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Audited Financial Statements
And Other Financial Information

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

June 30, 2018

Prepared by the Fiscal Administrator of the Unorganized Territory
November 6, 2020

**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, 2018, 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, 2018, 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, 2018, 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 41 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 November 6, 2020, 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
November 6, 2020

**REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

(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, 2018. 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 \$530,716 from \$6,377,188 (restated) to \$6,907,904.

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 \$318,552 to a balance of \$5,681,521 at the end of this fiscal year.

Table 1
State of Maine Unorganized Territory
Education and Services Fund
Net Position
For the Years Ended June 30, 2018 and 2017

	2018	2017 Restated	\$ Change	% Change
Assets:				
Current assets	\$ 7,243,839	\$ 7,657,993	\$ (414,154)	-5.41%
Capital assets	1,226,383	1,014,219	212,164	20.92%
Total assets	8,470,222	8,672,212	(201,990)	-2.33%
Liabilities:				
Current liabilities	1,470,910	2,273,235	(802,325)	-35.29%
Total liabilities	1,470,910	2,273,235	(802,325)	-35.29%
Deferred Inflows of Resources:				
Taxes paid in advance/overpaid taxes	91,408	21,789	69,619	319.51%
Total deferred inflows of resources	91,408	21,789	69,619	319.51%
Net Position:				
Net Investment in Capital Assets	1,226,383	1,014,219	212,164	20.92%
Unrestricted	5,681,521	5,362,969	318,552	5.94%
Total Net Position	\$ 6,907,904	\$ 6,377,188	\$ 530,716	8.32%

Table 2
State of Maine Unorganized Territory
Education and Services Fund
Change in Net Position
For The Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>Restated</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Revenue from property taxes	\$ 31,290,373	\$ 30,388,851	\$ 901,522	2.97%
General intergovernmental revenues	769,985	628,443	141,542	22.52%
Education revenue	449,437	448,225	1,212	0.27%
Unclassified	87,925	187,491	(99,566)	-53.10%
Total Revenues	<u>32,597,720</u>	<u>31,653,010</u>	<u>944,710</u>	<u>2.98%</u>
Expenses				
State agencies	14,094,808	13,199,894	894,914	6.78%
County reimbursements for services	8,461,222	8,441,235	19,987	0.24%
County tax	5,815,747	5,685,615	130,132	2.29%
Tax increment financing	3,522,648	2,719,273	803,375	29.54%
Overlay/abatements	172,579	142,792	29,787	20.86%
Total Expenses	<u>32,067,004</u>	<u>30,188,809</u>	<u>1,878,195</u>	<u>6.22%</u>
Change in Net Position	530,716	1,464,201	(933,485)	-63.75%
Net Position - July 1, Restated	<u>6,377,188</u>	<u>4,912,987</u>	<u>1,464,201</u>	<u>29.80%</u>
Net Position - June 30	<u>\$ 6,907,904</u>	<u>\$ 6,377,188</u>	<u>\$ 530,716</u>	<u>8.32%</u>

Revenues and Expenses

Revenues for the Fund's governmental activities increased by 2.98% while total expenses increased by 6.22%. 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 and assessments, and tax increment financing.

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
General Fund:				
Assigned	\$ 424,556	\$ 1,041,727	\$(617,171)	-59.24%
Unassigned	4,978,450	3,999,305	979,145	24.48%
Total General Fund	<u>\$5,403,006</u>	<u>\$ 5,041,032</u>	<u>\$ 361,974</u>	<u>7.18%</u>
Nonmajor Funds:				
Special Revenue Funds:				
Restricted	\$ 27,466	\$ 14,118	\$ 13,348	94.55%
Total Nonmajor Funds	<u>\$ 27,466</u>	<u>\$ 14,118</u>	<u>\$ 13,348</u>	<u>94.55%</u>

The General Fund total fund balance increased by \$361,974 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 increased by \$13,348 from the prior year due to revenues exceeding expenditures.

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 \$412,152. This is primarily due to intergovernmental revenue exceeding budget by \$228,729 and unclassified revenue exceeding budget by \$87,925.

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 \$849,822. The majority of the variance was due to State agency expenditures which were under budget by \$483,124. Overlay expenditures were over budget by \$542,582 and abatement expenditures were under budget by \$172,579.

