1 Year	1 - 5 Years
Fixed income	\$ 512,237	\$ 512,237	\$ -	\$ -
Equities	174,854	174,854	-	-
Certificates of deposit	4,677,535	-	4,677,535	-
	<u>\$ 5,364,626</u>	<u>\$ 687,091</u>	<u>\$ 4,677,535</u>	<u>\$ -</u>

Credit risk – Statutes for the State of Maine authorize the Town to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Maine, corporate stocks and bonds within statutory limits, financial institutions, mutual funds and repurchase agreements. The Town does not have an investment policy on credit risk.

Interest rate risk – is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a policy related to interest rate risk.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2012 consisted of the following individual fund receivables and payables.

	Receivables (Due from)	Payables (Due to)
General fund	\$ 981,105	\$ 5,141,012
Mitchell/Shapleigh building project	23,923	-
Community center	413,195	-
Special revenue fund	1,474,214	742,395
Capital project fund	2,993,245	119,061
Permanent fund	211,755	-
Enterprise fund	24,680	119,649
	<u>\$ 6,122,117</u>	<u>\$ 6,122,117</u>

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 - CAPITAL ASSETS

The following is a summary of changes in capital assets at June 30, 2012:

	Balance, 7/1/11	Additions	Disposals	Balance, 6/30/12
<u>Governmental activities</u>				
Non-depreciated assets:				
Land	\$ 10,950,906	\$ -	\$ -	\$ 10,950,906
Construction in progress	6,187,352	5,390,700	(6,187,352)	5,390,700
	<u>17,138,258</u>	<u>5,390,700</u>	<u>(6,187,352)</u>	<u>16,341,606</u>
Depreciated assets:				
Land Improvements	1,886,867	-	-	1,886,867
Buildings	27,848,474	7,220,366	-	35,068,840
Building improvements	1,605,018	5,694	-	1,610,712
Machinery & equipment	3,277,225	100,189	(16,000)	3,361,414
Vehicles	3,597,678	110,632	(15,000)	3,693,310
Infrastructure	9,661,465	761,506	-	10,422,971
	47,876,727	8,198,387	(31,000)	56,044,114
Less: accumulated depreciation	(29,781,553)	(1,890,422)	31,000	(31,640,975)
	<u>18,095,174</u>	<u>6,307,965</u>	<u>-</u>	<u>24,403,139</u>
Net capital assets	<u>\$ 35,233,432</u>	<u>\$ 11,698,665</u>	<u>\$ (6,187,352)</u>	<u>\$ 40,744,745</u>
<u>Current year depreciation expense:</u>				
	Police			\$ 88,023
	General government			101,162
	Fire			242,817
	Highway			398,862
	Recycling			8,144
	Recreation			8,004
	Town-wide			115,440
	School Department			927,970
	Total depreciation expense			<u>\$ 1,890,422</u>

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance, 7/1/11	Additions	Disposals	Balance, 6/30/12
<u>Business-type activities</u>				
Non-depreciated assets:				
Land / construction in progress	\$ 3,988,867	\$ 21,075	\$ -	\$ 4,009,942
	<u>3,988,867</u>	<u>21,075</u>	<u>-</u>	<u>4,009,942</u>
Depreciated assets:				
Infrastructure	-	25,768		25,768
Buildings	14,884,282	21,850	-	14,906,132
Vehicles	156,426	49,423	-	205,849
Machinery & equipment	331,105	166,830	-	497,935
	<u>15,371,813</u>	<u>263,871</u>	<u>-</u>	<u>15,635,684</u>
Less: accumulated depreciation	<u>(4,817,997)</u>	<u>(443,669)</u>	<u>-</u>	<u>(5,261,666)</u>
	<u>10,553,816</u>	<u>(179,798)</u>	<u>-</u>	<u>10,374,018</u>
Net capital assets	<u>\$ 14,542,683</u>	<u>\$ (158,723)</u>	<u>\$ -</u>	<u>\$ 14,383,960</u>

NOTE 5 - LONG TERM DEBT

The following is a summary of changes in the long-term debt for the year ended June 30, 2012:

	Balance, 7/1/11	Additions	Deletions	Balance, 6/30/12	Due Within One Year
<u>Governmental Activities</u>					
Bonds payable	\$ 13,615,000	\$ 5,500,000	\$ (840,000)	\$ 18,275,000	\$ 1,345,000
Capital leases payable	259,051	653,024	(66,178)	845,897	187,168
Accrued compensated absences	<u>1,228,399</u>	<u>-</u>	<u>(106,264)</u>	<u>1,122,135</u>	<u>-</u>
Total Governmental Activities	<u>\$ 15,102,450</u>	<u>\$ 6,153,024</u>	<u>\$ (1,012,442)</u>	<u>\$ 20,243,032</u>	<u>\$ 1,532,168</u>
<u>Business-type Activities</u>					
Bonds payable	\$ 4,362,238	\$ -	\$ (418,602)	\$ 3,943,636	\$ 416,474
Accrued compensated absences	<u>96,270</u>	<u>-</u>	<u>(3,676)</u>	<u>92,594</u>	<u>-</u>
Total Business-type Activities	<u>\$ 4,458,508</u>	<u>\$ -</u>	<u>\$ (422,278)</u>	<u>\$ 4,036,230</u>	<u>\$ 416,474</u>

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 5 - LONG TERM DEBT (CONTINUED)

The following is a summary of outstanding bonds payable:

	<u>Governmental</u>	<u>Business-type</u>
<u>Bonds</u>		
\$7,200,000, 2010 General Obligation Bonds due in annual principal and interest installments through December 2032. Interest is charged at a rate from 2.00 % to 4.00 %.	\$ 7,200,000	\$ -
\$3,105,000, 2006 General Obligation Bond due in annual principal installments and semiannual interest installments through November 2015. Interest is charged at a rate from 5.25% to 5.75% per annum.	1,380,000	-
\$2,660,000, 2006 General Obligation Bond due in annual principal installments and semiannual interest installments through November 2026. Interest is charged at a rate from 4.25% to 4.5% per annum. Annual Installments are \$110,000 to \$155,000.	1,885,000	-
\$4,000,000, 1992 General Obligation Bond due in annual principal installments and semiannual interest installments through October 2012. Interest is charged at a rate of 4.10% per annum. Annual principal Installments are \$200,000.	-	200,000
\$1,323,000, 2003A Waste Water State Revolving Loan due in annual principal installments and semiannual interest installments through October 2022. Interest is charged at 1.94% per annum. Annual principal installments vary.	-	773,258
\$4,220,000, 2002 General Obligation Bond due in annual principal installments and semiannual interest installments through December 2022. Interest is charged at a rate from 3.25% to 4.75% per annum.	2,310,000	-
\$3,400,000, 2010 General Obligation Bond due in annual principal installments and semiannual interest installments through April 2030. Interest is charged at 1.00% per annum. Annual principal installments vary.	-	2,970,378
\$5,500,000, 2012 General Obligation Bond due in annual principal installments and semiannual interest installments through January 2012. Interest is charged at a rate from 2.0% to 3.15% per annum.	5,500,000	-
	<u>\$ 18,275,000</u>	<u>\$ 3,943,636</u>

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5 - LONG TERM DEBT (CONTINUED)

The following is a summary of outstanding bond principal and interest requirements for the following fiscal years ending June 30:

Governmental Activities

	Principal	Principal Credits	Interest	Total Debt Service
2013	\$ 1,345,000	\$ -	\$ 582,165	\$ 1,927,165
2014	1,345,000	-	540,265	1,885,265
2015	1,345,000	-	492,202	1,837,202
2016	1,345,000	-	444,027	1,789,027
2017	970,000	-	406,182	1,376,182
2018-2022	4,810,000	-	1,601,774	6,411,774
2023-2027	3,940,000	-	893,026	4,833,026
2028-2032	3,175,000	-	303,339	3,478,339
	<u>\$ 18,275,000</u>	<u>\$ -</u>	<u>\$ 5,262,980</u>	<u>\$ 23,537,980</u>

Business - Type Activities

	Principal	Principal Credits	Interest	Total Debt Service
2013	\$ 416,474	\$ -	\$ 58,639	\$ 475,113
2014	218,909	-	49,643	268,552
2015	221,399	-	47,131	268,530
2016	223,946	-	44,562	268,508
2017	226,552	-	42,233	268,785
2018-2022	1,174,065	(6,594)	167,979	1,335,450
2023-2027	929,562	(5,623)	99,548	1,023,487
2028-2032	532,729	-	37,860	570,589
	<u>\$ 3,943,636</u>	<u>\$ (12,217)</u>	<u>\$ 547,595</u>	<u>\$ 4,479,014</u>

All bonds payable are direct obligations of the Town, for which its full faith and credit are pledged. The Town is not obligated for any special assessment debt. All debt is payable from taxes levied on all taxable property within the Town. Principal credit represents the Town's portion of savings realized by the Maine Municipal Bond Bank upon debt refunding, amortized over the remaining life of the bond.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5 - LONG TERM DEBT (CONTINUED)

The following is a summary of outstanding capital leases payable:

Capital Leases

	<u>Governmental</u>	<u>Business-type</u>
\$59,180, 2010 Capital Lease payable to Northway Bank for copiers due in annual installments of \$13,225 through August 2015. Interest is charged at a rate of 3.93% per annum.	\$ 36,762	\$ -
The School Department Leases software under a non-cancelable lease agreement. The term of the lease is for a five year period expiring in August of 2012. Interest is charged at a rate of 3.10% per annum.	19,800	-
\$58,645, 2003 Capital Lease payable to Old National Bank for equipment due in annual installments through July 2014. Interest is charged at a rate of 5% per annum.	62,723	-
\$177,719, 2008 Capital Lease payable to M.S.T. Government Leasing, LLC for photocopy equipment due in annual installments of \$40,055 through August 2012. Interest is charged at a rate of 4.12% per annum.	168,719	-
\$84,433, 2010 Capital Lease payable to Ocean Bank for equipment due in annual installments of \$18,686 through January 2014. Interest is charged at a rate of 4.25% per annum.	35,118	-
\$522,775, 2011 Capital Lease payable to Gorham Leasing for HVAC equipment due in annual installments of \$115,228 through August 2016. Interest is charged at a rate of 3.33% per annum.	522,775	-
	<u>\$ 845,897</u>	<u>\$ -</u>

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5 - LONG TERM DEBT (CONTINUED)

Future minimum payments, by year and in the aggregate, under these leases are as follows:

2013	\$ 218,400
2014	218,092
2015	186,063
2016	152,482
2017	152,481
2018-2021	<u>-</u>
Total minimum lease payments	927,518
Less: Amount representing interest	<u>(81,621)</u>
Present value of future minimum lease payments	<u><u>\$ 845,897</u></u>

NOTE 6 - RESTRICTED FUND BALANCES

At June 30, 2012, the Town had the following restricted fund balances:

General Fund:	
Education	\$ 970,273
Mitchell/Shapleigh building project	23,923
Nonmajor special revenue funds (Schedule D)	60,905
Nonmajor capital project funds (Schedule F)	852,631
Nonmajor permanent funds (Schedule H)	<u>1,031,361</u>
	<u><u>\$ 2,939,093</u></u>

NOTE 7 - COMMITTED FUND BALANCES

At June 30, 2012, the Town had the following committed fund balances:

Community Center	\$ 308,655
Nonmajor special revenue funds (Schedule D)	1,216,081
Nonmajor capital project funds (Schedule F)	<u>2,151,358</u>
	<u><u>\$ 3,676,094</u></u>

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 8 - ASSIGNED FUND BALANCES

At June 30, 2012, the general fund had the following assigned fund balances:

Nonmajor special revenue funds (Schedule D)	<u>\$ 41,426</u>
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NOTE 9 - OVERLAPPING DEBT

The Town is responsible for its proportionate share of County debt. As of June 30, 2012, the Town's share was as follows:

	<u>Outstanding Debt</u>	<u>Town's Percentage</u>	<u>Total Share</u>
County of York	\$ 9,900,000	5.41%	<u>\$ 535,441</u>

NOTE 10 - DEFINED BENEFIT PENSION PLAN

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

A. Plan Description

Town employees contribute to the Participating Local Districts (PLDs) Consolidated Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the Maine Public Employees Retirement System. The PLDs Consolidated Plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Title 5 of the Maine Revised Statutes Annotated assigns the authority to establish and amend benefit provisions to the PLD's Consolidated Plan Board of Trustees. The Maine Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PLDs Consolidated Plan. That report may be obtained by writing to Maine Public Employees Retirement System, 46 State House Station, Augusta, Maine 04333 or by calling (800) 451-9800.

