

Audited Financial Statements

State of Maine Unorganized Territory
Education and Services Fund

June 30, 2016



Proven Expertise and Integrity

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

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JUNE 30, 2016

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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, 2016, 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 accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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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, 2016, 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, 2016, 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 10 and 40 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, the Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund and the combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Comparative Balance Sheets – General Fund, the Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund and the combining financial statements 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, the Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund and the combining financial statements 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 April 13, 2017, 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 grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering State of Maine Unorganized Territory Education and Service Fund's internal control over financial reporting and compliance.

RHR Smith & Company

Buxton, Maine
April 13, 2017

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

(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, 2016. 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 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 businesses. These statements provide both short-term as well as long-term information in regards 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 education, county reimbursements for services, departmental, 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 one column in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances. The Fund has one major governmental fund: the general fund.

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. They use the accrual basis of accounting.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The Notes to Financial Statements can be found following the Statement of Fiduciary 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 other schedules provide information in regards to 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 decreased by \$1,406,434 from \$6,149,995 to \$4,743,561.

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 - decreased by \$1,092,138 to a balance of \$4,015,306 at the end of this year.

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

	2016	2015
Assets:		
Current Assets	\$ 5,160,804	\$ 6,077,306
Capital Assets	728,255	1,042,551
Total Assets	5,889,059	7,119,857
Liabilities:		
Current Liabilities	1,066,919	928,884
Total Liabilities	1,066,919	928,884
Deferred Inflows of Resources:		
Taxes Paid in Advance/Overpaid Taxes	78,579	40,978
Total Deferred Inflows of Resources	78,579	40,978
Net Position:		
Net Investment in Capital Assets	728,255	1,042,551
Unrestricted	4,015,306	5,107,444
Total Net Position	\$ 4,743,561	\$ 6,149,995

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

	2016	2015
Revenues		
Taxes	\$ 27,538,246	\$ 27,678,631
Intergovernmental	474,255	443,636
Charges for services	102,517	118,035
Miscellaneous	202,363	72,082
Total Revenues	28,317,381	28,312,384
Expenses		
Education	12,209,155	11,095,328
County reimbursements for services	8,104,989	7,844,813
Departmental	1,744,575	1,712,565
County tax	4,892,600	5,090,073
Tax increment financing	2,174,972	2,623,389
Overlay	515,147	150,993
Depreciation	82,377	95,101
Total Expenses	29,723,815	28,612,262
Change in Net Position	(1,406,434)	(299,878)
Net Position - July 1	6,149,995	6,449,873
Net Position - June 30	\$ 4,743,561	\$ 6,149,995

Revenues and Expenses

Revenues for the Fund's governmental activities increased by .02%, while total expenses increased by 3.89%. The increase in revenues was mainly due to an increase in miscellaneous revenue. The increase in expenses was mainly due to increased payments by the fund for education and county services.

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
June 30,

	<u>2016</u>	<u>2015</u>
General Fund:		
Assigned	\$ 2,017,036	\$ 2,443,277
Unassigned	1,644,318	2,221,799
Total General Fund	<u>\$ 3,661,354</u>	<u>\$ 4,665,076</u>

The general fund total fund balance decreased by \$1,003,722 from the prior fiscal year.

Budgetary Highlights

There was no significant difference between the original and final budget for the general fund.

The general fund actual revenues exceeded budgeted amounts by \$424,320. This was a result of greater than anticipated property tax revenues, intergovernmental revenues and miscellaneous revenues.

The general fund actual expenditures were under budget by \$971,958. All departments were under budget.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2016, the net book value of capital assets recorded by the Fund decreased by \$314,296 from the prior year. The decrease was due to current year additions of \$157,208 less current year disposals of \$389,127 and less current year depreciation expense of \$82,377.