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 two months, as of June 30, 2018.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the net book value of capital assets recorded by the Fund increased by \$212,164 from the prior year. The net increase is due to \$356,577 of vehicle additions reduced by \$144,413 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, 2018 and 2017

	2018	2017 (Restated)
	<hr/>	<hr/>
Land	\$ 11,331	\$ 11,331
Building and improvements	646,613	688,474
Vehicles and equipment	568,439	314,414
	<hr/>	<hr/>
Total	<u>\$ 1,226,383</u>	<u>\$ 1,014,219</u>

Debt

As of June 30, 2018, the Fund had no long-term debt.

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, 2018

	Governmental Activities
ASSETS	
Current assets:	
Taxes receivable (net of allowance for uncollectibles)	\$ 318,799
Tax liens	24,552
Due from other governments	111,214
Due from State of Maine Treasury	6,789,274
Total current assets	<u>7,243,839</u>
Noncurrent assets:	
Capital assets:	
Land and other assets not being depreciated	11,331
Depreciable assets, net of accumulated depreciation	1,215,052
Total noncurrent assets	<u>1,226,383</u>
TOTAL ASSETS	<u><u>\$ 8,470,222</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 1,294,267
Accrued expenses	176,643
Total current liabilities	<u>1,470,910</u>
TOTAL LIABILITIES	<u>1,470,910</u>
DEFERRED INFLOWS OF RESOURCES	
Taxes paid in advance/overpaid taxes	91,408
TOTAL DEFERRED INFLOW OF RESOURCES	<u>91,408</u>
NET POSITION	
Net investment in capital assets	1,226,383
Restricted	27,466
Unrestricted	5,654,055
TOTAL NET POSITION	<u>6,907,904</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 8,470,222</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, 2018

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:					
State agencies	\$ 14,094,808	\$ -	\$ 351,256	\$ -	\$ (13,743,552)
County reimbursements for services	8,461,222	-	-	-	(8,461,222)
County tax	5,815,747	-	-	-	(5,815,747)
Tax increment financing	3,522,648	-	-	-	(3,522,648)
Abatements	172,579	-	-	-	(172,579)
Total government	<u>\$ 32,067,004</u>	<u>\$ -</u>	<u>\$ 351,256</u>	<u>\$ -</u>	<u>(31,715,748)</u>
General revenues:					
Revenue from property taxes					31,290,373
General intergovernmental revenues					418,729
Education revenue					449,437
Unclassified					87,925
Total general revenues					<u>32,246,464</u>
Change in net position					530,716
NET POSITION - JULY 1, RESTATED					<u>6,377,188</u>
NET POSITION - JUNE 30					<u>\$ 6,907,904</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, 2018

	General Fund	Other Governmental Funds	Total
ASSETS			
Taxes receivable (net of allowance for uncollectibles)	\$ 318,799	\$ -	\$ 318,799
Taxes and liens receivable - prior years	24,552	-	24,552
Due from other governments	111,214	-	111,214
Due from State of Maine Treasury	6,761,808	27,466	6,789,274
TOTAL ASSETS	<u>\$ 7,216,373</u>	<u>\$ 27,466</u>	<u>\$ 7,243,839</u>
LIABILITIES			
Accounts payable	\$ 1,294,267	\$ -	\$ 1,294,267
Accrued wages	176,643	-	176,643
TOTAL LIABILITIES	<u>1,470,910</u>	<u>-</u>	<u>1,470,910</u>
DEFERRED INFLOWS OF RESOURCES			
Taxes paid in advance/overpaid taxes	91,408	-	91,408
Deferred tax revenue	251,049	-	251,049
TOTAL DEFERRED INFLOW OF RESOURCES	<u>342,457</u>	<u>-</u>	<u>342,457</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	-	27,466	27,466
Committed	-	-	-
Assigned	424,556	-	424,556
Unassigned	4,978,450	-	4,978,450
TOTAL FUND BLANCES	<u>5,403,006</u>	<u>27,466</u>	<u>5,430,472</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BLANCES	<u>\$ 7,216,373</u>	<u>\$ 27,466</u>	<u>\$ 7,243,839</u>

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, 2018

	Total Governmental Funds
	<hr/>
Total Fund Balances	\$ 5,430,472
Amounts reported for governmental activities in the Statement of Net Position are different because:	
<ul style="list-style-type: none"> • 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)	251,049
<ul style="list-style-type: none"> • Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation 	1,226,383
	<hr/>
Net position of governmental activities	<u><u>\$ 6,907,904</u></u>

