

11-1-1995

# Unorganized Territory Annual Report Fiscal Years 1993 and 1994

Maine State Auditor's Office

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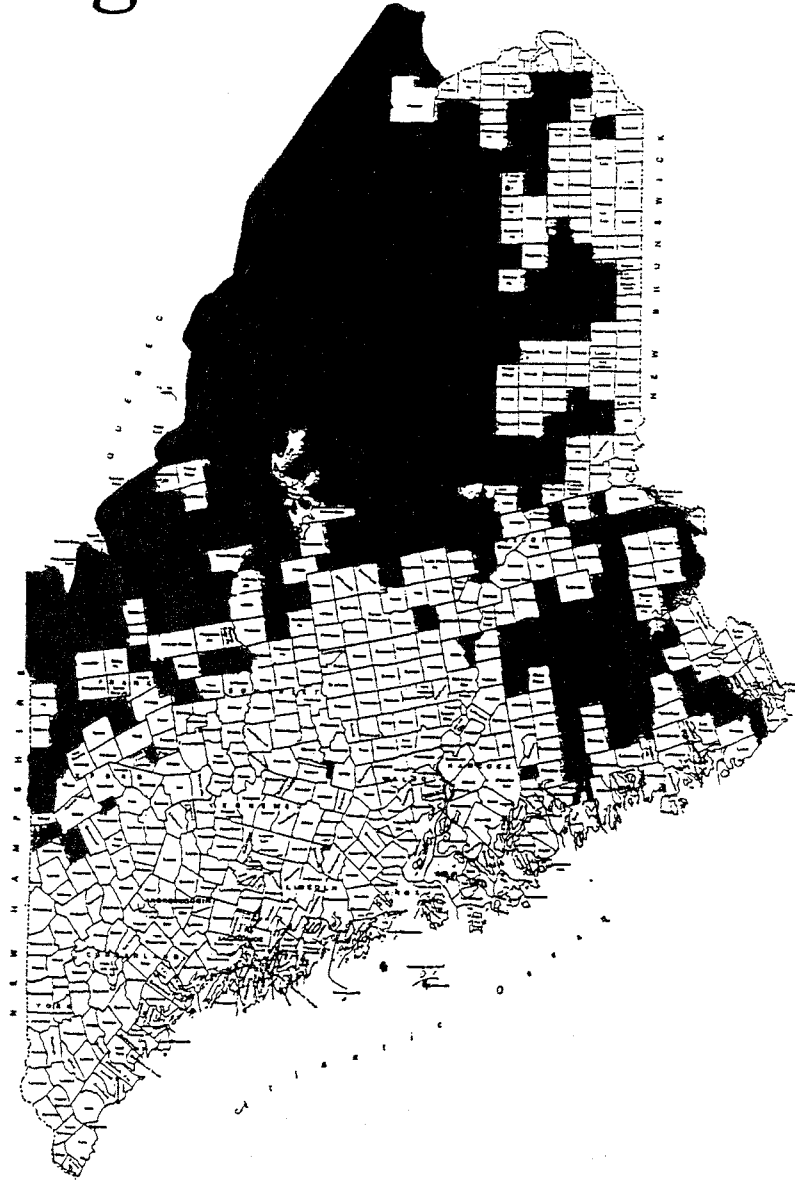
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# Unorganized Territory



**Annual Report**  
**Fiscal Years 1993 and 1994**



**STATE OF MAINE  
DEPARTMENT OF AUDIT**

STATE HOUSE STATION 66  
AUGUSTA, MAINE 04333

Area Code 207  
Tel. 287-2201  
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RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

November 1, 1995

To the Taxpayers of the Unorganized Territory:

It is with pleasure that I submit to you the Annual Financial Report of the Unorganized Territory Education and Services Fund in accordance with Title 36, M.R.S.A., Section 1608. This report covers the period of fiscal years 1993 and 1994. Due to the delay in issuing this report, I have included only the audit that the firm of Runyon, Kersteen, and Ouellette prepared.

I have been assured that the Fiscal Year 1995 audit will be finalized by February 1, 1996. I will issue the annual report for that period shortly thereafter. It will contain both financial and informational data.

For your information, effective July 1, 1993, the town of Greenfield in Penobscot County voted to deorganize. While we have had many inquiries about the deorganization process, thus far all have decided not to deorganize.

In closing, if you have any concerns please do not hesitate to contact either myself or one of the people listed on the next page. We are here to serve you -- the unorganized territory taxpayer.

Sincerely,

A handwritten signature in dark ink, appearing to read "Doreen L. Sheive", written over a horizontal line.