Table 4
State of Maine Unorganized Territory
Education and Services Fund
Capital Assets (Net of Depreciation)
June 30,

	2016	2015
Land	\$ 11,331	\$ 13,585
Building and improvements	462,755	525,416
Vehicles and equipment	254,169	503,550
Total	\$ 728,255	\$ 1,042,551

Debt

As of June 30, 2016, the Fund had no long-term debt.

Economic Factors and Next Year's Budgets and Rates

The Fund currently does not have a sufficient unassigned fund balance to sustain government operations for a period of approximately one month.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and 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.

STATEMENT A

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Accounts receivable (net of allowance for uncollectibles)	\$ 592,891
Due from State of Maine Treasury	<u>4,567,913</u>
Total current assets	<u>5,160,804</u>
Noncurrent assets:	
Capital assets:	
Land and other assets not being depreciated	11,331
Depreciable assets, net of accumulated depreciation	<u>716,924</u>
Total noncurrent assets	<u>728,255</u>
TOTAL ASSETS	<u><u>\$ 5,889,059</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 839,690
Accrued expenses	<u>227,229</u>
Total current liabilities	<u>1,066,919</u>
TOTAL LIABILITIES	<u>1,066,919</u>
DEFERRED INFLOWS OF RESOURCES	
Taxes paid in advance/overpaid taxes	<u>78,579</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>78,579</u>
NET POSITION	
Net investment in capital assets	728,255
Unrestricted	<u>4,015,306</u>
TOTAL NET POSITION	<u>4,743,561</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 5,889,059</u></u>

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

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Position
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Total Governmental Activities
Governmental activities:					
Education	\$ 12,209,155	\$ 102,517	\$ 223,174	\$ -	\$ (11,883,464)
County reimbursements for services	8,104,989	-	-	-	(8,104,989)
Departmental	1,744,575	-	-	-	(1,744,575)
County tax	4,892,600	-	-	-	(4,892,600)
Tax increment financing	2,174,972	-	-	-	(2,174,972)
Unallocated depreciation (Note 3)*	82,377	-	-	-	(82,377)
Total government	<u>\$ 29,723,815</u>	<u>\$ 102,517</u>	<u>\$ 223,174</u>	<u>\$ -</u>	<u>(29,398,124)</u>
General revenues:					
Property taxes, levied for general purposes					27,538,246
Intergovernmental revenues					251,081
Miscellaneous					202,363
Total general revenues					<u>27,991,690</u>
Change in net position					(1,406,434)
NET POSITION - JULY 1					<u>6,149,995</u>
NET POSITION - JUNE 30					<u>\$ 4,743,561</u>

*This amount excludes the depreciation that is included in the direct expenses of the various programs.

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

STATEMENT C

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General Fund</u>
ASSETS	
Accounts receivable (net of allowance for uncollectibles):	
Taxes receivable - current year	\$ 426,553
Tax liens	44,826
Due from other governments	121,512
Due from State of Maine Treasury	<u>4,567,913</u>
TOTAL ASSETS	<u><u>\$ 5,160,804</u></u>
LIABILITIES	
Accounts payable	\$ 839,690
Accrued wages	227,229
TOTAL LIABILITIES	<u>1,066,919</u>
DEFERRED INFLOWS OF RESOURCES	
Taxes paid in advance/overpaid taxes	78,579
Deferred tax revenue	<u>353,952</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>432,531</u>
FUND BALANCES	
Nonspendable	-
Restricted	-
Committed	-
Assigned	2,017,036
Unassigned	<u>1,644,318</u>
TOTAL FUND BALANCES	<u>3,661,354</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 5,160,804</u></u>

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

STATEMENT D

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

	Total Governmental Funds
Total Fund Balances	\$ 3,661,354
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds shown above:	
Taxes and liens receivable	353,952
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation	728,255
Net position of governmental activities	\$ 4,743,561

