

TOWN OF KITTERY, MAINE
ANNUAL FINANCIAL REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

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PLODZIK & SANDERSON

Professional Association/Accountants & Auditors

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Town Council
Town of Kittery
Kittery, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, major fund, and aggregate remaining fund information of the Town of Kittery, Maine, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Kittery, Maine's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, major fund, and aggregate remaining fund information of the Town of Kittery, Maine, as of June 30, 2015, and the respective changes in financial position and budgetary comparison information for the major general fund (page 17), and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information - Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 3-10) 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,

Town of Kittery
Independent Auditor's Report

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.

Other Information - Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Kittery, Maine's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016, on our consideration of the Town of Kittery, Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Kittery, Maine's internal control over financial reporting and compliance.

Sheryl A. Platt, CPA

January 25, 2016
except for Note 24 as to which the date is June 3, 2016.

PLODZIK & SANDERSON
Professional Association

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Town of Kittery, Maine (the Town) annual financial report, the Town's management is pleased to provide this narrative discussion and analysis of the financial activities of the Town for the fiscal year ended June 30, 2015. The Town's financial performance is discussed and analyzed within the context of the accompanying financial statements and the disclosures that follow this section.

Financial Highlights

- During fiscal year 2015, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These statements required the Town to restate the July 1, 2014 net position to include the Town's proportionate share of the Net Pension Liability of the MPERS PLD and SET Plans. This resulted in a net position restatement of \$2,164,730 in the governmental activities and \$551,252 in the business-type activities opinion units for a total restatement of \$2,715,982. See Note 19 for additional information concerning GASB Statements No. 68 and 71. See Note 17 for information related to the prior period adjustments.
- During fiscal year 2015, the Town reviewed all governmental, proprietary and fiduciary funds with the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Through this review it was determined that reclassification of funds was appropriate and resulted in a restatement to July 1, 2014 net position to reflect these changes, which in total did not alter the Town's opening fund balance/net position. Note 17 illustrates the prior period adjustment.
- The Town's total long-term debt decreased \$1,345,000 in the governmental activities and \$221,399 in the business-type activities for a total decrease of \$1,566,399.
- The General Fund on a current financial resource basis, reported revenues in excess of expenditures and other financial sources and uses of \$807,859.
- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$30,133,980 (net position) for the current fiscal year reported.
- As of the close of the current fiscal year, governmental funds reports combined ending fund balances of \$11,167,832, a change of \$723,429 in comparison to prior year.
- Overall, the Town continues to maintain a strong financial position.
- At the end of the current fiscal year, unassigned fund balance for General Fund was \$3,955,501, a change of (\$389,702) in comparison to the prior year.

The above financial highlights are explained in more detail in the "financial analysis" section of this document.

Overview of the Financial Statements

This Management Discussion and Analysis document introduces the Town's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. The Town also includes in this report required supplementary information and additional information to supplement the basic financial statements themselves.

Government-wide Financial Statements

The Town's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the Town's overall financial status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting and elimination or reclassification of activities between funds.

The first of these government-wide statements is the *Statement of Net Position*. This is the government-wide statement of net position presenting information that includes all of the Town's assets, deferred outflows of resources, liabilities, and deferred inflow of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town as a whole is improving or deteriorating. Evaluation of the overall health of the Town would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of Town infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities*, which reports how the Town's net position changed during the current fiscal year. All current fiscal year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the Town's distinct activities or functions on revenues provided by the Town's taxpayers.

The government-wide financial statements are presented on pages 11-12 of this report.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Town uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the Town's most significant funds rather than the Town as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for nonmajor funds is provided in the form of combining statements in a later section of this report.

The Town has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the Town's governmental funds. These statements report short-term fiscal year accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to assist in understanding the differences between these two perspectives.

The basic governmental fund financial statements are presented on pages 13-16 of this report.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer operations. The proprietary funds financial statements are presented on pages 18-20 of this report.

Fiduciary funds are a private purpose trust fund and agency funds. The fiduciary funds financial statements are presented on pages 21-22 of this report.

Notes to the Basic Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the basic financial statements begin on page 23 of this report.

Required Supplementary Information

The Schedule of Funding Progress for Other Postemployment Benefit Plan, Schedule of the Town's Proportionate Share of Net Pension Liability, and Schedule of Town Contributions are presented as required supplementary information, starting on page 48 of this report.

Other Supplementary Information

In addition to the basic financial statements, accompanying notes to the basic financial statements, and required supplementary information, the individual and combining schedules for the general and nonmajor funds are presented beginning on page 52.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
As of and For The Year Ended June 30, 2015

Town of Kittery, Maine

Government-Wide Financial Analysis

	NET POSITION						
	Governmental Activities		Business-Type Activities		Total		
	2015	2014 <i>As Restated</i>	2015	2014 <i>As Restated</i>	2015	2014 <i>As Restated</i>	Change
Current and Other assets	13,946,007	12,649,287	5,531,176	7,033,420	19,477,183	19,682,707	(205,524)
Capital assets	<u>38,194,297</u>	<u>39,769,422</u>	<u>19,169,280</u>	<u>14,435,291</u>	<u>57,363,577</u>	<u>54,204,713</u>	<u>3,158,864</u>
Total assets	<u>52,140,304</u>	<u>52,418,709</u>	<u>24,700,456</u>	<u>21,468,711</u>	<u>76,840,760</u>	<u>73,887,420</u>	<u>2,953,340</u>
Deferred outflow of resources related to pensions	<u>880,351</u>	325,014	120,424	26,017	<u>1,000,775</u>	351,031	<u>649,744</u>
Current liabilities	2,115,873	2,037,737	10,371,486	6,720,351	12,487,359	8,758,088	3,729,271
Noncurrent liabilities	<u>19,277,152</u>	<u>21,101,021</u>	<u>3,537,748</u>	<u>4,037,148</u>	<u>22,814,900</u>	<u>25,138,169</u>	<u>(2,323,269)</u>
Total Liabilities	<u>21,393,025</u>	<u>23,138,758</u>	<u>13,909,234</u>	<u>10,757,499</u>	<u>35,302,259</u>	<u>33,896,257</u>	<u>1,406,002</u>
Deferred inflows of resources:							
Deferred amounts related to pensions	1,404,942	-	319,117	-	1,724,059	-	1,724,059
Unavailable revenues - prepaid taxes	<u>88,708</u>	97,952	-	-	<u>88,708</u>	97,952	<u>(9,244)</u>
Total deferred inflows of resources	<u>1,493,650</u>	97,952	319,117	-	<u>1,812,767</u>	97,952	<u>1,714,815</u>
Net Position:							
Net investment in capital assets	23,514,080	23,584,296	10,875,526	9,987,375	34,389,606	33,571,671	817,935
Restricted	1,939,763	3,722,302	1,075,764	1,000,270	3,015,527	4,722,572	(1,707,045)
Unrestricted	<u>4,680,137</u>	<u>2,200,415</u>	<u>(1,358,761)</u>	<u>(250,416)</u>	<u>3,321,376</u>	<u>1,949,999</u>	<u>1,371,377</u>
Total net position	<u>30,133,980</u>	<u>29,507,013</u>	<u>10,592,529</u>	<u>10,737,229</u>	<u>40,726,509</u>	<u>40,244,242</u>	<u>482,267</u>

	CHANGES IN NET POSITION						
	Governmental Activities		Business-Type Activities		Totals		
	2015	2014 <i>As Restated</i>	2015	2014 <i>As Restated</i>	2015	2014 <i>As Restated</i>	Change
Revenues:							
Program revenues:							
Charges for services	2,024,157	2,023,613	1,913,533	1,741,679	3,937,690	3,765,292	172,398
Operating grants and contributions	2,481,409	2,445,968	-	-	2,481,409	2,445,968	35,441
General revenues:							
Taxes	23,520,275	22,790,305	-	-	23,520,275	22,790,305	729,970
Grants and contributions not restricted to specific programs	2,047,153	2,459,713	-	-	2,047,153	2,459,713	(412,560)
Investment income	36,380	65,292	4,106	58,746	40,486	124,038	(83,552)
Miscellaneous	569,218	512,098	84,271	-	653,489	512,098	141,391
Total revenues	30,678,592	30,296,989	2,001,910	1,800,425	32,680,502	32,097,414	583,088
Expenses:							
General government	1,991,533	2,291,481	-	-	1,991,533	2,291,481	(299,948)
Public safety	3,906,362	4,319,828	-	-	3,906,362	4,319,828	(413,466)
Public works	2,444,798	2,852,199	-	-	2,444,798	2,852,199	(407,401)
Social Services and welfare	76,117	184,009	-	-	76,117	184,009	(107,892)
Culture and recreation	2,305,440	2,798,577	-	-	2,305,440	2,798,577	(493,137)
Education	15,713,389	15,076,916	-	-	15,713,389	15,076,916	636,473
County taxes	908,475	902,996	-	-	908,475	902,996	5,479
State of Maine on behalf payments	1,242,999	1,290,811	-	-	1,242,999	1,290,811	(47,812)
Grant funds & miscellaneous accounts	568,623	644,222	-	-	568,623	644,222	(75,599)
Sewer distribution and treatment	-	-	2,174,110	2,680,441	2,174,110	2,680,441	(506,331)
Interest on long term debt	426,669	631,762	-	-	426,669	631,762	(205,093)
Unallocated depreciation	439,720	111,315	-	-	439,720	111,315	328,405
Capital outlay	-	3,072	-	-	-	3,072	(3,072)
Total expenses	30,024,125	31,107,188	2,174,110	2,680,441	32,198,235	33,787,629	(1,589,394)
Change in net position before transfers and contributions	654,467	(810,199)	(172,200)	(880,016)	482,267	(1,690,215)	2,172,482
Transfers	(27,500)	-	27,500	-	-	-	-
Change in net position	626,967	(810,199)	(144,700)	(880,016)	482,267	(1,690,215)	2,172,482
Net position - beginning of year, as restated, see Note 17	29,507,013	30,317,212	10,737,229	11,617,245	40,244,242	41,934,457	(1,690,215)
Net position - end of year	30,133,980	29,507,013	10,592,529	10,737,229	40,726,509	40,244,242	482,267

GOVERNMENTAL REVENUES

The Town is heavily reliant on property taxes to support governmental operations and capital improvements. Property taxes provided 71.32% of the Town's total governmental revenues as compared to 70.73% in 2014. Operating grants and contributions are the second largest revenue source with over \$2.4 million in revenues, or 8.09% of the total as compared to 8.14% in 2014. The largest portion of net position \$23,514,080 reflects our investment in capital assets (e.g. land, building, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens, consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$1,937,263 represents resources that are subject to restrictions on how they can be used, see Note 15 for more information. The remaining balance of \$4,682,637 may be used to meet the government's ongoing obligations to citizens and creditors.

GOVERNMENTAL FUNCTIONAL EXPENSES

The education function represents 52.34% of the total governmental activities expenses. Public safety and public works totals over \$6.3 million and general government costs the Town over \$1.9 million annually.

This table presents the cost of each of the Town's programs, including the net costs (i.e., total cost less revenues generated by the activities). The net costs illustrate the financial burden that was placed on the Town's taxpayers by each of these functions.

Governmental Activities

	Total Cost of Services		Net Cost of Services	
	Amount	%	Amount	%
General government	\$ 1,991,533	6.63%	\$ 1,498,269	5.87%
Public safety	3,906,362	13.01%	3,697,526	14.49%
Public works	2,444,798	8.14%	1,936,792	7.59%
Social Services	76,117	0.25%	76,117	0.30%
Culture and recreation	2,305,440	7.68%	1,265,546	4.96%
Education	15,713,389	52.34%	14,700,822	57.61%
County taxes	908,475	3.03%	908,475	3.56%
State of Maine on behalf payments	1,242,999	4.14%	-	0.00%
Grant funds & miscellaneous accounts	568,623	1.89%	568,623	2.23%
Interest	426,669	1.42%	426,669	1.67%
Unallocated depreciation	439,720	1.46%	439,720	1.72%
Total Governmental Activities	<u>\$ 30,024,125</u>	<u>100%</u>	<u>\$ 25,518,559</u>	<u>100%</u>

Business-Type Activities

Sewer	<u>2,174,110</u>	<u>100%</u>	<u>260,577</u>	<u>100%</u>
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Financial Analysis of the Town's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$11,167,832, a change of \$723,429 in comparison to the prior year.

Governmental Fund – General Fund

The General Fund is the Town's primary operating fund and the largest source of day-to-day service delivery. At the end of the current fiscal year, the Non-GAAP Budgetary Basis unassigned fund balance of the General Fund was \$4,226,375, a change of (\$118,828) from the prior year, the Non-GAAP Budgetary Basis does not reflect the blending of funds in accordance with GASB Statement No. 54.

<u>General Fund</u>	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>Change</u>	<u>Percentage of Total General Fund Expenditures</u>
Unassigned Fund Balance	\$ 4,226,375	\$ 4,345,203	\$ (118,828)	16.46%
Unassigned Fund Balance used to reduce tax rate			\$ (602,894)	
Revenues in excess of budget			387,329	
Expenditures less than budget			262,215	
Increase in nonspendable fund balance			(72,624)	
Decrease in restricted fund balance			287,146	
Increase in committed fund balance			(380,000)	
Total			<u>\$ (118,828)</u>	

At the end of the current fiscal year, the GAAP Basis unassigned fund balance of the General Fund was \$3,955,501, a change of (\$12,152) from the prior year.

	<u>2015</u>	<u>2014 Restated</u>	<u>Change</u>
Major funds:			
<i>General fund:</i>			
Nonspendable	\$ 211,937	\$ 139,313	\$ 72,624
Restricted	1,989,183	2,170,822	(181,639)
Committed	2,287,406	1,406,294	881,112
Assigned	51,719	3,805	47,914
Unassigned	3,955,501	3,967,653	(12,152)
Total major funds	<u>\$ 8,495,746</u>	<u>\$ 7,687,887</u>	<u>\$ 807,859</u>
Nonmajor funds:			
<i>Capital project funds:</i>			
Restricted	\$ 881,744	\$ 784,579	\$ 97,165
Committed	233,220	340,762	(107,542)
<i>Special revenue funds:</i>			
Nonspendable	15,449	52,118	(36,669)
Restricted	145,119	437,770	(292,651)
Committed	500,810	144,191	356,619
Assigned	74,301	124,036	(49,735)
Unassigned	(3,356)	(4,257)	901
<i>Permanent funds:</i>			
Nonspendable	821,655	840,605	(18,950)
Restricted	3,144	36,712	(33,568)
Total nonmajor funds	<u>2,672,086</u>	<u>2,756,516</u>	<u>(84,430)</u>
Total governmental funds	<u>\$ 11,167,832</u>	<u>\$ 10,444,403</u>	<u>\$ 723,429</u>

Budgetary Highlights

The operating budget was amended for: Self-Insurance Claims totaling \$92,595; Grant Matching Funds of \$12,500 with supplemental appropriations from unassigned surplus. Additionally a budget transfer in was made to Compensated Absences reserves.