Doreen L. Sheive  
Fiscal Administrator of the  
Unorganized Territory

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## STATE AGENCIES CONTACTS

### DEPARTMENT OF AUDIT:

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Fiscal Administrator of the  
Unorganized Territory  
66 State House Station  
Augusta, Maine 04333-0066  
Telephone: (207) 287-2201

### DEPARTMENT OF CONSERVATION:

Fire Control Division  
Thomas Parent, State Supervisor  
22 State House Station  
Augusta, Maine 04333-0022  
Telephone: (207) 287-4990

Land Use Regulation Commission  
Bill Galbraith, Director  
22 State House Station  
Augusta, Maine 04333-0022  
Telephone: (207) 287-2631

### DEPARTMENT OF EDUCATION:

Education Unorganized Territory  
Richard Moreau, Director  
23 State House Station  
Augusta, Maine 04333-0023  
Telephone: (207) 287-5909 or 5910

### DEPARTMENT OF HUMAN SERVICES:

Special Services/Emergency Assistance  
Richard Morrow, Program Manager  
11 State House Station  
Augusta, Maine 04333-0011  
Telephone: (207) 287-2826

### BUREAU OF TAXATION:

Property Tax Divisions  
Larry Record, Director  
Tom Walker, Supervisor Unorganized  
Territory  
State Office Building  
24 State House Station  
Augusta, Maine 04333  
Telephone: (207) 287-2011

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FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1993





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

**Annual Financial Report  
Year ended June 30, 1993**

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Independent Auditor's Report

Certified  
Public  
Accountants

State of Maine  
Unorganized Territory Education and Services Fund:

Alexander M. Runyon  
Glenn S. Kersteen  
Carl N. Ouellette  
John J. Sullivan  
Kathleen B. Tyson

We have audited the accompanying financial statements of the State of Maine Unorganized Territory Education and Services Fund as of June 30, 1993, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the State of Maine Unorganized Territory Education and Services Fund management. Our responsibility is to express an opinion on these financial statements based on our audit.

D. Bradlee Hodson  
*Of Counsel*

We conducted our audit in accordance with generally accepted auditing standards and 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the financial activities of the State of Maine Unorganized Territory Education and Services Fund, which is represented by certain accounts of the State of Maine, as more fully explained in the footnotes.

As described in the notes, the financial statements referred to above do not include financial statements of the general fixed assets account group, which should be included to conform with generally accepted accounting principles. The amount which should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Maine Unorganized Territory Education and Services Fund as of June 30, 1993, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the State of Maine Unorganized Territory Education and Services Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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The McGladrey Network  
Worldwide Services through RSM International*

State of Maine  
Page 2

In accordance with Government Auditing Standards, we have also issued a report dated March 29, 1995 on our consideration of the State of Maine Unorganized Territory Education and Services Fund's internal control structure and a report dated March 29, 1995 on its compliance with laws and regulations.

*Runyon Kersten Ouellette*

March 29, 1995  
South Portland, Maine

## **FINANCIAL STATEMENTS**

These financial statements provide an overview of the financial position of all funds and of the operating results by fund types. They also serve as an introduction to the more detailed exhibits that follow. The notes to the financial statements are an integral part of the financial statements.

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STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
 Combined Balance Sheet  
 All Fund Types  
 June 30, 1993

	General Fund	Fiduciary Fund Types Trust and Agency	Totals (Memorandum Only)
<b>ASSETS</b>			
Receivables:			
Taxes receivable--current year	\$ 228,678	—	228,678
Taxes receivable--prior years	24,346	—	24,346
Tax liens	18,863	—	18,863
Due from State of Maine Treasury	1,391,495	151,875	1,543,370
<b>Total assets</b>	<b>\$ 1,663,382</b>	<b>151,875</b>	<b>1,815,257</b>
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities:			
Accounts payable and payroll withholdings	297,235	—	297,235
Accrued wages	230,000	—	230,000
Accrued compensated absences	60,000	—	60,000
Due to State of Maine Treasury -- Education	1,995	—	1,995
Due to other government agencies	—	151,875	151,875
Deferred tax revenue	250,000	—	250,000
<b>Total liabilities</b>	<b>839,230</b>	<b>151,875</b>	<b>991,105</b>
Fund equity:			
Unreserved:			
Undesignated	824,152	—	824,152
<b>Total fund equity</b>	<b>824,152</b>	<b>—</b>	<b>824,152</b>
<b>Total liabilities and fund equity</b>	<b>\$ 1,663,382</b>	<b>151,875</b>	<b>1,815,257</b>

*See accompanying notes to financial statements.*



STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
Statement of Revenues, Expenditures and Changes in Fund Balances  
General Fund  
Year ended June 30, 1993

	General Fund
Revenues:	
Taxes	\$ 13,236,825
Intergovernmental	159,582
Charges for services	163,725
Other revenues	297,077
Total revenues	13,857,209
Expenditures:	
Current:	
Education	7,995,938
County reimbursements for services	2,581,526
Departmental	1,062,022
Unclassified	1,578,619
Total expenditures	13,218,105
Excess of revenues over expenditures	639,104
Fund balance, beginning of year	904,175
Prior period adjustments	(719,127)
Fund balance, beginning of year (as restated)	185,048
<b>Fund balance, end of year</b>	<b>\$ 824,152</b>