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, 2018

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Property taxes	\$ 31,347,143	\$ -	\$ 31,347,143
Intergovernmental revenues	418,729	351,256	769,985
Education Revenue	449,437	-	449,437
Unclassified	87,925	-	87,925
TOTAL REVENUES	<u>32,303,234</u>	<u>351,256</u>	<u>32,654,490</u>
EXPENDITURES			
Current:			
State agencies	13,969,064	337,908	14,306,972
County reimbursements for services	8,461,222	-	8,461,222
County tax	5,815,747	-	5,815,747
Tax increment financing	3,522,648	-	3,522,648
Overlay/abatements	172,579	-	172,579
TOTAL EXPENDITURES	<u>31,941,260</u>	<u>337,908</u>	<u>32,279,168</u>
NET CHANGE IN FUND BALANCES	361,974	13,348	375,322
FUND BALANCES - JULY 1, RESTATED	<u>5,041,032</u>	<u>14,118</u>	<u>5,055,150</u>
FUND BALANCES - JUNE 30	<u>\$ 5,403,006</u>	<u>\$ 27,466</u>	<u>\$ 5,430,472</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, 2018

Net change in fund balances - total governmental funds (Statement E)	<u>\$ 375,322</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>(56,770)</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	356,577
Depreciation expense	<u>(144,413)</u>
	<u>212,164</u>
Change in net position of governmental activities (Statement B)	<u>\$ 530,716</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, 2018

	Agency Funds					Total
	Excise Taxes	Student Accounts	Walker Fund	Education in the UT	Kingman Fund	
ASSETS						
Cash and cash equivalents	\$ -	\$ 15,041	\$ -	\$ -	\$ -	\$ 15,041
Accounts receivable						
(net of allowance for uncollectibles):	-	4,886	-	-	-	4,886
Due from State of Maine Treasury	506,515	-	1,309	2,718	250	510,792
TOTAL ASSETS	<u>\$ 506,515</u>	<u>\$ 19,927</u>	<u>\$ 1,309</u>	<u>\$ 2,718</u>	<u>\$ 250</u>	<u>\$ 530,719</u>
LIABILITIES						
Due to Counties - excise taxes	\$ 506,515	\$ -	\$ -	\$ -	\$ -	\$ 506,515
Due to student groups	-	19,927	1,309	2,718	250	24,204
TOTAL LIABILITIES	<u>\$ 506,515</u>	<u>\$ 19,927</u>	<u>\$ 1,309</u>	<u>\$ 2,718</u>	<u>\$ 250</u>	<u>\$ 530,719</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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JUNE 30, 2018

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STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 dated December 6, 2018.

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, 2018, the following statements of financial accounting standards issued by the Governmental Accounting Standards Board became effective:

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The objective of the Statement is to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. Disclosures regarding post unemployment benefits other than pensions have been omitted from these statements. See the State of Maine's financial statements issued in a separate report dated December 6, 2018.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 81, *“Irrevocable Split-Interest Agreements”*. The objective of the Statement is to enhance the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. Management has determined the impact of this statement is not material to the financial statements.

GASB Statement No. 85, *“Omnibus 2017”*. The objective of the Statement is to enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. Management has determined the impact of this statement is not material to the financial statements.

GASB Statement No. 86, *“Certain Debt Extinguishment Issues”*. The objective of the Statement is to increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. 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).

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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 \$147,162 at June 30, 2018.

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:

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes - Modified Accrual Basis

The Fund's property tax for the current year was committed in July 2017 on the assessed value listed as of April 1, 2017, 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, 2017. Interest accrues at a rate of 7% 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 \$542,582 for the year ended June 30, 2018. 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. 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, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following summarizes the 2018 levy:

	<u>Assessed value</u>	<u>Tax rate</u>	<u>Commitment</u>
Aroostook	\$ 743,164,565	0.6310%	\$ 4,689,367
Franklin	330,311,087	0.7460%	2,464,121
Hancock	213,978,234	0.5000%	1,069,891
Kennebec	5,741,408	0.7100%	40,764
Knox	15,839,091	0.4720%	74,761
Lincoln	12,758,690	0.5040%	64,304
Oxford	263,360,157	0.9090%	2,393,944
Penobscot	331,688,169	0.8080%	2,680,040
Piscataquis	760,131,630	0.6220%	4,728,019
Somerset	809,142,255	0.8050%	6,513,594
Waldo	1,669,430	0.5600%	9,349
Washington	356,935,535	0.8010%	2,859,054
			27,587,208
Tax increment financing assessment			3,522,113
Less: Homestead reimbursement			(335,756)
Total commitment			30,773,565
 Add: Supplemental taxes			360,771
Less: Abatements			(142,301)
Collections			(30,526,074)
 Balance at June 30, 2018			 <u>\$ 465,961</u>
 Percent of collection			 98.50%