Functions (departments) overspent were:

- Highway: due to snow removal overtime, snow equipment maintenance, and snow supplies (salt).
- Fire: due to part time salaries and fuel.
- Police: due to overtime.
- Kittery Port Authority: due to providing the Harbor Master with benefits.
- Miscellaneous Expenses line items: computer repair & maintenance/York PSAP and the Stormwater.

Functions (departments) underspent were:

- Code Enforcement: salary and benefits due to the resignation of the Code Enforcement Officer.
- Retired Employees Health Insurance: approximately \$30,000 of expense (for a 3 year period) was reclassified to the Sewer Department for the benefits of the retired Superintendent.
- Miscellaneous Expenses: Maine Municipal Association Risk Pool insurance was lower than budgeted.
- Resource Recovery: Other professional services was unspent; full and part time salaries were underspent due to an employee on workers comp.

Capital Assets and Debt Administration

Capital Assets – Governmental activities & Business Type Activities

The Town's investment in capital assets, net of accumulated depreciation, for governmental activities as well as business type activities as of June 30, 2015, was \$34,389,606 a change of \$817,935 from the prior year. See Note 6 for additional information about changes in capital assets during the current year and outstanding at the end of the year.

At June 30, 2015, the depreciable capital assets for Governmental Activities were 44% depreciated. This compares to 43% as of June 30, 2014. This comparison indicates that the Town is replacing their capital assets at almost the same rate as they are depreciating which is a positive financial indicator.

Capital asset additions during the current year included the following:

	Capital Asset Purchases		
	Governmental Activities	Business-Type Activities	Total
Land			
Adjacent to Sewer Expansion	-	1,500	1,500
Building and Building Improvements			
Mitchell School Boiler	7,974	-	7,974
Security Key System	40,080	-	40,080
Security System Upgrade	50,469	-	50,469
Traip Restroom Upgrde	85,276	-	85,276
Community Center Furnace	26,800	-	26,800
Municipal Roof Upgrade	149,921	-	149,921
Total Building and Building Improvements	360,520	-	360,520
Machinery, Equipment, and Vehicles			
Tech Hardware - Server & POS	9,235	-	9,235
Tech Software - Guidance	5,397	-	5,397
Shapleigh Dishwasher	14,067	-	14,067
Traip Dishwasher	14,145	-	14,145
Caterpillar Loader/Backhoe	103,000	-	103,000
2015 Ford Explorer	23,418	-	23,418
Tank Monitor System Upgrade	23,389	-	23,389
Public Safety Generator	8,200	-	8,200
Total Machinery, Equipment, and Vehicles	200,851	-	200,851
Infrastructure			
Pepperell Cove	375,902	-	375,902
Sewer Lines	-	18,900	18,900
Pepperell & Crocketts Rd Impr.	21,632	-	21,632
Total Infrastructure	397,534	18,900	416,434
Construction in Process			
2015 Sewer Upgrades	-	2,491,641	2,491,641
2015 Sewer Expansion	-	2,813,886	2,813,886
Total Construction in Process	-	5,305,527	5,305,527
Total Capital Asset Additions	\$ 958,905	\$ 5,325,927	\$ 6,284,832

Long-term Liabilities

During the year, the Town's long-term liabilities changed as follows:

	Governmental Activities			Business-Type Activities			Total	
	2015	2014	% Change	2015	2014	% Change	2015	2014
General obligation bonds	\$ 14,390,000	\$ 15,735,000	8.55%	\$ 3,086,854	\$ 3,308,253	6.69%	\$ 17,476,854	\$ 19,043,253
Capital leases	290,217	450,126	35.53%	-	-	-	290,217	450,126
Compensated absences	1,400,543	1,116,813	-25.41%	150,425	148,504	-1.29%	1,550,968	1,265,317
Other postemployment benefits	1,753,676	1,634,352	-7.30%	-	-	-	1,753,676	1,634,352
Net pension liability	1,442,716	2,694,873	46.46%	300,469	580,391	48.23%	1,743,185	3,275,264
Total	\$ 19,277,152	\$ 21,631,164	11.37%	\$ 3,537,748	\$ 4,037,148	5.40%	\$ 22,814,900	\$ 25,668,312

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 Department at 200 Rogers Road, Kittery, Maine 03904.

EXHIBIT A
TOWN OF KITTERY, MAINE
Statement of Net Position
June 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,859,058	\$ 4,839,896	\$ 12,698,954
Investments	4,394,697	-	4,394,697
Taxes receivable (net)	942,584	-	942,584
Accounts receivable (net)	130,390	716,012	846,402
Intergovernmental receivable	347,618	-	347,618
Prepaid items	190,356	19,542	209,898
Inventory	37,030	-	37,030
Internal balances	44,274	(44,274)	-
Capital assets:			
Land and construction in progress	10,956,219	6,792,219	17,748,438
Other capital assets, net of depreciation	27,238,078	12,377,061	39,615,139
Total assets	<u>52,140,304</u>	<u>24,700,456</u>	<u>76,840,760</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	<u>880,351</u>	<u>120,424</u>	<u>1,000,775</u>
LIABILITIES			
Accounts payable	393,685	1,289,858	1,683,543
Accrued interest payable	139,742	81,628	221,370
Accrued salaries and benefits	1,140,776	-	1,140,776
Intergovernmental payable	412,878	-	412,878
Escrow and performance deposits	11,404	-	11,404
Bonds anticipation notes payable	-	9,000,000	9,000,000
Unearned revenue	17,388	-	17,388
Long-term liabilities:			
Due within one year	1,493,748	223,946	1,717,694
Due in more than one year	16,340,688	3,013,333	19,354,021
Net pension liability	1,442,716	300,469	1,743,185
Total liabilities	<u>21,393,025</u>	<u>13,909,234</u>	<u>35,302,259</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	1,404,942	319,117	1,724,059
Unavailable revenue - prepaid taxes	88,708	-	88,708
Total deferred inflows of resources	<u>1,493,650</u>	<u>319,117</u>	<u>1,812,767</u>
NET POSITION			
Net investment in capital assets	23,514,080	10,875,526	34,389,606
Restricted	1,939,763	1,075,764	3,015,527
Unrestricted	4,680,137	(1,358,761)	3,321,376
Total net position	<u>\$ 30,133,980</u>	<u>\$ 10,592,529</u>	<u>\$ 40,726,509</u>

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

EXHIBIT B
TOWN OF KITTERY, MAINE
Statement of Activities
For the Fiscal Year Ended June 30, 2015

	Program Revenues			Net (Expense) Revenue and	
	Expenses	Charges for Services	Operating Grants and Contributions	Change in Net Position	
				Governmental Activities	Business-type Activities
Governmental activities:					
General government	\$ 1,991,533	\$ 294,046	\$ 199,218	\$ (1,498,269)	\$ -
Public safety	3,906,362	186,261	22,575	(3,697,526)	-
Public works	2,444,798	283,447	224,559	(1,936,792)	-
Social Services and welfare	76,117	-	-	(76,117)	-
Culture and recreation	2,305,440	928,917	110,977	(1,265,546)	-
Education	15,713,389	331,486	681,081	(14,700,822)	-
County taxes	908,475	-	-	(908,475)	-
State of Maine on behalf payments	1,242,999	-	1,242,999	-	-
Grant funds & miscellaneous accounts	568,623	-	-	(568,623)	-
Interest on long term debt	426,669	-	-	(426,669)	-
Unallocated depreciation	439,720	-	-	(439,720)	-
Total governmental activities	30,024,125	2,024,157	2,481,409	(25,518,559)	-
Business-type activities:					
Sewer department	2,174,110	1,913,533	-	-	(260,577)
Total	\$ 32,198,235	\$ 3,937,690	\$ 2,481,409	(25,518,559)	(260,577)
General revenues:					
Taxes:					
Property taxes, levied for general purposes				21,879,808	-
Excise taxes				1,614,001	-
Boat excise taxes				26,466	-
Grants and contributions not restricted to specific programs				2,047,153	-
Investment income, net of unrealized gains				36,380	4,106
Miscellaneous				569,218	84,271
Transfers				(27,500)	27,500
Total general revenues				26,145,526	115,877
Change in net position				626,967	(144,700)
Net position, beginning, as restated (see Note 17)				29,507,013	10,737,229
Net position, ending				\$ 30,133,980	\$ 10,592,529
					\$ 40,726,509

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

EXHIBIT C-1
TOWN OF KITTERY, MAINE
Governmental Funds
Balance Sheet
June 30, 2015

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 7,828,776	\$ 30,282	\$ 7,859,058
Investments	3,732,028	662,669	4,394,697
Accounts receivable	117,893	12,497	130,390
Taxes receivable	942,584	-	942,584
Intergovernmental receivable	111,801	235,817	347,618
Interfund receivable	259,545	2,028,446	2,287,991
Inventory	22,835	14,195	37,030
Prepaid items	189,102	1,254	190,356
Total assets	<u>\$ 13,204,564</u>	<u>\$ 2,985,160</u>	<u>\$ 16,189,724</u>
LIABILITIES			
Accounts payable	\$ 325,451	\$ 68,234	\$ 393,685
Accrued salaries and benefits	1,140,776	-	1,140,776
Intergovernmental payable	393,003	19,875	412,878
Interfund payable	2,028,447	215,270	2,243,717
Escrow and performance deposits	11,404	-	11,404
Unearned revenue	7,693	9,695	17,388
Total liabilities	<u>3,906,774</u>	<u>313,074</u>	<u>4,219,848</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - deferred tax revenues	713,336	-	713,336
Unavailable revenue - prepaid taxes	88,708	-	88,708
Total deferred inflows of resources	<u>802,044</u>	<u>-</u>	<u>802,044</u>
FUND BALANCES (DEFICIT)			
Nonspendable	211,937	837,104	1,049,041
Restricted	1,989,183	1,030,007	3,019,190
Committed	2,287,406	734,030	3,021,436
Assigned	51,719	74,301	126,020
Unassigned (deficit)	3,955,501	(3,356)	3,952,145
Total fund balances	<u>8,495,746</u>	<u>2,672,086</u>	<u>11,167,832</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 13,204,564</u>	<u>\$ 2,985,160</u>	<u>\$ 16,189,724</u>

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

EXHIBIT C-2
TOWN OF KITTERY, MAINE
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2015

Total fund balances of governmental funds (Exhibit C-1)		\$ 11,167,832
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.		
Cost	\$ 75,704,134	
Less accumulated depreciation	<u>(37,509,837)</u>	
		38,194,297
Interfund receivables and payables between governmental funds are eliminated on the Statement of Net Position.		
Receivables	\$ (2,243,717)	
Payables	<u>2,243,717</u>	
		-
Certain items are not current financial resources in the governmental funds, but instead are reported in the Statement of Net Position.		
Deferred outflows of resources related to pensions	\$ 880,351	
Deferred inflows of resources related to pensions	<u>(1,404,942)</u>	
		(524,591)
Other long-term assets are not available to pay for current period expenditures, and therefore, are reported as unavailable revenue in the funds.		713,336
Interest on long-term debt is not accrued in governmental funds.		
Accrued interest payable		(139,742)
Long-term liabilities are not due and payable in the current period, therefore, are not reported in the funds.		
Bonds payable	\$ 14,390,000	
Capital leases payable	290,217	
Accrued compensated absences	1,400,543	
Other postemployment benefits	1,753,676	
Net pension liability	<u>1,442,716</u>	
		(19,277,152)
Net position of governmental activities (Exhibit A)		<u><u>\$ 30,133,980</u></u>

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

EXHIBIT C-3
TOWN OF KITTERY, MAINE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2015

	General	Other Governmental Funds	Total
REVENUES			
Taxes	\$ 23,353,036	\$ -	\$ 23,353,036
Intergovernmental	2,092,044	950,705	3,042,749
Charges for services	1,692,671	331,486	2,024,157
Investment earnings	36,380	-	36,380
State of Maine on behalf payments	1,242,999	-	1,242,999
Other income	314,032	498,000	812,032
Total revenues	<u>28,731,162</u>	<u>1,780,191</u>	<u>30,511,353</u>
EXPENDITURES			
Current:			
General government	1,578,175	159,840	1,738,015
Public safety	3,340,851	15,139	3,355,990
Public works	1,930,299	92,948	2,023,247
Social Services	73,892	-	73,892
Culture and recreation	2,063,717	218,426	2,282,143
Education	14,040,145	1,496,748	15,536,893
County taxes	908,475	-	908,475
State of Maine on behalf payments	1,242,999	-	1,242,999
Grant funds & miscellaneous accounts	574,444	-	574,444
Debt service:			
Principal	1,345,000	-	1,345,000
Interest	438,815	-	438,815
Capital outlay	207,921	32,590	240,511
Total expenditures	<u>27,744,733</u>	<u>2,015,691</u>	<u>29,760,424</u>
Excess (deficiency) of revenues over (under) expenditures	<u>986,429</u>	<u>(235,500)</u>	<u>750,929</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	105,223	256,293	361,516
Transfers out	(283,793)	(105,223)	(389,016)
Total other financing sources (uses)	<u>(178,570)</u>	<u>151,070</u>	<u>(27,500)</u>
Net change in fund balances	807,859	(84,430)	723,429
Fund balances, beginning, as restated (see Note 17)	7,687,887	2,756,516	10,444,403
Fund balances, ending	<u>\$ 8,495,746</u>	<u>\$ 2,672,086</u>	<u>\$ 11,167,832</u>

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

EXHIBIT C-4
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 Fiscal Year Ended June 30, 2015