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

STATEMENT E

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, 2016

	General Fund
REVENUES	
Property taxes	\$ 27,626,662
Intergovernmental revenues	474,255
Charges for services	102,517
Miscellaneous revenue	202,363
TOTAL REVENUES	28,405,797
EXPENDITURES	
Current:	
Education	11,977,236
County reimbursements for services	8,104,989
Departmental	1,744,575
County tax	4,892,600
Tax increment financing	2,174,972
TOTAL EXPENDITURES	29,409,519
NET CHANGE IN FUND BALANCES	(1,003,722)
FUND BALANCES - JULY 1	4,665,076
FUND BALANCES - JUNE 30	\$ 3,661,354

See accompanying independent auditors' 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, 2016

Net change in fund balances - total governmental funds (Statement E)	<u>\$ (1,003,722)</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	<u>(88,416)</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 asset purchases capitalized	157,208
Capital asset disposals	(389,127)
Depreciation expense	<u>(82,377)</u>
	<u>(314,296)</u>
Change in net position of governmental activities (Statement B)	<u><u>\$ (1,406,434)</u></u>

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

STATEMENT G

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2016

	Agency Funds		
	Excise Taxes	Student Accounts	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 34,603	\$ 34,603
Accounts receivable (net of allowance for uncollectibles)	-	4,886	4,886
Due from State of Maine Treasury		-	-
TOTAL ASSETS	\$ -	\$ 39,489	\$ 39,489
LIABILITIES			
Due to Counties - excise taxes	\$ -	\$ -	\$ -
Due to student groups	-	39,489	39,489
TOTAL LIABILITIES	\$ -	\$ 39,489	\$ 39,489

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

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State of Maine Unorganized Territory Education and Services Fund provides services to 420 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 on December 31, 2016.

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, 2016, the following statements of financial accounting standards issued by the Governmental Accounting Standards Board became effective:

Statement No. 72, "*Fair Value Measurement and Application*". The objective of the Statement is to expand comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will improve fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. Management has determined the impact of this Statement is not material to the financial statements.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement No. 73, “*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*”. The objective of the Statement is to improve financial reporting by instituting a single framework for the presentation of information about pensions, thereby expanding the comparability of pension-related information reported by state and local governments. Management has determined that this Statement is not applicable.

Statement No. 76, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*”. The objective of this Statement is to identify-in the context of the current governmental financial reporting environment-the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Management has determined the impact of this Statement is not material to the financial statements.

Statement No. 79, “*Certain External Investment Pools and Pool Participants*”. This Statement establishes specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

This Statement also establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. Management has determined the impact of this Statement is not material to the financial statements.

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).

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 of each of the Fund's functions (education, county reimbursements for services, departmental, etc.). The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, miscellaneous revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

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

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

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

Measurement Focus - Basic Financial Statements & 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 comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. Component units that are fiduciary in nature have been excluded from these financial statements.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following fund types are used by the Fund:

1. Governmental Funds:

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

Major fund:

- a. The General Fund is the general operating fund of the 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.

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 (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements. The fiduciary funds are for excise taxes and student activity accounts.

The emphasis in 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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. Accrual

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

2. Modified Accrual

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

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.

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

1. Each year the Fiscal Administrator of the Fund requests budget information from the State agencies and counties who 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 which includes the state-wide components of the State of Maine Unorganized Territory. The Fiscal Administrator drafts a legislative document (L.D.) for the purpose of setting and authorizing the collection of taxes in the UT to the Legislature for consideration. The L.D. is known as the "Municipal Cost Component". Once the L.D. is printed and assigned, 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 of each county with the Unorganized Territory.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 spread across 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.

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 has no formal investment policy but instead follows the State of Maine Statutes.

Allowance for Uncollectible Accounts

The allowance for uncollectible accounts for the receivables is estimated to be \$0 as of June 30, 2016.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets purchased or acquired with an original cost of \$3,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Infrastructure such as streets, traffic signals, and signs are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives.

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

Estimated useful lives are as follows:

Buildings	20 - 50 years
Infrastructure	50 - 100 years
Machinery and equipment	3 - 50 years
Vehicles	3 - 25 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 balances 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 legislations adopted by the Fund 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

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund is bound to honor constraints on the specific purpose for which amounts in the funds 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 expressed by the Board.

