

Audited Financial Statements
And Other Financial Information

**State of Maine Unorganized Territory
Education and Services Fund**

June 30, 2020

Prepared by the Fiscal Administrator of the Unorganized Territory
September 23, 2021

**STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND**

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INDEPENDENT AUDITORS' REPORT

State of Maine
Office of the State Auditor
Unorganized Territory Education and Services Fund
Augusta, Maine

Report on the Financial Statements

We have audited the governmental activities and each major fund of State of Maine Unorganized Territory Education and Services Fund, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund'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.

Auditors' 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 of 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

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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 State of Maine Unorganized Territory Education and Services Fund as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 of Notes to Financial Statements, the financial statements present only the State of Maine Unorganized Territory Education and Services Fund, a fund of the State of Maine, and do not purport to, and do not present fairly, the financial position of the State of Maine, as of June 30, 2020, the changes in financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State of Maine Unorganized Territory Education and Services Fund is a fund of the State of Maine. Certain disclosures relevant to both the State of Maine and the State of Maine Unorganized Territory Education and Services Fund are omitted herein and have been disclosed in the State of Maine's basic financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine Unorganized Territory Education and Services Fund's basic financial statements. The Comparative Balance Sheets - General Fund and the Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Comparative Balance Sheets - General Fund and the Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund are the responsibility of management and were derived from and related 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 Comparative Balance Sheets - General Fund and the Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund 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 October 22, 2021, on our consideration of State of Maine Unorganized Territory Education and Service Fund's internal control over financial reporting and 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 State of Maine Unorganized Territory Education and Service Fund's internal control over financial reporting and compliance.

RHR Smith & Company

Buxton, Maine
October 22, 2021

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

(UNAUDITED)

The following management's discussion and analysis of the State of Maine Unorganized Territory Education and Services Fund's financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the Fund's financial statements.

Financial Statement Overview

The State of Maine Unorganized Territory Education and Services Fund's basic financial statements include the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes required supplementary information which consists of the General Fund budgetary comparison schedule, and other supplementary information which includes combining and other schedules.

Basic Financial Statements

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

Government-wide Financial Statements

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

The Statement of Net Position – this statement presents *all* of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference being reported as net position.

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

The type of activity presented for the State of Maine Unorganized Territory Education and Services Fund is:

- *Governmental activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues. All of the Fund's basic services are reported in governmental activities, which include state agencies, county reimbursements for services, county tax and tax increment financing.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of Maine Unorganized Territory Education and Services Fund, like other local governments, uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. All of the funds of the State of Maine Unorganized Territory Education and Services Fund are either governmental or fiduciary funds.

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

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

The State of Maine Unorganized Territory Education and Services Fund presents two columns in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances. The Fund's only major fund is the general fund. All other funds are shown as nonmajor and are combined in the "Other Governmental Funds" column on these statements.

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

Other supplementary information follows the required supplementary information. These combining and other schedules provide information in regard to nonmajor funds and other detailed budgetary information for the general fund.

Government-Wide Financial Analysis

Our analysis below focuses on the net position, and changes in net position of the Fund's governmental activities. The Fund's total net position increased by \$1,923,560 from \$8,853,697 to \$10,777,257.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased by \$1,915,372 to a balance of \$9,717,080 at the end of this fiscal year.

Table 1
State of Maine Unorganized Territory
Education and Services Fund
Net Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Current assets	\$ 11,984,593	\$ 9,050,138	\$ 2,934,455	32.42%
Capital assets	1,060,177	1,051,989	8,188	0.78%
Total assets	<u>13,044,770</u>	<u>10,102,127</u>	<u>2,942,643</u>	<u>29.13%</u>
Liabilities:				
Current liabilities	<u>2,155,441</u>	<u>1,158,483</u>	<u>996,958</u>	<u>86.06%</u>
Total liabilities	<u>2,155,441</u>	<u>1,158,483</u>	<u>996,958</u>	<u>86.06%</u>
Deferred Inflows of Resources:				
Taxes paid in advance/overpaid taxes	<u>112,072</u>	<u>89,947</u>	<u>22,125</u>	<u>24.60%</u>
Total deferred inflows of resources	<u>112,072</u>	<u>89,947</u>	<u>22,125</u>	<u>24.60%</u>
Net Position:				
Net Investment in Capital Assets	1,060,177	1,051,989	8,188	0.78%
Unrestricted	<u>9,717,080</u>	<u>7,801,708</u>	<u>1,915,372</u>	<u>24.55%</u>
Total Net Position	<u><u>\$ 10,777,257</u></u>	<u><u>\$ 8,853,697</u></u>	<u><u>\$ 1,923,560</u></u>	<u><u>21.73%</u></u>

Table 2
State of Maine Unorganized Territory
Education and Services Fund
Change in Net Position
For The Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Revenue from property taxes	\$ 34,435,067	\$ 33,393,438	\$ 1,041,629	3.12%
General intergovernmental revenues	768,751	705,980	62,771	8.89%
Education revenue	586,097	545,977	40,120	7.35%
Unclassified	99,265	102,544	(3,279)	-3.20%
Total Revenues	<u>35,889,180</u>	<u>34,747,939</u>	<u>1,141,241</u>	<u>3.28%</u>
Expenses				
State agencies	14,209,116	13,797,123	411,993	2.99%
County reimbursements for services	9,130,199	8,658,330	471,869	5.45%
County tax	6,691,777	6,324,187	367,590	5.81%
Tax increment financing	3,721,821	3,867,519	(145,698)	-3.77%
Overlay/abatements	212,707	154,987	57,720	37.24%
Total Expenses	<u>33,965,620</u>	<u>32,802,146</u>	<u>1,163,474</u>	<u>3.55%</u>
Change in Net Position	1,923,560	1,945,793	(22,233)	-1.14%
Net Position - July 1	<u>8,853,697</u>	<u>6,907,904</u>	<u>1,945,793</u>	<u>28.17%</u>
Net Position - June 30	<u>\$ 10,777,257</u>	<u>\$ 8,853,697</u>	<u>\$ 1,923,560</u>	<u>21.73%</u>

Revenues and Expenses

Revenues for the Fund's governmental activities increased by 3.28% while total expenses increased by 3.55%. The increase in revenues was mainly due to an increase in property tax revenue. The increase in expenses was mainly due to increased payments by the Education and Services Fund for State agency expenses for education, County services, and County tax.

Financial Analysis of the Fund's Fund Statements

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

Table 3
State of Maine Unorganized Territory
Education and Services Fund
Fund Balances - Governmental Funds
For The Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
General Fund:				
Assigned	\$ 1,036,930	\$ 538,314	\$ 498,616	92.63%
Unassigned	8,315,761	6,777,780	1,537,981	22.69%
Total General Fund	<u>\$ 9,352,691</u>	<u>\$ 7,316,094</u>	<u>\$ 2,036,597</u>	<u>27.84%</u>
Nonmajor Funds:				
Special Revenue Funds:				
Restricted	\$ -	\$ 41,522	\$ (41,522)	-100.00%
Total Nonmajor Funds	<u>\$ -</u>	<u>\$ 41,522</u>	<u>\$ (41,522)</u>	<u>-100.00%</u>

The General Fund total fund balance increased by \$2,036,597 from the prior fiscal year as a result of positive budgetary balances in both revenues and expenditures which exceeded a budgeted use of surplus. The nonmajor funds total fund balance decreased by \$41,522 from the prior year due to expenditures exceeding revenues.

Budgetary Highlights

Significant differences between the original budget and the final budget were due to the budgeting and adjustment of county tax, tax increment financing, and overlay expenditures and related revenues. These amounts are not known until the tax commitment has been calculated.

Actual revenues for the General Fund surpassed budgeted expectations by \$938,368. This is primarily due to property tax revenue exceeding budget by \$343,194, intergovernmental revenue exceeding budget by \$294,812 and education revenue exceeding budget by \$201,097.

General Fund actual expenditures for payment to State Agencies, County Reimbursement for Services, County Tax, Tax Incremental Financing and Overlay were less than budget by \$1,448,229. The majority of the variance was due to State agency expenditures which were under budget by \$1,360,764. Overlay expenditures were under budget by \$397,187 and abatement expenditures were over budget by \$212,707.

Economic Factors

Management considers two months' financial needs, available anytime within unassigned fund balance, as an adequate financial buffer. The Fund has an unassigned fund balance available to sustain government operations for a period of approximately three months, as of June 30, 2020.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2020, the net book value of capital assets recorded by the Fund increased by \$8,188 from the prior year. The net increase is due to \$222,858 of vehicle additions reduced by \$214,670 in current year depreciation expense.

Table 4
State of Maine Unorganized Territory
Education and Services Fund
Capital Assets (Net of Depreciation)
For The Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Land	\$ 4,831	\$ 4,831
Building and improvements	386,593	408,865
Vehicles and equipment	<u>668,753</u>	<u>638,293</u>
Total	<u>\$ 1,060,177</u>	<u>\$ 1,051,989</u>

Debt

As of June 30, 2020, the Fund had no long-term debt.

Coronavirus Disease (COVID-19) Pandemic

During the fiscal year ended June 30, 2020, the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, was declared a pandemic by the World Health Organization and led to a declaration of a national state of emergency in the United States. The State of Maine declared a state of emergency and issued numerous other public health emergency orders that restrict movement and limit businesses and other activities. These actions and the effects of COVID-19 have significantly disrupted economic activity at all levels, including within the State, and have caused significant volatility in financial markets around the world, including in the United States.