B. Funding Policy

The contribution requirements of plan members and the Town are established and may be amended by the PLD's Consolidated Board of Trustees. The Town's police department employees are part of the PLD's special plan "1C" and are required to contribute 6.5% of their annual salary, while all other employees are part of the PLD's plan "AC" and are also required to contribute 6.5% of their annual salary. The Town is required to contribute 10.2% of special plan "1C" members' covered payroll and 4.4% of

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

the plan “AC” members’ covered payroll annually to the system along with a predetermined initial unpooled unfunded actuarial liability (IUUAL) rate set by the system. The IUUAL can either be a monthly payment or credit, which is added to or subtracted from the employer’s percentage of employees’ covered payroll to determine the employers actual cost.

As of June 30, 2011, the Town had an unfunded actuarial accrued liability credit computed using the actuarial method used for funding purposes. (The amount of the unfunded actuarial accrued liability credit as of June 30, 2012 is not currently available.) This credit is being used to reduce future contributions and is being amortized over a closed period of 10 years. Actual plan contributions made by the Town and employees after the unfunded actuarial accrued liability credit was deducted from the annual pension cost were \$407,315, \$426,314 and \$339,339 for the years ended June 30, 2012, 2011 and 2010, respectively.

Education Employees Retirement

A. Plan Description

All school teachers, plus other qualified educators, participate in the Maine Public Employees Retirement System’s teacher retirement program. The teacher’s program is a cost-sharing plan with a special funding situation, established by the Maine State Legislature. The program requires that both employees and the Department contribute, and provides retirement, disability and death benefits. Employees are eligible for normal retirement upon reaching the age of sixty and early retirement after completing twenty-five or more years of credited service. The authority to establish and amend benefit provisions rests with the State Legislature. The funding status and progress for the teacher retirement program may be obtained by contacting the Maine Public Employees Retirement System, 46 State House Station, Augusta, Maine 04333-0046 or by calling (800) 451-9800.

B. Funding Policy

Program members are required to contribute 7.65% of their compensation to the retirement system. The Department’s payroll for employees covered by this program was approximately \$6,640,057 for the year ended June 30, 2012. The State of Maine is required to contribute the employer contribution which amounts to 14.32% of compensation. Contributions paid by the State were approximately \$950,856 for the year ended June 30, 2012. There is no contribution required by the Department, except for federally funded teachers. The Department’s contributions to the plan for 2012, 2011, and 2010 were \$307,265, \$332,719 and \$272,123, respectively.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 11 - DEFERRED COMPENSATION PLAN

INTERNATIONAL CITY MANAGEMENT ASSOCIATION RETIREMENT
CORPORATION

A. Plan Description

The Town contributes to a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457 through the International City Management Association Retirement Corporation (ICMA-RC). The plan, available to all Town employees permits them to defer a portion of their salary, in addition to Town contributions, until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) to be held in a trust for the exclusive benefit of the participants and their beneficiaries.

It is the opinion of the Town's management that the Town has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

B. Funding Policy

The contribution requirements of plan members and the Town are established and may be amended by the Town Council. The Town will contribute 1% of annual salary for professional level employees that participate in the Town's defined benefit plan. For professional employees that choose to participate in the 457 plan alone, the Town will contribute an amount equal to the required employer contribution for the defined benefit plan plus 1.00%. For the Town's office workers, highway and police department employees that choose not to join the Town's defined benefit plan, the Town will contribute an amount up to 5.3% of their annual salary. For this group, the Town's minimum required contribution to the defined benefit plan is 5.00%. Employee match provisions apply thereafter to bring contributions up to the required minimum.

The Town's contributions to the plan including employee contributions for 2012, 2011, and 2010 were \$81,979, \$75,286, and \$97,083, respectively.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 12 - EXPENDITURES OVER APPROPRIATIONS

At June 30, 2012, the Town had the following overspent appropriations:

Public Safety	\$ 113,321
Recreation and culture	34,566
Debt service	9,206
Total	<u>\$ 157,093</u>

NOTE 13 - DEFICIT FUND BALANCES

At June 30, 2012, the Town had the following deficit fund balances/net assets:

Non-major funds:	
Storm damage/FEMA	\$ 748
Munis loan	11,497
Accrued compensated absences	120,680
Legal ads	2,185
Outfall pipe water test	4,039
Harbor planning grant	518
Spruce creek 319 grant	19,748
Town pier repair	403,204
Harbor pier	2,712
Shellfish conservation commission	265
Traip mechanical retrofit	1,148
Office restrooms	1
Public works shed/office building	11,713
Public works lid Town hall	887
PW lid Rt. 1 northgarden	1,054
Traffic light Rt. 236 MACN	20,336
Haley field project	13,850
Municipal facility maint. reserve	3,727
Total	<u>\$ 618,312</u>

NOTE 14 - CONTINGENCIES

With regard to pending legal claims or any unasserted claims, it is not feasible at this time to predict or determine their outcome. Management believes, however, that settlement amounts, if any, will not have a material adverse effect on the Town's financial position.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 14 - CONTINGENCIES (CONTINUED)

The Town participates in various intergovernmental grant programs which may be subject to future program compliance audits by the grantors or their representatives. Accordingly, the Town's compliance with applicable grant requirement may be established at some future date. The amount, if any, of any liabilities arising from the disallowance of expenditures or ineligibility of grant revenues cannot be determined at this time.

NOTE 15 - RISK MANAGEMENT – PARTICIPATION IN A PUBLIC ENTITY RISK POOL

The Town is a member of the Maine Municipal Association – Worker Compensation Trust Fund ("Fund"). The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain lower costs for worker's compensation coverage and develop a comprehensive loss control program. The Town pays an annual premium to the fund for its worker's compensation coverage. The Town's agreement with the Fund provides that the fund will be self-sustaining through member premiums and will provide, through commercial company's reinsurance contracts, individual stop loss coverage for member Town's for claims in excess of \$400,000 with an excess limit of \$2,000,000.

The Town is also a member of the Maine Municipal Association – Property and Casualty Pool ("Pool"). As with the Fund above, the Pool was created to obtain lower rates for its members. The Town pays an annual premium for its property and liability coverage. Under the property coverage portion of the Pool, coverage is provided after the deductible is met, to \$26,000,000. Under the liability portion of the Pool, coverage is provided after the deductible is met, to \$1,000,000.

NOTE 16 - RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2012, the Department paid an individual to run the clock at basketball games. This individual is related to a member of the school committee. During fiscal year 2012, payments for these services totaled \$490. The Department also contracted with a vendor to perform electrical work. The individual hired is related to a member of the school committee. In fiscal year 2012, payments for these services totaled \$6,747. We understand each of the school committee members recused themselves in any matters concerning the related parties.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 17 - RESTATEMENT

As of July 1, 2011, the net assets in the Town's proprietary fund - sewer department have been restated by \$27,901. This change was made to adjust prior year accounts payable. The proprietary fund - sewer fund net assets have increased by \$27,901 as of July 1, 2011. The Town's governmental fund - special revenue funds were also restated as of July 1, 2011. This restatement of \$103,100 was done as a result of timing issues between the School and Town which have been resolved during the current fiscal year. Both the governmental fund - special revenue fund balance and net assets have increased by \$103,100 as of July 1, 2011.

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS

The Town, in accordance with various collective bargaining agreements, is committed to provide health and other benefits to eligible retirees and their spouses. Benefits are established and amended through negotiations between the Town and the various unions representing Town employees. The percentage contribution of employees and retirees for medical benefits are negotiated with the various unions representing the employees. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts towards the cost of receiving benefits under the Town's medical benefits program.

Funding policy – The Town currently funds claims and administrative costs for postemployment benefits through its health insurance company or through current year expenditures.

The following is the current census of Town benefit participants as of June 30, 2012:

Active members	\$	50
Retirees and spouses		<u>14</u>
Total	\$	<u><u>64</u></u>

Annual OPEB Cost and Net OPEB Obligations

The Town of Kittery's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement #45. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of future events. Assumptions include future employment, mortality, and healthcare and other benefit cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as accrual results are compared with past expectations and new estimates are made about the future.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation (asset):

Annual required contribution (ARC)	\$ 285,954
Interest on net OPEB obligation	5,553
Adjustment to annual required contribution	-
Annual OPEB cost	291,507
Contributions made	(115,000)
Increase in net OPEB obligation	176,507
Net OPEB obligation, beginning of year	1,016,055
Net OPEB obligation, end of year	<u>\$ 1,192,562</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the fiscal year ended June 30, 2011 is presented below. Data is presented for the fiscal years ended June 30, 2011, 2010 and 2009. The information for June 30, 2012 is not available.

Fiscal Year Ending	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2009	\$ 448,446	\$ 115,000	25.6%	\$ 387,618
6/30/2010	\$ 615,594	\$ 115,000	18.7%	\$ 1,016,055
6/30/2011	\$ 291,507	\$ 115,000	39.5%	\$ 1,192,562

Projections for benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

In the June 30, 2011 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 4% investment rate of return, which is the rate of the expected long-term investment returns of plan assets calculated based on the funding policy of the plan at the valuation date.

An annual healthcare cost blended trend rate of 7.5% is used initially, decreasing at a variable rate per year to an ultimate rate of 4.0% for 2029 and later. The remaining amortization period at June 30, 2011 was 20 years. As of June 30, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was approximately \$3,146,751, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$3,146,751.

The schedule of funding progress, presented below, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Data is only presented for June 30, 2011 due to this being the first certified valuation.

Schedule of Funding Progress

Group	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Funded Ratio (a/b)	Covered Payroll (c)	UFAL as a % of Covered Payroll ((b-a)/c)
Union	6/30/2009	\$ -	\$ 3,632,619	0.0%	N/A	N/A
Non-union	6/30/2009	\$ -	\$ 924,582	0.0%	N/A	N/A
Active	6/30/2010	\$ -	\$ 3,868,753	0.0%	N/A	N/A
Retirees	6/30/2010	\$ -	\$ 5,006,625	0.0%	N/A	N/A
Active	6/30/2011	\$ -	\$ 1,741,526	0.0%	N/A	N/A
Retirees	6/30/2011	\$ -	\$ 1,405,225	0.0%	N/A	N/A

These numbers are based on information that was presented on October 2011 for June 30, 2011. The amortization method that was used to calculate the numbers is presented below.