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

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

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 so will not be recognized as an outflow of resources (expense/expenditure) until then. 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 so will not be recognized as an inflow of resources (revenue) until that time. The Fund has only one type of item, deferred tax revenues, which arises only under a modified accrual basis of accounting that 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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes - Modified Accrual Basis

The Fund's property tax for the current year were committed in July of 2015 on the assessed value listed as of April 1, 2015, for all real and personal property located in the Unorganized Territory. Property taxes were to be paid in one installment with tax due date of October 1, 2015. Interest will begin accruing at a rate of 7.00% 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 \$515,147 for the year ended June 30, 2016. 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.

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. The UT 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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following summarizes the 2016 levy:

	<u>Assessed value</u>	<u>Tax rate</u>	<u>Commitment</u>
Aroostook	\$ 585,006,124	0.6930%	\$ 4,054,092
Franklin	423,902,651	0.8330%	3,531,109
Hancock	251,850,695	0.5300%	1,334,809
Kennebec	7,018,344	0.5970%	41,900
Knox	15,676,391	0.4690%	73,522
Lincoln	12,515,585	0.5060%	63,329
Oxford	221,085,170	1.0190%	2,252,858
Penobscot	270,295,376	0.8699%	2,351,370
Piscataquis	641,526,841	0.6700%	4,298,230
Somerset	693,960,266	0.8460%	5,870,904
Waldo	1,619,020	0.5590%	9,050
Washington	389,854,111	0.8460%	3,298,166
			<u>27,179,339</u>
Tax increment financing assessment			-
Total commitment			<u>27,179,339</u>
Supplemental taxes assessed			366,148
Less: Homestead reimbursement			(93,945)
Collections and abatements			<u>(27,024,989)</u>
Balance at June 30, 2016			<u>\$ 426,553</u>
Percent of collection			98.45%

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TIF District Name	District Original Assessed Value (OAV)	Increase Assessed Value (IAV)	Capture Percent %	Captured Assessed Value (CAV) (rounded to nearest hundredths)	FY 2016 Captured Tax	Credit Enhancement Agreement (CEA)	TIF Cap on Payments to Developer	TIF Cap on Payments to County
Franklin County Enterprise Kibbe I	\$ 455,952	\$ 178,488,027	(A)	\$ 133,866,020	\$ 1,115,104	YES (B)	\$ 8,841,780	4,000,000
Washington County Enterprise	\$ 513,106	\$ 89,866,910	100%	\$ 89,866,910	\$ 760,274	YES (C)	None	None
Hancock County	\$ 225,474	\$ 56,413,470	100%	\$ 56,413,470	\$ 298,991	YES (D)	None	None
A) Kibbe I Capture %	Yr. 1-10 Yr. 11-20	75% 50%						
B) Kibbee CEA Share	<u>Wind Developer</u> 60%	<u>County</u> 40%						
C) Stetson I Tract Share	60%	40%						
Baskahegan	0%	100%						
Stetson II Share	60%	40%						
D) Blue Sky East LLC	70%	30%						

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. 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, 2016 lapse and are re-appropriated and/or re-encumbered as part of the subsequent year's budget. At June 30, 2016, fund balance restrictions for outstanding encumbrances amounted to \$267,036.

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,

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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. These apply to all UT 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, 2016, the Fund's cash balances of \$34,603 are comprised of deposits amounting to \$34,603 all of which was fully insured by federal depository insurance and thus not exposed to custodial credit risk.

<u>Account Type</u>	<u>Bank Balance</u>
Checking accounts	\$ 28,818
Savings accounts	5,785
	<u>\$ 34,603</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 possession of an outside party. Currently, the Fund does not have a policy for custodial credit risk for investments.

At June 30, 2016, the Fund had \$0 of investments.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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.