Net change in fund balances of governmental funds (Exhibit C-3)		\$ 723,429
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capitalized capital outlay in the current period.		
Capitalized capital outlay	\$ 574,180	
Depreciation expense	<u>(2,149,305)</u>	
		(1,575,125)
Transfers in and out between governmental funds are eliminated on the Statement of Activities.		
Transfers in	\$ (361,516)	
Transfers out	<u>361,516</u>	
		-
Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the governmental funds.		
Taxes and liens receivable not collected within 60 days		167,239
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.		
Repayment of bond principal	\$ 1,345,000	
Repayment of capital leases	<u>159,909</u>	
		1,504,909
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.		
Decrease in accrued interest expense	\$ 12,146	
Increase in compensated absences payable	(283,730)	
Increase in postemployment benefits payable	(119,324)	
Decrease in the net pension liability, including changes in deferred inflows and outflows of resources	<u>197,423</u>	
		(193,485)
Changes in net position of governmental activities (Exhibit B)		<u><u>\$ 626,967</u></u>

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

EXHIBIT D
TOWN OF KITTERY, MAINE
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 22,895,081	\$ 23,359,641	\$ 23,353,036	\$ (6,605)
Intergovernmental	1,625,610	1,673,104	2,055,044	381,940
Charges for services	1,680,625	1,680,625	1,692,671	12,046
Investment earnings	27,825	27,825	36,380	8,555
Other revenue	117,982	226,917	218,310	(8,607)
Total revenues	26,347,123	26,968,112	27,355,441	387,329
EXPENDITURES				
Current:				
General government	1,569,898	1,528,544	1,514,593	13,951
Public safety	3,257,031	3,324,085	3,322,569	1,516
Public works	1,816,266	1,770,950	1,741,460	29,490
Social services and welfare	54,781	74,781	73,892	889
Culture and recreation	2,019,358	2,028,983	1,993,417	35,566
Education	13,504,834	13,783,642	13,759,775	23,867
County tax	916,700	910,000	908,475	1,525
Grant funds and miscellaneous accounts	485,081	584,641	574,444	10,197
Overlay	-	143,248	-	143,248
Debt service:				
Principal	1,345,000	1,345,000	1,345,000	-
Interest	467,425	440,781	438,815	1,966
Total expenditures	25,436,374	25,934,655	25,672,440	262,215
Excess of revenues over expenditures	910,749	1,033,457	1,683,001	649,544
OTHER FINANCING SOURCES (USES)				
Transfers in	30,000	30,000	30,000	-
Transfers out	(1,307,975)	(1,666,351)	(1,666,351)	-
Total other financing sources (uses)	(1,277,975)	(1,636,351)	(1,636,351)	-
Net change in fund balances	\$ (367,226)	\$ (602,894)	46,650	\$ 649,544
Increase in nonspendable fund balance			(72,624)	
Decrease in restricted fund balance			287,146	
Increase in committed fund balance			(380,000)	
Unassigned fund balance, beginning			4,345,203	
Unassigned fund balance, ending			\$ 4,226,375	

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

EXHIBIT E-1
TOWN OF KITTERY, MAINE
Proprietary Fund
Statement of Net Position
June 30, 2015

	Business-type Activities Enterprise Fund (Sewer Department)
ASSETS	
Cash and cash equivalents	\$ 4,839,896
Accounts receivable (net of allowance for uncollectibles)	716,012
Prepaid items	19,542
Capital assets, not being depreciated:	
Land	285,980
Construction in progress	6,506,239
Capital assets, net of accumulated depreciation:	
Buildings and building improvements	12,075,510
Machinery, equipment, and vehicles	259,976
Infrastructure	41,575
Total assets	<u>24,744,730</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts related to pensions	<u>120,424</u>
LIABILITIES	
Current liabilities:	
Accounts payable	1,289,858
Due to other funds	44,274
Accrued interest payable	81,628
Bond anticipation note payable	9,000,000
Noncurrent liabilities:	
Due within one year:	
Bond	223,946
Due in more than one year:	
Bonds	2,862,908
Accrued compensated absences	150,425
Net pension liabilities	300,469
Total liabilities	<u>13,953,508</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts related to pensions	<u>319,117</u>
NET POSITION	
Net investment in capital assets	10,875,526
Restricted for:	
Impact fees	374,590
Sewer betterments	70,099
Vehicle reserve	111,938
Depreciation reserve	519,137
Unrestricted	(1,358,761)
Total net position	<u>\$ 10,592,529</u>

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

EXHIBIT E-2
TOWN OF KITTERY, MAINE
Proprietary Fund
Statement of Revenues, Expenses, and Change in Net Position
For the Fiscal Year Ended June 30, 2015

	Business-type Activities Enterprise Fund (Sewer Department)
Operating revenues:	
Charges for services	\$ 1,913,533
Other	84,271
Total operating revenues	<u>1,997,804</u>
Operating expenses:	
Salaries and wages	850,888
Reduction in expenses related to net pension liability, deferred inflows and outflows of resources related to pensions	(52,090)
Operation and maintenance	717,785
Depreciation and amortization	591,938
Total operating expenses	<u>2,108,521</u>
Operating loss	(110,717)
Nonoperating income (expense):	
Operating transfers in	27,500
Interest income	4,106
Interest expense	(65,589)
Total nonoperating income (expense)	<u>(33,983)</u>
Change in net position	(144,700)
Net position, beginning, as restated (see Note 17)	10,737,229
Net position, ending	<u>\$ 10,592,529</u>

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

EXHIBIT E-3
TOWN OF KITTERY, MAINE
Proprietary Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Cash flows from operating activities:	
Receipts from customers and users	\$ 1,935,101
Payments to employees and suppliers	(330,600)
Net cash provided by operating activities	<u>1,604,501</u>
Cash flows from capital and related financing activities:	
Principal payments on bonds payable	(221,399)
Proceeds from bond anticipation note	9,000,000
Repayment of bond anticipation note	(6,500,000)
Purchase of capital assets	(5,325,927)
Interest paid on long-term debt	(65,589)
Interest paid on bond anticipation note	(50,172)
Net cash used by capital and related financing activities	<u>(3,163,087)</u>
Cash flows from non-capital financing activities:	
Operating transfers in	<u>27,500</u>
Cash flows from investing activities:	
Interest received	<u>4,106</u>
Net decrease in cash	(1,526,980)
Cash, beginning	6,366,876
Cash, ending	<u>\$ 4,839,896</u>

Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities

Operating loss	<u>\$ (110,717)</u>
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation and amortization expense	591,938
Changes in operating assets and liabilities:	
Increase in accounts receivable	(62,703)
Increase in prepaid items	(9,429)
Increase in accounts payable	1,201,033
Decrease in due to other funds	(27,879)
Increase in accrued interest payable	72,427
Increase in compensated absences	1,921
Decrease in net pension liability	(52,090)
Total adjustments	<u>1,715,218</u>
Net cash provided by operating activities	<u>\$ 1,604,501</u>

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

EXHIBIT F-1
TOWN OF KITTERY, MAINE
Fiduciary Funds
Statement of Net Position
June 30, 2015

	Private Purpose Trust	Agency
ASSETS		
Cash and cash equivalents	\$ 33,956	\$ 56,780
Investments	371,137	-
Total assets	405,093	56,780
LIABILITIES		
Due to student groups	-	56,780
NET POSITION		
Held in trust for specific purposes	\$ 405,093	\$ -

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

EXHIBIT F-2
TOWN OF KITTERY, MAINE
Fiduciary Funds
Statement of Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	Private Purpose Trust
ADDITIONS	
New funds	\$ 18,271
Interest	3,624
Total revenue	<u>21,895</u>
DEDUCTIONS	
Fees	60
Scholarships	14,376
Total deductions	<u>14,436</u>
Change in net position	7,459
Net position, beginning, as restated (see Note 17)	<u>397,634</u>
Net position, ending	<u><u>\$ 405,093</u></u>

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

TOWN OF KITTERY, MAINE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

	NOTE
Summary of Significant Accounting Policies	1
Reporting Entity	1-A
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Town of Kittery, Maine (the Town), are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

The more significant of the Town's accounting policies are described below.

1-A Reporting Entity

The Town of Kittery is a municipal corporation under the laws of the State of Maine, which 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.

Component units are legally separate organizations for which the Town is financially accountable. The Town is financially accountable for an organization if the Town appoints a voting majority of the organization's governing board, and (1) the Town is able to significantly influence the programs or services performed or provided by the organizations; or (2) the Town is legally entitled to or can otherwise access the organization's resources; (3) the Town is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Town is obligated for the debt of the organization. Based on the foregoing criteria, no other organizations are included in the Town's financial reporting entity.

1-B Government-wide and Fund Financial Statements

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

The Statement of Net Position presents the financial position of the governmental and business-type activities of the Town at year-end. This statement includes all of the Town's assets, liabilities, deferred outflows and inflows of resources, and net position. Net position is reported as one of three categories: net investment in capital assets; restricted; or unrestricted.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental fund and the major individual enterprise fund are reported as separate columns in the fund financial statements.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

1-C Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for State shared revenue, reimbursement-based grants and interest which use one year.

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Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, licenses and permits, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies, and contracted services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the Town receives value without directly giving equal value in return, include property taxes, grants, entitlement, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The Town reports the following *major governmental* fund:

General Fund – all general revenues and other receipts that are not allocated by law or contracted agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

All the governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

The Town reports the following *major proprietary* fund:

Sewer Fund – accounts for the operation of the sewer treatment plant, pumping station, and sewer lines.

Additionally, the Town reports the following fund types:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Funds - are used to account for the financial resources and activities relating to specific construction projects.

Permanent Fund - is used to record activity of legal trusts for which the interest on the corpus provides funds for the Town's cemetery operations.

The Town also reports the following *fiduciary* fund types:

Private Purpose Trust – used to account for assets held for specific private purposes usually for the benefit of students in the form of scholarship funds.

Agency Fund - used to account for assets held in a trustee or agency capacity on behalf of outside parties, including other governments.

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1-D Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Town considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

1-E 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.

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 United States government, its agencies, and instrumentalities,
- Certificates of deposit and other evidences of deposits at banks, savings, and loan associations,
- Prime bank 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.

Investments for the Town are reported at fair value generally based on quoted market prices.

1-F Receivables

Receivables recorded in the financial statements represent amounts due to the Town at June 30. They are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. They consist primarily of taxes, billing for charges, and other user fees.

1-G Interfund Balances

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

1-H Inventory

The inventories of the Town are valued at cost using the first-in/first-out (FIFO) method. The inventories of the Town's major general and the nonmajor food service fund consist of materials and supplies held for subsequent use. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

1-I Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements, and expenses as the items are used.

1-J Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained on certain receivables that historically experience collectible amounts. Allowances are based on collection experience and management's evaluation of the current status of those receivables. The allowance for uncollectible accounts is estimated to be \$40,000 as of June 30, 2015. The allowance is for estimated uncollected

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personal property/real estate taxes in the general fund.

1-K Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated minimum useful life in excess of one year. As the Town constructs or acquires additional capital assets each year, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances (i.e., tax-exempt bond anticipation notes (BANS) were issued to finance specific improvements).

Land and construction in progress are not depreciated. The other property, plant, and equipment of the Town are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Capital Asset Classes:	
Land improvements	20-50
Buildings and building improvements	20-50
Machinery, equipment, and vehicles	3-50
Infrastructure	50-100

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets are not capitalized and related depreciation is not reported in the fund financial statements.

1-L Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The government has only one item that qualifies for reporting in this category. It is the deferred amounts related to pensions in the government-wide Statement of Net Position.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

1-M Property Taxes

The Town's property tax for the current year was levied September 18, 2014 on the assessed value listed as of April 1, 2014, for all real estate and personal property located in the Town. Taxes were due on October 31, 2014, February 15, 2015, and May 31, 2015. Interest on unpaid taxes commenced after the due date, at 7% per annum.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within 60 days after year-end. The remaining receivables have been recorded as deferred revenues.

The Town is permitted by 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 \$143,248 for the year ended June 30, 2015.

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

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1-N Compensated Absences

The Town's policy allows certain employees to earn varying amounts of sick and vacation based on the employee's length of employment. Upon separation from service, employees are paid in full for any accrued leave earned as set forth by personnel policy. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

1-O Long-Term Obligations

In the government-wide and business-type activities financial statements, long-term debt and other long-term obligations are reported as liabilities.

1-P Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. Claims and judgments are recorded in the government-wide financial statements as expense when the related liabilities are incurred. There were no significant claims or judgments at year-end.

1-Q Interfund Activities

Interfund activities are reported as follows:

Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business activities are reported in the government-wide financial statements as "internal balances." Interfund receivables and payables between funds are eliminated in the Statement of Net Position.

Interfund Transfers – Interfund transfers represent flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making the transfers and other financing sources in the funds receiving the transfers. In the government-wide financial statements, all interfund transfers between individual governmental funds have been eliminated.

1-R Net Position/Fund Balance Reporting

Government-wide Statements – Equity is classified as net position and displayed in three components:

- a) *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.
- b) *Restricted net position* – Consists of net position with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) *Unrestricted net position* – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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Fund Balance Classifications - The fund balance of governmental funds is reported in five categories based on the nature of any limitations requiring the use of resources for specific programs. The Town itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The classifications used in the Town's governmental fund financial statements are as follows:

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form; or (b) are legally or contractually required to be maintained intact.

Restricted - This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the legislative body. These amounts cannot be used for any other purpose unless the legislative body removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned - This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Town Council through the budgetary process.

Unassigned - This classification includes the residual fund balance for the general fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When multiple net position/fund balance classifications are available for use, it is the government's policy to utilize the most restricted balances first, then the next most restricted balance as needed. When components of unrestricted fund balance are used, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

The Town recognizes the importance of maintaining an appropriate level of unencumbered surplus reserve or unassigned 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 established the following goals regarding the unencumbered surplus reserve or unassigned fund balance of the general fund for the Town of Kittery, Maine:

The level of fund balance that the Town strives to maintain as unassigned in amount equal to 12% (note: at least 1/12th or 8.34%) of the Town's general fund budget (i.e., an amount equal to two and a half months of operating expenses from the then current operating budget whichever is higher).

Once the Town achieves its goal of an appropriate level of unencumbered surplus reserve or unassigned fund balance, any excess funds may be utilized for other municipal fiscal purposes including, without restriction, additional capital improvement needs or tax rate stabilization or reduction purposes. This policy has been adopted by the Town to recognize the financial importance of a stable and sufficient level of the unencumbered surplus reserve or undesignated fund balance. The Town reserves the right to appropriate funds from the unencumbered surplus reserve or unassigned fund balance for emergencies and other requirements the Town believes to be in its best interest.

1-S Defined Benefit Pension Plan

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* requires participating employers to recognize their proportionate share of collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, and schedules have been prepared to provide employers with their calculated proportionate share of these amounts. The collective amounts have been allocated based on employer contributions during the respective fiscal years. Contributions from employers are recognized when legally due, based on statutory requirements.