In response to the public health crisis created by COVID-19, since early March, the Governor has issued multiple executive orders and declarations and taken various actions to protect the public health in an effort to reduce community spread of the virus and protect Maine's citizens. These measures have included, among others, closing or restricting access to certain businesses and activities, issuing a "stay at home" directive for most citizens, restricting nonessential travel, requiring self-quarantining by persons traveling into the State, suspension of lodging and short-term rental operations, and limiting movement of all persons in Maine to those necessary to obtain or provide essential services or activities. The Administration has implemented a phased reopening of the State, however, the speed and scope of the reopening process will depend upon progress toward limiting the continued spread of the disease. The economic, financial and budgetary impacts on the State and its economy from the measures taken to combat the spread of COVID-19, have been and are expected to continue to be significant. The Unorganized Territory as a sector of the State of Maine economy is expected to be impacted, however, it is difficult to predict the level of impact due to the overall uncertainty of the pandemic.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the State of Maine - Office of the State Auditor at 66 State House Station, Augusta, Maine 04333.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF NET POSITION

JUNE 30, 2020

	Governmental Activities
ASSETS	
Current assets:	
Taxes receivable (net of allowance for uncollectibles)	\$ 260,861
Tax liens	223,624
Accounts receivable	7,967
Due from other governments	184,277
Due from State of Maine Treasury	11,307,864
Total current assets	<u>11,984,593</u>
Noncurrent assets:	
Capital assets:	
Land and other assets not being depreciated	4,831
Depreciable assets, net of accumulated depreciation	1,055,346
Total noncurrent assets	<u>1,060,177</u>
TOTAL ASSETS	<u><u>\$ 13,044,770</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,958,511
Accrued expenses	196,930
Total current liabilities	<u>2,155,441</u>
TOTAL LIABILITIES	<u>2,155,441</u>
DEFERRED INFLOWS OF RESOURCES	
Taxes paid in advance/overpaid taxes	112,072
TOTAL DEFERRED INFLOW OF RESOURCES	<u>112,072</u>
NET POSITION	
Net investment in capital assets	1,060,177
Unrestricted	9,717,080
TOTAL NET POSITION	<u>10,777,257</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 13,044,770</u></u>

See accompanying independent auditor's report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Revenue & Changes in Net Position
					Total Governmental Activities
Governmental activities:					
State agencies	\$ 14,209,116	\$ -	\$ 263,939	\$ -	\$ (13,945,177)
County reimbursements for services	9,130,199	-	-	-	(9,130,199)
County tax	6,691,777	-	-	-	(6,691,777)
Tax increment financing	3,721,821	-	-	-	(3,721,821)
Abatements	212,707	-	-	-	(212,707)
Total government	<u>\$ 33,965,620</u>	<u>\$ -</u>	<u>\$ 263,939</u>	<u>\$ -</u>	<u>(33,701,681)</u>
General revenues:					
Revenue from property taxes					34,435,067
General intergovernmental revenues					504,812
Education revenue					586,097
Unclassified					99,265
Total general revenues					<u>35,625,241</u>
Change in net position					1,923,560
NET POSITION - JULY 1					<u>8,853,697</u>
NET POSITION - JUNE 30					<u>\$ 10,777,257</u>

See accompanying independent auditor's report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2020

	General Fund	Other Governmental Funds	Total
ASSETS			
Taxes receivable (net of allowance for uncollectibles)	\$ 260,861	\$ -	\$ 260,861
Taxes and liens receivable - prior years	223,624	-	223,624
Accounts receivable	-	7,967	7,967
Due from other governments	184,277	-	184,277
Due from State of Maine Treasury	11,307,864	-	11,307,864
TOTAL ASSETS	\$ 11,976,626	\$ 7,967	\$ 11,984,593
LIABILITIES			
Accounts Payable	\$ 1,950,544	\$ -	\$ 1,950,544
Due to State of Maine Treasury	-	7,967	7,967
Accrued Wages	196,930	-	196,930
TOTAL LIABILITIES	2,147,474	7,967	2,155,441
DEFERRED INFLOWS OF RESOURCES			
Taxes paid in advance/overpaid taxes	112,072	-	112,072
Deferred tax revenue	364,389	-	364,389
TOTAL DEFERRED INFLOW OF RESOURCES	476,461	-	476,461
FUND BALANCES			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	1,036,930	-	1,036,930
Unassigned	8,315,761	-	8,315,761
TOTAL FUND BALANCES	9,352,691	-	9,352,691
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 11,976,626	\$ 7,967	\$ 11,984,593

See accompanying independent auditor's report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

	Total Governmental Funds
Total Fund Balances	\$ 9,352,691
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Other long-term assets are not available to pay current-period expenditures and therefore are deferred in the funds shown above:	
Taxes and liens receivable (not collected within 60 days of year-end)	364,389
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	1,060,177
Net position of governmental activities	\$ 10,777,257

See accompanying independent auditor's report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property taxes	\$ 34,514,770	\$ -	\$ 34,514,770
Intergovernmental revenues	504,812	263,939	768,751
Education revenue	586,097	-	586,097
Unclassified	99,265	-	99,265
TOTAL REVENUES	<u>35,704,944</u>	<u>263,939</u>	<u>35,968,883</u>
EXPENDITURES			
Current:			
State agencies	13,911,843	305,461	14,217,304
County reimbursements for services	9,130,199	-	9,130,199
County tax	6,691,777	-	6,691,777
Tax increment financing	3,721,821	-	3,721,821
Overlay/abatements	212,707	-	212,707
TOTAL EXPENDITURES	<u>33,668,347</u>	<u>305,461</u>	<u>33,973,808</u>
NET CHANGE IN FUND BALANCES	2,036,597	(41,522)	1,995,075
FUND BALANCES - JULY 1	<u>7,316,094</u>	<u>41,522</u>	<u>7,357,616</u>
FUND BALANCES - JUNE 30	<u>\$ 9,352,691</u>	<u>\$ -</u>	<u>\$ 9,352,691</u>

See accompanying independent auditor's report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Net change in fund balances - total governmental funds (Statement E)	<u>\$ 1,995,075</u>
Amounts reported for governmental activities in the Statement of Activities (Statement B) are different because:	
Revenues in the Statement of Activities that do not provide current financial resources as revenues in the funds:	
Taxes and liens receivable (not collected within 60 days of year-end)	<u>(79,703)</u>
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense allocated to those expenditures over the life of the assets:	
Capital additions	222,858
Depreciation expense	<u>(214,670)</u>
	<u>8,188</u>
Change in net position of governmental activities (Statement B)	<u><u>\$ 1,923,560</u></u>

See accompanying independent auditor's report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF NET POSITION - FIDUCIARY FUNDS
 JUNE 30, 2020

	Agency Funds					Total
	Excise Taxes	Student Accounts	Walker Fund	Education in the UT	Kingman Fund	
ASSETS						
Cash and cash equivalents	\$ -	\$ 28,545	\$ -	\$ -	\$ -	\$ 28,545
Due from State of Maine Treasury	287,178	-	1,731	2,718	250	291,877
TOTAL ASSETS	<u>\$ 287,178</u>	<u>\$ 28,545</u>	<u>\$ 1,731</u>	<u>\$ 2,718</u>	<u>\$ 250</u>	<u>\$ 320,422</u>
LIABILITIES						
Due to Counties - excise taxes	\$ 287,178	\$ -	\$ -	\$ -	\$ -	\$ 287,178
Due to student groups	-	28,545	1,731	2,718	250	33,244
TOTAL LIABILITIES	<u>\$ 287,178</u>	<u>\$ 28,545</u>	<u>\$ 1,731</u>	<u>\$ 2,718</u>	<u>\$ 250</u>	<u>\$ 320,422</u>

See accompanying independent auditor's report and notes to financial statements.

**STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND**

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STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State of Maine Unorganized Territory Education and Services Fund provides services to 429 townships and 75 offshore islands. Municipal services are provided to the Fund by a collaboration of State agencies and nine county governments. Education, tax assessment, collection of taxes and primary general government administration are performed mainly by State agencies. County governments provide primary road maintenance, public safety and solid waste services. Therefore, the financial statements that follow present only the operations for the Fund and are not intended to present fairly the financial position and results of operations of the State of Maine in accordance with generally accepted accounting principles (GAAP). Certain disclosures relevant to both the State of Maine and the State of Maine Unorganized Territory Education and Services Fund have been omitted from these financial statements and have been disclosed in the State's financial statements issued in a separate report dated December 11, 2020.

The Fund's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

The Fund's combined financial statements include all accounts and all operations of the Fund administered directly by State of Maine agencies. We have determined that the Fund has no component units as described in GASB Statement No. 14 and amended by GASB Statements No. 39 and No. 61.

Implementation of New Accounting Standards

During the year ended June 30, 2020, the following statements of financial accounting standards issued by the Governmental Accounting Standards Board became effective:

GASB Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*". The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. This change will improve financial reporting by providing governments with sufficient time to apply the authoritative guidance addressed in this Statement will help to safeguard the reliability of their financial statements, which in turn will benefit the users of those financial statements.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements

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

Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. All activities of the Fund are categorized as governmental.

In the government-wide Statement of Net Position, the governmental activity column is (a) presented on a consolidated basis by column and (b) is reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Fund's net position is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position. The Fund first utilizes restricted resources to finance qualifying activities.