NOTE 3 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	Balance 7/1/15	Additions	Disposals	Balance 6/30/16
<u>Governmental activities</u>				
Capital assets, not being depreciated:				
Land	\$ 13,585	\$ -	\$ (2,254)	\$ 11,331
Capital assets, being depreciated:				
Building and improvements	4,280,064	-	(153,009)	4,127,055
Vehicles and equipment	1,298,064	157,208	(449,141)	1,006,131
Total capital assets being depreciated	<u>5,578,128</u>	<u>157,208</u>	<u>(602,150)</u>	<u>5,133,186</u>
Accumulated depreciation:				
Building and building improvements	(3,754,648)	(35,254)	125,602	(3,664,300)
Vehicles and equipment	(794,514)	(47,123)	89,675	(751,962)
Total accumulated depreciation	<u>(4,549,162)</u>	<u>(82,377)</u>	<u>215,277</u>	<u>(4,416,262)</u>
Total capital assets, net of depreciation	<u>\$ 1,042,551</u>	<u>\$ 74,831</u>	<u>\$ (389,127)</u>	<u>\$ 728,255</u>

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - ASSIGNED FUND BALANCES

At June 30, 2016, the Fund had the following assigned fund balance:

General fund:	
Reserve for encumbrances	\$ 267,036
Reserved for FY 2017 to reduce taxes	1,750,000
	<u>\$ 2,017,036</u>

NOTE 5 - EXPENDITURES OVER APPROPRIATIONS

The Fund had no overspent appropriations at June 30, 2016.

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, 2016 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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 5%.

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 PLD withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The PLD 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, 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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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.

The State of Maine is required to remit 20% 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 2016 for participating entities are as follows:

<u>State:</u>	
Employees	7.65 - 8.65%
Employer	18.43 - 41.05%
<u>Teachers:</u>	
Employees	7.65%
Employer	15.68%

The Maine Unorganized Territory Education and Services Fund payroll for teachers covered by this group was approximately \$1,413,640 for the year ended June 30, 2016. The State of Maine is required to provide the employer contribution which amounts to 15.68% of compensation. Contributions paid by the State were approximately \$223,174 for the year ended June 30, 2016. There is no contribution required by the Fund, except for federally funded teachers, which for the year ended June 30, 2016, is included as part of the State of Maine's overall contribution for federally funded employees.

Annual Pension Cost and Net Pension Liability

The UT's employer's annual pension cost 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 UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 7 - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

The UT is aware of the existence of several landfills which have all been closed as of June 30, 2016. The liability for post-closure monitoring costs falls on the individual County's Unorganized Territory funds. The State of Maine Unorganized Territory Education and Services Fund would be affected by virtue of an increase in the municipal cost component needs in a year in which post-closure costs were incurred. The amount and timing of these potential post-closure costs are unknown.

NOTE 8 - COUNTY TAX

The following summarizes the amounts of county taxes paid to each of the counties for the year ended June 30, 2016:

Aroostook	\$	1,216,139
Franklin		1,029,624
Hancock		223,152
Kennebec		12,115
Oxford		1,247,937
Penobscot		1,033,537
Piscataquis		1,008,711
Somerset		1,463,162
Washington		870,612
Total	\$	<u>8,104,989</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. Specifically excluded are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 EMPLOYEES 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, 2016

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

TEACHERS 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, therefore, making the contribution on behalf of the employing jurisdictions at a 45 percent level for the current portion of the health plan costs and 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, 2013 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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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.

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 \$.63 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's 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 UT 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 - FEDERAL AWARDS

No federal awards were expended by the State of Maine Unorganized Territory Education and Services Fund for the fiscal year ended June 30, 2016.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - CONTINGENT LIABILITIES

The Fund participates in a number of federal and state assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2016, have not yet been conducted. Accordingly, the Fund's compliance with applicable grant requirements will be established at some future date. The expenditure amounts, if any, which may be disallowed by granting agencies cannot be determined.