*See accompanying notes to financial statements.*

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
General Fund  
Year ended June 30, 1993

	General Fund		
	Adjusted budget	Actual	Variance favorable (unfavorable)
Revenues:			
Taxes	\$ 12,445,941	13,236,825	790,884
Intergovernmental	150,000	159,582	9,582
Charges for services	115,000	163,725	48,725
Other revenues	745,000	297,077	(447,923)
Total revenues	13,455,941	13,857,209	401,268
Expenditures:			
Current:			
Education	7,998,342	7,995,938	2,404
County reimbursements for services	2,581,526	2,581,526	—
Departmental	1,011,097	1,062,022	(50,925)
Unclassified	1,797,014	1,578,619	218,395
Total expenditures	13,387,979	13,218,105	169,874
Excess of revenues over expenditures	67,962	639,104	571,142
Other financing uses:			
Budget deallocation	(67,962)	—	67,962
Total other financing uses	(67,962)	—	67,962
Excess of revenues over expenditures and other financing uses	—	639,104	639,104
Fund balance, beginning of year		904,175	
Prior period adjustments		(719,127)	
Fund balance, beginning of year (as restated)		185,048	
Fund balance, end of year	\$	824,152	

*See accompanying notes to financial statements.*

# STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

## Notes to Financial Statements

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The accounting policies of the State of Maine Unorganized Territory Education and Services Fund conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies:

#### A. Reporting Entity

These financial statements include only the financial activities of the State of Maine Unorganized Territory Education and Services Fund (UT). This fund is part of the State of Maine and has been included in the State of Maine's General Purpose Financial Statements. The UT does not have separate legal standing or corporate powers that would distinguish it as being legally separate from the State of Maine. The activity of the UT is accounted for as part of a special revenue fund within the State of Maine's accounting system. This activity has been extracted from these accounting records, appropriately adjusted, and reported independently in these financial statements.

The State of Maine Unorganized Territory Education and Services Fund, as described above, accounts for the expenditure of funds to support certain services to the unorganized territories, namely education costs, general assistance costs, forest fire control, and land use regulation. The UT also expends funds in the form of payments to the various Counties in the State which contain unorganized territories, for both county taxes and for reimbursement of services rendered by the individual counties to the unorganized territories within that county's boundaries. Revenue is raised to support these costs on an annual basis in the form of property taxes assessed by the State of Maine on individual property owners within the unorganized territories.

#### B. Basis of Presentation

The accounts of the Territory are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are reported by type in the financial statements. Amounts in the "totals - memorandum only" columns in the preceding financial statements represent a summation of the combined financial statement line items of the fund type, and are presented only for analytical purposes. The summation includes fund types that use different bases of accounting and interfund transactions that have not been eliminated. Consequently, amounts shown in the "totals - memorandum only" columns are not comparable to a consolidation and do not represent the total resources available, or the total revenues and expenditures/expenses of the Territory. The Territory uses the following fund categories and fund types:

### GOVERNMENTAL FUNDS

Governmental Funds are those through which most governmental functions of the Territory are financed. The acquisition, use and balances of the Territory's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in

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

**Notes to Financial Statements, Continued**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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financial position, rather than upon net income determination. The following is the Territory's Governmental Fund Type:

**General Fund** - This fund accounts for all financial transactions except those required to be accounted for in another fund.

**FIDUCIARY FUNDS**

**Agency Funds** - Agency Funds are used to account for assets that the government holds on behalf of others as their agent. The UT accounts for the collection and disbursement of excise taxes on behalf of the Counties' unorganized territories in an agency fund.

**C. Basis of Accounting**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

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.

Governmental Funds are accounted for using the modified basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Revenues are recognized (recorded) in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current fiscal period. Available means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. This contrasts with the method used by private-sector entities, where revenues are recorded when they are earned.

Charges for services and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

**D. Budgetary Accounting**

Each year the Fiscal Administrator of the Unorganized Territory requests budget information from the state agencies and counties who provide services to the taxpayers of the unorganized territory. The Fiscal Administrator drafts a legislative document (L.D.) which lists these budget requests along with any

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

**Notes to Financial Statements, Continued**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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anticipated reductions and submits it to the Legislature for consideration. This L.D. is known as the "Municipal Cost Component". Once the L.D. is printed and assigned, the Fiscal Administrator prepares and submits an analytical report of the legislation to the members of the Joint Standing Committee on Taxation, each legislator who has unorganized territory within their district, and the office of the county commissioners of each county with unorganized territory.