The Government-wide Statement of Activities reports both the gross and net cost for each of the Fund's functions/programs except fiduciary activities. These functions/programs are primarily costs incurred by State agencies and counties to support the Unorganized Territory, and include other separate line items for county taxes, tax increment financing, and abatements. The functions/programs are also supported by general government revenues such as property taxes, certain intergovernmental revenues, and other revenue. The Statement of Activities reduces gross expenses (including depreciation) by a minor amount of program revenue for operating and capital grants.

The net costs (by function/program) are normally funded by general revenue such as taxes, certain intergovernmental revenues and miscellaneous revenue.

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

The Government-wide financial statement focuses on the sustainability of the Fund as an entity, and the change in the Fund's net position resulting from the current year's activities.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus - Basic Financial Statements and Fund Financial Statements

The financial transactions of the Fund are reported in the individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that represent the assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures/expenses of the Unorganized Territory Education and Services Fund. The various funds are reported separately within the financial statements.

The following fund types are used by the Fund for financial statement purposes:

1. Governmental Funds:

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

Major Fund:

- The General Fund is the primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. It is classified as a major fund.

Nonmajor Funds

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

2. Fiduciary Funds:

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

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

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The emphasis of fund financial statements is on the major funds in the governmental activities category. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenses of either the fund category or the governmental and enterprise combined) for the determination of major funds.

Basis of Accounting

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

1. Accrual

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

2. Modified Accrual

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

Budget

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

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

1. Each year the Fiscal Administrator of the Unorganized Territory requests budget information from State agencies and counties that provide services to the taxpayers of the Unorganized Territory. Bi-annually, the Joint Standing Committee on Appropriations and Financial Affairs recommends to the Legislature a State-wide budget that includes the State-wide components of the Unorganized Territory. The Fiscal Administrator drafts a legislative document (L.D.) for the purpose of setting and authorizing the collection of taxes in the Unorganized Territory to the Legislature for consideration. The L.D. is commonly known as the "Municipal Cost Component". Once the L.D. is printed and assigned to committee, the Fiscal Administrator prepares and submits an analytical report of the legislation to the members of the Joint Standing Committee on Taxation, each legislator who has unorganized territory within their district, and the office of the county commissioners for each county with unorganized territory.
2. Once the Legislature approves the Municipal Cost Component, the State Tax Assessor levies a tax on all nonexempt real and personal property in the Unorganized Territory. The taxpayer's bill is based on three components: the cost of State services for the unorganized territory, the cost of county provided-services specific to each county, and the cost of county taxes specific to each county. The Legislature can also approve de-appropriations to the various departments during the year.
3. Any unexpended balance may not simply lapse to fund balance at the end of the fiscal year but must be carried forward to the same fund for the next fiscal year and must be available for the purposes authorized. Any unexpended fund balance remaining in the fund at the end of the year, not including amounts set aside in capital reserves, that is in excess of 10% of the amount of expenditures for that year must be used to reduce the amount to be collected in taxes during the year.

Deposits and Investments

The Fund'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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

It is the Fund's policy to value investments at fair value. None of the Fund's investments are reported at amortized cost. The Fund is authorized by State statutes to invest all excess funds in the following:

- Obligations of the U.S. government, its agencies and instrumentalities
- Certificates of deposits and other evidences of deposits at banks, savings and loan associations, and credit unions
- Repurchase agreements
- Money market mutual funds

The Fund holds these assets in the State Treasurer's Cash Pool and follows the investment policy of the State.

Taxes Receivable

Receivables are reported net of an allowance for uncollectible accounts. Allowances are reported when accounts are proven to be uncollectible. The allowance for uncollectible accounts was \$189,699 at June 30, 2020.

Due from State of Maine Treasury

The amount shown as due from State of Maine Treasury is the amount of cash held by the State of Maine for the Fund as it does not have its own cash accounts.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost if the cost meets or exceeds the following thresholds:

All Land (including ancillary costs)	Capitalize at any amount
Buildings	\$100,000 (if Proprietary Funds) or \$1,000,000 (if Government Funds)
Infrastructure	\$5,000
Machinery and equipment	\$5,000
Vehicles	\$5,000
Software	\$1,000,000

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Infrastructure such as streets, traffic signals, and signs are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on a straight-line basis over the estimated useful lives.

Assets are valued at historical cost. Estimated historical cost is used when actual invoices or budgetary data is unavailable. Donated Fixed assets are valued at estimated fair market value on the date received. All asset retirements have been recorded by eliminating the net carrying values.

Estimated useful lives are:

Buildings	30 - 50	years
Building Improvements	10	years
Machinery and equipment	2 - 10	years
Vehicles	5	years
Software	10-40	years

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or restricted net position.

Fund Balances

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

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

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unassigned - This includes all other spendable amounts. The General Fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds other than the General Fund can only report a negative unassigned fund balance amount.

The State's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balances, the State's policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will at times 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 thus will not be recognized as an outflow of resources (expense/expenditure) until that time. The Fund currently has no deferred outflows of resources.

In addition to liabilities, the statement of financial position and or balance sheet will at times 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 therefore will not be recognized as an inflow of resources (revenue) until that time. Deferred tax revenues, which is recognized only under a modified accrual basis of accounting, qualifies for reporting in this category. Accordingly, this item is reported in the governmental funds balance sheet. Taxes paid in advance/overpaid taxes also qualify for reporting in this category. This item is reported in both the statements of net position and governmental funds balance sheet. All items in this category are deferred and recognized as an inflow of resources in the period that the amounts become available.

Revenue Recognition - Property Taxes - Modified Accrual Basis

The Fund's property tax for the current year was committed in July 2019 on the assessed value listed as of April 1, 2019, for all real and personal property located in the Unorganized Territory. Property taxes were to be paid in one installment with a tax due date of October 1, 2019. Interest accrues at a rate of 6% after the due date. The Fund is permitted by the laws of the State of Maine to levy taxes greater than the actual amount required, by rounding-up the respective Unorganized Territory county mil rate to the next highest 1/4 mill. This additional millage is referred to as overlay and amounted to \$397,187 for the year ended June 30, 2020. The variance between actual property tax revenues in the governmental funds and budgeted property tax revenues represents supplemental taxes, abatements and the change in deferred taxes.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax liens are recorded against real property between February 21 and March 15 of the year following the date of assessment if any part of the tax, interest and associated costs assessed remain unpaid. Property tax liens foreclose on March 30 of the year following the recording of any such liens if any of the tax, interest and associated costs remain unpaid.

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

The following summarizes the 2020 levy:

	Assessed Value	Tax Rate	Commitment
Aroostook	\$ 726,448,536	0.7460%	\$ 5,419,306
Franklin	291,827,347	0.8770%	2,559,326
Hancock	210,641,053	0.5530%	1,164,845
Kennebec	6,159,135	0.6950%	42,806
Knox	15,839,081	0.5330%	84,422
Lincoln	12,692,228	0.5650%	71,711
Oxford	262,457,951	1.0660%	2,797,802
Penobscot	333,284,566	0.8790%	2,929,571
Piscataquis	767,959,226	0.7200%	5,529,307
Somerset	784,131,453	0.8740%	6,853,309
Waldo	1,669,430	0.6380%	10,651
Washington	360,656,122	0.8550%	3,083,610
			30,546,666
Tax increment financing assessment			3,721,821
Less: Homestead reimbursement			(394,781)
Total commitment			33,873,706
Add: Supplemental taxes			383,550
Less: Abatements			(142,386)
Collections			(33,664,310)
			\$ 450,560
Percent of collection			98.68%

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Increment Financing Agreements

Several counties have entered into tax increment financing (TIF) agreements with the Department of Economic and Community Development to reduce property taxes paid by wind farm developers under 30-A Section 5221-5235 of the Maine Revised Statutes for the purposes of job creation, capital investment, and related tax base improvement. The wind project must be located in a designated development district within the unorganized territory. The Fund receives property taxes from the projects based on the incremental increase in property values over their original assessed values. Tax proceeds from the agreement are then refunded, a portion going to the wind developer and a portion going to the County for the duration of the agreement. TIF taxes collected and subsequently paid to developers and Counties totaled \$3,721,821 during 2020.

TIF District Name	District Original Assessed Value (OAV)	Increase Assessed Value (IAV)	Capture Percent %	Captured Assessed Value (CAV) (rounded to nearest hundredths)	FY 2020 Captured TIF Tax	Credit Enhancement Agreement (CEA)	TIF Cap on Payments to Developer	TIF Cap on Payments to County	
Franklin County Enterprise Kibbee	\$ 455,952	\$ 138,102,108	(A)	\$ 138,558,060	\$ 1,215,154	YES (B)	\$ 8,841,780	\$ 4,000,000	
Hancock County	\$ 225,474	\$ 111,482,916	100%	\$ 111,708,390	\$ 617,747	YES (C)	None	None	
Passadumkeag Wind	\$ 1,386,590	\$ 61,531,520	100%	\$ 62,918,110	\$ 553,050	YES (D)	None	None	
Bingham Wind	\$ 803,489	\$ 90,443,441	100%	\$ 91,246,930	\$ 797,498	YES (E)	None	None	
Washington County Enterprise	\$ 513,106	\$ 62,454,324	100%	\$ 62,967,430	\$ 538,372	YES (F)	None	None	
					2020 Captured TIF Taxes	<u>\$3,721,821</u>			

NOTE:

	County Capture %	Years	Capture %
A.) Kibbee I		Year 1-10	75%
		Year 11-20	50%
	CEA	Wind Developer	County
B.) Kibbee CEA Share		60%	40%
C.) Hancock CEA Share		70%	30%
D.) Passadumkeag Wind		55%	45%
E.) Bingham Wind		70%	30%
F.) Stetson I Tract		60%	40%
Baskahegan		0%	100%
Stetson II Share		60%	40%

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Revenues

Program revenues include all directly related income items applicable to a particular program (charges to customers or applicants for goods, services, or privileges provided, operating or capital grants and contributions, including special assessments).