Required Supplementary Information

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

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

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, 2016

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Budgetary Fund Balance, July 1	\$ 4,665,076	\$ 4,665,076	\$ 4,665,076	\$ -
Resources (Inflows):				
Property taxes	27,468,322	27,468,322	27,626,662	158,340
Intergovernmental revenues	302,746	302,746	474,255	171,509
Charges for services	124,516	124,516	102,517	(21,999)
Miscellaneous revenue	86,000	86,000	202,363	116,363
Amounts Available for Appropriation	<u>32,646,660</u>	<u>32,646,660</u>	<u>33,070,873</u>	<u>424,213</u>
Charges to Appropriations (Outflows):				
Education	12,129,121	12,129,121	11,977,236	151,885
County reimbursements for services	8,104,989	8,104,989	8,104,989	-
Departmental	1,939,727	1,939,727	1,744,575	195,152
County tax	4,892,600	4,892,600	4,892,600	-
Tax increment financing	2,800,000	2,800,000	2,174,972	625,028
Overlay	515,147	515,147	515,147	-
Total Charges to Appropriations	<u>30,381,584</u>	<u>30,381,584</u>	<u>29,409,519</u>	<u>972,065</u>
Budgetary Fund Balance, June 30	<u>\$ 2,265,076</u>	<u>\$ 2,265,076</u>	<u>\$ 3,661,354</u>	<u>\$ 1,396,278</u>
Utilization of Unassigned Fund Balance	<u>\$ 2,400,000</u>	<u>\$ 2,400,000</u>	<u>\$ -</u>	<u>(2,400,000)</u>

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

Other Supplementary Information

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

- Comparative Balance Sheets - General Fund
- Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund

SCHEDULE A

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

COMPARATIVE BALANCE SHEETS – GENERAL FUND
JUNE 30,

	2016	2015
ASSETS		
Accounts receivable (net of allowance for uncollectibles):		
Taxes receivable - current year	\$ 426,553	\$ 412,413
Taxes and liens receivable - prior years	-	28,524
Tax lien fees receivable	44,826	36,670
Due from other governments	121,512	126,266
Due from State of Maine Treasury	4,567,913	5,473,433
TOTAL ASSETS	\$ 5,160,804	\$ 6,077,306
LIABILITIES		
Accounts payable	\$ 839,690	\$ 716,556
Accrued wages	227,229	212,328
TOTAL LIABILITIES	1,066,919	928,884
DEFERRED INFLOWS OF RESOURCES		
Taxes paid in advance/overpaid taxes	78,579	40,978
Deferred tax revenue	353,952	442,368
TOTAL DEFERRED INFLOWS OF RESOURCES	432,531	483,346
FUND BALANCES		
Nonspendable	-	-
Restricted	-	-
Committed	-	-
Assigned	2,017,036	2,443,277
Unassigned	1,644,318	2,221,799
TOTAL FUND BALANCES	3,661,354	4,665,076
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,160,804	\$ 6,077,306

See accompanying independent auditors' 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, 2016 AND 2015

	2016			Variance	2015
	Original Budget	Final Budget	Actual	Positive (Negative)	Actual
Revenues:					
Taxes:					
Property taxes	\$ 27,468,322	\$ 27,468,322	\$ 27,538,246	\$ 69,924	\$ 27,678,631
Change in deferred property taxes	-	-	88,416	88,416	7,241
Total taxes	<u>27,468,322</u>	<u>27,468,322</u>	<u>27,626,662</u>	<u>158,340</u>	<u>27,685,872</u>
Intergovernmental:					
On-behalf payments - teachers retirement	208,801	208,801	223,174	14,373	223,281
Homestead reimbursement	93,945	93,945	-	(93,945)	85,831
BETE/Veteran's reimbursement	-	-	146,694	146,694	33,757
State Revenue Sharing	-	-	104,387	104,387	100,767
Total intergovernmental	<u>302,746</u>	<u>302,746</u>	<u>474,255</u>	<u>171,509</u>	<u>443,636</u>
Charges for services:					
Educational tuition/transportation	124,516	124,516	102,517	(21,999)	118,035
Total charges for services	<u>124,516</u>	<u>124,516</u>	<u>102,517</u>	<u>(21,999)</u>	<u>118,035</u>
Other:					
Miscellaneous	16,000	16,000	-	(16,000)	-
Sale of assets	-	-	56,285	56,285	72,082
Education - trust	70,000	70,000	146,078	76,078	-
Total other	<u>86,000</u>	<u>86,000</u>	<u>202,363</u>	<u>116,363</u>	<u>72,082</u>
Total revenues	<u>27,981,584</u>	<u>27,981,584</u>	<u>28,405,797</u>	<u>424,213</u>	<u>28,319,625</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, 2016 AND 2015