Once the Legislature approves the Municipal Cost Component, the State Tax Assessor levies a tax on all nonexempt real and personal property in the unorganized territory. The taxpayer's bill is based on three components -- the cost of state services spread across the unorganized territory, the cost of county provided services specific to each county, and the cost of county taxes specific to each county.

**E. General Fixed Assets**

The Territory does not maintain a general fixed asset group of accounts. Expenditures for property and equipment are charged to departmental operations whenever such items are purchased. The Territory does maintain an inventory of fixed assets for insurance purposes.

**F. Vacation and Sick Leave**

The territory (state) permits employees to accumulate a limited amount of earned but unused vacation benefits which will be paid to employees upon separation from state service. The cost of vacation benefits at June 30, 1993 was \$60,000 and has been accrued in the General Fund as it is expected that these liabilities will be funded with current expendable resources. Employees sick time is not vested; therefore expense for sick time is recorded when paid.

**G. Interfund Transactions**

During the course of normal operations, the Territory has transactions between funds including expenditures and transfers of resources to provide services and construct assets. These transactions are reported as operating transfers.

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**PROPERTY TAX**

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Property taxes for the current year were committed on March 26, 1992 based on the assessed value of all real and personal property located in each county. Tax bills are mailed annually by August 1, with one installment due on October 1, 1992. Interest was charged at 10% on all taxes unpaid after this date. Assessed values are periodically established by the Territory's Assessor at 100% of assumed market value.

The Territory is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$218,395 for the year ended June 30, 1993. The variance between actual property tax revenues and budgeted property tax revenues represents supplemental taxes, overlay and the change in deferred taxes.

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

**Notes to Financial Statements, Continued**

**PROPERTY TAX, CONTINUED**

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Territory has the authority to foreclose on property eighteen months after the filing of the lien if the tax liens and associated costs remained 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. The remaining receivables have been recorded as deferred revenues.

The following summarizes the 1993 levy:

	<u>Assessed value</u>	<u>Tax rate</u>	<u>Commitment</u>
Aroostook	\$ 353,704,742	.00777	2,748,286
Franklin	75,309,574	.01043	785,479
Hancock	46,515,253	.00601	279,557
Kennebec	3,346,352	.00637	21,316
Knox	3,887,319	.00699	27,172
Lincoln	3,081,835	.00650	20,032
Oxford	69,018,515	.00909	627,379
Penobscot	135,215,232	.00936	1,265,615
Piscataquis	375,387,175	.00830	3,115,715
Somerset	311,127,521	.00794	2,470,352
Waldo	290,970	.00676	1,967
Washington	105,665,110	.01025	1,083,070
	1,482,549,598		12,445,940
<u>Supplemental taxes assessed</u>			<u>237,748</u>
			12,683,688
Less:			
Collections			12,142,407
Abatements			312,603
<b>Balance at June 30, 1993</b>			<b>\$ 228,678</b>
Comprised of:			
Personal property taxes	\$ 16,023		
Real estate taxes	212,655		
<b>Balance</b>	<b>\$ 228,678</b>		
Due date	10/1/94		
Interest rate on delinquent taxes	10%		
Percent of collection	98.20%		

# STATE OF MAINE UNORGANIZED TERRITORY

## EDUCATION AND SERVICES FUND

### Notes to Financial Statements, Continued

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#### PENSIONS

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##### Maine State Retirement - Territory Group

All employees of the State of Maine Unorganized Territory are considered state employees and are paid by the State of Maine. Membership in the MSRS is a condition of employment for state employees and public school teachers, and is optional for elected and appointed officials. Eligibility is granted upon hiring. For those employed by political subdivisions, local districts and agencies, membership is contingent upon the system's Board of Trustees' approval of the entity's participation in the plan. If approved, membership is a condition of employment for all employees hired after plan inception and is granted upon hiring. Participation of elected officials of political subdivisions is optional. The Territories payroll for employees covered by this group for the fiscal year ended June 30, 1993 can not be broken out from the total state payroll. The total amounts have been included in the State of Maine Single Audit Report for the total state payroll for employees covered by this group.

Participating employees who retire after 25 years of creditable service or after attainment of age 60 with either 10 years of creditable service or one year of service immediately before retirement, are entitled to an annual retirement benefit, payable monthly for life, that is generally 2% of the member's average final compensation multiplied by the years of membership service and up to 25 years of prior creditable service, reduced for retirement before age 60. For participants entering the plan after December 1, 1984, the eligibility age is increased to age 62 and early retirement benefits are reduced 6% for each year before age 62. A member may elect an option for a reduced benefit payable for life with the provision that after the member's death a beneficiary receives benefits for life.

The MSRS covered employees are eligible for disability retirement, ordinary and accidental death benefits and a portion of the employer contribution is acknowledged for these purposes. Disability benefits and eligibility are contingent on dates of hire and options selected by employees consistent with applicable statutes.