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 \$3,522,648 during 2018.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 hundreths)	\$ FY 2018 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	122,137,263	(A)	122,593,215	914,543	YES (B)	8,841,780	4,000,000
Hancock County	225,474	125,608,776	100%	125,834,250	629,171	YES (C)	None	None
Passadumkeag Wind	1,386,590	68,663,029	100%	70,049,619	566,001	YES (D)	None	None
Bingham Wind	803,489	98,651,141	100%	99,454,630	800,610	YES (E)	None	None
Washington County Enterprise	513,106	75,931,654	100%	76,444,760	612,323	YES (F)	None	None
2018 Captured TIF Taxes					3,522,648			

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 Share		60%	40%
Baskahegan		0%	100%
Stetson II Share		60%	40%

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, 2018 lapse and are re-appropriated and/or re-encumbered as part of the subsequent year's budget. At June 30, 2018, fund balance restrictions for outstanding encumbrances amounted to \$124,556.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018, the Fund's cash balances of \$15,041 are comprised of deposits amounting to \$15,041 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	\$ 12,514
Savings accounts	2,527
	<u>\$ 15,041</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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

At June 30, 2018, 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.

NOTE 3 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2018:

	Balance 7/1/17 (Restated)	Additions	Disposals	Balance 6/30/18
<u>Governmental activities</u>				
Capital assets, not being depreciated:				
Land	\$ 11,331	\$ -	\$ -	\$ 11,331
Capital assets, being depreciated:				
Building and improvements	4,391,332	-	-	4,391,332
Vehicles and equipment	1,107,456	356,577	(120,417)	1,343,616
Total capital assets being depreciated	5,498,788	356,577	(120,417)	5,734,948
Accumulated depreciation:				
Building and building improvements	(3,702,858)	(41,861)		(3,744,719)
Vehicles and equipment	(793,042)	(102,552)	120,417	(775,177)
Total accumulated depreciation	(4,495,900)	(144,413)	120,417	(4,519,896)
Total capital assets, net of depreciation	\$ 1,014,219	\$ 212,164	\$ -	\$ 1,226,383

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 - ASSIGNED FUND BALANCES

At June 30, 2018, the Fund had the following assigned fund balance:

General Fund:	
Reserve for encumbrances	\$ 124,556
Reserve for FY 2019 to reduce taxes	300,000
	<u>\$ 424,556</u>

NOTE 5 – RESTRICTED FUND BALANCE

At June 30, 2018 the Fund had the following fund balance:

Restricted Fund	\$ 27,466
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NOTE 6 - EXPENDITURES OVER APPROPRIATIONS

The Fund had the following overspent appropriations at June 30, 2018:

Assessments	\$ 132,061
Forest fire service	80,692
Abatements	172,579
	<u>\$ 385,332</u>

NOTE 7 - 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, 2018 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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 2.4%.

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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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.

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 2018 for participating entities are as follows:

<u>State</u>	
Employees	7.65 – 8.65%
Employer	23.48 – 47.73%
<u>Teachers</u>	
Employees	7.65%
Employer	3.97%
Non-employer Entity	11.08%

The Maine Unorganized Territory Education and Services Fund payroll for teachers covered by this group was approximately \$1,696,033 for the year ended June 30, 2018. The State of Maine is required to provide the employer contribution which amounts to 15.05% of compensation. Contributions paid by the State were \$255,253 for the year ended June 30, 2018. There is no contribution required by the Fund, except for federally funded teachers, which for the year ended June 30, 2018, is included as part of the State of Maine's overall contribution for federally funded employees.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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.

NOTE 8 - LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

Management is aware that several landfills, all of which have been closed as of June 30, 2018, 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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 - COUNTY TAX

The following summarizes the county property tax activity for each of the counties during the year ended June 30, 2018:

	County Service	County Tax	State Services	TIF Payments	Budgeted Commitment
Aroostook	\$ 1,288,800	\$ 786,573	\$ 2,468,458	\$ -	\$ 4,543,831
Franklin	888,252	399,300	1,097,145	914,543	3,299,240
Hancock	238,750	107,584	710,739	628,776	1,685,849
Kennebec	12,823	7,746	19,070	-	39,639
Knox	-	19,350	52,610	-	71,960
Lincoln	-	19,657	42,379	-	62,036
Oxford	1,273,300	219,851	874,764	-	2,367,915
Penobscot	1,071,109	441,854	1,101,719	566,001	3,180,683
Piscataquis	1,014,232	1,114,230	2,524,815	-	4,653,277
Somerset	1,663,297	2,066,899	2,687,606	800,610	7,218,412
Waldo	-	3,506	5,545	-	9,051
Washington	1,008,408	628,677	1,185,579	612,183	3,434,847
Total	<u>\$ 8,458,971</u>	<u>\$ 5,815,227</u>	<u>\$ 12,770,429</u>	<u>\$ 3,522,113</u>	<u>\$ 30,566,740</u>

NOTE 10 - 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 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

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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.