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The schedules prepared by Maine Public Employees Retirement System, and audited by the plan's independent auditors, require management to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature and uncertainty of these estimates, actual results could differ, and the differences may be material.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A Budgetary Information

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Town's operations. Annually the Town Council will approve and appropriate the budget for the general and sewer funds. Except as reconciled below, the budget was adopted on a basis consistent with US generally accepted accounting principles.

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

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

2-B Budgetary Reconciliation to GAAP Basis

The Town employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Basis, present the actual results to provide a comparison with the budget. The major difference between the budgetary basis and GAAP basis is as follows:

Carry Forwards outstanding at year-end do not represent GAAP expenditures or liabilities, but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and commitments (Carry Forwards) for goods or services not received at year-end. Carry Forwards are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no liability exists.

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

Revenues and other financing sources:	
Per Exhibit D (budgetary basis)	\$ 27,385,441
Adjustment:	
Basis difference:	
GASB Statement No. 54:	
To record income of the blended funds	132,722
Net effect of transfers between blended funds	75,223
On-behalf retirement contributions made by the State of Maine recognized as revenue on the GAAP basis, but not on the budgetary basis	1,242,999
Per Exhibit C-3 (GAAP basis)	<u>\$ 28,836,385</u>
Expenditures and other financing uses:	
Per Exhibit D (budgetary basis)	\$ 27,338,791
Adjustment:	
Basis differences:	
Encumbrances, beginning	3,349
Encumbrances, ending	(51,719)
GASB Statement No. 54:	
Net effect of transfers between blended funds	(1,104,922)
To record expenditures of blended funds	600,028
On-behalf payments to the Maine Public Employees Retirement System made by the State of Maine	1,242,999
Per Exhibit C-3 (GAAP basis)	<u>\$ 28,028,526</u>

TOWN OF KITTERY, MAINE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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2-C Change in Accounting Principle

Effective July 1, 2014, the Town implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The requirements of this Statement change the way the Town calculates and reports the costs and obligations associated with pensions. As a result of implementing GASB Statement No. 68 the Town has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2014 by \$2,715,982 (see Note 17). The reduction accounts for the associated net position liability, deferred inflows of resources, and deferred outflows of resources related to pensions.

Also, the Town adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This Statement addresses an issue in GASB Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employer and nonemployer contributing entities.

DETAILED NOTES ON ALL FUNDS

NOTE 3 – 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.

Custodial Credit Risk – Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. 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 5709 of the Maine Revised Statutes. At June 30, 2015, the Town's cash balance of \$12,789,690 was comprised of bank deposits amounting to \$12,788,610 and petty cash held in hands of officials totaling \$1,081. The entire amount bank deposits were insured by federal depository insurance or were collateralized with securities held by the financial institution in the Town's name, and consequently not exposed to custodial credit risk.

Account type:	
Checking	\$ 274,900
Savings	3,819,627
Money market	1,002,701
Sweep	7,691,381
Cash in hands of officials	1,081
Total cash and cash equivalents	<u>\$ 12,789,690</u>

Cash and cash equivalents reconciliation:

Cash per Statement of Net Position (Exhibit A)	\$ 12,698,954
Cash per Statement of Net Position-Fiduciary Funds (Exhibit F-1)	90,736
Total cash and cash equivalents	<u>\$ 12,789,690</u>

Custodial Credit Risk – Investments - Custodial credit risk is the risk that in the event of a 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. 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.

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At June 30, 2015, this Town had the following investments and maturities:

	Fair Value	N/A	Less Than 1 Year	1-5 Years
Investments type:				
Mutual funds - fixed income	\$ 516,472	\$ 516,472	\$ -	\$ -
Equities	146,197	146,197	-	-
Certificates of deposit	4,103,165	-	3,732,028	371,137
Total fair value	<u>\$ 4,765,834</u>	<u>\$ 662,669</u>	<u>\$ 3,732,028</u>	<u>\$ 371,137</u>

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Credit Risk – Statutes for the State of Maine authorize the Town to invest in obligations of the US 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. However, \$3,732,028 of the \$4,765,834 of the Town's investment balances were insured by federal depository insurance or were collateralized with securities held by the financial institution in the Town's name, and consequently not exposed to custodial credit risk.

Investment reconciliation:

Investments per Statement of Net Position (Exhibit A)	\$ 4,394,697
Investments per Statement of Net Position-Fiduciary Funds (Exhibit F-1)	371,137
Total investments	<u>\$ 4,765,834</u>

NOTE 4 – TAXES RECEIVABLE

Taxes receivable of \$942,584 represents the amount of current and prior year taxes which have not been collected as of June 30, 2015. The amount has been reduced by an allowance for an estimated uncollectible amount of \$40,000.

NOTE 5 – RECEIVABLES

Receivables at June 30, 2015, consisted of accounts (billings for police details, sewer, and other user charges) and intergovernmental amounts arising from grants. Receivables are recorded on the Town's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 consisted of the following:

	Balance, beginning	Additions	Disposals	Balance, ending
<u>Governmental activities:</u>				
At cost:				
Not being depreciated:				
Land	\$ 10,950,906	\$ -	\$ -	\$ 10,950,906
Construction in progress	305,353	-	(300,040)	5,313
Total capital assets not being depreciated	<u>11,256,259</u>	<u>-</u>	<u>(300,040)</u>	<u>10,956,219</u>
Being depreciated:				
Land improvements	2,203,634	-	-	2,203,634
Buildings and building improvements	42,823,013	360,520	-	43,183,533
Machinery, equipment, and vehicles	7,731,348	200,851	(84,685)	7,847,514
Infrastructure	11,115,700	397,534	-	11,513,234
Total capital assets being depreciated	<u>63,873,695</u>	<u>958,905</u>	<u>(84,685)</u>	<u>64,747,915</u>
Total all capital assets	<u>75,129,954</u>	<u>958,905</u>	<u>(384,725)</u>	<u>75,704,134</u>

(Continued)

TOWN OF KITTERY, MAINE
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Capital assets continued:

	Balance, beginning	Additions	Disposals	Balance, ending
Less accumulated depreciation:				
Land improvements	(737,027)	(106,866)	-	(843,893)
Buildings and building improvements	(21,210,844)	(1,434,367)	-	(22,645,211)
Machinery, equipment, and vehicles	(5,664,399)	(416,074)	84,685	(5,995,788)
Infrastructure	(7,748,262)	(276,683)	-	(8,024,945)
Total accumulated depreciation	(35,360,532)	(2,233,990)	84,685	(37,509,837)
Net book value, capital assets being depreciated	28,513,163	(1,275,085)	-	27,238,078
Net book value, all governmental activities capital assets	\$ 39,769,422	\$ (1,275,085)	\$ (300,040)	\$ 38,194,297

Business-type activities:

At cost:

Not being depreciated:

Land	\$ 284,480	\$ 1,500	\$ -	\$ 285,980
Construction in progress	1,200,712	5,305,527	-	6,506,239
Total capital assets not being depreciated	1,485,192	5,307,027	-	6,792,219

Being depreciated:

Buildings and building improvements	18,646,324	-	-	18,646,324
Machinery, equipment, and vehicles	623,944	-	-	623,944
Infrastructure	25,768	18,900	-	44,668
Total capital assets being depreciated	19,296,036	18,900	-	19,314,936
Total all capital assets	20,781,228	5,325,927	-	26,107,155

Less accumulated depreciation:

Buildings and building improvements	(6,018,711)	(552,103)	-	(6,570,814)
Machinery, equipment, and vehicles	(325,164)	(38,804)	-	(363,968)
Infrastructure	(2,062)	(1,031)	-	(3,093)
Total accumulated depreciation	(6,345,937)	(591,938)	-	(6,937,875)
Net book value, capital assets being depreciated	12,950,099	(573,038)	-	12,377,061
Net book value, all business-type activities capital assets	\$ 14,435,291	\$ 4,733,989	\$ -	\$ 19,169,280

Depreciation expense was charged to functions of the Town based on their usage of the related assets. The amounts allocated to each function are as follows:

Governmental activities:

General government	\$ 103,233
Public safety	304,899
Public works	521,789
Recreation and culture	46,689
Health and sanitation	31,017
Education	786,643
Unallocated depreciation	439,720
Total depreciation expense	\$ 2,233,990

Depreciation expense in the business-type activities was all charged to the sanitation function.

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NOTE 7 – INTERFUND BALANCES AND TRANSFERS

Interfund Balances - The composition of interfund balances as of June 30, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
Nonmajor	Major - General	\$ 2,028,447
Major - General	Major Proprietary - Sewer	44,274
Major - General	Nonmajor	215,270
		<u>\$ 2,287,991</u>

The outstanding balances among funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers - The composition of interfund transfers for the year ended June 30, 2015 is as follows:

	Transfers In:		
	General Fund	Nonmajor Funds	Total
Transfers out:			
Major - General	\$ -	\$ 105,223	\$ 105,223
Nonmajor funds	256,293	-	256,293
Major proprietary - Sewer	27,500	-	27,500
Total	<u>\$ 283,793</u>	<u>\$ 105,223</u>	<u>\$ 389,016</u>

During the year, transfers are used to (1) move revenues from the fund with collection authority to the fund responsible for expenditure and (2) move general fund resources to provide an annual subsidy.

NOTE 8 – INTERGOVERNMENTAL PAYABLES

Amounts due to other governments of \$412,878 at June 30, 2015 consist of the following:

General fund:	
Balance due to the Maine Public Employees Retirement System	\$ 177,131
Federal payroll taxes	134,844
Various fees due to the State of Maine	81,028
Total general fund	<u>393,003</u>
Nonmajor funds:	
Various fees due to the State of Maine	19,875
Total intergovernmental payables due	<u>\$ 412,878</u>

NOTE 9 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows of resources of \$880,351 in the governmental activities and \$120,424 in the proprietary fund at June 30, 2015 consist of amounts related to pensions (see Note 19).

Deferred inflows of resources reported in the governmental funds as unavailable revenue are as follows:

	Governmental Activities	Business-type Activities	General Fund
Deferred property taxes not collected within 60 days of fiscal year-end	\$ -	\$ -	\$ 713,336
Property taxes collected in advance of levy	88,708	-	88,708
Deferred amounts related to pensions (see Note 19)	1,404,942	319,117	-
Total deferred inflows of resources	<u>\$ 1,493,650</u>	<u>\$ 319,117</u>	<u>\$ 802,044</u>

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NOTE 10 – CAPITAL LEASE OBLIGATIONS

The Town has entered into certain capital lease agreements under which the related equipment will become the property of the Town when all the terms of the lease agreements are met.

	Standard Interest Rate	Present Value of Remaining Payments as of June 30, 2015
Capital lease obligations:		
HVAC equipment	3.33%	\$ 219,435
Photocopier	3.49%	70,782
Total capital lease obligations		<u>\$ 290,217</u>

The annual requirements to amortize the capital leases payable as of June 30, 2015, including interest payments, are as follows:

Fiscal Year Ending June 30,	Governmental Activities
2016	\$ 152,482
2017	152,482
Total requirements	304,964
Less: interest	14,747
Present value of remaining payments	<u>\$ 290,217</u>

Amortization of lease equipment under capital assets is included with depreciation expense.

NOTE 11 – SHORT-TERM DEBT

Changes in the Town's short-term capital borrowings during the year ended June 30, 2015 consisted of the following:

	Original Issue	Interest Rate	Balance July 1, 2014	Issues	Redemptions	Balance June 30, 2015
Business-type Activities:						
Bond anticipation notes	\$ 6,500,000	1.00%	\$ 6,500,000	-	\$ 6,500,000	-
Bond anticipation notes	9,000,000	1.00%	-	9,000,000	-	9,000,000
Total short-term borrowings	<u>\$ 15,500,000</u>		<u>\$ 6,500,000</u>	<u>\$ 9,000,000</u>	<u>\$ 6,500,000</u>	<u>\$ 9,000,000</u>

The purpose of the short-time borrowings was to provide resources for various capital improvement projects. The amounts issued for capital improvements are accounted for in the Sewer Department.

NOTE 12 – OVERLAPPING DEBT

The Town is responsible for its proportionate share of county debt. As of June 30, 2015, the Town's share was as follows:

	Outstanding Debt	Town's Percentage	Total Share
County of York	<u>\$ 7,123,437</u>	5.15%	<u>\$ 366,857</u>

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NOTE 13 – LONG-TERM LIABILITIES

Changes in the Town's long-term liabilities consisted of the following for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 15,735,000	\$ -	\$ (1,345,000)	\$ 14,390,000	\$ 1,351,043
Capital leases	450,126	-	(159,909)	290,217	142,705
Compensated absences	1,116,813	283,730	-	1,400,543	-
Net other postemployment benefits	1,634,352	119,324	-	1,753,676	-
Net pension liability	2,694,873	-	(1,252,157)	1,442,716	-
Total long-term liabilities	<u>\$ 21,631,164</u>	<u>\$ 403,054</u>	<u>\$ (2,757,066)</u>	<u>\$ 19,277,152</u>	<u>\$ 1,493,748</u>
<u>Business-type activities:</u>					
General obligation bonds	\$ 3,308,253	\$ -	\$ (221,399)	\$ 3,086,854	\$ 223,946
Compensated absences	148,504	1,921	-	150,425	-
Net pension liability	580,391	-	(279,922)	300,469	-
Total long-term liabilities	<u>\$ 4,037,148</u>	<u>\$ 1,921</u>	<u>\$ (501,321)</u>	<u>\$ 3,537,748</u>	<u>\$ 223,946</u>

Long-term liabilities are comprised of the following:

	Issue Date	Maturity Date	Interest Rate %	Outstanding at June 30, 2015	Current Portion
<u>Governmental activities:</u>					
General obligation bonds payable:					
Mitchell Shapleigh Renovations	2010	2031	2.00 - 4.00%	\$ 5,550,000	\$ 325,000
Public Works Salt Shed	2010	2031	2.00 - 4.00%	570,000	35,000
Traip-Shapleigh (2006 Refinance)	2006	2015	5.25 - 5.75%	345,000	345,000
Fire Station	2006	2026	4.25 - 4.50 %	1,420,000	155,000
Mitchell School	2013	2022	1.50 - 2.00%	1,680,000	210,000
Community Center Loan	2012	2032	2.00 - 3.15 %	4,675,000	275,000
KLT Land Purchase	2014	2027	2.00%	150,000	6,043
Total general obligation bonds payable				<u>14,390,000</u>	<u>1,351,043</u>
Capital leases:					
HVAC equipment	2011	2017	3.33%	219,435	107,921
Photocopier	2011	2017	3.49%	70,782	34,784
Total capital leases				<u>290,217</u>	<u>142,705</u>
Compensated absences				1,400,543	-
Net other postemployment benefits				1,753,676	-
Net pension liability				1,442,716	-
Total				<u>\$ 19,277,152</u>	<u>\$ 1,493,748</u>
<u>Business-type activities:</u>					
General obligation bonds payable:					
Waste Water State Revolving Loan	2003	2022	1.94%	\$ 575,342	\$ 67,921
Waste Water	2010	2030	1.00%	2,511,512	156,025
Total general obligation bonds payable				<u>3,086,854</u>	<u>223,946</u>
Compensated absences				150,425	-
Net pension liability				300,469	-
Total				<u>\$ 3,537,748</u>	<u>\$ 223,946</u>

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The annual requirements to amortize all *governmental activities* general obligation bonds outstanding as of June 30, 2015, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,351,043	\$ 400,702	\$ 1,751,745
2017	976,076	370,757	1,346,833
2018	976,127	349,178	1,325,305
2019	966,199	326,828	1,293,027
2020	966,292	303,310	1,269,602
2021-2025	4,403,589	1,150,060	5,553,649
2026-2030	3,433,887	545,274	3,979,161
2031-2035	1,316,787	59,160	1,375,947
Totals	<u>\$ 14,390,000</u>	<u>\$ 3,505,269</u>	<u>\$ 17,895,269</u>

The annual requirements to amortize all *business-type activities* general obligation bonds outstanding as of June 30, 2015, including interest payments, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2016	\$ 223,946	\$ 43,612	\$ 267,558
2017	226,552	40,948	267,500
2018	229,219	38,251	267,470
2019	231,950	35,333	267,283
2020	234,745	31,014	265,759
2021-2025	1,061,293	107,840	1,169,133
2026-2030	879,149	71,834	950,983
Totals	<u>\$ 3,086,854</u>	<u>\$ 368,832</u>	<u>\$ 3,455,686</u>

All debt is general obligation debt of the Town, which is backed by its full faith and credit, and will be repaid from general governmental revenues. 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.

Bonds/Notes Authorized and Unissued – Bonds and notes authorized and unissued as of June 30, 2015 were as follows:

Public Hearing Vote June 11, 2013	Purpose	Unissued Amount
Referendum #1	Funding improvements and upgrades to existing sewer infrastructure	\$ 4,403,500
Referendum #2	Funding sewer extension project	7,586,525
Public Hearing Vote June 9, 2015		
Referendum #2	Funding municipal facilities capital improvement projects	958,015
Referendum #3	Funding road infrastructure capital improvement projects	1,300,000
Referendum #4	Funding school facilities capital improvement projects.	821,817
		<u>\$ 15,069,857</u>

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NOTE 14 – CARRY FORWARD APPROPRIATIONS

Carry forward appropriations at June 30, 2015 are as follows:

General fund:	
General government	<u>\$ 51,719</u>

NOTE 15 – GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES NET POSITION

Governmental activities net position reported on the government-wide Statement of Net Position at June 30, 2015 include the following:

	<u>Governmental Activities</u>
Net investment in capital assets:	
Net property, buildings, and equipment	\$ 38,194,297
Less:	
General obligation bonds payable	(14,390,000)
Capital leases payable	(290,217)
Total net investment in capital assets	<u>23,514,080</u>
Restricted net position:	
Capital project funds	1,114,964
Permanent funds	824,799
Total restricted net position	<u>1,939,763</u>
Unrestricted	<u>4,680,137</u>
Total net position	<u>\$ 30,133,980</u>

Business-type activities net position reported on the government-wide Statement of Net Position at June 30, 2015 include the following:

	<u>Business-type Activities</u>
Net investment in capital assets:	
Net property, buildings, and equipment	\$ 19,169,280
Less:	
General obligation bonds payable	(3,086,854)
Bond anticipation note payable	(9,000,000)
Amount of bond anticipation note unspent proceeds	3,793,100
Total net investment in capital assets	<u>10,875,526</u>
Restricted net position:	
Impact fees	374,590
Sewer betterments	70,099
Vehicle reserve	111,938
Depreciation reserve	519,137
Total restricted net position	<u>1,075,764</u>
Unrestricted	<u>(1,358,761)</u>
Total net position	<u>\$ 10,592,529</u>

TOWN OF KITTERY, MAINE
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NOTE 16 – GOVERNMENTAL FUND BALANCES

Governmental fund balances reported on the fund financial statements at June 30, 2015 include the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:			
Permanent funds	\$ -	\$ 821,655	\$ 821,655
Prepaid items	189,102	1,254	190,356
Inventory	22,835	14,195	37,030
Total nonspendable fund balances	211,937	837,104	1,049,041
Restricted:			
School Department	1,883,534	-	1,883,534
Tax incremental financing	105,649	-	105,649
Special revenue funds	-	145,119	145,119
Capital project funds	-	881,744	881,744
Permanent funds	-	3,144	3,144
Total restricted fund balances	1,989,183	1,030,007	3,019,190
Committed:			
Compensated absences	61,252	-	61,252
Ballot counting machines	13,216	-	13,216
Open space	84,047	-	84,047
Conservation committee	988	-	988
Property revaluation	3,479	-	3,479
Drainage projects	43,900	-	43,900
Road construction	7,534	-	7,534
Sidewalk program	12,955	-	12,955
Asphalt surface maintenance	7,649	-	7,649
Solid waste vehicle fund	195,187	-	195,187
Recreational vehicle	3,000	-	3,000
Highway vehicle	318,101	-	318,101
Fire Department vehicle	66,648	-	66,648
Parks Department vehicle	82,778	-	82,778
Highway equipment reserve	166,917	-	166,917
Fort Foster Pier	25,000	-	25,000
Storm drain mapping	57,212	-	57,212
Port Authority boat	21,003	-	21,003
Recreational equipment	3,841	-	3,841
Computer	8,394	-	8,394
Police vehicle equipment	69,315	-	69,315
Solid waste equipment	320,821	-	320,821
Records preservation	162	-	162
Parks buildings and grounds	16,259	-	16,259
Municipal roof replacement	146,472	-	146,472
Public Safety Base Station	90,636	-	90,636
Kittery Community Center 5 Year Plan	23,700	-	23,700
Kittery Port Authority Float & Ramp Plan	12,495	-	12,495
Port Authority equipment	24,815	-	24,815
Fire equipment reserve	19,630	-	19,630
June 9, 2015 Certificate of Election	380,000	-	380,000
Special revenue funds	-	500,810	500,810
Capital project funds	-	233,220	233,220
Total committed fund balance	2,287,406	734,030	3,021,436

(Continued)

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Governmental fund balances continued:

	General Fund	Nonmajor Funds	Total Governmental Funds
Assigned:			
Encumbrances	51,719	-	51,719
Special revenue funds	-	74,301	74,301
Total assigned fund balances	51,719	74,301	126,020
Unassigned:			
General fund	4,226,375	-	4,226,375
(Deficit balances:)			
Pier construction	(138,820)	-	(138,820)
Office furniture replacement	(3,463)	-	(3,463)
Traffic light Route 236	(70,244)	-	(70,244)
Pepperrell Cove utilities	(340)	-	(340)
Fire Department SCBAs	(58,007)	-	(58,007)
Special revenue funds	-	(3,356)	(3,356)
Total unassigned fund balance (deficit)	3,955,501	(3,356)	3,952,145
Total governmental fund balances	\$ 8,495,746	\$ 2,672,086	\$ 11,167,832

NOTE 17 – PRIOR PERIOD ADJUSTMENTS

Net position/fund balance at July 1, 2014 was restated to give retroactive effect to the following prior period adjustments:

	Government-wide Statements	Business-type Activities	General Fund	Other Governmental Funds	Fiduciary Funds
To record net pension liability and deferred outflows of resources for implementation of Governmental Accounting Standards Board Statements No. 68 and No. 71	\$ (2,164,730)	\$ (551,252)	\$ -	\$ -	\$ -
To reclassify funds based on the requirements of Governmental Accounting Standards Board Statement No. 54	(1,015,411)	1,000,269	1,094,601	(2,110,012)	15,142
Net position/fund balance, as previously reported	32,687,154	10,288,212	6,593,286	4,866,528	382,492
Net position/fund balance, as restated	\$ 29,507,013	\$ 10,737,229	\$ 7,687,887	\$ 2,756,516	\$ 397,634

NOTE 18 – DEFICIT FUND BALANCES

At June 30, 2015, the Town had the following deficit fund balances, which the Town anticipates eliminating through future general fund transfers, pending contributions, and operations:

General fund:

Blended funds:

Pier construction	\$ (138,820)
Office furniture replacement	(3,463)
Traffic light Route 236	(70,244)
Pepperrell Cove utilities	(340)
Fire Department SCBA's	(58,007)
Total general fund blended funds	(270,874)

(Continued)

TOWN OF KITTERY, MAINE
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Deficit fund balances continued:

Nonmajor funds:	
<i>Special revenue funds:</i>	
York Hospital	(3,347)
Other school grants	(9)
Total special revenue funds	<u>(3,356)</u>
Total deficit fund balances	<u>\$ (274,230)</u>

NOTE 19 – DEFINED BENEFIT PENSION PLAN – MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description –Employees of the Town are provided with pensions through the Maine Public Employees Retirement System Consolidated Plan for Participating Local Districts (PLD Plan), which is a multiple-employer cost sharing defined benefit plan. Teaching-certified employees of the Town are provided with pensions through the Maine Public Employees Retirement System State Employee and Teacher Plan (SET Plan) which is a multiple-employer cost-sharing defined benefit pension plans. Both PLD and SET Plans are administered by the Maine Public Employees Retirement System. Maine Public Employees Retirement System issues a publicly available financial report that may be obtained at www.mainebers.org or by contacting the Maine Public Employees Retirement System at (800) 451-9800.

Pension Benefits - Benefit terms are established in Maine statute; in the case of the PLD Plan, an advisory group, also established by statute, reviews the terms of the plan and periodically make recommendations to the Legislature to amend the terms. The System's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten year requirement was reduced by legislative action to five years for State employees and teachers; separate legislation enacted the same reduced requirement for judges, legislators, and employees of PLDs). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers, judges and legislative members is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. For PLD members, normal retirement age is 60. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 5.0%.

Member and Employer Contributions - Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. Member and employer contribution rates are each a percentage of applicable member compensation. Member contribution rates are defined by law or Board rule and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined through actuarial valuations.

PLD Plan - Plan members are required to contribute 7.0% of their annual covered salary depending upon the plan they are in and the Town is required to contribute an actuarially determined rate. The current rates for the Town contributions are 7.8% and 13.4% of annual covered payroll. The contribution rates of plan members and the Town are established and may be amended by the MPERS Board of Trustees. Contributions to the pension plan for 2013, 2014, and 2015 were \$244,815, \$291,649, and \$340,766, respectively.

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SET Plan - Maine statute requires the State to contribute a portion of the Town's contractually required contributions. Employees are required to contribute 7.65% of their annual pay. The Town's contractually required contribution rate for the year ended June 30, 2015, was 15.68% of annual payroll of which 2.65% of payroll was required from the Town and 13.03% was required from the State. Contributions to the pension plan for 2013, 2014, and 2015 were \$216,204, \$229,050, and \$251,461, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions - The net pension liabilities were measured as of June 30, 2014, and the total pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of that date. The Town's proportion of the net pension liabilities for the consolidated PLD and SET plans were based on projections of the Town's long-term share of contributions to the pension plans relative to the projected contributions of all participating local districts (PLD Plan) and of all participating School Administrative Units and the State (SET Plan), actuarially determined.

Consolidated PLD Plan - At June 30, 2015, the Town reported a liability of \$1,538,376 for its proportionate share of the net pension liability. At June 30, 2014, the Town's proportion of the PLD Plan was 0.99971700%, which is an increase of 0.03573800% from its proportion measurement as of June 30, 2013.

SET Plan - At June 30, 2015, the Town reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Town. The amount recognized by the Town as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Town were as follows:

School Department's proportionate share of the net pension liability	\$ 204,809
States proportionate share of the net pension liability associated with the School Department	6,502,031
Total	<u>\$ 6,706,840</u>

For the year ended June 30, 2015, the Town recognized pension expense of \$271,443 for the Consolidated PLD Plan, \$71,271 for the SET plan, with revenue of \$1,242,999 for support provided by the State. At June 30, 2015 Town's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumption	\$ 14,105	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	201,269	1,537
Net difference between projected and actual investment earnings on pension plan investments	-	1,721,498
Difference between expected and actual experience	193,174	1,024
Contributions subsequent to the measurement date	592,227	-
	<u>\$ 1,000,775</u>	<u>\$ 1,724,059</u>

An amount of \$592,227 is reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liabilities in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	
2016	\$ (273,346)
2017	(273,348)
2018	(338,442)
2019	(430,374)
Totals	<u>\$ (1,315,510)</u>

TOWN OF KITTERY, MAINE
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Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	PLD Plan	SET Plan
Inflation	3.50%	3.50%
Salary increases, per year	3.5% - 9.5%	3.5% to 13.5%
Investment return, per annum, compounded annually	7.250%	7.125%
Cost of living benefit increases, per annum	3.120%	2.550%

Mortality rates were based on the RP2000 Combined Mortality Table projected forward to 2015 using Scale AA.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equities	20.00%	2.50%
Non-US equities	20.00%	5.50%
Private Equity	10.00%	7.60%
Real Estate	10.00%	3.70%
Infrastructure	10.00%	4.00%
Hard Assets	5.00%	4.80%
Fixed Income	25.00%	0.00%
Total	100.00%	

Discount Rate - The discount rate used to measure the total pension liability was 7.25% for the PLD Plan and 7.125% for the SET Plan. The projection of cash flows used to determine the discount rates assumed that employee contributions will be made at the current contribution rate and that contributions from participating local districts will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liabilities.