Employees who have retired on or before February 28 of each year and their beneficiaries are entitled to an automatic cost-of-living adjustment (COLA). The increase is equal to the annual percentage change in the consumer price index (CPI) to a maximum amount of four percent. Additional amounts may be paid, up to the actual amount of the change in the CPI, contingent on sufficient funding and with the Governor's approval. Effective July 1, 1993 employees receiving ordinary and disability retirement benefits and their beneficiaries are provided an automatic cost-of-living adjustment effective September 1 which is applied to all benefits that have been in payment for twelve months.

A detail of the unfunded pension benefit obligation calculation is included in the State of Maine Single Audit report.

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#### LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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The UT is aware of the existence of several landfills currently in varying degrees of closure. The liability for closure falls on the individual County's Unorganized Territory funds. The State of Maine Unorganized Territory Education and Services Fund would be effected by virtue of an increase in the municipal cost component needed in a year in which closure costs were incurred. The amount and timing of these potential costs are unknown.

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

**Notes to Financial Statements, Continued**

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**COUNTY TAX**

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The following summarizes the amounts of county taxes paid to each of the counties within the Unorganized Territory at June 30, 1993:

Aroostook	\$ 359,569
Franklin	70,320
Hancock	23,713
Kennebec	2,897
Knox	5,796
Lincoln	3,070
Oxford	58,087
Penobscot	116,645
Piscataquis	486,249
Somerset	293,587
Waldo	366
Washington	158,320
<b>Total</b>	<b>\$ 1,578,619</b>

---

**OTHER EMPLOYEE BENEFITS**

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**A. Postretirement Health Care Benefits**

The employees of the State of Maine Unorganized Territory are covered under the State of Maine employer benefit program. In addition to providing pension benefits, the State of Maine provides certain health care benefits for most retired state employees and 25% of the cost for certain retired teachers. Coverage for non-Medicare eligible retirees includes basic hospitalization, supplemental major medical, care of mental health conditions, alcoholism substance abuse, and prescription drug costs. Retirees eligible for Medicare are covered under insurance policies designed to supplement Medicare. The benefits to non-Medicare eligible retirees are provided through insurance companies. Expenditures for postretirement health care benefits are recognized as premiums are paid, using funds generated from current contributions.

Effective July 5, 1991 for state employees first employed before July 1, 1991 the Maine State Retirement System pays 100% of the retirees' share of health insurance premiums. For state employees first employed after July 1, 1991 the Maine State Retirement System pays a pro rata portion of the retirees' share of health insurance premiums, ranging from 0% for employees with less than 5 years participation to 100% for employees with 10 or more years of service.

**B. Postretirement Life Insurance Benefits**

In addition to providing pension and health care benefits, the State of Maine provides certain life insurance benefits for retired employees who, as active employees, participated in the group life insurance program. For employees who participated for 10 continuous years prior to retirement payments of claims are made by the Maine State Retirement System using funds generated from premiums paid by employees while in active status and by the state after retirement. The State of Maine recognizes the cost of providing these benefits as



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

**Notes to Financial Statements, Continued**

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**OTHER EMPLOYEE BENEFITS, CONTINUED**

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claims are paid to beneficiaries. Costs also include an administrative fee to the retirement system and retention fee to a life insurance company.

**C. Deferred Compensation**

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code §457. The plan is available to all state employees, and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the state, subject only to the claims of the state's general creditors. Participants' rights under the plan are equal to those of general creditors of the state in an amount equal to the fair market value of the deferred account for each participant. In the past, the plan assets have been used only to pay benefits. The state believes that it is unlikely that it will use the assets to satisfy the claims of the general creditors.

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**SELF-INSURANCE**

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**A. Risk Management**

The Unorganized Territory falls under the State of Maine's risk management disclosures relative to this fund and is reported in the State's financial statements.

The State of Maine is self-insured for vehicle liability, tort claim liability, civil rights liability, professional liability and foster parent and respite care liability with a maximum coverage of \$300 thousand per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlements in its internal service fund, the Risk Management Fund. Through the Risk Management Fund the state also purchases commercial insurance for all other risks of loss including property insurance and food stamp coverage which have deductibles of \$1 million and \$500 thousand, respectively. Fund reserves are primarily from contributions from other funds and are planned to match expenses for insurance premiums, self-insurance claims, and operating expenses.