TOWN OF KITTERY, MAINE

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 18 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

	Level Dollar	Level % of Pay
Discount rate	4.00%	4.00%
Payroll growth assumption	N/A	3.00%
Accrued liability	\$ 3,146,751	\$ 3,146,751
Value of assets	-	-
Unfunded liability	\$ 3,146,751	\$ 3,146,751
Normal cost	\$ 105,423	\$ 105,423
Amortization of unfunded	174,978	120,245
Interest	5,553	4,469
Annual required contribution	\$ 285,954	\$ 230,137

Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Government Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual - General Fund
- Budgetary Comparison Schedule – Budgetary Basis – Budget and Actual – General Fund Revenues

TOWN OF KITTERY, MAINE

**BUDGETARY COMPARISON SCHEDULE – BUDGETARY BASIS
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 5,325,542	\$ 5,325,542	\$ 5,325,542	\$ -
Resources (Inflows):				
General tax revenue	21,249,472	21,249,472	21,128,812	(120,660)
Intergovernmental revenue	1,639,474	1,708,628	1,745,857	37,229
Charges for services	776,614	776,614	905,769	129,155
Investment income	50,000	50,000	55,090	5,090
Other revenue	252,200	416,409	456,948	40,539
Transfers from other funds	14,400	14,400	18,000	3,600
Amounts Available for Appropriation	29,307,702	29,541,065	29,636,018	94,953
Charges to Appropriation (Outflows):				
Current:				
General government	1,665,165	1,665,165	1,652,054	13,111
Public safety	3,089,328	3,089,328	3,202,649	(113,321)
Public works	1,081,693	1,081,693	1,017,302	64,391
Recreation and culture	994,715	994,715	1,029,281	(34,566)
Health and sanitation	673,635	673,635	653,819	19,816
Social services	174,494	174,494	166,480	8,014
Education	13,634,752	14,116,513	13,146,240	970,273
County tax	842,538	842,538	842,537	1
Debt service	387,280	387,280	396,486	(9,206)
Overlay	130,210	130,210	-	130,210
Grant funds/misc accounts	293,257	293,257	250,784	42,473
Transfers to other funds	1,609,752	2,028,991	1,990,121	38,870
Total Charges to Appropriations	24,576,819	25,477,819	24,347,753	1,130,066
Budgetary Fund Balance, June 30	\$ 4,730,883	\$ 4,063,246	\$ 5,288,265	\$ 1,225,019
Utilization of unassigned fund balance	\$ 324,229	\$ 554,036	\$ -	\$ (554,036)
Utilization of assigned fund balance	270,430	708,260	-	(708,260)
	\$ 594,659	\$ 1,262,296	\$ -	\$ (1,262,296)

See accompanying independent auditors' report.

TOWN OF KITTERY, MAINE

**BUDGETARY COMPARISON SCHEDULE – BUDGETARY BASIS
BUDGET AND ACTUAL – GENERAL FUND REVENUES
FOR THE YEAR ENDED JUNE 30, 2012**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
General tax revenues				
Property taxes	\$ 19,783,761	\$ 19,783,761	\$ 19,720,405	\$ (63,356)
Vehicle excise taxes	1,430,711	1,430,711	1,375,042	(55,669)
Boat excise taxes	35,000	35,000	33,365	(1,635)
Intergovernmental revenues				
Education subsidy	651,670	649,676	649,676	-
State revenue sharing	548,359	588,402	588,402	-
Homestead exemption	115,845	115,845	128,828	12,983
Other education revenue	50,000	81,105	81,105	-
GMH Housing	260,000	260,000	259,875	(125)
Tree growth	-	-	1,042	1,042
General assistance	13,600	13,600	36,929	23,329
Charges for services				
Recreation fees	12,100	12,100	-	(12,100)
Code enforcement fees	124,000	124,000	231,034	107,034
Registration fees	29,375	29,375	26,807	(2,568)
Town clerk fees	23,564	23,564	20,420	(3,144)
Planning fees	2,500	2,500	9,578	7,078
Sign / ordinances	5,700	5,700	3,720	(1,980)
Solid waste / recycling	137,060	137,060	144,494	7,434
Solid waste / perm its	130,635	130,635	101,030	(29,605)
Fort Foster fees	125,000	125,000	173,948	48,948
Eliot dispatching services	60,000	60,000	60,000	-
Police department	18,100	18,100	19,610	1,510
Animal control	2,000	2,000	5,003	3,003
Mooring/launch fees	99,000	99,000	92,581	(6,419)
Other	7,580	7,580	17,544	9,964
Investment income:				
Investment income	50,000	50,000	55,090	5,090
Other income:				
Interest / fees on taxes	52,000	52,000	64,837	12,837
Other income	76,200	76,200	103,902	27,702
Other education	124,000	288,209	288,209	-
Transfers from other funds				
Enterprise fund	14,400	14,400	18,000	3,600
Special revenue funds	-	-	-	-
Capital project funds	-	-	-	-
Permanent funds	-	-	-	-
Total revenues	\$ 23,982,160	\$ 24,215,523	\$ 24,310,476	\$ 94,953

See accompanying independent auditors' report.

Other Supplementary Information

Other supplementary information includes financial statements and schedules not required by the Government Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

- Schedule of Departmental Operations – General Fund
- Combining Balance Sheet - Nonmajor Governmental Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
- Combining Balance Sheet - Nonmajor Special Revenue Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds
- Combining Balance Sheet – Nonmajor Capital Projects Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Project Funds
- Combining Balance Sheet – Nonmajor Permanent Funds
- Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds
- Schedule of General Capital Assets by Function
- Schedule of Changes in General Capital Assets by Function

TOWN OF KITTERY, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2012

	Budget	Budget Adjustments	Final Available	Actual	Balances Positive (Negative)
General government					
Administration	\$ 826,410	\$ -	\$ 826,410	\$ 831,078	\$ (4,668)
Assessing	183,852	-	183,852	161,330	22,522
Code enforcement	122,122	-	122,122	116,963	5,159
Town planner	204,314	-	204,314	206,636	(2,322)
Insurance	290,850	-	290,850	310,609	(19,759)
Planning board	16,779	-	16,779	14,218	2,561
Elections	10,288	-	10,288	7,576	2,712
Council	10,550	-	10,550	3,644	6,906
	<u>1,665,165</u>	<u>-</u>	<u>1,665,165</u>	<u>1,652,054</u>	<u>13,111</u>
Public safety					
Police department	2,554,916	-	2,554,916	2,670,569	(115,653)
Fire department	238,749	-	238,749	237,961	788
Street lights	100,100	-	100,100	100,155	(55)
Hydrants	193,213	-	193,213	193,964	(751)
Civil emergency preparedness	2,350	-	2,350	-	2,350
	<u>3,089,328</u>	<u>-</u>	<u>3,089,328</u>	<u>3,202,649</u>	<u>(113,321)</u>
Public works:					
Highways	1,081,693	-	1,081,693	1,017,302	64,391
	<u>1,081,693</u>	<u>-</u>	<u>1,081,693</u>	<u>1,017,302</u>	<u>64,391</u>
Health and sanitation:					
Solid waste	673,635	-	673,635	653,819	19,816
	<u>673,635</u>	<u>-</u>	<u>673,635</u>	<u>653,819</u>	<u>19,816</u>
Social services					
General assistance	40,000	-	40,000	58,991	(18,991)
Frisbee school facility	118,196	-	118,196	98,061	20,135
Community agencies	15,713	-	15,713	9,171	6,542
Public health services	585	-	585	257	328
	<u>174,494</u>	<u>-</u>	<u>174,494</u>	<u>166,480</u>	<u>8,014</u>

TOWN OF KITTERY, MAINE

SCHEDULE OF DEPARTMENTAL OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2012

	Budget	Budget Adjustments	Final Available	Actual	Balances Positive (Negative)
Recreation and culture:					
Parks	272,871	-	272,871	306,548	(33,677)
Recreation	194,173	-	194,173	193,057	1,116
Library	434,400	-	434,400	434,400	-
Port Authority	93,271	-	93,271	95,276	(2,005)
	<u>994,715</u>	<u>-</u>	<u>994,715</u>	<u>1,029,281</u>	<u>(34,566)</u>
Education	<u>13,634,752</u>	<u>481,761</u>	<u>14,116,513</u>	<u>13,146,240</u>	<u>970,273</u>
County tax	<u>842,538</u>	<u>-</u>	<u>842,538</u>	<u>842,537</u>	<u>1</u>
Debt service					
Principal	285,000	-	285,000	285,000	-
Interest	102,280	-	102,280	111,486	(9,206)
	<u>387,280</u>	<u>-</u>	<u>387,280</u>	<u>396,486</u>	<u>(9,206)</u>
Overlay	<u>130,210</u>	<u>-</u>	<u>130,210</u>	<u>-</u>	<u>130,210</u>
Grant funds/misc accounts					
Growth management	4,549	-	4,549	2,127	2,422
EPA storm water program	20,000	-	20,000	19,617	383
Computer repair	52,737	-	52,737	63,430	(10,693)
Memorial day activities	700	-	700	672	28
Ambulance services	75,840	-	75,840	25,000	50,840
Seacoast shipyard	1,500	-	1,500	1,500	-
Shellfish conservation	2,800	-	2,800	2,750	50
Mosquito/tick control	57,200	-	57,200	57,200	-
GIS/web account	3,600	-	3,600	3,600	-
PSAP paid to York police dept.	20,000	-	20,000	19,086	914
Bank fees/charges	250	-	250	3	247
Adult education	54,081	-	54,081	54,081	-
FICA employer	-	-	-	1,718	(1,718)
	<u>293,257</u>	<u>-</u>	<u>293,257</u>	<u>250,784</u>	<u>42,473</u>
Total Expenditures	<u>\$ 22,967,067</u>	<u>\$ 481,761</u>	<u>\$ 23,448,828</u>	<u>\$ 22,357,632</u>	<u>\$ 1,091,196</u>

See accompanying independent auditors' report.

SCHEDULE B

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 131	\$ -	\$ 135,145	\$ 135,276
Investments	-	-	687,091	687,091
Accounts receivable (net of allowance for uncollectibles)	45,743	41,278	-	87,021
Due from other governments	215,405	-	-	215,405
Prepaid expenses	-	69,700	-	69,700
Due from other funds	1,474,214	2,993,245	211,755	4,679,214
Total assets	<u>\$ 1,735,493</u>	<u>\$ 3,104,223</u>	<u>\$ 1,033,991</u>	<u>\$ 5,873,707</u>
LIABILITIES				
Accounts payable	\$ 244,777	\$ 30,535	\$ 2,630	\$ 277,942
Bond anticipation note	-	-	-	-
Due to other funds	742,395	119,061	-	861,456
Total liabilities	<u>987,172</u>	<u>149,596</u>	<u>2,630</u>	<u>1,139,398</u>
FUND BALANCES				
Nonspendable	-	69,700	-	69,700
Restricted	60,905	852,631	1,031,361	1,944,897
Committed	1,216,081	2,151,358	-	3,367,439
Assigned	41,426	-	-	41,426
Unassigned	(570,091)	(119,062)	-	(689,153)
Total fund balances	<u>748,321</u>	<u>2,954,627</u>	<u>1,031,361</u>	<u>4,734,309</u>
Total liabilities and fund balances	<u>\$ 1,735,493</u>	<u>\$ 3,104,223</u>	<u>\$ 1,033,991</u>	<u>\$ 5,873,707</u>

See accompanying independent auditors' report.

SCHEDULE C

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental revenue	\$ 859,355	\$ 168,312	\$ -	\$ 1,027,667
Other income	930,832	66,030	40,307	1,037,169
Investment income	2,327	7,052	15,836	25,215
TOTAL REVENUES	<u>1,792,514</u>	<u>241,394</u>	<u>56,143</u>	<u>2,090,051</u>
EXPENDITURES				
Administration	606,860	20,922	97,191	724,973
Public safety	80,267	227,472	-	307,739
Public works	-	409,976	-	409,976
Education	1,076,972	273,933	1,655	1,352,560
Capital outlay	786,481	-	-	786,481
TOTAL EXPENDITURES	<u>2,550,580</u>	<u>932,303</u>	<u>98,846</u>	<u>3,581,729</u>
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	<u>(758,066)</u>	<u>(690,909)</u>	<u>(42,703)</u>	<u>(1,491,678)</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	524,291	1,513,531	-	2,037,822
Operating Transfers (Out)	<u>(132,941)</u>	<u>(82,237)</u>	<u>-</u>	<u>(215,178)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>391,350</u>	<u>1,431,294</u>	<u>-</u>	<u>1,822,644</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER)				
EXPENDITURES AND OTHER (USES)	<u>(366,716)</u>	<u>740,385</u>	<u>(42,703)</u>	<u>330,966</u>
FUND BALANCES, JULY 1, RESTATED	<u>1,115,037</u>	<u>2,214,242</u>	<u>1,074,064</u>	<u>4,403,343</u>
FUND BALANCES, JUNE 30	<u>\$ 748,321</u>	<u>\$ 2,954,627</u>	<u>\$ 1,031,361</u>	<u>\$ 4,734,309</u>

See accompanying independent auditors' report.