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. While the Fund does utilize encumbrance accounting for its General Fund, encumbrances outstanding at June 30, 2020 lapse and are re-appropriated and/or re-encumbered as part of the subsequent year's budget. At June 30, 2020, fund balance restrictions for outstanding encumbrances amounted to \$217,267.

Use of Estimates

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The Fund follows State statutes for the investment of funds, which authorizes the Fund to invest in obligations of the U.S. Treasury, agencies and instrumentalities, other states and Canada, provided such securities are rated within the three highest grades by an approved rating service of the State of Maine; corporate stocks and bonds within statutory limits; financial institutions; mutual funds and repurchase agreements. These apply to all Unorganized Territory funds.

Deposits:

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, the Fund will not be able to recover its deposits. The Fund does not have a policy covering custodial credit risk for deposits. However, the Fund maintains deposits in qualifying financial institutions that are a member of the FDIC or NCUSIF as defined in Title 30-A, Section 5706 of the Maine Revised Statutes. At June 30, 2020, the Fund's cash balances of \$28,545 are comprised of deposits amounting to \$28,545 all of which was fully insured by federal depository insurance and thus not exposed to custodial credit risk.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

<u>Account Type</u>	<u>Bank Balance</u>
Checking accounts	\$ 26,934
Savings accounts	1,611
	<u>\$ 28,545</u>

Investments:

Custodial credit risk for investments is that, in the event of failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Currently, the Fund does not have a policy for custodial credit risk for investments.

At June 30, 2020, the Fund had no investments.

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

Interest rate risk – is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from fluctuations in interest rates.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2020:

	Balance 7/1/2019 Restated	Additions	Disposals	Balance 6/30/2020
<u>Governmental activities</u>				
Capital assets, not being depreciated:				
Land	\$ 4,831	\$ -	\$ -	\$ 4,831
Capital assets, being depreciated:				
Building and improvements	3,607,780	-	-	3,607,780
Vehicles and equipment *	1,451,730	222,858	(134,712)	1,539,876
Total capital assets being depreciated	<u>5,059,510</u>	<u>222,858</u>	<u>(134,712)</u>	<u>5,147,656</u>
Accumulated depreciation:				
Building and improvements	(3,198,915)	(22,272)	-	(3,221,187)
Vehicles and equipment *	(813,437)	(192,398)	134,712	(871,123)
Total accumulated depreciation	<u>(4,012,352)</u>	<u>(214,670)</u>	<u>134,712</u>	<u>(4,092,310)</u>
Total capital assets, net of depreciation	<u>\$ 1,051,989</u>	<u>\$ 8,188</u>	<u>\$ -</u>	<u>\$ 1,060,177</u>

* Capital assets and depreciation for vehicles and equipment were restated at June 30, 2019 to include \$71,709 of previously unrecorded, fully depreciated vehicle assets. There was no change in net total capital assets.

NOTE 4 - ASSIGNED FUND BALANCES

At June 30, 2020, the Fund had the following assigned fund balance:

General Fund:	
Reserve for encumbrances	\$ 217,267
Reserve for FY 2020 to reduce taxes	<u>819,663</u>
	<u>\$ 1,036,930</u>

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 - EXPENDITURES OVER APPROPRIATIONS

The Fund had the following overspent appropriations at June 30, 2020:

Abatements	\$ 212,707
County Taxes	<u>99,265</u>
	<u>\$ 311,972</u>

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Plan Description

All employees of the Maine Unorganized Territory Education and Services Fund are members of the Maine Public Employees Retirement System. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423 and 425. The System provides pension, death and disability benefits to its members. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2020 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The total funds managed by the System are constitutionally restricted and held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation.

The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan.

Contributions from members and employers and earnings from investments fund retirement benefits. Employer contributions and investment earnings fund disability and death benefits. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by biennial actuarial valuations.

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 terminated members' accounts is set by the System's Board of Trustees and is currently 1.92%.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993 (effective October 1, 1999, the prior ten-year requirement was reduced to five years by legislative action). For members with fewer than 5 years creditable service on July 1, 2011, normal retirement age is 65. The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below his/her normal retirement age at retirement. The System also provides disability and survivor benefits, which are established by statute for State employee and teacher members and by contract with other participating employers under applicable statutory provisions.

Participating Local Districts Plan Specifics

In the event that a Participating Local District withdraws from the System, its individual employee-members can terminate membership or remain contributing members. This District remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members; and for those active employees, whether or not vested, who remain contributing System members.

Special Funding Situation - Teachers Defined Benefit Plan

The State is legally responsible for contributions to the Teacher Group that covers retirees of other governmental entities. The State is the sole "employer" contributor for the teachers; therefore, the State is acting as the employer.

Contribution Requirement

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, based upon certain assumptions, are expressed as percentages of annual covered payroll and are sufficient to accumulate adequate assets to pay benefits when due.

Level percentage of payroll employer contribution rates is determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be and at certain times has been, shorter than that period.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

The State of Maine is required to remit a portion of its General Fund unappropriated surplus at the end of its fiscal year to the System, in order to reduce any unfunded pension liability for State employees and teachers.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 2020 for participating entities are as follows:

<u>State</u>	
Employees	7.65 – 8.65%
Employer	20.93 – 32.68%
<u>Teachers</u>	
Employees	7.65%
Employer	4.16%
Non-employer Entity	14.33%

The Maine Unorganized Territory Education and Services Fund payroll for teachers covered by this group was approximately \$1,300,882 for the year ended June 30, 2020. The State of Maine is required to provide the employer contribution which amounts to 18.49% of compensation. Contributions paid by the State were \$240,533 for the year ended June 30, 2020. There is no contribution required by the Fund, except for federally funded teachers, which for the year ended June 30, 2020, is included as part of the State of Maine's overall contribution for federally funded employees.

Annual Pension Cost and Net Pension Liability

The employer's annual pension cost for the Unorganized Territory and net pension liability to the System for the current year is not calculated separately but is calculated as part of the State of Maine's overall plan. Information on the pension cost and liability can be found in the State of Maine's comprehensive annual financial report. That report may be obtained by writing to the Office of the State Controller, 14 State House Station, Augusta, Maine 04333-0014.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 7 - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

Management is aware that several landfills, all of which have been closed as of June 30, 2020, exist in the Unorganized Territory. The liability for post-closure monitoring costs is with the County where the closed landfill is located. The Unorganized Territory Education and Services Fund would be affected by the resulting increase to the municipal cost component in which post-closure costs were incurred. The amount and timing of these potential post-closure costs are not known.

NOTE 8 - COUNTY TAX

The following summarizes the county property tax commitment for each of the counties during the year ended June 30, 2020:

	County Service	County Tax	State Services	TIF Payments	Budgeted Commitment
Aroostook	\$ 1,511,803	\$ 1,063,180	\$ 2,776,714	\$ -	\$ 5,351,697
Franklin	976,795	442,212	1,115,456	1,215,154	3,749,616
Hancock	239,050	110,780	805,136	617,747	1,772,714
Kennebec	10,870	7,370	23,542	-	41,782
Knox	-	21,025	60,542	-	81,567
Lincoln	-	20,880	48,514	-	69,394
Oxford	1,459,650	303,497	1,003,197	-	2,766,344
Penobscot	1,125,982	514,303	1,273,918	553,050	3,467,253
Piscataquis	1,156,857	1,305,333	2,935,381	-	5,397,571
Somerset	1,618,913	2,150,971	2,997,196	797,498	7,564,579
Waldo	-	3,972	6,381	-	10,353
Washington	1,032,529	648,989	1,378,541	538,372	3,598,430
Total	<u>\$ 9,132,449</u>	<u>\$ 6,592,512</u>	<u>\$ 14,424,518</u>	<u>\$ 3,721,821</u>	<u>\$ 33,871,300</u>

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Post-retirement Health Care Benefits

Plan Description

The employees of the State of Maine Unorganized Territory Education and Services Fund are covered under the State of Maine's single-employer defined benefits program. In addition to providing pension benefits, the State of Maine funds health care benefits for most retirees.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Specifically excluded are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities and their instrumentalities. The State pays 100% of postretirement health insurance premiums for state employee retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from 0% for retirees with less than five years participation to 100% for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Coverage depends upon terms and conditions contained in collective bargaining agreements with the State Health Commission. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. Retirees must pay for Medicare part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees ineligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism and substance abuse.

Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent of the retiree-only premium. The rate is based on a single rate for single and employee plus children coverage, or 50 percent of the two party rate for two party and family coverage.

For State employees and Teachers, other options exist. Part-time employees are eligible for prorated benefits with retirees who worked 50 percent or more of full-time hours receiving 100 percent of the benefit. Surviving spouses and dependents may continue in the plan and pay 100 percent of the premium. Retirees ineligible for a State contribution are allowed to participate and pay the retiree premium.

Funding Policy

STATE EMPLOYEE'S PLAN

Title 5 MRSA §286-B authorizes an irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligation for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust fund.

Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed ten years. The unfunded liability for retiree health benefits for eligible participants must be retired over 30 years or less from July 1, 2007.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

TEACHER'S PLAN

A special funding situation exists for these plans. The State is statutorily responsible for contributions to the Teachers Plan that covers the retirees of other governmental entities. The State is also the sole contributing entity for Teachers and therefore makes the contribution on behalf of the employing jurisdictions at a 45 percent level for the current portion of the health plan costs. These contributions are not included in the Trust.

B. Post-retirement Life Insurance Benefits

Plan Description

In addition to providing pension and health care benefits and in accordance with statutory authority, the State of Maine, through the Maine Public Employees Retirement System, provides Basic group life insurance benefits, during retirement, to retirees who participated in the group life insurance plan prior to retirement for a minimum of ten years. The ten year participation requirement does not apply to recipients of disability retirement benefits. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423 and 425. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2018 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The level of coverage in retirement is initially set to an amount equal to the retiree's average final compensation. The initial amount of Basic group life insurance benefit is then subsequently reduced at the rate of 15% per year to the greater of 40% of the initial amount or \$2,500.

Group life insurance funds managed by the System are constitutionally restricted and held in trust for the payment of benefits to participants or their beneficiaries. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs a single actuarial valuation that provides separate data for each participating entity.

Funding Policy

Premium rates are those determined by the System's Board of Trustees to be actuarially sufficient to pay anticipated claims and cover administrative costs.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

For State employee, legislative and judicial classes, the premiums for retiree life insurance coverage are factored into the premiums paid for Basic coverage while participants are active members. The State remits premiums at a single rate that supports basic coverage for active and retired State employees. This rate is \$.82 per month for every \$1,000 of coverage. Premiums for retiree life insurance coverage for retired teachers are paid by the State based on a rate of \$.33 per \$1,000 of coverage per month during the post-employment retired period.

Annual OPEB Cost and Net OPEB Obligation

The UT's employer annual OPEB cost and net OPEB obligation to the System for the current year is not calculated separately but is calculated as part of the State of Maine's overall plan. Information on the OPEB cost and obligation can be found in the State of Maine's comprehensive annual financial report. That report may be obtained by writing to the Office of the State Controller, 14 State House Station, Augusta, Maine 04333-0014.

NOTE 10 - RISK MANAGEMENT

The State maintains several types of self-insurance plans. These include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professionals, and a variety of other insurance products. The Unorganized Territory participates in these plans. Full disclosure regarding claims, excess insurance and claims and judgment liabilities can be found in the State of Maine's comprehensive annual financial report.

NOTE 11 - FUND BALANCE RECOGNITION

Two State statutes affect the amount of committed fund balance that should be reported on the Fund's financial statement.

Title 20-A, Section 3351 of the Maine Revised Statutes indicates that the Education Commissioner may carry forward unexpended balances attributable to the Unorganized Territory School Fund from one fiscal year to the next fiscal year. Unexpended balances are earned when budgeted revenues exceed actual expenses. It is unclear whether the excess may be carried forward for one year or multiple years, as is whether the Education Commissioner has chosen to carry forward this excess. As of June 30, 2020, the amount of excess with potential for carryforward is approximately \$7.5 million.

Due to the ambiguity of Title 20-A, Section 3351, the Fund cannot determine an amount to commit for future education expense. If the entire potential \$7.5 million were committed, this would result in a General Fund unassigned fund balance of approximately \$1.8 million. This is well below the allowed amount of 10% of that year's expenditures, approximately \$3.4 million.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 11 - FUND BALANCE RECOGNITION (CONTINUED)

Title 36, Section 1605 of the Maine Revised Statutes requires any unexpended fund balance of the Fund in excess of 10% of that year's expenditures be used to reduce the amount to be collected in taxes during the next year. Title 36 does not distinguish between funds collected for the administration of county services and the administration of educational services. Therefore, it is unclear whether excess funds attributable to education services should be used to reduce taxes in the next year or whether they should be set aside per Title 20-A, Section 3351.

Management plans to seek legislative clarification to address the ambiguity in Title 20-A, Section 3351 and Title 36, Section 1605.

As of June 30, 2020, management has recognized \$819,663 of assigned fund balance in relation to the fiscal year 2021 budgeted use of funds (see Note 4).

NOTE 12 - RISKS AND UNCERTAINTY

The Worldwide Health Organization declared COVID-19 a global pandemic on March 11, 2020. The impact of the pandemic and significant related restrictive measures are likely to affect operations and performance in fiscal year 2021. In late March 2020, a variety of federal legislation was passed, including, but not limited to, the Coronavirus Aid, Relief, and Economic Security Act (CARES) that provides certain relief to partially mitigate the economic impact of the pandemic. The COVID-19 pandemic has significantly affected travel, commerce and financial markets globally. The degree of impact on the State's operations and finance is extremely difficult to predict due to uncertainties relating to the duration and severity of the COVID-19 outbreak. In response, the Maine Consensus Economic Forecasting Commission and the Maine Revenue Forecasting Committee are meeting frequently to monitor and update the economic and revenue forecasts to reflect the impact of the COVID-19 pandemic.

Maine's economy felt the first impacts of COVID-19 in mid-March 2020 when the Governor declared a state of civil emergency and issued orders that closed most businesses and directed citizens to stay safer at home in efforts to slow the spread of the virus. Since then, managing the public health crisis, addressing the fiscal challenges it has presented to State government and other sectors, and reopening Maine's economy have become critical initiatives. As of the date of this report, the state of civil emergency expired on June 30, 2021.

Specific impacts to the Unorganized Territory in FY20 were later receipts for property tax and excise tax payments due to Executive Order 53, issued by the Governor on May 12, 2020, allowing an extension on both tax due dates. These payments were recovered in FY21 resulting in a minimal overall impact to the Unorganized Territory.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 12 - RISKS AND UNCERTAINTY (CONTINUED)

For the Education in the Unorganized Territory (EUT), nontraditional learning systems were implemented as determined by Department of Education in support of student education during the pandemic which included both remote or virtual learning for tuition and UT school students. The three EUT schools continued to provide meals to students, and tuition students were provided meals by their respective school districts. In accordance with Executive Order 15, issued by the Governor of Maine on March 19, 2020, the EUT was required to pay their hourly school employees for the duration of the school year. The EUT may have to take action to meet certain requirements to receive any additional Federal or State funding for budgetary or economic relief related to the challenges presented by COVID-19. However, the EUT expects that if those actions are necessary, that the EUT would qualify and satisfy the various conditions required to receive applicable Federal or State funds.

The Unorganized Territory does not currently anticipate any additional expenditures due to COVID-19 that would not be covered by existing resources including authorized Coronavirus, Aid, Relief and Economic Security (“CARES”) Act funding and applicable Federal and /or State programs. All revenue and expenditures will be monitored to identify any potential risk and the impact.

In conclusion, the ongoing effects of COVID-19, including the financial impact to the Unorganized Territory and its inhabitants, may change significantly as events and circumstances evolve locally, nationally, and worldwide. At present it is not possible, with any degree of certainty, to estimate the impact of COVID-19 on the revenues, expenditures, budget, or overall financial position of the Unorganized Territory. No assurance can be given regarding future events or impacts because these actions and events are unpredictable or unknown at this time and are outside the control of the Unorganized Territory.

Required Supplementary Information

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

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

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Budgetary Fund Balance, July 1	\$ 7,316,094	\$ 7,316,094	\$ 7,316,094	\$ -
Resources (Inflows):				
Revenue from property taxes	27,424,486	34,171,576	34,514,770	343,194
General intergovernmental revenues	210,000	210,000	504,812	294,812
Education revenue	385,000	385,000	586,097	201,097
Unclassified	-	-	99,265	99,265
Amounts Available for Appropriation	<u>35,335,580</u>	<u>42,082,670</u>	<u>43,021,038</u>	<u>938,368</u>
Charges to Appropriations (Outflows):				
State agencies	15,369,518	15,272,607	13,911,843	1,360,764
County reimbursements for services	9,132,449	9,132,449	9,130,199	2,250
County tax	-	6,592,512	6,691,777	(99,265)
Tax increment financing	3,867,519	3,721,821	3,721,821	-
Overlay	-	397,187	-	397,187
Abatements	-	-	212,707	(212,707)
Total Changes to Appropriations	<u>28,369,486</u>	<u>35,116,576</u>	<u>33,668,347</u>	<u>1,448,229</u>
Budgetary Fund Balance, June 30	<u>\$ 6,966,094</u>	<u>\$ 6,966,094</u>	<u>\$ 9,352,691</u>	<u>\$ 2,386,597</u>
Utilization of Unassigned Fund Balance	<u>\$ 350,000</u>	<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$ (350,000)</u>

See accompanying independent auditor's report and notes to financial statements.