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

**Notes to Financial Statements, Continued**

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**PRIOR PERIOD ADJUSTMENTS**

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The beginning fund balance at June 30, 1993 was adjusted for the following prior period adjustments:

Changes from non-generally accepted accounting methods:	
Deferred property taxes not previously recorded	\$(540,000)
Accrued wages not previously recorded	(230,000)
Accrued compensated absences not previously recorded	(60,000)
Correction of errors:	
Fiscal year 1992 tax transfer error	210,873
Mathematical error in prior year journal	(100,000)
<hr/>	
<b>Total prior period adjustments</b>	<b>\$(719,127)</b>

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
General Fund  
Balance Sheet  
June 30, 1993

**ASSETS**

## Receivables:

Taxes receivable -- current year	\$ 228,678
Taxes receivable -- prior years	24,346
Tax liens	18,863
Due from State of Maine Treasury	1,391,495
<b>Total assets</b>	<b>\$ 1,663,382</b>

**LIABILITIES AND FUND EQUITY**

## Liabilities:

Accounts payable and payroll withholdings	297,235
Accrued wages	230,000
Accrued compensated absences	60,000
Due to State Treasury -- Education	1,995
Deferred tax revenue	250,000
<b>Total liabilities</b>	<b>839,230</b>

## Fund equity:

## Unreserved:

Undesignated	824,152
<b>Total fund equity</b>	<b>824,152</b>
<b>Total liabilities and fund equity</b>	<b>\$ 1,663,382</b>

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
Year ended June 30, 1993

	Adjusted budget	Actual	Variance favorable (unfavorable)
Revenues:			
Taxes:			
Property taxes	\$ 12,445,941	12,877,511	431,570
Change in deferred property tax revenue	—	290,000	290,000
Interest and costs on taxes	—	69,314	69,314
Total taxes	12,445,941	13,236,825	790,884
Intergovernmental:			
State Revenue Sharing	150,000	159,582	9,582
Total intergovernmental	150,000	159,582	9,582
Charges for services:			
Educational tuition	115,000	163,725	48,725
Total charges for services	115,000	163,725	48,725
Other revenues:			
Miscellaneous	450,000	39,104	(410,896)
Education — — trust	175,000	115,191	(59,809)
Education — — miscellaneous	120,000	142,782	22,782
Total other revenues	745,000	297,077	(447,923)
Total revenues	13,455,941	13,857,209	401,268
Expenditures:			
Current:			
Education:			
General operations	4,849,735	4,897,136	(47,401)
Salaries and benefits	2,362,078	2,042,217	319,861
Professional services	120,300	295,113	(174,813)
Travel expenses	44,295	46,874	(2,579)
Vehicle operation	205,000	131,283	73,717
Utility services	44,000	58,212	(14,212)
Pensions	30,994	57,768	(26,774)
Rents	500	45,736	(45,236)
Repairs	75,000	59,195	15,805
Insurance	7,500	14,837	(7,337)
Fuel	49,000	32,850	16,150
Supplies	97,600	91,264	6,336
Equipment	106,340	146,836	(40,496)
Other	6,000	76,617	(70,617)
Total education	7,998,342	7,995,938	2,404

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual, Continued

	Adjusted budget	Actual	Variance favorable (unfavorable)
Expenditures:			
Current:			
County reimbursements for services:			
Aroostook	\$ 443,935	443,935	—
Franklin	287,934	287,934	—
Oxford	183,058	183,058	—
Penobscot	395,237	395,237	—
Piscataquis	494,115	494,115	—
Somerset	448,161	448,161	—
Washington	329,086	329,086	—
Total county reimbursements for services	2,581,526	2,581,526	—
Departmental:			
Fiscal administrator	110,097	91,676	18,421
Assessments	431,000	407,782	23,218
Forest fire service	150,000	329,629	(179,629)
General assistance	190,000	87,362	102,638
Land Use Regulation Commission	130,000	145,573	(15,573)
Total departmental	1,011,097	1,062,022	(50,925)
Unclassified:			
County tax	1,578,619	1,578,619	—
Overlay	218,395	—	218,395
Total unclassified	1,797,014	1,578,619	218,395
Total expenditures	13,387,979	13,218,105	169,874
Excess of revenues over expenditures	67,962	639,104	571,142
Other financing uses:			
Budget deallocation	(67,962)	—	67,962
Total other financing uses	(67,962)	—	67,962
Excess of revenues over expenditures and other financing uses	—	639,104	639,104
Fund balance, beginning of year		904,175	
Prior period adjustments		(719,127)	
Fund balance beginning of year (as restated)		185,048	
Fund balance, end of year	\$	824,152	

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1994



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

**Annual Financial Report**

**Year ended June 30, 1994**

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Independent Auditor's Report

Certified  
Public  
Accountants

Alexander M. Runyon  
Glenn S. Kersteen  
Carl N. Ouellette  
John J. Sullivan  
Kathleen B. Tyson

D. Bradlee Hodson  
*Of Counsel*

State of Maine  
Unorganized Territory Education and Services Fund:

We have audited the accompanying financial statements of the Unorganized Territory Education and Services Fund as of June 30, 1994 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Unorganized Territory Education and Services Fund management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the financial activities of the State of Maine Unorganized Territory Education and Services Fund, which is represented by certain accounts of the State of Maine, as more fully explained in the footnotes.