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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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.

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 \$.76 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.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 11 - 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 12 - RESTATEMENT

During 2018, it was noted that cash disbursements totaling \$2,077,715 were disbursed subsequent to June 30, 2017 but were treated as disbursed at June 30, 2017. As a result, Due from State Treasury was increased \$2,077,715 and Accounts Payable was increased \$2,077,715 in both the entity-wide and fund financial statements. There was no effect on Net Position.

Additionally, Capital Assets were increased to reflect \$413,085 of omitted additions. This caused Accumulated Depreciation to increase by \$28,104 and Net Position to increase by \$384,981 on the entity-wide financials.

Finally, Due from State Treasurer was decreased by \$181,509 to correct taxes receivable activity included in the Due from State Treasurer account. This entry resulted in an increase of \$181,509 to Net Position on the entity-wide financials and to Fund Balance on the fund financial statements.

STATE OF MAINE UNORGANIZED TERRITORY
EDUCATION AND SERVICES FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 - 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, 2018, the amount of excess with potential for carryforward is approximately \$5.8 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 \$5.8 million were committed, this would result in a General Fund unassigned fund balance of approximately negative \$500,000.

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, 2018, management has recognized \$300,000 of assigned fund balance in relation to the fiscal year 2019 budgeted use of funds (see Note 4).

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

(UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Budgetary Fund Balance, July 1, Restated	\$ 5,041,032	\$ 5,041,032	\$ 5,041,032	\$ -
Resources (Inflows):				
Revenue from property taxes	25,186,968	31,275,314	31,347,143	71,829
General intergovernmental revenues	190,000	190,000	418,729	228,729
Education revenue	425,768	425,768	449,437	23,669
Unclassified	-	-	87,925	87,925
Amounts Available for Appropriation	<u>30,843,768</u>	<u>36,932,114</u>	<u>37,344,266</u>	<u>412,152</u>
Charges to Appropriations (Outflows):				
State agencies	14,286,196	14,452,188	13,969,064	483,124
County reimbursements for services	8,458,972	8,458,972	8,461,222	(2,250)
County tax	-	5,815,227	5,815,747	(520)
Tax increment financing	3,957,568	3,522,113	3,522,648	(535)
Overlay	-	542,582	-	542,582
Abatement	-	-	172,579	(172,579)
Total Changes to Appropriations	<u>26,702,736</u>	<u>32,791,082</u>	<u>31,941,260</u>	<u>849,822</u>
Budgetary Fund Balance, June 30	<u>4,141,032</u>	<u>4,141,032</u>	<u>5,403,006</u>	<u>1,261,974</u>
Utilization of Unassigned Fund Balance	<u>\$ 900,000</u>	<u>\$ 900,000</u>	<u>\$ -</u>	<u>\$ (900,000)</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.

Comparative Balance Sheets - General Fund
Schedule A, page 43

Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual - General Fund
Schedule B, Page 44-46

Combining Balance Sheet - Nonmajor Governmental Funds
Schedule C, page 47

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Nonmajor Governmental Funds
Schedule D, page 48

Special Revenue Fund Information

Combining Balance Sheet - Nonmajor Special Revenue Funds
Schedule E, page 50

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -
Nonmajor Special Revenue Funds
Schedule F, page 51