	2016			Variance Positive (Negative)	2015
	Original Budget	Final Budget	Actual		Actual
Expenditures:					
Education:					
General operations	6,303,638	6,303,638	7,585,783	(1,282,145)	7,279,261
Salaries and benefits	3,071,850	3,071,850	2,228,291	843,559	1,976,101
Professional services	1,365,852	1,365,852	1,409,802	(43,950)	1,238,728
Travel expenses	48,660	48,660	30,393	18,267	27,678
Vehicle operation	173,983	173,983	124,868	49,115	138,119
Utility services	49,157	49,157	33,423	15,734	37,545
Rents	2,725	2,725	10,775	(8,050)	8,664
Repairs	60,839	60,839	47,672	13,167	36,416
Insurance	19,575	19,575	19,127	448	18,945
Fuel	74,477	74,477	32,186	42,291	55,497
Supplies	81,414	81,414	27,278	54,136	24,293
Technology	13,541	13,541	19,340	(5,799)	19,574
Capital improvements - general	532,208	532,208	171,313	360,895	5,000
Teacher retirement	208,801	208,801	223,174	(14,373)	223,281
Other	122,401	122,401	13,811	108,590	6,226
Total education	<u>12,129,121</u>	<u>12,129,121</u>	<u>11,977,236</u>	<u>151,885</u>	<u>11,095,328</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, 2016 AND 2015

	2016			Variance Positive (Negative)	2015
	Original Budget	Final Budget	Actual		Actual
Expenditures, continued:					
County reimbursements for services:					
Aroostook	1,216,139	1,216,139	1,216,139	-	1,042,847
Franklin	1,029,624	1,029,624	1,029,624	-	991,854
Hancock	223,152	223,152	223,152	-	320,363
Kennebec	12,115	12,115	12,115	-	11,831
Oxford	1,247,937	1,247,937	1,247,937	-	1,185,959
Penobscot	1,033,537	1,033,537	1,033,537	-	1,020,403
Piscataquis	1,008,711	1,008,711	1,008,711	-	990,627
Somerset	1,463,162	1,463,162	1,463,162	-	1,441,824
Washington	870,612	870,612	870,612	-	839,105
Total County reimbursements for services	8,104,989	8,104,989	8,104,989	-	7,844,813
Departmental:					
Fiscal Administrator	254,952	254,952	225,203	29,749	210,735
Assessments	950,000	950,000	903,469	46,531	899,061
Forest fire service	150,000	150,000	27,427	122,573	20,965
General assistance	55,750	55,750	59,451	(3,701)	58,785
Land Use Planning Commission	529,025	529,025	529,025	-	523,019
Total departmental	1,939,727	1,939,727	1,744,575	195,152	1,712,565