As described in the notes, the financial statements referred to above do not include financial statements of the general fixed assets account group, which should be included to conform with generally accepted accounting principles. The amount which should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Unorganized Territory Education and Services Fund as of June 30, 1994 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Unorganized Territory Education and Services Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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State of Maine  
Page 2

In accordance with Government Auditing Standards, we have also issued a report dated March 29, 1995 on our consideration of the State of Maine Unorganized Territory Education and Services Fund's internal control structure and a report dated March 29, 1995 on its compliance with laws and regulations.

*Rhynm Keirsten Ouellette*

March 29, 1995  
South Portland, Maine

## **FINANCIAL STATEMENTS**

These financial statements provide an overview of the financial position of all funds and of the operating results by fund types. They also serve as an introduction to the more detailed exhibits that follow. The notes to the financial statements are an integral part of the financial statements.

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STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
 Combined Balance Sheets  
 All Fund Types  
 June 30, 1994  
 (with comparative totals for June 30, 1993)

	General Fund	Fiduciary Fund Types Trust and Agency	Totals (Memorandum Only)	
			1994	1993
<b>ASSETS</b>				
Receivables:				
Taxes receivable--current year	\$ 231,476	—	231,476	228,678
Taxes receivable--prior years	44,114	—	44,114	24,346
Tax liens	55,568	—	55,568	18,863
Due from State of Maine Treasury	3,510,551	173,163	3,683,714	1,543,370
<b>Total assets</b>	<b>\$ 3,841,709</b>	<b>173,163</b>	<b>4,014,872</b>	<b>1,815,257</b>
<b>LIABILITIES AND FUND EQUITY</b>				
Liabilities:				
Accounts payable and payroll withholdings	188,338	—	188,338	297,235
Accrued wages	230,000	—	230,000	230,000
Accrued compensated absences	62,000	—	62,000	60,000
Due to State of Maine Treasury -- Education	603,317	—	603,317	1,995
Due to other government agencies	—	173,163	173,163	151,875
Deferred tax revenue	280,000	—	280,000	250,000
<b>Total liabilities</b>	<b>1,363,655</b>	<b>173,163</b>	<b>1,536,818</b>	<b>991,105</b>
Fund equity:				
Unreserved:				
Undesignated	2,478,054	—	2,478,054	824,152
<b>Total fund equity</b>	<b>2,478,054</b>	<b>—</b>	<b>2,478,054</b>	<b>824,152</b>
<b>Total liabilities and fund equity</b>	<b>\$ 3,841,709</b>	<b>173,163</b>	<b>4,014,872</b>	<b>1,815,257</b>

*See accompanying notes to financial statements.*

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
Statement of Revenues, Expenditures and Changes in Fund Balances  
General Fund  
Year ended June 30, 1994  
(with comparative totals for the year ended June 30, 1993)

	General	Totals (Memorandum Only)	
		1994	1993
Revenues:			
Taxes	\$ 15,246,544	15,246,544	13,236,825
Intergovernmental	206,172	206,172	159,582
Charges for services	175,463	175,463	163,725
Other revenues	310,012	310,012	297,077
Total revenues	15,938,191	15,938,191	13,857,209
Expenditures:			
Current:			
Education	8,367,573	8,367,573	7,995,938
County reimbursements for services	3,338,835	3,338,835	2,581,526
Departmental	825,424	825,424	1,062,026
Unclassified	1,752,457	1,752,457	1,578,615
Total expenditures	14,284,289	14,284,289	13,218,105
Excess of revenues over expenditures	1,653,902	1,653,902	639,104
Fund balance, beginning of year	824,152	824,152	904,175
Prior period adjustments	—	—	(719,127)
Fund balance, beginning of year (as restated)	824,152	824,152	185,048
Fund balance, end of year	\$ 2,478,054	2,478,054	824,152

*See accompanying notes to financial statements.*

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
General Fund  
Year ended June 30, 1994

	General Fund		
	Adjusted budget	Actual	Variance favorable (unfavorable)
Revenues:			
Taxes	\$ 14,910,589	15,246,544	335,955
Intergovernmental	145,000	206,172	61,172
Charges for services	130,000	175,463	45,463
Other revenues	360,000	310,012	(49,988)
Total revenues	15,545,589	15,938,191	392,602
Expenditures:			
Current:			
Education	8,717,723	8,367,573	350,150
County reimbursements for services	3,338,835	3,338,835	—
Departmental	1,406,565	825,423	581,142
Unclassified	1,918,071	1,752,458	165,613
Total expenditures	15,381,194	14,284,289	1,096,905
Excess of revenues over expenditures	164,395	1,653,902	1,489,507
Other financing sources (uses):			
Budgeted use of surplus	286,000	—	(286,000)
Budget deallocation	(450,395)	—	450,395
Total other financing sources (uses)	(164,395)	—	164,395
Excess of revenues and other financing sources over expenditures and other financing uses	—	1,653,902	1,653,902
Fund balance, beginning of year		824,152	
Fund balance, end of year	\$	2,478,054	