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

COMPARATIVE BALANCE SHEETS - GENERAL FUND

JUNE 30, 2018 AND 2017

	2018	2017 (Restated)
ASSETS		
Taxes receivable (net of allowance for uncollectibles)	\$ 318,799	\$ 387,671
Taxes and liens receivable - prior years	24,552	54,501
Due from other governments	111,214	99,338
Due from State of Maine Treasury	6,761,808	7,102,365
TOTAL ASSETS	<u>\$ 7,216,373</u>	<u>\$ 7,643,875</u>
LIABILITIES		
Accounts payable	\$ 1,294,267	\$ 2,077,715
Accrued wages	176,643	195,520
TOTAL LIABILITIES	<u>1,470,910</u>	<u>2,273,235</u>
DEFERRED INFLOWS OF RESOURCES		
Taxes paid in advance/overpaid taxes	91,408	21,789
Deferred tax revenue	251,049	307,819
TOTAL DEFERRED INFLOW OF RESOURCES	<u>342,457</u>	<u>329,608</u>
FUND BALANCES		
Assigned	424,556	1,041,727
Unassigned	4,978,450	3,999,305
TOTAL FUND BALANCES	<u>5,403,006</u>	<u>5,041,032</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 7,216,373</u>	<u>\$ 7,643,875</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, 2018 AND 2017

Page 1 of 3

	2018				2017 (Restated)
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
Revenues					
Property taxes	\$ 25,186,968	\$ 31,275,314	\$ 30,619,334	\$ (655,980)	\$ 29,122,309
Changed in deferred property taxes	-	-	56,770	56,770	46,133
Supplemental taxes	-	-	389,818	389,818	740,477
Interest and fees on taxes	-	-	281,221	281,221	526,065
Total Revenue from Property Taxes	25,186,968	31,275,314	31,347,143	71,829	30,434,984
General Intergovernmental Revenue					
State revenue sharing	80,000	80,000	121,052	41,052	113,272
Homestead exemption	100,000	100,000	256,075	156,075	117,116
Misc BETE/ Veterans reimb	10,000	10,000	41,602	31,602	31,355
Total General Intergovernmental Revenue	190,000	190,000	418,729	228,729	261,743
Educational Revenue					
Land reserve trust	70,000	70,000	98,468	28,468	109,131
Educational tuitional/transportation	110,768	110,768	95,716	(15,052)	99,338
United States Forestry pmts in lieu of taxes	15,000	15,000	-	(15,000)	-
On behalf payments - teachers retirement	230,000	230,000	255,253	25,253	239,756
Total Education Revenue	425,768	425,768	449,437	23,669	448,225
Unclassified					
Miscellaneous	-	-	87,925	87,925	187,491
Total Revenues	25,802,736	31,891,082	32,303,234	412,152	31,332,443

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

Page 2 of 3

COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018				2017 (Restated)
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
Expenditures					
State Agencies					
Education	\$ 12,264,663	\$ 12,418,801	\$ 11,768,512	\$ 650,289	\$ 11,254,168
Fiscal Administrator	225,510	237,364	217,594	19,770	197,977
Assessments	1,031,446	1,031,446	1,163,507	(132,061)	961,526
Forest fire service	150,000	150,000	230,692	(80,692)	138,177
General assistance	65,000	65,000	39,182	25,818	48,911
Land Use Planning Commission	549,577	549,577	549,577	-	544,194
Total State Agencies	14,286,196	14,452,188	13,969,064	483,124	13,144,953
County Reimbursements for Services					
Aroostook	1,288,800	1,288,800	1,288,800	-	1,251,259
Franklin	888,252	888,252	888,252	-	998,235
Hancock	238,750	238,750	239,550	(800)	236,660
Kennebec	12,823	12,823	12,823	-	10,669
Lincoln	-	-	200	(200)	-
Oxford	1,273,300	1,273,300	1,273,300	-	1,257,130
Penobscot	1,071,109	1,071,109	1,071,109	-	1,067,291
Piscataquis	1,014,232	1,014,232	1,014,232	-	962,139
Somerset	1,663,298	1,663,298	1,663,298	-	1,679,712
Washington	1,008,408	1,008,408	1,009,658	(1,250)	978,140
Total County Reimbursement for Services	8,458,972	8,458,972	8,461,222	(2,250)	8,441,235

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, 2018 AND 2017

Page 3 of 3

	2018				2017 (Restated)
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
Expenditures, continued from previous page					
Unclassified					
Total county taxes	\$ -	\$ 5,815,227	\$ 5,815,747	\$ (520)	\$ 5,685,615
Total tax incremental financing	3,957,568	3,522,113	3,522,648	(535)	2,719,273
Overlay	-	542,582	-	542,582	-
Abatements	-	-	172,579	(172,579)	142,792
Total unclassified	<u>3,957,568</u>	<u>9,879,922</u>	<u>9,510,974</u>	<u>368,948</u>	<u>8,547,680</u>
Total Expenditures	<u>26,702,736</u>	<u>32,791,082</u>	<u>31,941,260</u>	<u>849,822</u>	<u>30,133,868</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(900,000)</u>	<u>(900,000)</u>	<u>361,974</u>	<u>1,261,974</u>	<u>1,198,575</u>
Other financing sources (uses)					
Budgeted use of surplus-cost component	<u>900,000</u>	<u>900,000</u>	<u>-</u>	<u>(900,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>900,000</u>	<u>900,000</u>	<u>-</u>	<u>(900,000)</u>	<u>-</u>
Net change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>361,974</u>	<u>\$ 361,974</u>	<u>1,198,575</u>
Fund Balance July 1 - Restated			<u>5,041,032</u>		<u>3,842,457</u>
Fund Balance June 30			<u>\$ 5,403,006</u>		<u>\$ 5,041,032</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, 2018

	Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS		
Due from State of Maine Treasury	\$ 27,466	\$ 27,466
TOTAL ASSETS	<u>\$ 27,466</u>	<u>\$ 27,466</u>
LIABILITIES		
Accounts Payable	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>
FUND BALANCES		
Nonspendable		-
Restricted	27,466	27,466
Committed	-	-
Assigned	-	-
Unassigned	-	-
TOTAL FUND BALANCES	<u>27,466</u>	<u>27,466</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 27,466</u>	<u>\$ 27,466</u>

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

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Special Revenue Funds	Total Nonmajor Governmental Funds
REVENUES		
Intergovernmental	\$ 351,256	\$ 351,256
TOTAL REVENUES	<u>351,256</u>	<u>351,256</u>
EXPENDITURES		
Other	337,908	337,908
TOTAL EXPENDITURES	<u>337,908</u>	<u>337,908</u>
NET CHANGE IN FUND BALANCES	13,348	13,348
FUND BALANCES - JULY 1, RESTATED	<u>14,118</u>	<u>14,118</u>
FUND BALANCES - JUNE 30	<u>\$ 27,466</u>	<u>\$ 27,466</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, 2018

	Supportive Effective Instruction Teacher Quality	Title 1 Grants to Local Educational Agencies	Special Education Grants IDEA	Total
ASSETS				
Due from State of Maine Treasury	\$ 11,015	\$ 2,874	\$ 13,577	\$ 27,466
TOTAL ASSETS	<u>\$ 11,015</u>	<u>\$ 2,874</u>	<u>\$ 13,577</u>	<u>\$ 27,466</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	11,015	2,874	13,577	27,466
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
TOTAL FUND BALANCES	<u>11,015</u>	<u>2,874</u>	<u>13,577</u>	<u>27,466</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,015</u>	<u>\$ 2,874</u>	<u>\$ 13,577</u>	<u>\$ 27,466</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, 2018

	Supportive Effective Instruction Teacher Quality	Title 1 Grants to Local Educational Agencies	Special Education Grants IDEA	Total
REVENUES				
Intergovernmental	\$ 82,992	\$ 68,151	\$ 200,113	\$ 351,256
TOTAL REVENUES	<u>82,992</u>	<u>68,151</u>	<u>200,113</u>	<u>351,256</u>
EXPENDITURES				
Other	74,554	66,772	196,582	337,908
TOTAL EXPENDITURES	<u>74,554</u>	<u>66,772</u>	<u>196,582</u>	<u>337,908</u>
NET CHANGE IN FUND BALANCES	8,438	1,379	3,531	13,348
FUND BALANCES - JULY 1, RESTATED	<u>2,577</u>	<u>1,495</u>	<u>10,046</u>	<u>14,118</u>
FUND BALANCES - JUNE 30	<u>\$ 11,015</u>	<u>\$ 2,874</u>	<u>\$ 13,577</u>	<u>\$ 27,466</u>

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



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

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, 2018, 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 November 6, 2020.

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 2018-1 through 2018-5 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
November 6, 2020

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT – PRIOR YEAR

CONTROL DEFICIENCIES

2017-1 (Repeated from 2016)

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.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2017-1 (Repeated from 2016) (Continued)

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: MRS currently provides the FAUT and independent auditor with commitments and receivables upon request. Taxes receivable are reconciled on a monthly basis. Going forward, the FAUT should request the financial information desired, including any interim reports and MRS will provide reports generated from Property Tax Manager ("PTM") software.