Special Revenue Funds

Special revenue funds are established to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2012

	Sewer Impact Fees	Sewer Betterment Fees	GMH Police / Fire Rescue	Storm Damage / FEMA	Fire Hazmat Spill Cleanup	Highway Internal Services
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other governments	-	-	-	-	-	-
Accounts receivable (net of allowance for uncollectibles)	-	23,369	-	4,557	-	-
Due from other funds	531,984	43,169	1,032	-	2,150	3,181
TOTAL ASSETS	<u>\$ 531,984</u>	<u>\$ 66,538</u>	<u>\$ 1,032</u>	<u>\$ 4,557</u>	<u>\$ 2,150</u>	<u>\$ 3,181</u>
LIABILITIES						
Accounts payable	\$ 160,014	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	5,305	-	-
TOTAL LIABILITIES	<u>160,014</u>	<u>-</u>	<u>-</u>	<u>5,305</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	1,032	-	2,150	-
Committed	371,970	66,538	-	-	-	-
Assigned	-	-	-	-	-	3,181
Unassigned	-	-	-	(748)	-	-
TOTAL FUND BALANCES	<u>371,970</u>	<u>66,538</u>	<u>1,032</u>	<u>(748)</u>	<u>2,150</u>	<u>3,181</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 531,984</u>	<u>\$ 66,538</u>	<u>\$ 1,032</u>	<u>\$ 4,557</u>	<u>\$ 2,150</u>	<u>\$ 3,181</u>

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2012

	Police New Officer Grant	Munis Loan	Oil & More	Sub Host Program	GIS Work	GIS Web Account
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other governments	-	-	-	-	-	-
Accounts receivable (net of allowance for uncollectibles)	-	-	-	-	-	-
Due from other funds	10,828	-	16,742	-	-	-
TOTAL ASSETS	<u>\$ 10,828</u>	<u>\$ -</u>	<u>\$ 16,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	11,497	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>11,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Restricted	10,828	-	-	-	-	-
Committed	-	-	16,742	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	(11,497)	-	-	-	-
TOTAL FUND BALANCES	<u>10,828</u>	<u>(11,497)</u>	<u>16,742</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,828</u>	<u>\$ -</u>	<u>\$ 16,742</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SCHEDULE D (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2012

	Volunteer <u>Recognition</u>	Memorial <u>Day Activities</u>	Accrued Compensated <u>Absences</u>	Channel <u>22</u>	Self Insurance <u>Claim</u>	Grant Matching <u>Funds</u>
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other governments	-	-	-	-	-	-
Accounts receivable (net of allowance for uncollectibles)	-	-	-	-	-	-
Due from other funds	49	626	-	130,766	26,807	5,180
TOTAL ASSETS	<u>\$ 49</u>	<u>\$ 626</u>	<u>\$ -</u>	<u>\$ 130,766</u>	<u>\$ 26,807</u>	<u>\$ 5,180</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	120,680	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>120,680</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	-	-	-	5,180
Committed	-	-	-	130,766	26,807	-
Assigned	49	626	-	-	-	-
Unassigned	-	-	(120,680)	-	-	-
TOTAL FUND BALANCES	<u>49</u>	<u>626</u>	<u>(120,680)</u>	<u>130,766</u>	<u>26,807</u>	<u>5,180</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 49</u>	<u>\$ 626</u>	<u>\$ -</u>	<u>\$ 130,766</u>	<u>\$ 26,807</u>	<u>\$ 5,180</u>

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2012

	Emergency Fuel Account	Ballot Counting Machines	General Assistance Program	Legal Ads	Kittery Energy/Earth Day
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other governments	-	-	-	-	-
Accounts receivable (net of allowance for uncollectibles)	-	-	-	-	-
Due from other funds	40,000	15,572	9,870	-	95
TOTAL ASSETS	<u>\$ 40,000</u>	<u>\$ 15,572</u>	<u>\$ 9,870</u>	<u>\$ -</u>	<u>\$ 95</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	2,185	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,185</u>	<u>-</u>
FUND BALANCES					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	40,000	15,572	9,870	-	95
Assigned	-	-	-	-	-
Unassigned	-	-	-	(2,185)	-
TOTAL FUND BALANCES	<u>40,000</u>	<u>15,572</u>	<u>9,870</u>	<u>(2,185)</u>	<u>95</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 40,000</u>	<u>\$ 15,572</u>	<u>\$ 9,870</u>	<u>\$ -</u>	<u>\$ 95</u>

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2012

	UNH Spruce Creek Grant	Outfall Pipe Water Test	Harbor Planning Grant	Spruce Creek 319 Grant	Spruce Creek 319 Grant	Wood Island State Grant
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other governments	-	-	-	-	-	-
Accounts receivable (net of allowance for uncollectibles)	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	1,971
TOTAL ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,971
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 3,736	\$ -
Due to other funds	-	4,039	518	-	16,012	-
TOTAL LIABILITIES	-	4,039	518	-	19,748	-
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	-	-	-	1,971
Committed	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	(4,039)	(518)	-	(19,748)	-
TOTAL FUND BALANCES	-	(4,039)	(518)	-	(19,748)	1,971
TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,971

SCHEDULE D (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2012

	Tree Planting Grant	ASA Applicant Code Enforcement	Town Pier Repair	Pier Condition Report	Harbor Pier	York Hospital Scholarship	Concerts In The Park
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other governments	-	-	-	-	-	-	-
Accounts receivable (net of allowance for uncollectibles)	-	-	-	-	-	-	-
Due from other funds	-	12,413	-	1,098	-	10,807	2,027
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 12,413</u>	<u>\$ -</u>	<u>\$ 1,098</u>	<u>\$ -</u>	<u>\$ 10,807</u>	<u>\$ 2,027</u>
LIABILITIES							
Accounts payable	\$ -	\$ 1,065	\$ 54,957	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	348,247	-	2,712	-	-
TOTAL LIABILITIES	<u>-</u>	<u>1,065</u>	<u>403,204</u>	<u>-</u>	<u>2,712</u>	<u>-</u>	<u>-</u>
FUND BALANCES							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	10,807	-
Committed	-	-	-	1,098	-	-	2,027
Assigned	-	11,348	-	-	-	-	-
Unassigned	-	-	(403,204)	-	(2,712)	-	-
TOTAL FUND BALANCES	<u>-</u>	<u>11,348</u>	<u>(403,204)</u>	<u>1,098</u>	<u>(2,712)</u>	<u>10,807</u>	<u>2,027</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 12,413</u>	<u>\$ -</u>	<u>\$ 1,098</u>	<u>\$ -</u>	<u>\$ 10,807</u>	<u>\$ 2,027</u>

SCHEDULE D (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2012

	Open Space Reserve	Shellfish Conservation Committee	Conservation Committee	Wetlands Mitigation	Phase 2 Spruce Creek Pipe Test	Alternative Energy Fund	Recreation
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other governments	-	-	-	-	-	-	-
Accounts receivable (net of allowance for uncollectibles)	-	-	-	-	-	-	-
Due from other funds	48,363	-	1,499	50,329	-	24,716	27,930
TOTAL ASSETS	<u>\$ 48,363</u>	<u>\$ -</u>	<u>\$ 1,499</u>	<u>\$ 50,329</u>	<u>\$ -</u>	<u>\$ 24,716</u>	<u>\$ 27,930</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,503
Due to other funds	-	265	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,503</u>
FUND BALANCES							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Committed	48,363	-	1,499	50,329	-	24,716	-
Assigned	-	-	-	-	-	-	16,427
Unassigned	-	(265)	-	-	-	-	-
TOTAL FUND BALANCES	<u>48,363</u>	<u>(265)</u>	<u>1,499</u>	<u>50,329</u>	<u>-</u>	<u>24,716</u>	<u>16,427</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 48,363</u>	<u>\$ -</u>	<u>\$ 1,499</u>	<u>\$ 50,329</u>	<u>\$ -</u>	<u>\$ 24,716</u>	<u>\$ 27,930</u>

SCHEDULE D (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2012

	Property Valuation	Traip Mechanical Retrofit	Defibrillators	Langdon Gravel Pit	Block Party	School Grants	Totals
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131	\$ 131
Due from other governments	-	-	-	-	-	215,405	215,405
Accounts receivable (net of allowance for uncollectibles)	-	-	-	-	-	17,817	45,743
Due from other funds	80,000	-	7,348	4,000	12,542	351,120	1,474,214
TOTAL ASSETS	<u>\$ 80,000</u>	<u>\$ -</u>	<u>\$ 7,348</u>	<u>\$ 4,000</u>	<u>\$ 12,542</u>	<u>\$ 584,473</u>	<u>\$ 1,735,493</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ 5,706	\$ -	\$ 5,693	\$ 2,103	\$ 244,777
Due to other funds	-	1,148	-	-	-	229,787	742,395
TOTAL LIABILITIES	<u>-</u>	<u>1,148</u>	<u>5,706</u>	<u>-</u>	<u>5,693</u>	<u>231,890</u>	<u>987,172</u>
FUND BALANCES							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	28,937	60,905
Committed	80,000	-	-	4,000	6,849	318,840	1,216,081
Assigned	-	-	1,642	-	-	8,153	41,426
Unassigned	-	(1,148)	-	-	-	(3,347)	(570,091)
TOTAL FUND BALANCES	<u>80,000</u>	<u>(1,148)</u>	<u>1,642</u>	<u>4,000</u>	<u>6,849</u>	<u>352,583</u>	<u>748,321</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 80,000</u>	<u>\$ -</u>	<u>\$ 7,348</u>	<u>\$ 4,000</u>	<u>\$ 12,542</u>	<u>\$ 584,473</u>	<u>\$ 1,735,493</u>

See accompanying independent auditors' report.

SCHEDULE E

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Sewer Impact Fees	Sewer Betterment Fees	GMH Police / Fire Rescue	Storm Damage / FEMA	Fire Hazmat Spill Cleanup	Highway Internal Services
REVENUES						
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ 22,783	\$ -	\$ -
Other income	56,680	-	-	4,557	565	-
Investment income	2,106	134	-	87	-	-
TOTAL REVENUES	58,786	134	-	27,427	565	-
EXPENDITURES						
Administration	-	-	-	-	-	-
Public safety	-	-	3,289	55,920	1,883	-
Education	-	-	-	-	-	-
Capital outlay	259,509	-	-	-	-	-
TOTAL EXPENDITURES	259,509	-	3,289	55,920	1,883	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(200,723)	134	(3,289)	(28,493)	(1,318)	-
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	-	-	-	-	-	-
Operating Transfers (Out)	(21,075)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(21,075)	-	-	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(221,798)	134	(3,289)	(28,493)	(1,318)	-
FUND BALANCES, JULY 1, RESTATED	593,768	66,404	4,321	27,745	3,468	3,181
FUND BALANCES, JUNE 30	\$ 371,970	\$ 66,538	\$ 1,032	\$ (748)	\$ 2,150	\$ 3,181

SCHEDULE E (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Police New Officer Grant	Munis Loan	Oil & More	Sub Host Program	GIS Work	GIS Web Account
REVENUES						
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	57,111	-	-	-
Investment income	-	-	-	-	-	-
TOTAL REVENUES	-	-	57,111	-	-	-
EXPENDITURES						
Administration	-	18,612	61,404	-	-	-
Public safety	-	-	-	-	5,960	-
Education	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	-	18,612	61,404	-	5,960	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(18,612)	(4,293)	-	(5,960)	-
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	-	18,687	-	776	-	-
Operating Transfers (Out)	-	-	-	-	(6,056)	(1,800)
TOTAL OTHER FINANCING SOURCES (USES)	-	18,687	-	776	(6,056)	(1,800)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	-	75	(4,293)	776	(12,016)	(1,800)
FUND BALANCES, JULY 1, RESTATED	10,828	(11,572)	21,035	(776)	12,016	1,800
FUND BALANCES, JUNE 30	\$ 10,828	\$ (11,497)	\$ 16,742	\$ -	\$ -	\$ -