Other Supplemental Information

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

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

COMPARATIVE BALANCE SHEETS - GENERAL FUND

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Taxes receivable (net of allowance for uncollectibles)	\$ 260,861	\$ 460,814
Taxes and liens receivable - prior years	223,624	94,465
Accounts receivable	-	1,517,671
Due from other governments	184,277	180,535
Due from State of Maine Treasury	<u>11,307,864</u>	<u>6,752,433</u>
TOTAL ASSETS	<u>\$ 11,976,626</u>	<u>\$ 9,005,918</u>
LIABILITIES		
Accounts payable	\$ 1,950,544	\$ 988,000
Accrued wages	<u>196,930</u>	<u>167,785</u>
TOTAL LIABILITIES	<u>2,147,474</u>	<u>1,155,785</u>
DEFERRED INFLOWS OF RESOURCES		
Taxes paid in advance/overpaid taxes	112,072	89,947
Deferred tax revenue	<u>364,389</u>	<u>444,092</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>476,461</u>	<u>534,039</u>
FUND BALANCES		
Assigned	1,036,930	538,314
Unassigned	<u>8,315,761</u>	<u>6,777,780</u>
TOTAL FUND BALANCES	<u>9,352,691</u>	<u>7,316,094</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 11,976,626</u>	<u>\$ 9,005,918</u>

See accompanying independent auditor's report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			Variance Positive (Negative)	2019
	Original Budget	Final Budget	Actual		Actual
Revenues:					
Property taxes	\$ 27,424,486	\$ 34,171,576	\$ 33,877,590	\$ (293,986)	\$ 32,904,556
Changed in deferred property taxes	-	-	79,703	79,703	(193,043)
Supplemental taxes	-	-	393,859	393,859	332,194
Interest and fees on taxes	-	-	163,618	163,618	156,688
Total Revenue from Property Taxes	<u>27,424,486</u>	<u>34,171,576</u>	<u>34,514,770</u>	<u>343,194</u>	<u>33,200,395</u>
General Intergovernmental Revenue:					
State revenue sharing	100,000	100,000	219,008	119,008	132,038
Homestead exemption	100,000	100,000	230,328	130,328	197,792
Misc BETE/ Veteran's reimb	10,000	10,000	55,476	45,476	65,769
Total General Intergovernmental Revenue	<u>210,000</u>	<u>210,000</u>	<u>504,812</u>	<u>294,812</u>	<u>395,599</u>
Educational Revenue					
Land reserve trust	70,000	70,000	151,383	81,383	113,865
Educational tuitional/transportation	80,000	80,000	194,181	114,181	188,144
United States Forestry pmts in lieu of taxes	5,000	5,000	-	(5,000)	-
On behalf payments - teachers retirement	230,000	230,000	240,533	10,533	243,968
Total Education Revenue	<u>385,000</u>	<u>385,000</u>	<u>586,097</u>	<u>201,097</u>	<u>545,977</u>
Unclassified:					
Miscellaneous	-	-	99,265	99,265	245,498
Total Revenues	<u>28,019,486</u>	<u>34,766,576</u>	<u>35,704,944</u>	<u>938,368</u>	<u>34,387,469</u>

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND
 COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			Variance Positive (Negative)	2019
	Original Budget	Final Budget	Actual		Actual
Expenditures:					
State Agencies					
Education	\$ 12,851,922	\$ 12,753,652	\$ 12,065,306	\$ 688,346	\$ 11,600,181
Fiscal Administrator	243,730	245,089	114,022	131,067	207,225
Assessments	1,470,866	1,470,866	1,085,270	385,596	986,861
Forest fire service	150,000	150,000	26,974	123,026	69,787
General assistance	65,000	65,000	32,271	32,729	35,399
Land Use Planning Commission	588,000	588,000	588,000	-	569,905
Total State Agencies	<u>15,369,518</u>	<u>15,272,607</u>	<u>13,911,843</u>	<u>1,360,764</u>	<u>13,469,358</u>
County Reimbursements for Services					
Aroostook	1,511,803	1,511,803	1,509,553	2,250	1,413,226
Franklin	976,795	976,795	976,795	-	953,878
Hancock	239,050	239,050	239,050	-	241,550
Kennebec	10,870	10,870	10,870	-	11,595
Lincoln	-	-	-	-	-
Oxford	1,459,650	1,459,650	1,459,650	-	1,262,600
Penobscot	1,125,982	1,125,982	1,125,982	-	1,152,652
Piscataquis	1,156,857	1,156,857	1,156,857	-	965,963
Somerset	1,618,913	1,618,913	1,618,913	-	1,624,102
Washington	1,032,529	1,032,529	1,032,529	-	1,032,764
Total County Reimbursement for Services	<u>9,132,449</u>	<u>9,132,449</u>	<u>9,130,199</u>	<u>2,250</u>	<u>8,658,330</u>

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			Variance Positive (Negative)	2019
	Original Budget	Final Budget	Actual		Actual
Expenditures, continued:					
Unclassified:					
Total county taxes	\$ -	\$ 6,592,512	\$ 6,691,777	\$ (99,265)	\$ 6,324,187
Total tax incremental financing	3,867,519	3,721,821	3,721,821	-	3,867,519
Overlay	-	397,187	-	397,187	-
Abatements	-	-	212,707	(212,707)	154,987
Total unclassified	<u>3,867,519</u>	<u>10,711,520</u>	<u>10,626,305</u>	<u>85,215</u>	<u>10,346,693</u>
Total Expenditures	<u>28,369,486</u>	<u>35,116,576</u>	<u>33,668,347</u>	<u>1,448,229</u>	<u>32,474,381</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(350,000)</u>	<u>(350,000)</u>	<u>2,036,597</u>	<u>2,386,597</u>	<u>1,913,088</u>
Other financing sources (uses):					
Budgeted use of surplus-cost component	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>(350,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>(350,000)</u>	<u>-</u>
Net change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>2,036,597</u>	<u>\$ 2,036,597</u>	<u>1,913,088</u>
Fund Balance July 1			<u>7,316,094</u>		<u>5,403,006</u>
Fund Balance June 30			<u>\$ 9,352,691</u>		<u>\$ 7,316,094</u>

See accompanying independent auditor's report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2020

	Special Revenue Funds	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>
ASSETS		
Due from State of Maine Treasury	\$ -	\$ -
Accounts Receivable	7,967	7,967
TOTAL ASSETS	<u>\$ 7,967</u>	<u>\$ 7,967</u>
LIABILITIES		
Due to State of Maine Treasury	\$ 7,967	\$ 7,967
TOTAL LIABILITIES	<u>7,967</u>	<u>7,967</u>
FUND BALANCES		
Nonspendable		-
Restricted	-	-
Committed	-	-
Assigned	-	-
Unassigned	-	-
TOTAL FUND BALANCES	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 7,967</u>	<u>\$ 7,967</u>

See accompanying independent auditor's report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2020

	Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES		
Intergovernmental	\$ 263,939	\$ 263,939
TOTAL REVENUES	<u>263,939</u>	<u>263,939</u>
EXPENDITURES		
Other	305,461	305,461
TOTAL EXPENDITURES	<u>305,461</u>	<u>305,461</u>
NET CHANGE IN FUND BALANCES	(41,522)	(41,522)
FUND BALANCES - JULY 1	<u>41,522</u>	<u>41,522</u>
FUND BALANCES - JUNE 30	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report and notes to financial statements.

Special Revenue Funds

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

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2020

	Supportive Effective Instruction Teacher Quality	Title 1 Grants to Local Educational Agencies	Special Education Grants IDEA	Title V Rural Education Achievement	Total
ASSETS					
Accounts Receivable	\$ 3,739	\$ 1,370	\$ 2,597	\$ 261	\$ 7,967
TOTAL ASSETS	<u>3,739</u>	<u>1,370</u>	<u>2,597</u>	<u>261</u>	<u>7,967</u>
LIABILITIES					
Due to State of Maine Treasury	\$ 3,739	\$ 1,370	\$ 2,597	\$ 261	\$ 7,967
TOTAL LIABILITIES	<u>3,739</u>	<u>1,370</u>	<u>2,597</u>	<u>261</u>	<u>7,967</u>
FUND BALANCES					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
TOTAL FUND BALANCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,739</u>	<u>\$ 1,370</u>	<u>\$ 2,597</u>	<u>\$ 261</u>	<u>\$ 7,967</u>

See accompanying independent auditor's report and notes to financial statements.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2020

	Supportive Effective Instruction Teacher Quality	Title 1 Grants to Local Educational Agencies	Special Education Grants IDEA	Title V Rural Education Achievement	Total
REVENUES					
Intergovernmental	\$ 11,701	\$ 111,293	\$ 117,421	\$ 23,524	\$ 263,939
TOTAL REVENUES	<u>11,701</u>	<u>111,293</u>	<u>117,421</u>	<u>23,524</u>	<u>263,939</u>
EXPENDITURES					
Other	17,986	108,594	155,357	23,524	305,461
TOTAL EXPENDITURES	<u>17,986</u>	<u>108,594</u>	<u>155,357</u>	<u>23,524</u>	<u>305,461</u>
NET CHANGE IN FUND BALANCES	(6,285)	2,699	(37,936)	-	(41,522)
FUND BALANCES - JULY 1	<u>6,285</u>	<u>(2,699)</u>	<u>37,936</u>	<u>-</u>	<u>41,522</u>
FUND BALANCES - JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying independent auditor's report and notes to financial statements.



Proven Expertise & Integrity

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

State of Maine
Office of the State Auditor
Unorganized Territory Education and Services Fund
Augusta, Maine

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the State of Maine Unorganized Territory Education and Services Fund as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the State of Maine Unorganized Territory Education and Services Fund's basic financial statements and have issued our report thereon dated October 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered State of Maine Unorganized Territory Education and Services Fund'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 State of Maine Unorganized Territory Education and Services Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of State of Maine Unorganized Territory Education and Services Fund'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 a 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.

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control, as items 2020-1 through 2020-7 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether State of Maine Unorganized Territory Education and Services Fund's financial statements are free from 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*.