2017-2 (Repeated from 2016)

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: All positions within MRS are budgeted to the MRS appropriation and therefore cannot be charged directly to the UT appropriation. There is an option within MS-TAMS dedicated to the UT for MRS employees to select when performing activities for the UT. Budget estimates are calculated based on current fiscal note information and percentage of time each position is dedicated to the UT. Annually in June a query is run from TAMS to identify actual payroll charges for the UT and the information is provided to the FAUT. Going forward, if the FAUT desires, this query can be run on a more frequent basis and provided to the FAUT.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2017-2 (Repeated from 2016) (continued)

Auditors' Response to MRS Response:

The final 14th period Cash Report (GA02) for unit code **1062 - Prop Tax Unorg Territ** (sic) showed **total** 2018 general ledger expenditures of \$91,897.01. None of the actual expenditures recorded in unit code 1062 were for salary or benefit expenditures. The MRS excel spreadsheet at the close of business on 6/30/2018 requested reimbursement for \$961,526.30. Consequently, the expenditures in the MRS spreadsheet exceeded the actual 2018 UT expenditures recorded in unit code 1062 by \$869,699.38. In addition, the MRS spreadsheet identified \$752,111.38 salary and benefit expenditures that were not recorded in unit code 1062 at all. An examination of the 14th period Cash Report (GA02) shows 2018 personal service expenditures were recorded within other unit codes umbrellaed under MRS appropriation 010 18F 0002.07 with the UT unit code. For instance, unit code **1060- Taxation P**(sic) and unit code **1065 - Taxation State T**(sic) both contain personal service expenditures while the unit code in between them, **1062 - Prop Tax Unorg Territ** does not have personal service expenditures recorded in it. As a result, the State of Maine's 2018 general ledger amounts for unit code 1062 - Prop Tax Unorg Territ for MRS are materially misstated.

2017-3

- 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.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2017-3 (continued)

MRS Response: The current process is designed to work around current software system limitations. MRS is in the process of replacing its software applications for property tax administration which should alleviate the need for this practice.

2017-4

Title: Payments to the UT for homestead exemptions, veterans, and BETE do not appear to be consistent and timely remitted to the UT

Condition: Currently Payments to the UT for homestead exemptions, veterans, and BETE cannot be easily verified as remitted by Maine Revenue Service annually.

Context: MRS is responsible for assessing and collecting property tax in the UT. This includes remitting all UT assessments to the UT annually

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

Recommendation: We recommend that MRS reconcile all tax assessments quarterly with the UT to verify all UT assessments and collections are properly remitted.

MRS Response: MRS could supply the FAUT with MRS reimbursement support documentation on a quarterly basis to be reconciled with deposit information.

2017-5

Title: Commingling of UT personal services, with all other Maine Revenue Services (non-UT related business) personal 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.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2017-5 (continued)

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.

MRS Response: MRS disagrees with this finding. There is no “comingling” of funds. The Property Tax Division that oversees the UT is part of MRS and therefore has the same appropriation number and shares the same budget with the rest of MRS. Expenditures for the UT are identified Their own unit code (1062). Annually in June a query is run to pull all expenditures with the UT unit code to be reviewed and verified. It is possible to run this query more often.

Auditors’ response to MRS response:

The final 14th period Cash Report (GA02) for unit code **1062 - Prop Tax Unorg Territ** (sic) showed **total** 2018 general ledger expenditures of \$91,897.01. The MRS excel spreadsheet at the close of business on 6/30/2018 requested reimbursement for \$961,526.30. Consequently, the expenditures in the MRS spreadsheet exceeded the actual 2018 UT expenditures recorded in unit code 1062 by \$869,699.38. As a result, the State of Maine’s 2018 general ledger amounts for unit code 1062 - Prop Tax Unorg Territ for MRS are materially misstated.

2017-6

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.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2017-6 (continued)

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.

MRS Response: MRS will work to create a form that more clearly shows the various components of the property tax levy and revenue sources.

FINDINGS - FINANCIAL STATEMENT AUDIT - CURRENT YEAR - FY18

CONTROL DEFICIENCIES

2018-1 (Repeated from 2017)

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. 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.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2018-1 (Repeated from 2017) (continued)

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.

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. 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.

The UTES significantly increased the amount of detailed supporting workpapers and financial documents required to facilitate an efficient audit of FY18 account balances.

2018-2 (Repeated from 2017)

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.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2018-2 (Repeated from 2017) (continued)

- 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.
- 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.

2018-3 (Repeated from 2017)

- 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, 2018

2018-4 (Repeated from 2017)

- 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.
- 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.

2018-5 (Repeated from 2017)

- 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.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

2018-5 (Repeated from 2017) (continued)

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 format of the Tax Commitment Letter for Tax Year 2021 to provide further detail of the UT tax commitment in accordance with this statute.