Sensitivity of the Town's proportionate Share of the Net Pension Liabilities to Changes in the Discount Rate - The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25% for the PLD Plan and withdrawn PLD, and 7.125% for the SET Plan, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25% for PLD Plan and 6.125% for SET Plan) or 1 percentage-point higher (8.25% for PLD Plan and 8.125% for SET Plan) than the current rate:

PLD Plan:

	Actuarial Valuation Date	1% Decrease 6.25%	Current Single Rate Assumption 7.25%	1% Increase 8.25%
Town's proportionate share of the net pension liability	June 30, 2014	\$ 4,799,280	\$ 1,538,376	\$ (1,187,334)

TOWN OF KITTERY, MAINE
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SET Plan:

	Valuation Date	1% Decrease 6.125%	Current Single Rate Assumption 7.125%	1% Increase 8.125%
Town's proportionate share of the net pension liability	June 30, 2014	\$ 392,294	\$ 204,809	\$ 47,927

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS financial report.

Payables to the Pension Plan - None as of June 30, 2015.

NOTE 20 – DEFERRED COMPENSATION PLAN

International City Management Association Retirement Corporation – 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. Employee participation in this plan is voluntary. 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.

The contribution requirements of plan members and the Town are established and may be amended by the Town Council. Effective July 1, 2001, the Town agrees to expand the coverage of the IMCA-RC 457 plan currently in effect. This plan will be available for current employees who are not enrolled in the Maine State Retirement System and any newly-hired employee who wishes to enroll in the IMCA plan instead of the MSRS plan. The Town will match the employee's contribution into the 457 plan, up to a maximum Town contribution of 6%. The Town will make a contribution to either MSRS or the ICMA plan, but not both.

The Town's contributions to the plan including employee contributions for 2015, 2014, and 2013 were \$85,186, \$71,855, and \$82,538, respectively.

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 403. The plan, available to all School Department employees as part of a collective bargaining agreement, permits them to defer a portion of their salary 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.

NOTE 21 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45, was implemented by the Town during fiscal year 2011, and requires that the long-term cost of retirement health care and obligations for other postemployment benefits (OPEB) be determined on an actuarial basis and reported similar to pension plans. GASB Statement No. 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements.

TOWN OF KITTERY, MAINE
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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 the 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 the Town benefit participants as of June 30, 2015:

Active members	74
Retirees and spouses	18
	<u>92</u>

The Town is considering its valuation of other postemployment benefits and a strategy to, not only disclose a cost of the benefit, but to also comply with GASB Statement No. 45. The most recent available other postemployment benefit information follows:

Annual OPEB Cost and Net OPEB Obligations – The Town of Kittery's annual other postemployment benefit cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 funding 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.

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:

Normal cost	\$ 86,325
Supplemental cost	163,061
Interest	4,939
Annual required contribution	<u>254,325</u>
Interest on net OPEB obligation	65,374
Adjustment to annual required contribution	<u>(92,680)</u>
Annual OPEB cost (expense)	227,019
Expected benefit payments	<u>(107,695)</u>
Increase in net OPEB obligation	119,324
Net OPEB obligation - beginning of year	1,634,352
Net OPEB obligation - end of year	<u>\$ 1,753,676</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 and the three preceding years were as follows:

Fiscal Year Ended	Annual OPEB Contribution Cost	Actual Contributions (pay-as-you-go)	Percentage Contributed	Net OPEB Obligation
June 30, 2012	\$ 282,906	\$ 121,000	42.80%	\$ 1,354,468
June 30, 2013	\$ 283,464	\$ 121,000	42.70%	\$ 1,516,932
June 30, 2014	\$ 251,197	\$ 133,777	53.26%	\$ 1,634,352
June 30, 2015	\$ 227,019	\$ 107,695	47.44%	\$ 1,753,676

TOWN OF KITTERY, MAINE
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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 the 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 the assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation, projected unit credit (PUC) method was used. The actuarial assumption included a 4.00% 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 trend rate of 3.00% for pre 65 and 0.00% for post 65 were used initially, decreasing at a variable rate per year to an ultimate rate of 4.00% for 2029 and later. The remaining amortization period at June 30, 2015 was 28 years. As of July 1, 2013, the most recent actuarial valuation date, the plan was 0.00% funded. The actuarial accrued liability for benefits was approximately \$2,932,443, and the actuarial value of the assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$2,932,443.

These numbers are based on information that was presented for the year ending June 30, 2015. The amortization method that was used to calculate the numbers is presents below:

Discount rate	4.00%
Payroll growth assumption	N/A
Accrued liability	\$ 2,932,443
Value of assets	-
Unfunded liability	<u>\$ 2,932,443</u>
Normal cost	\$ 86,325
Amortization of unfunded	163,061
Interest	4,939
Annual required contribution	<u>\$ 254,325</u>

NOTE 22 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance or participates in a public entity and self-insured risk pool sponsored by the Maine Municipal Association.

Based on the coverage provided by the purchased insurance, the Town is not aware of any material actual or potential claim liabilities which should be recorded as of June 30, 2015. There were no significant reductions or modifications in the insurance coverage from that of the prior year and the amounts of settlements have not exceeded insurance coverage in the past three years.

NOTE 23 – CONTINGENCIES

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

The Town participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the government's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the government anticipates such amounts, if any, will be immaterial.

NOTE 24 – SUBSEQUENT EVENTS

Original Issuance

Subsequent events are events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provided additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date, but arose after

TOWN OF KITTERY, MAINE
NOTES TO THE BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED
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the date. Management has evaluated subsequent events through January 25, 2016, the date the June 30, 2015 financial statements were available to be issued, and no events occurred that require recognition or disclosure.

Reissuance

Because of a letter received by the Town of Kittery dated April 19, 2016 from the State of Maine, Department of Transportation related to CFDA No 84.367 grant revenues, stating the Schedule of Expenditure of Federal Awards was incomplete, we have made the following changes:

1. Intergovernmental revenues previously recognized as state revenues were reclassified as federal revenues, the Federal expenditures reported in the Schedule of Expenditure of Federal Awards were changed as follows:

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	As Originally Issued	As Reissued
U.S. DEPARTMENT OF THE INTERIOR				
Passed Through the State of Maine Department of Transportation				
Sportfishing and Boating Safety Act	15.622	CSN #29001	45,614	101,428
U.S. DEPARTMENT OF TRANSPORTATION				
Passed Through the State of Maine Department of Transportation				
Highway Planning & Construction	20.205	CSN #29303	-	6,708

EXHIBIT G
TOWN OF KITTERY, MAINE
Schedule of Funding Progress for Other Postemployment Benefit Plan
For the Fiscal Year Ended June 30, 2015

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
June 30, 2011	July 1, 2010	\$ -	\$ 3,146,751	\$ 3,146,751	0.00%	N/A	N/A
June 30, 2012	July 1, 2011	\$ -	\$ 3,146,751	\$ 3,146,751	0.00%	N/A	N/A
June 30, 2013	July 1, 2012	\$ -	\$ 3,146,751	\$ 3,146,751	0.00%	N/A	N/A
June 30, 2014	July 1, 2013	\$ -	\$ 3,151,662	\$ 3,151,662	0.00%	\$ 4,118,570	76.52%
June 30, 2015	July 1, 2014	\$ -	\$ 2,932,443	\$ 2,932,443	0.00%	\$ 4,200,941	69.80%

The notes to the required supplementary information is an integral part of this schedule.

EXHIBIT H
TOWN OF KITTELY, MAINE
Schedule of the Town's Proportionate Share of Net Pension Liability
Maine Public Employees Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended June 30, 2015

PLD Plan

Fiscal Year	Valuation Date	Employer Proportion of Net Pension Liability	Employer Proportionate Share of Net Pension Liability	Covered Payroll	Town Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	June 30, 2014	0.99971700%	\$ 1,538,376	\$ 3,365,492	45.71%	94.10%

SET Plan

Fiscal Year	Valuation Date	Employer Proportion of Net Pension Liability	Employer Proportionate Share of Net Pension Liability	Covered Payroll	Town Proportionate Share of Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	June 30, 2014	0.01895800%	\$ 204,809	\$ 9,489,094	2.16%	83.91%

The State's proportionate share of the net pension liability associated with the School Department is \$6,502,031, resulting in a total net pension liability of \$6,706,840.

EXHIBIT I
TOWN OF KITTERY, MAINE
Schedule of Town Contributions
Maine Public Employees Retirement System Cost Sharing Multiple Employer Defined Benefit Plan
For the Fiscal Year Ended June 30, 2015

PLD Plan

<u>Fiscal Year</u>	<u>Valuation Date</u>	<u>Contractually Required Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2015	June 30, 2014	\$ 340,766	\$ 340,766	\$ -	\$ 3,365,492	10.13%

SET Plan

<u>Fiscal Year</u>	<u>Valuation Date</u>	<u>Contractually Required Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2015	June 30, 2014	\$ 251,461	\$ 251,461	\$ -	\$ 9,489,094	2.65%

The notes to the required supplementary information is an integral part of this schedule.

TOWN OF KITTERY, MAINE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

Schedule of Funding Progress for Other Postemployment Benefits (OPEB)

As required by GASB Statement No. 45, Exhibit G represents the actuarial determined costs associated with the Town's other postemployment benefits for the fiscal year ended June 30, 2015.

Schedule of the Town's Proportionate Share of Net Pension Liability & Schedule of Town Contributions

As required by GASB Statement No. 68, and as amended by GASB Statement No. 71, Exhibits H and I represent the actuarial determined costs associated with the Town's pension plan at June 30, 2015.

Change of benefit terms – None

Changes of assumptions – The SET changed the discount rate from 7.25% in the 2013 valuation to 7.125% in the 2014 valuation.

Valuation date: Actuarially determined contribution rates are calculated as of June 30, 2013, two years prior to the end of the fiscal year in which the contributions are reported.

Method and assumptions used to determine the contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	Open Basis Over 15 Years
Asset Valuation Method	Actuarial Value
Inflation	3.50%
Salary Increases	3.50%
Investment Rate of Return	7.25%
Retirement Age	Age 60
Mortality	RP-2000 mortality table, projected to 2015 using Scale AA and set back two years for active members; for all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.

SCHEDULE 1
TOWN OF KITTERY, MAINE
Major General Fund
Schedule of Estimated and Actual Revenues (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2015

	Estimated	Actual	Variance Positive (Negative)
General tax revenues:			
Property taxes	\$ 21,880,286	\$ 21,712,569	\$ (167,717)
Vehicle excise taxes	1,450,655	1,614,001	163,346
Boat excise taxes	28,700	26,466	(2,234)
Total from taxes	23,359,641	23,353,036	(6,605)
Intergovernmental revenues:			
Education subsidy	730,184	730,184	-
State revenue sharing	367,838	404,174	36,336
Homestead exemption	123,282	128,587	5,305
GMH housing	267,800	283,951	16,151
General assistance	39,000	30,200	(8,800)
Other	145,000	367,955	222,955
FEMA	-	93,839	93,839
Tree growth	-	16,154	16,154
Total from licenses, permits, and fees	1,673,104	2,055,044	381,940
Charges for services:			
Income from departments	1,680,625	1,692,671	12,046
Investment income	27,825	36,380	8,555
Other income:			
Interest/fees on taxes	81,000	80,976	(24)
Other income	124,078	101,201	(22,877)
Other education	21,839	36,133	14,294
Total from miscellaneous	226,917	218,310	(8,607)
Other financing sources:			
Transfers in	30,000	30,000	-
Total revenues and other financing sources	26,998,112	\$ 27,385,441	\$ 387,329
Use of available fund balance	602,894		
Total revenues, other financing sources, and use of fund balance	\$ 27,601,006		

SCHEDULE 2
TOWN OF KITTERY, MAINE
Major General Fund
Schedule of Appropriations, Expenditures, and Carry Forward (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2015

	Carry forward Balance Prior Year	Appropriations	Expenditures	Carry forward Balance Current Year	Variance Positive (Negative)
Current:					
General government:					
Administration	\$ -	\$ 977,605	\$ 926,022	\$ 49,989	\$ 1,594
Assessing	-	175,960	174,586	-	1,374
Code enforcement	-	95,484	93,100	-	2,384
Planning and economic development	-	247,594	247,523	-	71
Planning board	2,000	13,313	10,073	-	5,240
Elections	1,115	9,463	8,760	1,730	88
Council	-	9,125	5,925	-	3,200
Total general government	3,115	1,528,544	1,465,989	51,719	13,951
Public safety:					
Police department	-	2,692,933	2,692,899	-	34
Fire department	-	287,532	287,358	-	174
Street lights	-	126,100	126,071	-	29
Hydrants	-	216,020	215,979	-	41
Civil emergency preparedness	-	1,500	262	-	1,238
Total public safety	-	3,324,085	3,322,569	-	1,516
Public works:					
Highways	-	1,195,731	1,195,668	-	63
Solid waste	-	575,219	545,792	-	29,427
Total public works	-	1,770,950	1,741,460	-	29,490
Social services and welfare:					
General assistance	-	60,000	59,476	-	524
Community agencies	-	14,180	13,830	-	350
Public health services	-	601	586	-	15
Total social services and welfare	-	74,781	73,892	-	889
Culture and recreation:					
Parks	-	311,403	282,361	-	29,042
Recreation	-	1,161,249	1,154,799	-	6,450
Library	-	440,916	440,916	-	-
Port authority	-	115,415	115,341	-	74
Total culture and recreation	-	2,028,983	1,993,417	-	35,566
Education	234	13,783,642	13,760,009	-	23,867
County tax	-	910,000	908,475	-	1,525
Debt service:					
Principal of long-term debt	-	1,345,000	1,345,000	-	-
Interest on long-term debt	-	440,781	438,815	-	1,966
Total debt service	-	1,785,781	1,783,815	-	1,966
Grant funds & miscellaneous accounts	-	584,641	574,444	-	10,197
Overlay	-	143,248	-	-	143,248
Other financing uses:					
Transfers out	-	1,666,351	1,666,351	-	-
Total appropriations, expenditures, other financing uses, and carry forwards	\$ 3,349	\$ 27,601,006	\$ 27,290,421	\$ 51,719	\$ 262,215

SCHEDULE 3
TOWN OF KITTERY, MAINE
Major General Fund
Schedule of Changes in Unassigned Fund Balance
For the Fiscal Year Ended June 30, 2015