State of Maine Unorganized Territory Education and Services Fund's Response to Findings

State of Maine Unorganized Territory Education and Services Fund's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. State of Maine Unorganized Territory Education and Services Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

RHR Smith & Company

Buxton, Maine
October 22, 2021

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

FINDINGS - FINANCIAL STATEMENT AUDIT – PRIOR YEAR

CONTROL DEFICIENCIES

2019-1 (Repeated from 2018)

Title: Inadequate internal control over financial reporting for the Unorganized Territory (UT).

Condition: Maine Revenue Services (MRS) does not maintain UT accounting information in a manner that facilitates financial analysis and the audit of the financial statements. This is due to several factors involving how property tax revenue is recorded by MRS. Taxes receivable activity is recorded in one balance sheet account.

The entry to record the commitment does not include the recording of property taxes receivable and deferred property tax revenue in accordance with generally accepted accounting principles (GAAP). Therefore, accurate financial reports are not available until year-end adjustments are completed to record the receivables and the deferred revenue entries, and to adjust property tax revenue accordingly. Title 36, Part 2, Chapter 115, Section 1605 states that “The State Controller shall establish an Unorganized Territory Education and Services Fund that reflects all of the activity of that fund within the state accounting system chart of accounts in accordance with the standards of the governmental accounting standards board as they apply to the financial statements of the fund.” MRS does not maintain a ledger throughout the year reflecting all assets, liabilities, revenues and expenditures of the Fund.

Context: MRS is responsible for assessing, collecting and recording property tax transactions in the UT.

Effect: Errors may occur in reporting financial information and not be detected in a timely manner.

Recommendation: MRS needs to use generally accepted accounting principles and provide adequately detailed supplemental information to the FAUT so that accurate financial statements can be prepared in a timely manner. This will allow financial and budgetary reports to be prepared on an interim basis for general management purposes.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

2019-1 (Repeated from 2018) (continued)

UTES Response: We agree with this finding. The State of Maine has an established accounting system that enables the State to report financial activity in accordance with GAAP. Unorganized Territory Education and Services Fund (UTES) transactions are recorded across multiple funds within the State's accounting system and are accounted for appropriately.

We are in the process of developing procedures to monitor and review UTES individual account activity on a quarterly basis during the fiscal year. This will include monitoring trends and comparisons of actual activity to budget and other appropriate measures to ensure accuracy of reporting for UTES revenue and expenditures during the year. We have determined this to be the most efficient and cost-effective method of providing UTES interim review and reporting. This process will provide financial control points during the fiscal year that will ensure and verify financial accuracy without adding additional resources to the reporting process.

Procedures to verify the accuracy of MRS revenue transactions will be developed and will include further analysis of the UTES tax revenue elements and reconciliation to source documents.

Commencing with the FY18 audit, the UTES significantly increased the amount of detailed supporting workpapers and financial documents required to facilitate an efficient audit.

2019-2 (Repeated from 2018)

Title: Inadequate internal control over payroll charges to the Unorganized Territory (UT).

Condition: The MRS administrative assessment of over \$800,000 to UT citizens is based on an annual estimate rather than actual UT activity documented on MRS employees' timesheets.

Context: MRS is responsible for assessing and collecting property tax in the UT.

Effect: Reimbursements to Maine Revenue Services may not reflect actual expenditures and may include reimbursement for expenditures of other unrelated activities.

Recommendation: We recommend that MRS record actual payroll costs for the UT directly to the UT appropriation unit from the MS - TAMS, time and attendance subsidiary ledger.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

2019-2 (Repeated from 2018) (continued)

UTES Response: We agree with this finding. MRS will develop a procedure to capture and charge payroll expense based on actual time and wage costs. MRS UT time will be tracked in MS-TAMS, the State's time tracking software, and with manual tracking spreadsheets as necessary. We expect time tracking to improve when the State implements the new Workday Maine System to replace MS-TAMS. The new time tracking system is expected to (or can be programmed to) allocate and record the payroll costs automatically.

2019-3 (Repeated from 2018)

Title: By statute, TIFs are not considered a supplemental tax.

Condition: Currently TIFs are treated as supplemental taxes and included in the Abatements and Supplemental Tax Report. Currently, Supplemental Tax certificates or warrants may not be sent to the State Treasurer for any of the supplemental taxes as required by Title 36 § 713.

Context: MRS is responsible for assessing and collecting property tax in the UT.

Effect: Because TIFs are treated as supplemental taxes, they are not included in the current State Tax Assessor's Commitment letter to the Treasurer and the Controller. This makes reconciliation of the Property Tax Accounts Receivable extremely difficult.

Recommendation: We recommend that MRS include TIF assessments in annual commitments.

UTES Response: We agree with this finding. The TIF assessment is determined during the property assessment process. MRS will modify the format of the Tax Commitment Letter for Tax Year 2021 to include a line for the annual TIF assessment.

2019-4 (Repeated from 2018)

Title: Comingling of UT personnel services, with all other Maine Revenue Services (non-UT related business) personnel services and expenditures in Advantage ME.

Condition: During the audit it was noticed there were Maine Revenue Service expenditures comingled with UT expenditures.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

2019-4 (Repeated from 2018)

Context: MRS is responsible for proper coding of UT expenditures incurred for UT purposes within the MRS department.

Effect: The annual expenditures for the UT may be over/understated causing an inaccurate presentation of the financial condition.

Recommendation: We recommend that MRS reconcile all UT budgeted to actual expenditures quarterly with the UT to verify all MRS expenditures and UT expenditures are properly classified.

UTES Response: We agree with this finding. MRS is developing a process to code invoices directly to the unique MRS UT unit 1062. This will include detailed backup to support allocations for MRS split invoices. The MRS UTES budget will be prepared in the same format and reviewed quarterly against actuals to ensure recorded expenses meet expectations.

2019-5 (Repeated from 2018)

Title: Inadequate internal control over the annual property tax assessment in the Unorganized Territory Tax District.

Condition: The Unorganized Territory Tax District is a primary assessing area and the State Tax Assessor does not certify to the State Treasurer and to the State Controller a sufficient list of the total type of each tax assessment that will be collected from the taxpayers in the Unorganized Territory Tax District.

Context: MRS is responsible for assessing and collecting property tax in the Unorganized Territory Tax District.

Effect: The unorganized territory property tax assessment may not include the full assessment that is required to fund municipal services in the Unorganized Territory Tax District.

Recommendation: We recommend that MRS utilize Form # PTA 200(05/18/), the Assessors' Certification of Assessment to certify to the State Treasurer and to the State Controller a sufficient list of tax assessments and deductions that will be collected from taxpayers in the Unorganized Territory Tax District.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

2019-5 (Repeated from 2018) (continued)

UTES Response: We agree with this finding. Title 36, M.R.S.A., §341, requires the State Tax Assessor to certify to the Treasurer of State and the State Controller the total amount of each type of tax to be assessed and collected for the tax year. MRS and the UTES will review and modify the format of the Tax Commitment Letter for Tax Year 2021 to provide further detail of the UT tax commitment in accordance with this statute.

2019-6

Title: Failure to comply with Generally Accepted Accounting Principles (GAAP).

Condition: The Unorganized Territory Education Services did not record within its financial accounting software all accounts payable and expenses/expenditures required to be recorded in the current fiscal year as part of the modified accrual basis of accounting.

Context: The Unorganized Territory Education Services is responsible for accruing year end balances to relevant cost components.

Effect: The Unorganized Territory might materially misstate the balances in the financial statements.

Recommendation: We recommend that management review and revise its procedures to help ensure that all accounts payable and expense/expenditure transactions are properly recorded in its financial accounting software in compliance with GAAP.

UTES Response: We disagree with this finding. The State of Maine accounting software does not accrue accounts payable. However, the FAUT has a procedure in place to identify and record accounts payable and accruals with year-end journal entries. This is the same system utilized by the Office of the State Controller to prepare the Comprehensive Annual Financial Report for the State of Maine. These year-end entries convert the UTES' cash basis accounting to modified accrual basis for GAAP reporting purposes. It is not efficient or effective to modify the State's accounting software to automate this process for the UTES fund.

2019-7

Title: Failure to make timely deposits.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

2019-7 (continued)

Condition: The Unorganized Territory Education Services' student activity accounts did not make deposits into the fiscal institution within a consistent timeframe to help reduce security risks to those funds.

Context: The Unorganized Territory Education Services is responsible for reducing security risks related to student activity accounts.

Effect: The Unorganized Territory increases the risk of fraud.

Recommendation: We recommend that management review and revise its procedures concerning how long deposits remain on site at each school to help reduce the risk of fraud.

UTES Response: We agree with this finding. The EUT will communicate the State's policies regarding timely deposit of funds to the personnel handling the student activity accounts at each school. The EUT will implement a monthly review of these accounts to verify compliance.

2019-8

Title: Used vendor statements in place of itemized invoices for student activity supporting documents.

Condition: The Unorganized Territory Education Services student activity accounts used vendor statements instead of itemized invoices for student activity support for vendor payments.

Context: The Unorganized Territory Education Services is responsible for reducing loss risk related to student activity accounts.

Effect: The Unorganized Territory increases the risk of loss.

Recommendation: We recommend that management review and revise its procedures to require that itemized documentation be on file to substantiate all disbursements made from its financial institution to help reduce the risk of loss and to help avoid material misstatements in the financial statements.