SCHEDULE E (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Volunteer Recognition	Memorial Day Activities	Accrued Compensated Absences	Channel 22	Self Insurance Claim	Grant Matching Funds
REVENUES						
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	149,437	838	-
Investment income	-	-	-	-	-	-
TOTAL REVENUES	-	-	-	149,437	838	-
EXPENDITURES						
Administration	-	-	78,302	18,671	-	-
Public safety	-	-	-	-	-	-
Education	-	-	-	-	-	-
Capital outlay	-	-	-	-	3,675	-
TOTAL EXPENDITURES	-	-	78,302	18,671	3,675	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(78,302)	130,766	(2,837)	-
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	-	-	125,000	-	-	-
Operating Transfers (Out)	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	125,000	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	-	-	46,698	130,766	(2,837)	-
FUND BALANCES, JULY 1, RESTATED	49	626	(167,378)	-	29,644	5,180
FUND BALANCES, JUNE 30	\$ 49	\$ 626	\$ (120,680)	\$ 130,766	\$ 26,807	\$ 5,180

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Emergency Fuel Account	Ballot Counting Machines	General Assistance Program	Legal Ads	Kittery Energy/Earth Day
REVENUES					
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	-	-
Investment income	-	-	-	-	-
TOTAL REVENUES	-	-	-	-	-
EXPENDITURES					
Administration	-	-	-	-	-
Public safety	-	-	-	-	-
Education	-	-	-	-	-
Capital outlay	-	-	-	-	-
TOTAL EXPENDITURES	-	-	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	-	-
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	20,000	5,144	-	-	-
Operating Transfers (Out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	20,000	5,144	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	20,000	5,144	-	-	-
FUND BALANCES, JULY 1, RESTATED	20,000	10,428	9,870	(2,185)	95
FUND BALANCES, JUNE 30	\$ 40,000	\$ 15,572	\$ 9,870	\$ (2,185)	\$ 95

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	UNH Spruce Creek Grant	Outfall Pipe Water Test	Harbor Planning Grant	Spruce Creek 319 Grant	Spruce Creek 319 Grant Phase II	Wood Island State Grant
REVENUES						
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	-	56,773	-
Investment income	-	-	-	-	-	-
TOTAL REVENUES	-	-	-	-	56,773	-
EXPENDITURES						
Administration	-	3,884	-	-	-	-
Public safety	-	-	-	-	-	-
Education	-	-	-	-	-	-
Capital outlay	-	-	-	-	48,828	-
TOTAL EXPENDITURES	-	3,884	-	-	48,828	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(3,884)	-	-	7,945	-
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	-	-	-	-	6,084	-
Operating Transfers (Out)	(7,926)	-	-	(1,017)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(7,926)	-	-	(1,017)	6,084	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(7,926)	(3,884)	-	(1,017)	14,029	-
FUND BALANCES, JULY 1, RESTATED	7,926	(155)	(518)	1,017	(33,777)	1,971
FUND BALANCES, JUNE 30	\$ -	\$ (4,039)	\$ (518)	\$ -	\$ (19,748)	\$ 1,971

SCHEDULE E (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Tree Planting Grant	ASA Applicant Code Enforcement	Town Pier Repair	Pier Condition Report	Harbor Pier	York Hospital Scholarship	Concerts In The Park
REVENUES							
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	20,526	43,600	-	-	18,600	2,053
Investment income	-	-	-	-	-	-	-
TOTAL REVENUES	-	20,526	43,600	-	-	18,600	2,053
EXPENDITURES							
Administration	1,198	22,272	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-
Capital outlay	-	-	442,276	-	7,712	13,659	1,251
TOTAL EXPENDITURES	1,198	22,272	442,276	-	7,712	13,659	1,251
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,198)	(1,746)	(398,676)	-	(7,712)	4,941	802
OTHER FINANCING SOURCES (USES)							
Operating Transfers In	-	-	70,000	-	-	-	-
Operating Transfers (Out)	-	-	(90,000)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(20,000)	-	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(1,198)	(1,746)	(418,676)	-	(7,712)	4,941	802
FUND BALANCES, JULY 1, RESTATED	1,198	13,094	15,472	1,098	5,000	5,866	1,225
FUND BALANCES, JUNE 30	\$ -	\$ 11,348	\$ (403,204)	\$ 1,098	\$ (2,712)	\$ 10,807	\$ 2,027

SCHEDULE E (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Open Space Reserve	Shellfish Conservation Committee	Conservation Committee	Wetlands Mitigation	Phase 2 Spruce Creek Pipe Test	Alternative Energy Fund	Recreation
REVENUES							
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	10,500	-	-	291,433
Investment income	-	-	-	-	-	-	-
TOTAL REVENUES	-	-	-	10,500	-	-	291,433
EXPENDITURES							
Administration	-	-	-	-	-	-	370,919
Public safety	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-
Capital outlay	3,210	-	213	-	6,148	-	-
TOTAL EXPENDITURES	3,210	-	213	-	6,148	-	370,919
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,210)	-	(213)	10,500	(6,148)	-	(79,486)
OTHER FINANCING SOURCES (USES)							
Operating Transfers In	-	-	-	-	-	-	-
Operating Transfers (Out)	-	-	-	-	(5,067)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	(5,067)	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(3,210)	-	(213)	10,500	(11,215)	-	(79,486)
FUND BALANCES, JULY 1, RESTATED	51,573	(265)	1,712	39,829	11,215	24,716	95,913
FUND BALANCES, JUNE 30	\$ 48,363	\$ (265)	\$ 1,499	\$ 50,329	\$ -	\$ 24,716	\$ 16,427

SCHEDULE E (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	Property Valuation	Traip Mechanical Retrofit	Defibrillators	Langdon Gravel Pit	Block Party	Other School Grants	Totals
REVENUES							
Intergovernmental revenue	\$ -	\$ -	\$ 7,000	\$ -	\$ -	\$ 829,572	\$ 859,355
Other income	-	-	3,098	-	25,925	189,136	930,832
Investment income	-	-	-	-	-	-	2,327
TOTAL REVENUES	-	-	10,098	-	25,925	1,018,708	1,792,514
EXPENDITURES							
Administration	-	-	-	3,000	28,598	-	606,860
Public safety	-	-	13,215	-	-	-	80,267
Education	-	16,148	-	-	-	1,060,824	1,076,972
Capital outlay	-	-	-	-	-	-	786,481
TOTAL EXPENDITURES	-	16,148	13,215	3,000	28,598	1,060,824	2,550,580
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(16,148)	(3,117)	(3,000)	(2,673)	(42,116)	(758,066)
OTHER FINANCING SOURCES (USES)							
Operating Transfers In	40,000	-	8,000	-	-	230,600	524,291
Operating Transfers (Out)	-	-	-	-	-	-	(132,941)
TOTAL OTHER FINANCING SOURCES (USES)	40,000	-	8,000	-	-	230,600	391,350
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	40,000	(16,148)	4,883	(3,000)	(2,673)	188,484	(366,716)
FUND BALANCES, JULY 1, RESTATED	40,000	15,000	(3,241)	7,000	9,522	164,099	1,115,037
FUND BALANCES, JUNE 30	\$ 80,000	\$ (1,148)	\$ 1,642	\$ 4,000	\$ 6,849	\$ 352,583	\$ 748,321

See accompanying independent auditors' report.

Capital Projects Funds

Capital projects funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust fund.

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2012

	State Aid to Roads	Drainage Projects	Emery Field	Land / Fire Station / Rec Field	Road Construction	Sidewalk Program
ASSETS						
Accounts receivable (net of allowance for uncollectibles)	\$ 41,278	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid expenses	-	-	-	-	-	-
Due from other funds	747,427	807	783	1,778	7,534	29,251
TOTAL ASSETS	<u>\$ 788,705</u>	<u>\$ 807</u>	<u>\$ 783</u>	<u>\$ 1,778</u>	<u>\$ 7,534</u>	<u>\$ 29,251</u>
LIABILITIES						
Accounts payable	\$ 10,900	\$ 80	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-
TOTAL LIABILITIES	<u>10,900</u>	<u>80</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Restricted	777,805	-	-	-	-	-
Committed	-	727	783	1,778	7,534	29,251
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
TOTAL FUND BALANCES	<u>777,805</u>	<u>727</u>	<u>783</u>	<u>1,778</u>	<u>7,534</u>	<u>29,251</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 788,705</u>	<u>\$ 807</u>	<u>\$ 783</u>	<u>\$ 1,778</u>	<u>\$ 7,534</u>	<u>\$ 29,251</u>

TOWN OF KITTERY, MAINE

SCHEDULE F (CONTINUED)

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2012

	Asphalt Surface Maintenance	Solid Waste Vehicle Fund	Fort Foster Management	Recreation Vehicle	Highway Vehicle	Fire Dept Vehicle
ASSETS						
Accounts receivable (net of allowance for uncollectibles)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid expenses	-	-	-	-	-	-
Due from other funds	149	34,606	2,319	68,053	49,902	5,239
TOTAL ASSETS	<u>\$ 149</u>	<u>\$ 34,606</u>	<u>\$ 2,319</u>	<u>\$ 68,053</u>	<u>\$ 49,902</u>	<u>\$ 5,239</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	-	-	-	-
Committed	149	34,606	2,319	68,053	49,902	5,239
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
TOTAL FUND BALANCES	<u>149</u>	<u>34,606</u>	<u>2,319</u>	<u>68,053</u>	<u>49,902</u>	<u>5,239</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 149</u>	<u>\$ 34,606</u>	<u>\$ 2,319</u>	<u>\$ 68,053</u>	<u>\$ 49,902</u>	<u>\$ 5,239</u>

TOWN OF KITTERY, MAINE

SCHEDULE F (CONTINUED)

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2012

	Parks Dept Vehicle	Building Swimming Pool	Thermal Imager	Storm Drain Mapping	Port Authority Boat	Badgers Island Cemetery	Fire Station
ASSETS							
Accounts receivable (net of allowance for uncollectibles)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid expenses	-	-	-	-	-	-	-
Due from other funds	40,390	20,536	253	6,903	8,885	43,488	176
TOTAL ASSETS	<u>\$ 40,390</u>	<u>\$ 20,536</u>	<u>\$ 253</u>	<u>\$ 6,903</u>	<u>\$ 8,885</u>	<u>\$ 43,488</u>	<u>\$ 176</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ 1,500	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	43,488	-
Committed	40,390	20,536	253	5,403	8,885	-	176
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
TOTAL FUND BALANCES	<u>40,390</u>	<u>20,536</u>	<u>253</u>	<u>5,403</u>	<u>8,885</u>	<u>43,488</u>	<u>176</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 40,390</u>	<u>\$ 20,536</u>	<u>\$ 253</u>	<u>\$ 6,903</u>	<u>\$ 8,885</u>	<u>\$ 43,488</u>	<u>\$ 176</u>

TOWN OF KITTERY, MAINE

SCHEDULE F (CONTINUED)