Unassigned fund balance, beginning (Non-GAAP Budgetary Basis)		\$ 4,345,203
Changes:		
Unassigned fund balance used to reduce 2015 tax rate		(602,894)
2015 Budget summary:		
Revenue surplus (Schedule 1)	\$ 387,329	
Unexpended balance of appropriations (Schedule 2)	<u>262,215</u>	
2015 Budget surplus		649,544
Increase in nonspendable fund balance		(72,624)
Decrease in restricted fund balance		287,146
Increase in committed fund balance		<u>(380,000)</u>
Unassigned fund balance, ending, Non-GAAP Budgetary Basis (Exhibit D)		<u>4,226,375</u>
Reconciliation of Non-GAAP Basis to GAAP Basis		
Unassigned (deficit) fund balance of funds blended with the general fund in accordance with Governmental Accounting Standards Board Statement No. 54:		
Pier Construction		(138,820)
Office Furniture Replacement		(3,463)
Traffic Light Route 236		(70,244)
Pepperrell Cove Utilities		(340)
Fire Department SCBAs		<u>(58,007)</u>
		<u>(270,874)</u>
Unassigned fund balance, ending, GAAP Basis (Exhibit C-1)		<u>\$ 3,955,501</u>

SCHEDULE 4
TOWN OF KITTERY, MAINE
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2015

	Special Revenue Fund	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 131	\$ -	\$ 30,151	\$ 30,282
Investments	-	-	662,669	662,669
Accounts receivable	12,497	-	-	12,497
Intergovernmental receivable	235,817	-	-	235,817
Interfund receivable	743,098	1,142,880	142,468	2,028,446
Inventory	14,195	-	-	14,195
Prepaid items	1,254	-	-	1,254
Total assets	<u>\$ 1,006,992</u>	<u>\$ 1,142,880</u>	<u>\$ 835,288</u>	<u>\$ 2,985,160</u>
LIABILITIES				
Accounts payable	\$ 57,204	\$ 8,041	\$ 2,989	\$ 68,234
Intergovernmental payable	-	19,875	-	19,875
Interfund payable	207,770	-	7,500	215,270
Deferred revenue	9,695	-	-	9,695
Total liabilities	<u>274,669</u>	<u>27,916</u>	<u>10,489</u>	<u>313,074</u>
FUND BALANCES (DEFICIT)				
Nonspendable	15,449	-	821,655	837,104
Restricted	145,119	881,744	3,144	1,030,007
Committed	500,810	233,220	-	734,030
Assigned	74,301	-	-	74,301
Unassigned (deficit)	(3,356)	-	-	(3,356)
Total fund balances	<u>732,323</u>	<u>1,114,964</u>	<u>824,799</u>	<u>2,672,086</u>
Total liabilities and fund balances	<u>\$ 1,006,992</u>	<u>\$ 1,142,880</u>	<u>\$ 835,288</u>	<u>\$ 2,985,160</u>

SCHEDULE 5
TOWN OF KITTERY, MAINE
Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2015

	Special Revenue Funds	Capital Project Funds	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ 722,007	\$ 228,698	\$ -	\$ 950,705
Charges for services	331,486	-	-	331,486
Other income	493,794	900	3,306	498,000
Total revenues	<u>1,547,287</u>	<u>229,598</u>	<u>3,306</u>	<u>1,780,191</u>
EXPENDITURES				
Current:				
General government	134,226	-	25,614	159,840
Public safety	15,139	-	-	15,139
Public works	36,109	56,839	-	92,948
Culture and recreation	68,346	150,080	-	218,426
Education	1,309,377	187,371	-	1,496,748
Capital outlay	32,380	-	210	32,590
Total expenditures	<u>1,595,577</u>	<u>394,290</u>	<u>25,824</u>	<u>2,015,691</u>
Deficiency of revenues under expenditures	<u>(48,290)</u>	<u>(164,692)</u>	<u>(22,518)</u>	<u>(235,500)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	101,978	154,315	-	256,293
Transfers out	<u>(75,223)</u>	<u>-</u>	<u>(30,000)</u>	<u>(105,223)</u>
Total other financing sources (uses)	<u>26,755</u>	<u>154,315</u>	<u>(30,000)</u>	<u>151,070</u>
Net change in fund balances	(21,535)	(10,377)	(52,518)	(84,430)
Fund balances, beginning, as restated (See Note 17)	753,858	1,125,341	877,317	2,756,516
Fund balances, ending	<u>\$ 732,323</u>	<u>\$ 1,114,964</u>	<u>\$ 824,799</u>	<u>\$ 2,672,086</u>

SCHEDULE 6
TOWN OF KITTERY, MAINE
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2015

	ASA Applicant Code	Brownfields Grant	Channel 22	Concert in the Park	D.A.R.E	Fire Hazmat Spill Cleanup	Thresher Memorial	Fuel and More
ASSETS								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	-	-	-	-	-	-	-
Intergovernmental receivable	-	8,697	-	-	-	-	-	-
Interfund receivable	29,007	-	302,378	2,822	216	4,532	5,639	-
Inventory	-	-	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-	-	-
Total assets	\$ 29,007	\$ 8,697	\$ 302,378	\$ 2,822	\$ 216	\$ 4,532	\$ 5,639	\$ -
LIABILITIES								
Accounts payable	\$ 5,285	\$ 8,529	\$ 4,514	\$ -	\$ -	\$ -	\$ 85	\$ -
Interfund payable	-	168	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-
Total liabilities	5,285	8,697	4,514	-	-	-	85	-
FUND BALANCES (DEFICIT)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	66,311	75	-	2,972	-	-
Committed	23,722	-	231,553	2,747	216	1,560	5,554	-
Assigned	-	-	-	-	-	-	-	-
Unassigned (deficit)	-	-	-	-	-	-	-	-
Total fund balances	23,722	-	297,864	2,822	216	4,532	5,554	-
Total liabilities and fund balances	\$ 29,007	\$ 8,697	\$ 302,378	\$ 2,822	\$ 216	\$ 4,532	\$ 5,639	\$ -

SCHEDULE 6
TOWN OF KITTERY, MAINE
Nonmajor Special Revenue Funds (Continued)
Combining Balance Sheet
June 30, 2015

	GMH Fire/Police Protection	Harbor Pier	Kittery Block Party	Kittery Community Center	York Hospital	Legal Ads	Police Forfeiture	Public Safety Impact Fees
ASSETS								
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	-	-	-	-	-	-	-
Intergovernmental receivable	-	-	-	-	-	-	-	-
Interfund receivable	482	-	33,793	21,936	-	-	11,849	38,374
Inventory	-	-	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-	-	-
Total assets	\$ 482	\$ -	\$ 33,793	\$ 21,936	\$ -	\$ -	\$ 11,849	\$ 38,374
LIABILITIES								
Accounts payable	\$ -	\$ -	\$ 4,326	\$ -	\$ -	\$ -	\$ 697	\$ -
Interfund payable	-	-	-	-	3,347	-	-	-
Deferred revenue	-	-	-	-	-	-	-	-
Total liabilities	-	-	4,326	-	3,347	-	697	-
FUND BALANCES (DEFICIT)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	482	-	-	-	-	-	-	-
Committed	-	-	29,467	21,936	-	-	11,152	38,374
Assigned	-	-	-	-	-	-	-	-
Unassigned (deficit)	-	-	-	-	(3,347)	-	-	-
Total fund balances	482	-	29,467	21,936	(3,347)	-	11,152	38,374
Total liabilities and fund balances	\$ 482	\$ -	\$ 33,793	\$ 21,936	\$ -	\$ -	\$ 11,849	\$ 38,374

SCHEDULE 6
TOWN OF KITTERY, MAINE
Nonmajor Special Revenue Funds (Continued)
Combining Balance Sheet
June 30, 2015

	Special Events	Spruce Creek 319 Phase 2	Spruce Creek 319 Phase 3	Spruce Creek 319 Phase 4	Storm Damage/ FEMA	Athletic Fields	Wave Attenuation	Wetland Mitigation	Other School Grants	Total
ASSETS										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131	\$ 131
Accounts receivable	-	-	-	-	-	-	-	-	12,497	12,497
Intergovernmental receivables	-	-	30,964	2,006	2,172	-	10,000	-	181,978	235,817
Interfund receivable	-	-	-	-	20,937	9,914	-	7,400	253,819	743,098
Inventory	-	-	-	-	-	-	-	-	14,195	14,195
Prepaid items	-	-	-	-	-	-	-	-	1,254	1,254
Total assets	\$ -	\$ -	\$ 30,964	\$ 2,006	\$ 23,109	\$ 9,914	\$ 10,000	\$ 7,400	\$ 463,874	\$ 1,006,992
LIABILITIES										
Accounts payable	\$ -	\$ -	\$ 739	\$ 2,006	\$ 4,409	\$ 7,286	\$ -	\$ -	\$ 19,328	\$ 57,204
Interfund payable	-	-	30,225	-	-	-	6,000	-	168,030	207,770
Deferred revenue	-	-	-	-	-	-	-	-	9,695	9,695
Total liabilities	-	-	30,964	2,006	4,409	7,286	6,000	-	197,053	274,669
FUND BALANCES (DEFICIT)										
Nonspendable	-	-	-	-	-	-	-	-	15,449	15,449
Restricted	-	-	-	-	18,700	2,628	-	-	53,951	145,119
Committed	-	-	-	-	-	-	4,000	7,400	123,129	500,810
Assigned	-	-	-	-	-	-	-	-	74,301	74,301
Unassigned (deficit)	-	-	-	-	-	-	-	-	(9)	(3,356)
Total fund balances	-	-	-	-	18,700	2,628	4,000	7,400	266,821	732,323
Total liabilities and fund balances	\$ -	\$ -	\$ 30,964	\$ 2,006	\$ 23,109	\$ 9,914	\$ 10,000	\$ 7,400	\$ 463,874	\$ 1,006,992

SCHEDULE 7
TOWN OF KITTERY, MAINE
Nonmajor Special Revenue Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2015

	ASA Applicant Code	Brownfields Grant	Channel 22	Concert in the Park	D.A.R.E.	Fire Hazard Spill Cleanup	Thresher Memorial	Fuel and More
REVENUES								
Intergovernmental	\$ -	\$ 8,698	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	-	-	-	-
Other income	31,175	-	106,128	2,400	-	3,527	6,984	621
Total revenues	31,175	8,698	106,128	2,400	-	3,527	6,984	621
EXPENDITURES								
Current:								
General government	27,236	8,698	39,817	-	-	-	1,430	-
Public safety	-	-	-	-	-	1,967	-	-
Public works	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	2,325	-	-	-	-
Total expenditures	27,236	8,698	39,817	2,325	-	1,967	1,430	-
Excess (deficiency) of revenues over (under) expenditures	3,939	-	66,311	75	-	1,560	5,554	621
OTHER FINANCING SOURCES (USES)								
Transfers in	-	-	-	-	-	-	-	6
Transfers out	-	-	-	-	-	-	-	(45,773)
Total other financing sources (uses)	-	-	-	-	-	-	-	(45,767)
Net change in fund balances	3,939	-	66,311	75	-	1,560	5,554	(45,146)
Fund balances (deficit), beginning, as restated (see Note 17)	19,783	-	231,553	2,747	216	2,972	-	45,146
Fund balances (deficit), ending	\$ 23,722	\$ -	\$ 297,864	\$ 2,822	\$ 216	\$ 4,532	\$ 5,554	\$ -

SCHEDULE 7
TOWN OF KITTERY, MAINE
Nonmajor Special Revenue Funds (Continued)
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2015

	GMH Fire/Police Protection	Harbor Pier	Kittery Block Party	Kittery Community Center	York Hospital	Legal Ads	Police Forfeiture	Public Safety Impact Fees
REVENUES								
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	-	-	-	-
Other income	-	-	45,760	20,382	18,500	-	17,083	19,049
Total revenues	-	-	45,760	20,382	18,500	-	17,083	19,049
EXPENDITURES:								
Current:								
General government	-	-	38,090	-	-	-	-	18,955
Public safety	550	-	-	-	-	-	12,622	-
Public works	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	14,844	30,950	-	-	-
Education	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Total expenditures	550	-	38,090	14,844	30,950	-	12,622	18,955
Excess (deficiency) of revenues over (under) expenditures	(550)	-	7,670	5,538	(12,450)	-	4,461	94
OTHER FINANCING SOURCES (USES)								
Transfers in	-	-	-	-	-	-	-	-
Transfers out	-	(1,928)	-	-	-	(297)	-	(12,412)
Total other financing sources (uses)	-	(1,928)	-	-	-	(297)	-	(12,412)
Net change in fund balances	(550)	(1,928)	7,670	5,538	(12,450)	(297)	4,461	(12,318)
Fund balances (deficit), beginning as restated (see Note 17)	1,032	1,928	21,797	16,398	9,103	297	6,691	50,692
Fund balances (deficit), ending	\$ 482	\$ -	\$ 29,467	\$ 21,936	\$ (3,347)	\$ -	\$ 11,152	\$ 38,374

SCHEDULE 7
TOWN OF KITTERY, MAINE
Nonmajor Special Revenue Funds (Continued)
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2015

	Special Events	Spruce Creek 319 Phase 2	Spruce Creek 319 Phase 3	Spruce Creek 319 Phase 4	Storm Damage/ FEMA	Athletic Fields	Wave Attenuation	Wetland Mitigation	Other School Grants	Total
REVENUES										
Intergovernmental	\$ -	\$ -	\$ 28,049	\$ 2,006	\$ 2,173	\$ -	\$ -	\$ -	\$ 681,081	\$ 722,007
Charges for services	-	-	-	-	-	-	-	-	331,486	331,486
Other income	-	-	-	-	-	12,500	20,000	-	189,685	493,794
Total revenues	-	-	28,049	2,006	2,173	12,500	20,000	-	1,202,252	1,547,287
EXPENDITURES										
Current:										
General government	-	-	-	-	-	-	-	-	-	134,226
Public safety	-	-	-	-	-	-	-	-	-	15,139
Public works	-	-	-	-	23,109	-	13,000	-	-	36,109
Culture and recreation	180	-	-	-	-	22,372	-	-	-	68,346
Education	-	-	-	-	-	-	-	-	1,309,377	1,309,377
Capital outlay	-	-	28,049	2,006	-	-	-	-	-	32,380
Total expenditures	180	-	28,049	2,006	23,109	22,372	13,000	-	1,309,377	1,595,577
Excess (deficiency) of revenues over (under) expenditures	(180)	-	-	-	(20,936)	(9,872)	7,000	-	(107,125)	(48,290)
OTHER FINANCING SOURCES (USES)										
Transfers in	-	3,910	-	-	-	12,500	-	-	85,562	101,978
Transfers out	(751)	-	-	-	-	-	-	-	(14,062)	(75,223)
Total other financing sources (uses)	(751)	3,910	-	-	-	12,500	-	-	71,500	26,755
Net change in fund balances	(931)	3,910	-	-	(20,936)	2,628	7,000	-	(35,625)	(21,535)
Fund balances (deficit), beginning as restated (see Note 17)	931	(3,910)	-	-	39,636	-	(3,000)	7,400	302,446	753,858
Fund balances (deficit), ending	\$ -	\$ -	\$ -	\$ -	\$ 18,700	\$ 2,628	\$ 4,000	\$ 7,400	\$ 266,821	\$ 732,323