UTES Response: We agree with this finding. The EUT will communicate the requirement to utilize itemized invoices as supporting documents for vendor payments to the personnel handling the student activity accounts at each school. The EUT will implement a monthly review of these accounts to verify compliance.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

FINDINGS - FINANCIAL STATEMENT AUDIT - CURRENT YEAR

CONTROL DEFICIENCIES

2020-1 (Repeat findings 2015-2019)

Title: Inadequate internal control over financial reporting for the Unorganized Territory (UT).

Condition: Maine Revenue Services (MRS) does not maintain UT accounting information in a manner that facilitates financial analysis and the audit of the financial statements. This is due to several factors involving how property tax revenue is recorded by MRS. Taxes receivable activity is recorded in one balance sheet account.

The entry to record the commitment does not include the recording of property taxes receivable and deferred property tax revenue in accordance with generally accepted accounting principles (GAAP). Therefore, accurate financial reports are not available until year-end adjustments are completed to record the receivables and the deferred revenue entries, and to adjust property tax revenue accordingly. Title 36, Part 2, Chapter 115, Section 1605 states that "The State Controller shall establish an Unorganized Territory Education and Services Fund that reflects all of the activity of that fund within the state accounting system chart of accounts in accordance with the standards of the governmental accounting standards board as they apply to the financial statements of the fund." MRS does not maintain a ledger throughout the year reflecting all assets, liabilities, revenues, and expenditures of the Fund.

Context: MRS is responsible for assessing, collecting, and recording property tax transactions in the UT.

Effect: Errors may occur in reporting financial information and not be detected in a timely manner.

Recommendation: MRS needs to use generally accepted accounting principles and provide adequately detailed supplemental information to the FAUT so that accurate financial statements can be prepared in a timely manner. This will allow financial and budgetary reports to be prepared on an interim basis for general management purposes.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

2020-1 (Repeat findings 2015-2019) (continued)

UTES Response: We agree with this finding as it relates to MRS maintaining UT accounting information. The State of Maine has an established accounting system that enables the State to report financial activity in accordance with GAAP. Unorganized Territory Education and Services Fund (UTES) transactions are recorded across multiple funds within the State's accounting system and are accounted for appropriately.

We have developed a process to monitor and review UTES individual account activity on a quarterly basis during the fiscal year. This includes monitoring trends and comparisons of actual activity to budget and other appropriate measures to ensure accuracy of reporting for UTES revenue and expenditures during the year. We have determined this to be the most efficient and cost-effective method of providing UTES interim review and reporting. This process will provide financial control points during the fiscal year that will ensure and verify financial accuracy without adding additional resources to the reporting process.

Procedures to verify the accuracy of MRS revenue transactions will be developed and will include further analysis of the UTES tax revenue elements and reconciliation to source documents.

Commencing with the FY18 audit, the UTES significantly increased the amount of detailed supporting workpapers and financial documents required to facilitate an efficient audit.

2020-2 (Repeated from 2015-2019)

Title: Inadequate internal control over payroll charges to the Unorganized Territory (UT).

Condition: The MRS administrative assessment of over \$800,000 to UT citizens is partially based on an annual estimate rather than actual UT activity documented on MRS employees' timesheets.

Context: MRS is responsible for assessing and collecting property tax in the UT.

Effect: Reimbursements to Maine Revenue Services may not reflect actual expenditures and may include reimbursement for expenditures of other unrelated activities.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

2020-2 (Repeated from 2015-2019) Continued

Recommendation: We recommend that MRS record actual payroll costs for the UT directly to the UT appropriation unit from the MS - TAMS (time and attendance subsidiary ledger) or execute an agreement between the UT and MRS outlining the service(s) performed for the UT by MRS and the agreed upon total cost of those services on an annual basis so that the MRS can record that total cost to the UT.

UTES Response: We agree with this finding. MRS will continue to develop a procedure to capture and charge payroll expense based on actual time and wage costs. MRS UT time will be tracked in MS-TAMS, the State's time tracking software, and with manual tracking spreadsheets as necessary. We expect time tracking to improve when the State implements the new Workday Maine System to replace MS-TAMS. The new time tracking system is expected to (or can be programmed to) allocate and record the payroll costs automatically. An implementation date for this new payroll system has yet to be determined. We will review the recommendation to consider executing a service agreement with an annual total cost for services between the UT and MRS.

2020-3 (Repeated from 2017-2019)

Title: By statute, TIFs are not considered a supplemental tax.

Condition: Currently TIFs are treated as supplemental taxes and included in the Abatements and Supplemental Tax Report. Currently, Supplemental Tax certificates or warrants may not be sent to the State Treasurer for any of the supplemental taxes as required by Title 36 § 713.

Context: MRS is responsible for assessing and collecting property tax in the UT.

Effect: Because TIFs are treated as supplemental taxes, they are not included in the current State Tax Assessor's Commitment letter to the Treasurer and the Controller. This makes reconciliation of the Property Tax Accounts Receivable extremely difficult.

Recommendation: We recommend that MRS include TIF assessments in annual commitments.

UTES Response: We agree with this finding. The TIF assessment is determined during the property assessment process. MRS will modify the format of the Tax Commitment Letter for Tax Year 2021 to include a line for the annual TIF assessment.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

2020-4 (Repeated from 2017-2019)

Title: Comingling of UT personnel services, with all other Maine Revenue Services (non-UT related business) personnel services and expenditures in Advantage ME.

Condition: During the audit it was noticed there were Maine Revenue Service expenditures comingled with UT expenditures.

Context: MRS is responsible for proper coding of UT expenditures incurred for UT purposes within the MRS department.

Effect: The annual expenditures for the UT may be over/understated causing an inaccurate presentation of the financial condition.

Recommendation: We recommend that MRS reconcile all UT budgeted to actual expenditures quarterly with the UT to verify all MRS expenditures and UT expenditures are properly classified or execute an agreement between the UT and MRS outlining the service(s) performed for the UT by MRS and the agreed upon total cost of those services on an annual basis so that the MRS can record that total cost to the UT.

UTES Response: We agree with this finding. MRS is developing a process to code invoices directly to the unique MRS UT unit 1062. This will include detailed backup to support allocations for MRS split invoices. The MRS UTES budget will be prepared in the same format and reviewed quarterly against actuals to ensure recorded expenses meet expectations. We will review the recommendation to consider executing a service agreement with an annual total cost for services between the UT and MRS.

2020-5 (Repeated from 2017-2019)

Title: Inadequate internal control over the annual property tax assessment in the Unorganized Territory Tax District.

Condition: The Unorganized Territory Tax District is a primary assessing area and the State Tax Assessor does not certify to the State Treasurer and to the State Controller a sufficient list of the total type of each tax assessment that will be collected from the taxpayers in the Unorganized Territory Tax District.

Context: MRS is responsible for assessing and collecting property tax in the Unorganized Territory Tax District.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

2020-5 (Repeated from 2017-2019) (continued)

Effect: The unorganized territory property tax assessment may not include the full assessment that is required to fund municipal services in the Unorganized Territory Tax District.

Recommendation: We recommend that MRS utilize Form # PTA 200(05/18/), the Assessors' Certification of Assessment to certify to the State Treasurer and to the State Controller a sufficient list of tax assessments and deductions that will be collected from taxpayers in the Unorganized Territory Tax District.

UTES Response: We agree with this finding. Title 36, M.R.S.A., §341, requires the State Tax Assessor to certify to the Treasurer of State and the State Controller the total amount of each type of tax to be assessed and collected for the tax year. MRS and the UTES will review and modify the current format of the Tax Commitment Letter for Tax Year 2021 to provide further detail of the UT tax commitment in accordance with this statute per Treasurer of State and State Controller requirements.

2020-6 (Repeated from 2019)

Title: Failure to comply with Generally Accepted Accounting Procedures (GAAP)

Condition: The Unorganized Territory Education Services did not record within its financial accounting software all accounts payable and expenses/expenditures required to be recorded in the current fiscal year as part of the modified accrual basis of accounting.

Context: The Unorganized Territory Education Services is responsible for accruing year end balances to relevant cost components.

Effect: The Unorganized Territory might materially misstate the balances in the financial statements.

Recommendation: We recommend that management review and revise its procedures to help ensure that all accounts payable and expense/expenditure transactions are properly recorded in its financial accounting software in compliance with GAAP.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2020

2020-6 (Repeated from 2019) Continued

UTES Response: We disagree with this finding. The State of Maine accounting software does not accrue accounts payable. However, the FAUT has a procedure in place to identify and record accounts payable and accruals with yearend journal entries. This is the same system utilized by the Office of the State Controller to prepare the Comprehensive Annual Financial Report for the State of Maine.

These yearend entries convert the UTES' cash basis accounting to modified accrual basis for GAAP reporting purposes. It is not efficient or effective to modify the State's accounting software to automate this process for the UTES fund.

2020-7 (Repeated from 2019)

Title: Used vendor statements in place of itemized invoices for student activity supporting documents.

Condition: The Unorganized Territory Education Services student activity accounts used vendor statements instead of itemized invoices for student activity support for vendor payments.

Context: The Unorganized Territory Education Services is responsible for reducing loss risk related to student activity accounts.

Effect: The Unorganized Territory increases the risk of loss.

Recommendation: We recommend that management review and revise its procedures to require that itemized documentation be on file to substantiate all disbursements made from its financial institution to help reduce the risk of loss and to help avoid material misstatements in the financial statements.

UTES Response: We agree with this finding. The EUT will communicate the requirement to utilize itemized invoices as supporting documents for vendor payments to the personnel handling the student activity accounts at each school. The EUT will implement a monthly review of these accounts to verify compliance.