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, 2016 AND 2015

	2016			Variance Positive (Negative)	2015
	Original Budget	Final Budget	Actual		Actual
Expenditures, continued:					
Unclassified:					
County tax	4,892,600	4,892,600	4,892,600	-	5,090,073
Tax incremental financing	2,800,000	2,800,000	2,174,972	625,028	2,623,389
Overlay/abatements	515,147	515,147	515,147	-	150,993
Total unclassified	<u>8,207,747</u>	<u>8,207,747</u>	<u>7,582,719</u>	<u>625,028</u>	<u>7,864,455</u>
Total expenditures	<u>30,381,584</u>	<u>30,381,584</u>	<u>29,409,519</u>	<u>972,065</u>	<u>28,517,161</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,400,000)</u>	<u>(2,400,000)</u>	<u>(1,003,722)</u>	<u>1,396,278</u>	<u>(197,536)</u>
Other financing sources (uses):					
Budgeted use of surplus-cost component	<u>2,400,000</u>	<u>2,400,000</u>	<u>-</u>	<u>(2,400,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>2,400,000</u>	<u>2,400,000</u>	<u>-</u>	<u>(2,400,000)</u>	<u>-</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(1,003,722)</u>	<u>\$ (1,003,722)</u>	<u>(197,536)</u>
Fund balance, July 1			<u>4,665,076</u>		<u>4,862,612</u>
Fund balance, June 30			<u>\$ 3,661,354</u>		<u>\$ 4,665,076</u>

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



Proven Expertise and 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, 2016, 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 April 13, 2017.

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 2016-1 and 2016-2 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.



Buxton, Maine
April 13, 2017

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

FINDINGS - FINANCIAL STATEMENT AUDIT – CURRENT YEAR

CONTROL DEFICIENCIES

2016-1 (Repeated from 2015)

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. Separate subledger information is not provided to the independent auditor or to the Fiscal Administrator of the UT (FAUT) for commitments and receivables by tax year, abatements, exemptions, refunds, tax liens, tax foreclosures or interest transactions.

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. Once completed at year end, it is still difficult to reconcile taxes receivable, deferred tax revenue and property tax revenue with sufficient accuracy. 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 appropriate accounts, 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.

MRS Response: Maine Revenue Services (MRS) concurs with the finding. MRS will contact the vendor architect of the Property Tax Management System to determine what reports could be generated to provide the necessary information that would 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, 2016

FINDINGS - FINANCIAL STATEMENT AUDIT – CURRENT YEAR

CONTROL DEFICIENCIES

2016-2 (Repeated from 2015)

Title:	Inadequate internal control over payroll charges to the Unorganized Territory (UT).
Condition:	The MRS administrative assessment of over \$900,000 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 charge actual payroll costs for the UT directly to the UT appropriation unit from the MS – TAMS, time and attendance subsidiary ledger.
MRS Response:	Maine Revenue Services (MRS) concurs with the finding. MRS will perform quarterly journal entries to record actual payroll costs for the Unorganized Territory utilizing data posted by the UT Property Tax staff in TAMS, the 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, 2016

2016-3

Title:	Inadequate internal controls over drawdown of federal funds.
Condition:	The Education UT returned federal funds on awards which had expired because they were not used during the award period.
Context:	Educational federal funds were available to be drawn down by the UT during the federal award period.
Effect:	The Education UT used non-federal funds to fund educational activities that should have been funded by federal programs.
Recommendation:	We recommend that UT review existing budgeting and expense practices for federal funds.
EUT Response:	The EUT makes every effort to expend federal funds in accordance to outcomes outlined in each grant application. Requests to draw funds are done once expenditures are recognized, coded, and approved. Funds are drawn according to actual invoice charges and aligned to grant outcomes in accordance with each grant performance indicator activity budget. Academic year, student, and staff changes affect expenditures for specific federal grant activity funds. In addition, the activity budgets for federal funds do not always match the expenditures or needs for educational services in the academic school year. New applications anticipate program needs based on best estimates for expenditures during the grant period. Staff turnover, student enrollment, special education services, and school needs impact the balance of specific federal activity program funds. Expenditures charged which are not in accordance with the grant application will be rejected and the funds are required to be returned. The EUT reimburses school districts for actual expenditures incurred for education services provide to EUT students only. Federal funds are for EUT students only and not to support non EUT students.