SCHEDULE 8
TOWN OF KITTERY, MAINE
Nonmajor Capital Projects Funds
Combining Balance Sheet
June 30, 2015

	Boat Infrastructure Grant	Capital Improvement	Fort Foster Bench	State Aid to Roads	Route 1 Bypass/Two Way	School Capital Project Funds	Total
ASSETS							
Interfund receivable	\$ 4,605	\$ 6,397	\$ 13,042	\$ 875,196	\$ 2,500	\$ 241,140	\$ 1,142,880
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,041	\$ 8,041
Intergovernmental payable	-	-	-	19,875	-	-	19,875
Total liabilities	-	-	-	19,875	-	8,041	27,916
FUND BALANCES							
Restricted	-	-	-	855,321	2,500	23,923	881,744
Committed	4,605	6,397	13,042	-	-	209,176	233,220
Total fund balances	4,605	6,397	13,042	855,321	2,500	233,099	1,114,964
Total liabilities and fund balances	\$ 4,605	\$ 6,397	\$ 13,042	\$ 875,196	\$ 2,500	\$ 241,140	\$ 1,142,880

SCHEDULE 9
TOWN OF KITTERY, MAINE
Nonmajor Capital Projects Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2015

	Boat Infrastructure Grant	Capital Improvement	Fort Foster Bench	State Aid to Roads	Route 1 Bypass/Two Way	School Capital Project Funds	Total
REVENUES							
Intergovernmental	\$ 77,194	\$ -	\$ -	\$ 151,504	\$ -	\$ -	\$ 228,698
Other income	-	-	900	-	-	-	900
Total revenues	77,194	-	900	151,504	-	-	229,598
EXPENDITURES							
Current:							
Public works	-	-	-	56,839	-	-	56,839
Culture and recreation	149,289	-	791	-	-	-	150,080
Education	-	-	-	-	-	187,371	187,371
Total expenditures	149,289	-	791	56,839	-	187,371	394,290
Excess (deficiency) of revenues over (under) expenditures	(72,095)	-	109	94,665	-	(187,371)	(164,692)
OTHER FINANCING SOURCES							
Transfers in	-	-	-	-	2,500	151,815	154,315
Net change in fund balances	(72,095)	-	109	94,665	2,500	(35,556)	(10,377)
Fund balances, beginning, as restated (see Note 17)	76,700	6,397	12,933	760,656	-	268,655	1,125,341
Fund balances, ending	\$ 4,605	\$ 6,397	\$ 13,042	\$ 855,321	\$ 2,500	\$ 233,099	\$ 1,114,964

SCHEDULE 10
TOWN OF KITTEERY, MAINE
Nonmajor Permanent Funds
Combining Balance Sheet
June 30, 2015

	Cemetery	Public Health Trust	Mary Safford Wildes Trust	Lester Raynes Fund	Connie Samuels Beautification	Total
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ 30,151	\$ -	\$ -	\$ 30,151
Investments	-	-	662,669	-	-	662,669
Interfund receivable	47,453	27,275	-	9,192	58,548	142,468
Total assets	<u>\$ 47,453</u>	<u>\$ 27,275</u>	<u>\$ 692,820</u>	<u>\$ 9,192</u>	<u>\$ 58,548</u>	<u>\$ 835,288</u>
LIABILITIES						
Accounts payable	\$ 2,950	\$ -	\$ -	\$ -	\$ 39	\$ 2,989
Interfund payable	-	-	7,500	-	-	7,500
Total liabilities	<u>2,950</u>	<u>-</u>	<u>7,500</u>	<u>-</u>	<u>39</u>	<u>10,489</u>
FUND BALANCES						
Nonspendable	44,503	27,275	682,238	9,155	58,484	821,655
Restricted	-	-	3,082	37	25	3,144
Total fund balances	<u>44,503</u>	<u>27,275</u>	<u>685,320</u>	<u>9,192</u>	<u>58,509</u>	<u>824,799</u>
Total liabilities and fund balances	<u>\$ 47,453</u>	<u>\$ 27,275</u>	<u>\$ 692,820</u>	<u>\$ 9,192</u>	<u>\$ 58,548</u>	<u>\$ 835,288</u>

SCHEDULE 11
TOWN OF KITTERY, MAINE
Nonmajor Permanent Funds
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2015

	Cemetery	Public Health Trust	Mary Safford Wildes Trust	Lester Raynes Fund	Connie Samuels Beautification	Total
REVENUES						
Other income	\$ 500	\$ -	\$ 2,534	\$ 37	\$ 235	\$ 3,306
EXPENDITURES						
Current:						
General government	19,450	-	6,164	-	-	25,614
Capital outlay	-	-	-	-	210	210
Total expenditures	19,450	-	6,164	-	210	25,824
Excess (deficiency) of revenues over (under) expenditures	(18,950)	-	(3,630)	37	25	(22,518)
OTHER FINANCING USES						
Transfers out	-	-	(30,000)	-	-	(30,000)
Net change in fund balances	(18,950)	-	(33,630)	37	25	(52,518)
Fund balances, beginning	63,453	27,275	718,950	9,155	58,484	877,317
Fund balances, ending	\$ 44,503	\$ 27,275	\$ 685,320	\$ 9,192	\$ 58,509	\$ 824,799



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INDEPENDENT AUDITOR'S 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

To the Members of the Town Council
Town of Kittery
Kittery, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, major fund, and aggregate remaining fund information of the Town of Kittery, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Kittery's basic financial statements, and have issued our report thereon dated January 25, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Kittery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Kittery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Kittery's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Kittery'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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sheryl A. Pratt, CPA

January 25, 2016
Except for Note 24 as to which the date is June 3, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Members of the Town Council
Town of Kittery
Kittery, Maine

Report on Compliance for Each Major Federal Program

We have audited the Town of Kittery's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town of Kittery's major federal programs for the year ended June 30, 2015. The Town of Kittery's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the Town of Kittery complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Town of Kittery is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Kittery's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program 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 the Town of Kittery's internal control over compliance.

***Independent Auditor's Report on Compliance for Each Major Federal Program and
Report on Internal Control over Compliance Required by OMB Circular A-133***

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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sheryl A. Platt, CPA

PLODZIK & SANDERSON
Professional Association

January 25, 2016

Except for CFDA 84.367 as to which the date is June 3, 2016

SCHEDULE I
TOWN OF KITTERY, MAINE
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

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

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of OMB Circular A-133? yes X no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>12.558</u>	<u>Department of Defense Impact Aid (Supplement, CWSD, BRAC)</u>
<u>84.027 and 84.173</u>	<u>Special Education Cluster</u>
<u>84.041</u>	<u>Impact Aid</u>
<u>84.367</u>	<u>Improving Teacher Quality State Grants</u>

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

Auditee qualified as low-risk auditee? yes X no

SECTION II - FINANCIAL STATEMENT FINDINGS

NONE

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SCHEDULE II
TOWN OF KITTEERY, MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the State of Maine Department of Education			
CHILD NUTRITION CLUSTER			
School Breakfast Program	10.553	N/A	\$ 34,446
National School Lunch Program (note 3)	10.555	N/A	171,267
<i>CLUSTER TOTAL</i>			<u>205,713</u>
U.S. DEPARTMENT OF COMMERCE			
Passed Through the State of Maine ConnectME Authority			
ARRA - Broadband Technology Opportunities Program (BTOP)	11.557	23-50-M09062	<u>5,500</u>
U.S. DEPARTMENT OF THE INTERIOR			
Passed Through the State of Maine Department of Transportation			
Sportfishing and Boating Safety Act	15.622	CSN #29001	<u>101,428</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed Through the State of Maine Department of Transportation			
Highway Planning & Construction	20.205	CSN #29303	<u>6,708</u>
Passed Through the State of Maine Bureau of Highway Safety			
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	AL14-075	<u>984</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Passed Through the State of Maine Department of Environmental Protection			
Performance Partnership Grants	66.605	2015RT06	<u>2,006</u>
Passed Through the State of Maine Department of Transportation			
Nonpoint Source Implementation Grants	66.460	2013RT06	<u>28,049</u>
U.S. DEPARTMENT OF ENERGY			
Passed Through the Town of South Berwick, Maine			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	N/A	<u>37,000</u>
U.S. DEPARTMENT OF EDUCATION			
Passed Through the State of Maine Department of Education			
Title I Grants to Local Educational Agencies:			
FY 14 Title I	84.010	N/A	25,542
FY 15 Title I	84.010	N/A	104,984
<i>PROGRAM TOTAL</i>			<u>130,526</u>

(continued)

The accompanying notes are an integral part of this schedule.

SCHEDULE II (continued)
TOWN OF KITTERY, MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
SPECIAL EDUCATION CLUSTER			
Special Education - Grants to States:			
FY 14 Local Entitlement	84.027	N/A	235,945
FY 15 Local Entitlement	84.027	N/A	9,130
Special Education - Preschool Grants	84.173	N/A	584
<i>CLUSTER TOTAL</i>			<u>245,659</u>
Improving Teacher Quality State Grants:			
FY 14 Title IIA	84.367	N/A	7,225
FY 15 Title IIA	84.367	N/A	19,873
<i>PROGRAM TOTAL</i>			<u>27,098</u>
<hr/> Passed Through the MSAD #60 <hr/>			
Adult Education - Basic Grants to States	84.002	N/A	<u>6,722</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<hr/> Passed Through the State of Maine Department of Defense, Veterans. and Emergency Management <hr/>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4208-DR-ME	<u>80,840</u>
DIRECT FUNDING			
U.S. DEPARTMENT OF DEFENSE			
Department of Defense Impact Aid (Supplement, CWSD, BRAC)	12.558	N/A	<u>40,068</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	N/A	<u>8,698</u>
U.S. DEPARTMENT OF EDUCATION			
Impact Aid	84.041	N/A	<u>302,021</u>
<i>Total Expenditures of Federal Awards</i>			<u><u>\$ 1,229,020</u></u>

The accompanying notes are an integral part of this schedule.

TOWN OF KITTERY, MAINE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "schedule") includes the federal grant activity of the Town of Kittery under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Town of Kittery it is not intended to and does not present the financial position, changes in net assets or cash flows of the Town of Kittery.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3. Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities on the date received.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH MAINE STATE STATUTE REQUIREMENTS

Edward T. Perry, CPA

James A. Sojka, CPA

Sheryl A. Pratt, CPA

Michael J. Campo, CPA

January 25, 2016

Town of Kittery
200 Rogers Road
Kittery, ME 03904

Donna M. LaClair, CPA**

Ashley J. Miller, CPA

Tyler A. Paine, CPA

Kyle G. Gingras, CPA

Susan E. Gauthier, CPA

To the Management of the Town of Kittery School Department:

We have audited the financial statement audit of the Town of Kittery School Department as of and for the year ended June 30, 2015, and have issued our report thereon dated January 12, 2016.

The management of the Town of Kittery School Department is responsible for the School Department's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the School Department's compliance with laws, regulations, noncompliance with which could have a material effect on the financial statements of the Town of Kittery School Department.

Title 20-A Sec 6051 requires certain written assurances with respect to school audits. Our audit of compliance with laws and regulations consisted of, at a minimum, the following:

1. A determination of whether or not the School Department has complied with budget content requirements pursuant to section 15693.
2. A determination of whether or not the School Department has complied with transfer limitations between budget cost centers pursuant to section 1485.
3. A determination of whether or not the School Department has exceeded its authority to expend funds.
4. A determination of whether or not the annual financial data submitted to the School Department is correct.
5. A determination of whether or not the School Department was in compliance with applicable provisions of the Essential Programs and Services Funding Act.

The results of our tests indicate that, for the items tested, the Town of Kittery School Department complied with those provisions of Maine laws and regulations. Nothing came to our attention that caused us to believe that, for the items not tested, the Town of Kittery School Department was not in compliance with Maine Laws and regulations.

Sincerely,

PLODZIK & SANDERSON
Professional Association

PLODZIK & SANDERSON
Professional Association / Accountants & Auditors

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KITTERY SCHOOL DEPARTMENT
Reconciliation of MEDMS Annual Report to Financial Statements
For the Fiscal Year Ended June 30, 2015

	General Fund 1000	Special Revenue Funds 2000	Capital Project Funds 3000/4000	Proprietary Funds 6000	Private Purpose Trust Funds 8000	Other	Total
June 30, 2015 Balance per MEDMS Financial System	\$ 789,705	\$ 1,338,775	\$ 233,099	\$ -	\$ -	\$ 26,423	\$ 2,388,002
Revenue Adjustments - Increase (Decrease):							
Rounding adjustments	-	4	-	-	-	-	4
State of Maine On-Behalf Payments	1,242,999	-	-	-	-	-	1,242,999
Expenditure Adjustments - (Increase) Decrease:							
State of Maine On-Behalf Payments	(1,242,999)	-	-	-	-	-	(1,242,999)
Other Adjustments:							
Reserves blended into general fund for GASB #54 reporting:							
Special Education Reserve - Fund 2910	601,700	(601,700)	-	-	-	-	-
School Maintenance Reserve - Fund 2920	286,479	(286,479)	-	-	-	-	-
Technology Reserve - Fund 2940	10,000	(10,000)	-	-	-	-	-
Unfunded Liabilities Reserve - Fund 2990	212,107	(212,107)	-	-	-	-	-
Extra-curricular Reserves - Fund 2008	17,500	(17,500)	-	-	-	-	-
Ending fund balances not reported on MEDMS:							
Mitchell Fund - Fund 9010	-	4,562	-	-	-	-	4,562
Shapleigh Fund - Fund 9020	-	14,627	-	-	-	-	14,627
Traip Fund - Fund 9030	-	10,153	-	-	-	-	10,153
Central Office Fund - Fund 9040	-	63	-	-	-	-	63
Reported as special revenue funds - Funds 1500 and 6010	-	26,423	-	-	-	(26,423)	-
Funds not recorded in general ledger or reported in MEDMS	-	-	-	-	386,261	-	386,261
Audited GAAP Basis Fund Balance	\$ 1,917,491	\$ 266,821	\$ 233,099	\$ -	\$ 386,261	\$ -	\$ 2,803,672