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2012

	Computer	Police Drug Forfeiture	Police Vehicle Equipment	Solid Waste Equipment	Computer Mapping	Public Safety	Office Restrooms
ASSETS							
Accounts receivable (net of allowance for uncollectibles)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid expenses	-	-	-	-	-	-	-
Due from other funds	37,547	26,993	27,206	50,924	-	58,213	-
TOTAL ASSETS	<u>\$ 37,547</u>	<u>\$ 26,993</u>	<u>\$ 27,206</u>	<u>\$ 50,924</u>	<u>\$ -</u>	<u>\$ 58,213</u>	<u>\$ -</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ 17,099	\$ -	\$ -	\$ -	\$ 1
Due to other funds	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>17,099</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
FUND BALANCES							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	26,993	-	-	-	-	-
Committed	37,547	-	10,107	50,924	-	58,213	-
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	(1)
TOTAL FUND BALANCES	<u>37,547</u>	<u>26,993</u>	<u>10,107</u>	<u>50,924</u>	<u>-</u>	<u>58,213</u>	<u>(1)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 37,547</u>	<u>\$ 26,993</u>	<u>\$ 27,206</u>	<u>\$ 50,924</u>	<u>\$ -</u>	<u>\$ 58,213</u>	<u>\$ -</u>

TOWN OF KITTERY, MAINE

SCHEDULE F (CONTINUED)

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2012

	Municipal Roof Depreciation	Public Works Shed Office Building	Public Works Lid Town Hall	PW Lid Rt. 1 N. Raingarden	Traffic Light Rt. 236 MRTN	Traffic Light Rt. 236 MACN	Crockett Neck Rd. Culvert
ASSETS							
Accounts receivable (net of allowance for uncollectibles)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid expenses	-	-	-	-	-	-	-
Due from other funds	90,683	-	-	-	2,889	-	109,770
TOTAL ASSETS	<u>\$ 90,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,889</u>	<u>\$ -</u>	<u>\$ 109,770</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	11,713	887	1,054	-	20,336	-
TOTAL LIABILITIES	<u>-</u>	<u>11,713</u>	<u>887</u>	<u>1,054</u>	<u>-</u>	<u>20,336</u>	<u>-</u>
FUND BALANCES							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Committed	90,683	-	-	-	2,889	-	109,770
Assigned	-	-	-	-	-	-	-
Unassigned	-	(11,713)	(887)	(1,054)	-	(20,336)	-
TOTAL FUND BALANCES	<u>90,683</u>	<u>(11,713)</u>	<u>(887)</u>	<u>(1,054)</u>	<u>2,889</u>	<u>(20,336)</u>	<u>109,770</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 90,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,889</u>	<u>\$ -</u>	<u>\$ 109,770</u>

TOWN OF KITTERY, MAINE

SCHEDULE F (CONTINUED)

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2012

	Fort Foster Restrooms	Boating Infrastructure	Haley Field Project	Buildings and Grounds	Computer Repair Replacement	Municipal Facility Maint. Resrv.	Public Safety Radio Antenna
ASSETS							
Accounts receivable (net of allowance for uncollectibles)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid expenses	-	-	-	-	-	-	-
Due from other funds	3,174	90,000	-	17,113	17,546	-	-
TOTAL ASSETS	<u>\$ 3,174</u>	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 17,113</u>	<u>\$ 17,546</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	13,850	-	-	3,727	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>13,850</u>	<u>-</u>	<u>-</u>	<u>3,727</u>	<u>-</u>
FUND BALANCES							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-
Committed	3,174	90,000	-	17,113	17,546	-	-
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	(13,850)	-	-	(3,727)	-
TOTAL FUND BALANCES	<u>3,174</u>	<u>90,000</u>	<u>(13,850)</u>	<u>17,113</u>	<u>17,546</u>	<u>(3,727)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,174</u>	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 17,113</u>	<u>\$ 17,546</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF KITTERY, MAINE

SCHEDULE F (CONTINUED)

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2012

	Bond Hill Creek Drive	Fort Foster Park Bench	Sewer Vehicle Reserve	Sewer Depreciation	Treatment Plant Upgrade II	Records Preservation	Pepperell Butterworth
ASSETS							
Accounts receivable (net of allowance for uncollectibles)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Prepaid expenses	-	-	-	-	-	-	-
Due from other funds	1,000	11,841	29,438	755,120	3,305	49,787	84,390
TOTAL ASSETS	<u>\$ 1,000</u>	<u>\$ 11,841</u>	<u>\$ 29,438</u>	<u>\$ 755,120</u>	<u>\$ 3,305</u>	<u>\$ 49,787</u>	<u>\$ 84,390</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ 955	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>955</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES							
Nonspendable	-	-	-	-	-	-	-
Restricted	1,000	-	-	-	3,305	-	-
Committed	-	11,841	29,438	754,165	-	49,787	84,390
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
TOTAL FUND BALANCES	<u>1,000</u>	<u>11,841</u>	<u>29,438</u>	<u>754,165</u>	<u>3,305</u>	<u>49,787</u>	<u>84,390</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,000</u>	<u>\$ 11,841</u>	<u>\$ 29,438</u>	<u>\$ 755,120</u>	<u>\$ 3,305</u>	<u>\$ 49,787</u>	<u>\$ 84,390</u>

TOWN OF KITTERY, MAINE

SCHEDULE F (CONTINUED)

COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECT FUNDS
JUNE 30, 2012

	Architectural Barrier	Treatment Plant Upgrade	School Maintenance Reserve	Capital Improvement Fund	Shapleigh Track Replacement	FF Protective Clothing	Totals
ASSETS							
Accounts receivable (net of allowance for uncollectibles)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 41,278
Prepaid expenses	-	-	-	69,700	-	-	69,700
Due from other funds	53,236	40	404,321	-	230	-	2,993,245
TOTAL ASSETS	\$ 53,236	\$ 40	\$ 404,321	\$ 69,700	\$ 230	\$ -	\$ 3,104,223
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,535
Due to other funds	-	-	-	67,494	-	-	119,061
TOTAL LIABILITIES	-	-	-	67,494	-	-	149,596
FUND BALANCES							
Nonspendable	-	-	-	69,700	-	-	69,700
Restricted	-	40	-	-	-	-	852,631
Committed	53,236	-	404,321	-	230	-	2,151,358
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	(67,494)	-	-	(119,062)
TOTAL FUND BALANCES	53,236	40	404,321	2,206	230	-	2,954,627
TOTAL LIABILITIES AND FUND BALANCES	\$ 53,236	\$ 40	\$ 404,321	\$ 69,700	\$ 230	\$ -	\$ 3,104,223

See accompanying independent auditors' report.

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012

	State Aid to Roads	Drainage Projects	Emery Field	Land / Fire Station / Rec Field	Road Construction	Sidewalk Program
REVENUES						
Intergovernmental revenue	\$ 168,312	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	-	-	5,000
Investment income	2,156	73	8	4	12	64
TOTAL REVENUES	170,468	73	8	4	12	5,064
EXPENDITURES						
Administration	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works	229,845	26,200	1,700	-	-	-
Education	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	229,845	26,200	1,700	-	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(59,377)	(26,127)	(1,692)	4	12	5,064
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	-	-	-	-
Operating Transfers In	159,344	8,000	-	886	7,500	10,000
Operating Transfers (Out)	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	159,344	8,000	-	886	7,500	10,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	99,967	(18,127)	(1,692)	890	7,512	15,064
FUND BALANCES, JULY 1	677,838	18,854	2,475	888	22	14,187
FUND BALANCES, JUNE 30	\$ 777,805	\$ 727	\$ 783	\$ 1,778	\$ 7,534	\$ 29,251

SCHEDULE G (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012

	Asphalt Surface Maintenance	Solid Waste Vehicle Fund	Fort Foster Management	Recreation Vehicle	Highway Vehicle	Fire Dept Vehicle
REVENUES						
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	-	1,200	-
Investment income	1	62	12	180	125	18
TOTAL REVENUES	1	62	12	180	1,325	18
EXPENDITURES						
Administration	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Public works	280	-	1,361	-	36,504	-
Education	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
TOTAL EXPENDITURES	280	-	1,361	-	36,504	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(279)	62	(1,349)	180	(35,179)	18
OTHER FINANCING SOURCES (USES)						
Bond proceeds	-	-	-	-	-	-
Operating Transfers In	-	31,827	-	23,000	88,057	79,000
Operating Transfers (Out)	-	-	-	-	-	(79,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	31,827	-	23,000	88,057	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(279)	31,889	(1,349)	23,180	52,878	18
FUND BALANCES, JULY 1	428	2,717	3,668	44,873	(2,976)	5,221
FUND BALANCES, JUNE 30	\$ 149	\$ 34,606	\$ 2,319	\$ 68,053	\$ 49,902	\$ 5,239

SCHEDULE G (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2012

	Parks Dept Vehicle	Building Swimming Pool	Thermal Imager	Storm Drain Mapping	Port Authority Boat	Badgers Island Cemetery	Fire Station
REVENUES							
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	5,479	-	-	-	-	-
Investment income	177	39	7	23	30	146	1
TOTAL REVENUES	177	5,518	7	23	30	146	1
EXPENDITURES							
Administration	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Public works	-	-	1,948	19,562	-	-	-
Education	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	-	1,948	19,562	-	-	-
EXCESS OF REVENUES OVER (UNDER)							
EXPENDITURES	177	5,518	(1,941)	(19,539)	30	146	1
OTHER FINANCING SOURCES (USES)							
Bond proceeds	-	-	-	-	-	-	-
Operating Transfers In	12,983	4,761	-	23,917	-	-	-
Operating Transfers (Out)	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	12,983	4,761	-	23,917	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	13,160	10,279	(1,941)	4,378	30	146	1
FUND BALANCES, JULY 1	27,230	10,257	2,194	1,025	8,855	43,342	175
FUND BALANCES, JUNE 30	\$ 40,390	\$ 20,536	\$ 253	\$ 5,403	\$ 8,885	\$ 43,488	\$ 176

SCHEDULE G (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012

	Computer	Police Drug Forfeiture	Police Vehicle Equipment	Solid Waste Equipment	Computer Mapping	Public Safety	Office Restrooms
REVENUES							
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	3,280	-	-	34,715	-
Investment income	126	97	132	138	11	108	-
TOTAL REVENUES	126	97	3,412	138	11	34,823	-
EXPENDITURES							
Administration	-	-	-	-	-	-	1
Public safety	-	2,062	69,899	-	-	-	-
Public works	-	-	-	9,999	-	-	-
Education	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	2,062	69,899	9,999	-	-	1
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	126	(1,965)	(66,487)	(9,861)	11	34,823	(1)
OTHER FINANCING SOURCES (USES)							
Bond proceeds	-	-	-	-	-	-	-
Operating Transfers In	-	-	65,000	38,440	-	3,103	-
Operating Transfers (Out)	-	-	-	-	(3,237)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	65,000	38,440	(3,237)	3,103	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	126	(1,965)	(1,487)	28,579	(3,226)	37,926	(1)
FUND BALANCES, JULY 1	37,421	28,958	11,594	22,345	3,226	20,287	-
FUND BALANCES, JUNE 30	\$ 37,547	\$ 26,993	\$ 10,107	\$ 50,924	\$ -	\$ 58,213	\$ (1)

SCHEDULE G (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2012

	Municipal Roof Depreciation	Public Works Shed Office Building	Public Works Lid Town Hall	PW Lid Rt. 1 N. Raingarden	Traffic Light Rt. 236 MRTN	Traffic Light Rt. 236 MACN	Crockett Neck Rd. Culvert
REVENUES							
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	-	-	-	-
Investment income	235	-	-	-	-	-	-
TOTAL REVENUES	<u>235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES							
Administration	-	-	-	-	-	-	-
Public safety	-	-	-	-	7,111	49,900	-
Public works	-	5,118	-	-	-	-	15,230
Education	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>5,118</u>	<u>-</u>	<u>-</u>	<u>7,111</u>	<u>49,900</u>	<u>15,230</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>235</u>	<u>(5,118)</u>	<u>-</u>	<u>-</u>	<u>(7,111)</u>	<u>(49,900)</u>	<u>(15,230)</u>
OTHER FINANCING SOURCES (USES)							
Bond proceeds	-	-	-	-	-	-	-
Operating Transfers In	40,128	-	-	-	-	14,782	125,000
Operating Transfers (Out)	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>40,128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,782</u>	<u>125,000</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>40,363</u>	<u>(5,118)</u>	<u>-</u>	<u>-</u>	<u>(7,111)</u>	<u>(35,118)</u>	<u>109,770</u>
FUND BALANCES, JULY 1	<u>50,320</u>	<u>(6,595)</u>	<u>(887)</u>	<u>(1,054)</u>	<u>10,000</u>	<u>14,782</u>	<u>-</u>
FUND BALANCES, JUNE 30	<u>\$ 90,683</u>	<u>\$ (11,713)</u>	<u>\$ (887)</u>	<u>\$ (1,054)</u>	<u>\$ 2,889</u>	<u>\$ (20,336)</u>	<u>\$ 109,770</u>

SCHEDULE G (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012

	Fort Foster Restrooms	Boating Infrastructure	Haley Field Project	Buildings and Grounds	Computer Repair Replacement	Municipal Facility Maint. Resrv.	Public Safety Radio Antenna
REVENUES							
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-
TOTAL REVENUES	-	-	-	-	-	-	-
EXPENDITURES							
Administration	-	-	-	-	6,868	-	-
Public safety	-	-	-	-	-	-	48,500
Public works	-	-	-	19,803	-	-	-
Education	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	-	-	19,803	6,868	-	48,500
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-	(19,803)	(6,868)	-	(48,500)
OTHER FINANCING SOURCES (USES)							
Bond proceeds	-	-	-	-	-	-	-
Operating Transfers In	-	90,000	-	22,926	-	-	48,500
Operating Transfers (Out)	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	90,000	-	22,926	-	-	48,500
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	-	90,000	-	3,123	(6,868)	-	-
FUND BALANCES, JULY 1	3,174	-	(13,850)	13,990	24,414	(3,727)	-
FUND BALANCES, JUNE 30	\$ 3,174	\$ 90,000	\$ (13,850)	\$ 17,113	\$ 17,546	\$ (3,727)	\$ -

SCHEDULE G (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012

	Bond Hill Creek Drive	Fort Foster Park Bench	Sewer Vehicle Reserve	Sewer Depreciation	Treatment Plant Upgrade II	Records Preservation	Pepperell Butterworth
REVENUES							
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	-	10,800	3,350	-	-	-	-
Investment income	-	-	163	2,590	74	92	-
TOTAL REVENUES	-	10,800	3,513	2,590	74	92	-
EXPENDITURES							
Administration	-	5,371	-	-	-	3,072	5,610
Public safety	-	-	-	-	-	-	-
Public works	-	-	-	20,576	21,850	-	-
Education	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	5,371	-	20,576	21,850	3,072	5,610
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	5,429	3,513	(17,986)	(21,776)	(2,980)	(5,610)
OTHER FINANCING SOURCES (USES)							
Bond proceeds	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	-	49,400	90,000
Operating Transfers (Out)	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	49,400	90,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	-	5,429	3,513	(17,986)	(21,776)	46,420	84,390
FUND BALANCES, JULY 1	1,000	6,412	25,925	772,151	25,081	3,367	-
FUND BALANCES, JUNE 30	\$ 1,000	\$ 11,841	\$ 29,438	\$ 754,165	\$ 3,305	\$ 49,787	\$ 84,390

SCHEDULE G (CONTINUED)

TOWN OF KITTERY, MAINE

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012

	Architectural Barrier	Treatment Plant Upgrade	School Maintenance Reserve	Capital Improvement Fund	Shapleigh Track Replacement	FF Protective Clothing	Totals
REVENUES							
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 168,312
Other income	-	-	-	2,206	-	-	66,030
Investment income	148	-	-	-	-	-	7,052
TOTAL REVENUES	148	-	-	2,206	-	-	241,394
EXPENDITURES							
Administration	-	-	-	-	-	-	20,922
Public safety	-	-	-	-	-	50,000	227,472
Public works	-	-	-	-	-	-	409,976
Education	-	-	84,163	-	189,770	-	273,933
Capital outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	-	84,163	-	189,770	50,000	932,303
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	148	-	(84,163)	2,206	(189,770)	(50,000)	(690,909)
OTHER FINANCING SOURCES (USES)							
Bond proceeds	-	-	-	-	-	-	-
Operating Transfers In	17,738	-	219,239	-	190,000	50,000	1,513,531
Operating Transfers (Out)	-	-	-	-	-	-	(82,237)
TOTAL OTHER FINANCING SOURCES (USES)	17,738	-	219,239	-	190,000	50,000	1,431,294
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	17,886	-	135,076	2,206	230	-	740,385
FUND BALANCES, JULY 1	35,350	40	269,245	-	-	-	\$ 2,214,242
FUND BALANCES, JUNE 30	\$ 53,236	\$ 40	\$ 404,321	\$ 2,206	\$ 230	\$ -	\$ 2,954,627

See accompanying independent auditors' report.

Permanent Funds

Permanent funds are used to account for assets held by the Town of Kittery, Maine in trust or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds have been established for the provision and/or maintenance of the cemeteries, Public Health Trust and Lester Raynes Trust and the school department scholarships.

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR PERMANENT FUNDS
JUNE 30, 2012

	Cemetery Trust	Public Health Trust	Mary Safford Wildes	Lester Raynes Trust
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 33,221	\$ -
Investments	-	-	687,091	-
Due from other funds	100,762	27,275	-	9,009
TOTAL ASSETS	<u>\$ 100,762</u>	<u>\$ 27,275</u>	<u>\$ 720,312</u>	<u>\$ 9,009</u>
LIABILITIES				
Accounts payable	\$ 2,630	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>2,630</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	98,132	27,275	720,312	9,009
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
TOTAL FUND BALANCES	<u>98,132</u>	<u>27,275</u>	<u>720,312</u>	<u>9,009</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 100,762</u>	<u>\$ 27,275</u>	<u>\$ 720,312</u>	<u>\$ 9,009</u>

TOWN OF KITTERY, MAINE

COMBINING BALANCE SHEET - NONMAJOR PERMANENT FUNDS
JUNE 30, 2012

	School Trust Funds	Recycling Scholarship Fund	Samuels Beautification Funds	Totals
ASSETS				
Cash and cash equivalents	\$ 101,924	\$ -	\$ -	\$ 135,145
Investments	-	-	-	687,091
Due from other funds	-	17,153	57,556	211,755
TOTAL ASSETS	<u>\$ 101,924</u>	<u>\$ 17,153</u>	<u>\$ 57,556</u>	<u>\$ 1,033,991</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 2,630
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,630</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	101,924	17,153	57,556	1,031,361
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
TOTAL FUND BALANCES	<u>101,924</u>	<u>17,153</u>	<u>57,556</u>	<u>1,031,361</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 101,924</u>	<u>\$ 17,153</u>	<u>\$ 57,556</u>	<u>\$ 1,033,991</u>

See accompanying independent auditors' report.

TOWN OF KITTERY, MAINE

COMBINING SCHEDULES OF REVENUES, EXPENDITURES, CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Cemetery Trust	Public Health Trust	Mary Safford Wildes	Lester Raynes Trust
REVENUES				
Investment income	\$ 398	\$ 90	\$ 14,929	\$ 30
Other income	500	-	30,456	-
TOTAL REVENUES	<u>898</u>	<u>90</u>	<u>45,385</u>	<u>30</u>
EXPENDITURES				
Education	-	-	-	-
Town wide	23,270	-	54,421	-
TOTAL EXPENDITURES	<u>23,270</u>	<u>-</u>	<u>54,421</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(22,372)</u>	<u>90</u>	<u>(9,036)</u>	<u>30</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>(22,372)</u>	<u>90</u>	<u>(9,036)</u>	<u>30</u>
FUND BALANCES, JULY 1	<u>120,504</u>	<u>27,185</u>	<u>729,348</u>	<u>8,979</u>
FUND BALANCES, JUNE 30	<u>\$ 98,132</u>	<u>\$ 27,275</u>	<u>\$ 720,312</u>	<u>\$ 9,009</u>

TOWN OF KITTERY, MAINE

COMBINING SCHEDULES OF REVENUES, EXPENDITURES, CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	School Trust Funds	Recycling Scholarship Fund	Samuels Beautification Funds	Totals
REVENUES				
Investment income	\$ 98	\$ 98	\$ 193	\$ 15,836
Other income	275	9,076	-	40,307
TOTAL REVENUES	373	9,174	193	56,143
EXPENDITURES				
Education	1,655	-	-	1,655
Town wide	-	19,500	-	97,191
TOTAL EXPENDITURES	1,655	19,500	-	98,846
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,282)	(10,326)	193	(42,703)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(1,282)	(10,326)	193	(42,703)
FUND BALANCES, JULY 1	103,206	27,479	57,363	1,074,064
FUND BALANCES, JUNE 30	\$ 101,924	\$ 17,153	\$ 57,556	\$ 1,031,361

See accompanying independent auditors' report.

General Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets.

TOWN OF KITTERY, MAINE

SCHEDULE OF GENERAL CAPITAL ASSETS BY FUNCTION
JUNE 30, 2012

	Land and Non-depreciable Assets	Buildings, Building Improvements & Land Improvements	Furniture, Fixtures, Equipment & Vehicles	Infrastructure	Totals
Police	\$ -	\$ 84,458	\$ 982,360	\$ -	\$ 1,066,818
General government	-	2,689,485	219,387	-	2,908,872
Fire	353,200	3,484,537	2,213,515	-	6,051,252
Highway	8,628,900	3,422,650	3,009,225	9,980,695	25,041,470
Recycling	-	98,226	29,288	442,276	569,790
Recreation	5,340,800	151,254	86,159	-	5,578,213
Library	-	8,711	-	-	8,711
Town-wide	1,973,300	3,258,904	61,058	-	5,293,262
School Department	45,406	25,315,931	505,995	-	25,867,332
Sewer Department	4,009,942	14,906,132	605,529	25,768	19,547,371
School Lunch Program	-	-	98,255	-	98,255
Total General Capital Assets	20,351,548	53,420,288	7,810,771	10,448,739	92,031,346
Less: Accumulated Depreciation	-	(24,479,498)	(5,162,549)	(7,260,594)	(36,902,641)
Net General Capital Assets	<u>\$ 20,351,548</u>	<u>\$ 28,940,790</u>	<u>\$ 2,648,222</u>	<u>\$ 3,188,145</u>	<u>\$ 55,128,705</u>

See accompanying independent auditors' report.

TOWN OF KITTERY, MAINE

SCHEDULE OF CHANGES IN GENERAL CAPITAL ASSETS BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2012

	General Capital Assets 7/1/11	Additions	Deletions	General Capital Assets 6/30/12
Police	\$ 948,418	\$ 118,400	\$ -	\$ 1,066,818
General government	2,890,201	18,671	-	2,908,872
Fire	6,038,037	13,215	-	6,051,252
Highway	24,606,687	434,783	-	25,041,470
Recycling	143,514	442,276	(16,000)	569,790
Recreation	237,413	5,340,800	-	5,578,213
Library	8,711	-	-	8,711
Town-wide	5,293,262	-	-	5,293,262
School Department	24,848,742	1,033,590	(15,000)	25,867,332
Sewer Department	19,262,425	284,946	-	19,547,371
School Lunch Program	98,255	-	-	98,255
Total General Capital Assets	84,375,665	7,686,681	(31,000)	92,031,346
Less: Accumulated Depreciation	(34,599,550)	(2,334,091)	31,000	(36,902,641)
Net General Capital Assets	<u>\$ 49,776,115</u>	<u>\$ 5,352,590</u>	<u>\$ -</u>	<u>\$ 55,128,705</u>

See accompanying independent auditors' report.

TOWN OF KITTERY, MAINE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Pass Thru Grantor Number	Federal Expenditures
U.S. Department of Agriculture			
Passed through State of Maine - of Education and Cultural Services:			
Food Distribution	10.550	N/A	\$ 36,613
School Breakfast Program	10.555	013-06A-7127-05	38,090
School Lunch Program	10.555	013-06A-7128-95	106,681
Total Department of Agriculture			<u>181,384</u>
U.S. Department of Education			
Passed through State of Maine-Department of Education and Cultural Services:			
Title IA - Educationally Deprived	84.010	013-05A-3057-13	136,905
Title IA - CIPS	85.010	013-05A-3057-13	6,346
Local Entitlement	84.027	013-05A-3046-12	247,194
Local Entitlement - Part B Section 619	84.173	013-05A-6241-23	6,119
Title IIA-Teaching Quality	84.367	013-05A-3042-11	39,922
State Stabilization	84.394	020-05A-2077-01	144,536
ARRA Local Entitlement IDEA	84.391A	020-05A-3046-12	16,134
Adult Ed and Family Literacy	84.048	013-05A-6296-64	9,505
Education Jobs Fund	84.410	013-05A-3099-10	125,132
Total Department of Education			<u>731,793</u>
Department of Homeland Security			
Federal Emergency Management Agency			
Public Assistance Grants	97.036	N/A	51,363
Total Department of Homeland Security			<u>51,363</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 964,540</u>

TOWN OF KITTERY, MAINE

NOTES TO SCHEDULE OF FEDERAL AWARDS JUNE 30, 2012

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Town of Kittery, Maine. All federal financial assistance received is included on the schedule.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

3. The following programs were tested as Type A program as outlined in OMB Circular A-133.

- 1) 84.027 - Local Entitlement
- 2) 84.394 - State Stabilization



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

November 8, 2012

Town Council
Town of Kittery
Kittery, Maine

We have audited the financial statements of the Town of Kittery, Maine, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Kittery, Maine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Kittery, Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not necessarily designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

3 Old Orchard Road, Buxton, Maine 04093
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www.rhrsmith.com

Compliance and Other Matters

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

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

RHR Smith & Company

Certified Public Accountants



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

November 8, 2012

Town Council
Town of Kittery
Kittery, Maine

Compliance

We have audited the compliance of Town of Kittery, Maine, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2012. Town of Kittery, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Town of Kittery, Maine's management. Our responsibility is to express an opinion on Town of Kittery, Maine's compliance based on our audit.

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

In our opinion, Town of Kittery, Maine, complied in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2012.

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Internal Control Over Compliance

The management of Town of Kittery, Maine is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Town of Kittery, Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Kittery, Maine's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material with a type of compliance requirement of a federal program will not be prevented or detected and correct, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Certified Public Accountants

TOWN OF KITTERY, MAINE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I - Summary of Auditor's Results

• *Financial Statements*

Type of auditor's report issued : Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ no
- Noncompliance material to financial statements noted ☐ yes ☒ no

• *Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ no

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported

In accordance with section 510(a) of OMB Circular A-133? ☐ yes ☒ no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027	Local Entitlement
84.394	State Stabilization

Dollar threshold used to distinguish between type A and B: \$300,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

Section II – Financial Statement Findings

None

Section III – Federal Awards Findings and Questioned Costs

None



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INDEPENDENT AUDITORS' REPORT ON STATE REQUIREMENTS

November 8, 2012

Town Council
Town of Kittery
Kittery, Maine

We have audited the financial statements of Town of Kittery for the year ended June 30, 2012 and have issued our report thereon dated November 8, 2012. Our audit was made in accordance with auditing standards generally accepted in the United States of America and applicable state and federal laws relating to financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we reviewed the budgetary controls that are in place, and have reviewed the annual financial report that was submitted to the Department for accuracy. In addition we have reviewed quarterly EF-U-415 reports for the year ended June 30, 2012 and the Town's compliance with applicable provisions of the Maine Finance Act as noted under MRSA Title 20A, section 6051 as we considered necessary in obtaining our understanding.

The results of our procedures indicate that with respect to the items tested, the Town of Kittery complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Town of Kittery was in noncompliance with, or in violation of, those provisions.

Management has determined that adjustments were necessary to the fiscal books of the Town and have attached the following schedule as it relates to the reconciliation of audit adjustments to the initial annual financial data submitted to the MEDMS financial system maintained at the Department.

This report is intended solely for the information of the Town Council, School Board, management and the Department of Education. This report is not intended to be and should not be used by anyone other than the specified parties.

RHR Smith & Company

Certified Public Accountants

3 Old Orchard Road, Buxton, Maine 04093
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KITTERY SCHOOL DEPARTMENT
RECONCILIATION OF MEDMS ANNUAL REPORT TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund (1000)	Special Revenue Funds (2000)	Capital Projects Fund (3000)	Totals
June 30, 2012 balance per MEDMS financial system	\$ 691,915	\$ 140,204	\$ (896,308)	\$ (64,189)
Revenue Adjustments:				
Reverse out posting of use of fund balance	(270,430)	-	-	(270,430)
Expenditure Adjustments:				
Audit adjustments	(4,590)	-	-	(4,590)
Transfer out to reserve accounts	(419,239)	-	-	(419,239)
Audit adjustments to clean up ARRA funds	(6,073)	6,073	-	-
Other adjustments:				
Beginning balances not reported on MEDMS	978,690	164,099	1,326,758	2,469,547
Audit adjustments state stabilization	-	669	-	669
Audit adjustments ARRA local entitlement	-	13,249	-	13,249
Audit adjustments adult education regular	-	30,092	-	30,092
Audit adjustments healthy maine	-	7,971	-	7,971
Audit adjustments title IA	-	(581)	-	(581)
Audit adjustments local entitlement	-	(181)	-	(181)
Audit adjustments education jobs bill	-	(155)	-	(155)
Audit adjustments ARRA preschool	-	(8,743)	-	(8,743)
Client adjustments Healthy Maine Partnership	-	386	-	386
School health coordinator not on MEDMS system	-	(500)	-	(500)
Audited GAAP Basis Fund balance June 30, 2012	<u>\$ 970,273</u>	<u>\$ 352,583</u>	<u>\$ 430,450</u>	<u>\$ 1,753,306</u>

APPENDIX B

PROPOSED FORM OF LEGAL OPINION

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Drummond Woodsum & MacMahon, Portland, Maine, bond counsel, proposes to issue its opinion substantially in the following form upon delivery of the Bonds described herein:

[Dated Date of Delivery]

Town of Kittery
200 Rogers Road
Kittery, Maine 03904-1478

RE: Town of Kittery, Maine
\$2,100,000 2013 General Obligation Refunding Bonds
Dated April 11, 2013

Ladies and Gentlemen:

We have acted as Bond Counsel for the Town of Kittery, Maine (the “Town”), in connection with the issue and sale of the above-described bonds (the “Bonds”). In such capacity, we have examined the applicable law, including the Charter of the Town and section 5772 of Title 20-A of the Maine Revised Statutes, as amended, as well as a record of proceedings submitted to us by the Town in connection with the issuance and sale of the Bonds, including certified copies of a Resolution adopted by the Town Council on February 25, 2013 (the “Bond Authorization”).

The Bonds are dated as of April 11, 2013, bear interest from their date payable semi-annually each year commencing December 1, 2013, and have been issued in the following denominations and principal amounts to mature as of December 1 of each year as reflected hereinbelow:

<u>Year of</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u> ¹	<u>Interest</u> <u>Rate</u>	<u>Year of</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2013	\$210,000	%	2018	\$210,000	%
2014	\$210,000	%	2019	\$210,000	%
2015	\$210,000	%	2020	\$210,000	%
2016	\$210,000	%	2021	\$210,000	%
2017	\$210,000	%	2022	\$210,000	%

¹ Preliminary, subject to change as to final issue amount or annual principal amounts.

The Bonds are not subject to redemption prior to their stated dates of maturity.

Each of the Bonds should be signed by the Town Treasurer, countersigned by the Chairperson of the Town Council, and attested to by the Town Clerk and should bear the signed certificate of the authenticating agent identified thereon. The Bonds are issued by means of a book-entry system evidencing ownership and transfer of Bonds on the records of The Depository Trust Company and its participants.

In expressing the opinions set forth in paragraphs 3 and 5 below, we have examined and relied upon the Arbitrage and Use of Proceeds Certificate and the Certificate Regarding Qualified and Designated Status (collectively the "Tax Certificates") all delivered concurrently with the Bonds, which contain representations, certifications, warranties, provisions, and procedures regarding compliance with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Town, in executing the Tax Certificates, has certified to the effect that the information therein is true and accurate and 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 gross income of the owners thereof for federal income tax purposes. In rendering the opinions set forth in paragraphs 3 and 5 below, we have relied upon the representations of the Town set forth in the Tax Certificates, and we have assumed that the Town will comply with the representations, certifications, warranties, provisions and procedures set forth in the Tax Certificates.

We note that the Code establishes certain requirements regarding use, expenditure and investment of the proceeds of the Bonds and 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 owners thereof retroactive to the date of issuance of the Bonds, regardless of when such noncompliance occurs.

We also note that 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 the applicability of any such collateral consequences.

With reference to the Bonds, we are further of the opinion that under existing law:

1. The Bonds, executed as above described and subject to due authentication, have been duly authorized and are valid and binding general obligations of the Town, enforceable in accordance with their terms.
2. Unless paid from other sources, the Bonds 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 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 development districts as either tax increment financing districts or affordable housing development districts pursuant to Title 30-A, Chapter 206 and former (now repealed) Chapter 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.
3. Based on existing statutes, regulations and court decisions, interest on the Bonds is excludable from the gross income of the owners thereof 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 and corporations; 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 imposed upon corporations and will be taken into account for purposes of the foreign branch profits tax.
4. Interest payable on the Bonds is not subject to Maine income taxes imposed upon individuals under existing statutes, regulations and decisions.
5. The Bonds will constitute “qualified tax-exempt obligations” under Section 265(b) of the Code.

The foregoing opinions are qualified to the extent that the enforceability of the obligations of the Town, including the Bonds, may be limited by bankruptcy, moratorium or insolvency or other laws affecting the rights and remedies of creditors generally and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Town of Kittery
[Dated Date of Delivery]
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We have not examined and assume no responsibility for the financial condition of the Town and nothing set forth herein shall be construed as an assurance as to the Town's financial condition or ability to make payment on the Bonds.

The opinions rendered herein are given as of the date hereof and we assume no obligation to update, revise or supplement such opinions to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Drummond Woodsum & MacMahon

EWS: plf

APPENDIX C

**PROPOSED FORM
OF
CONTINUING DISCLOSURE CERTIFICATE**

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

In connection with the issuance by the Town of Kittery, Maine (the “Issuer”) of its \$2,100,000 2013 General Obligation Refunding Bonds, dated as of April 11, 2013 (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 26, 2013 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 the Municipal Securities Rulemaking Board established under the Securities and Exchange Act of 1934, as amended, or any successor thereto (“MSRB”): (a) not later than 270 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2013, 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) property tax and 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.

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 not in excess of ten (10) business days after the occurrence of an event listed in this Section 2 to the MSRB established under the Securities and Exchange Act of 1934, as amended, or any successor thereto, notice of the occurrence of any of the following events with respect to the Bonds:
 - a. Principal and interest payment delinquencies;
 - b. Non-payment related defaults, if material;
 - 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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
 - g. Modifications to the rights of securities holders, if material;
 - h. Bond calls, if material, and tender offers;
 - i. Defeasances;
 - j. The release, substitution, or sale of property securing repayment of the Bonds, if material;
 - k. Rating changes;
 - l. Bankruptcy, insolvency, receivership or similar event of the Borrower;
 - m. The consummation of a merger, consolidation, or acquisition involving the Town or the sale of all or substantially all of the assets of the Town, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
 - n. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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 the MSRB 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 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. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB to: <http://emma.msrb.org/submission>.
7. Except for a late filing for the fiscal year 2009, since filed on February 11, 2011, 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 Treasurer, 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: Maryann Place Treasurer, Town of Kittery, 200 Rogers Road, Kittery, ME 03904-0808; Telephone: (207) 439-1633.

TOWN OF KITTERY, MAINE

Dated: _____, 2013

By: _____

Its: _____