*See accompanying notes to financial statements.*



# STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND

## Notes to Financial Statements

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The accounting policies of the Unorganized Territory Education and Services Fund conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant of such policies:

#### A. Reporting Entity

These financial statements include only the financial activities of the State of Maine Unorganized Territory Education and Services Fund (UT). This fund is part of the State of Maine and has been included in the State of Maine's General Purpose Financial Statements. The UT does not have separate legal standing or corporate powers that would distinguish it as being legally separate from the State of Maine. The activity of the UT is accounted for as part of a special revenue fund within the State of Maine's accounting system. This activity has been extracted from these accounting records, appropriately adjusted, and reported independently in these financial statements.

The State of Maine Unorganized Territory Education and Services Fund, as described above, accounts for the expenditure of funds to support certain services to the unorganized territories, namely education costs, general assistance costs, forest fire control, and land use regulation. The UT also expends funds in the form of payments to the various Counties in the State which contain unorganized territories, for both county taxes and for reimbursement of services rendered by the individual counties to the unorganized territories within that county's boundaries. Revenue is raised to support these costs on an annual basis in the form of property taxes assessed by the State of Maine on individual property owners within the unorganized territories.

#### B. Basis of Presentation

The accounts of the Territory are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are reported by type in the financial statements. Amounts in the "totals - memorandum only" columns in the preceding financial statements represent a summation of the combined financial statement line items of the fund type, and are presented only for analytical purposes. The summation includes fund types that use different bases of accounting and interfund transactions that have not been eliminated. Consequently, amounts shown in the "totals - memorandum only" columns are not comparable to a consolidation and do not represent the total resources available, or the total revenues and expenditures/expenses of the Territory. The Territory uses the following fund categories and fund types:

### GOVERNMENTAL FUNDS

Governmental Funds are those through which most governmental functions of the Territory are financed. The acquisition, use and balances of the Territory's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in

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

**Notes to Financial Statements, Continued**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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financial position, rather than upon net income determination. The following is the Territory's Governmental Fund Types:

**General Fund** - This fund accounts for all financial transactions except those required to be accounted for in another fund.

**FIDUCIARY FUNDS**

**Agency Funds** - Agency Funds are used to account for assets that the government holds on behalf of others as their agent. The UT accounts for the collection and disbursement of excise taxes on behalf of the Counties' unorganized territories in an agency fund.

**C. Basis of Accounting**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

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.

Governmental Funds and Expendable Trust Funds are accounted for using the modified basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Revenues are recognized (recorded) in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current fiscal period. Available means collectible within the current period, or soon enough thereafter to be used to pay liabilities of the current period. This contrasts with the method used by private-sector entities, where revenues are recorded when they are earned.

Charges for services and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

**D. Budgetary Accounting**

Each year the Fiscal Administrator of the Unorganized Territory requests budget information from the state agencies and counties who provide services to the taxpayers of the unorganized territory. The Fiscal Administrator drafts a legislative document (L.D.) which lists these budget requests along with any

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

**Notes to Financial Statements, Continued**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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anticipated reductions and submits it to the Legislature for consideration. This L.D. is known as the "Municipal Cost Component". Once the L.D. is printed and assigned, the Fiscal Administrator prepares and submits an analytical report of the legislation to the members of the Joint Standing Committee on Taxation, each legislator who has unorganized territory within their district, and the office of the county commissioners of each county with unorganized territory.

Once the Legislature approves the Municipal Cost Component, the State Tax Assessor levies a tax on all nonexempt real and personal property in the unorganized territory. The taxpayer's bill is based on three components -- the cost of state services spread across the unorganized territory, the cost of county provided services specific to each county, and the cost of county taxes specific to each county.

**E. General Fixed Assets**

The Territory does not maintain a general fixed asset group of accounts. Expenditures for property and equipment are charged to departmental operations whenever such items are purchased. The Territory does maintain an inventory of fixed assets for insurance purposes.

**F. Vacation and Sick Leave**

The territory (state) permits employees to accumulate a limited amount of earned but unused vacation benefits which will be paid to employees upon separation from state service. The cost of vacation benefits at June 30, 1994 was \$62,000 and has been accrued in the General Fund as it is expected that these liabilities will be funded with current expendable resources. Employees' sick time is not vested; therefore expense for sick time is recorded when paid.

**G. Interfund Transactions**

During the course of normal operations, the Territory has transactions between funds including expenditures and transfers of resources to provide services and construct assets. These transactions are reported as operating transfers.

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**PROPERTY TAX**

---

Property taxes for the current year were committed on June 21, 1993 based on the assessed value of all real and personal property located in each county. Tax bills are mailed annually by August 1, with one installment due on October 1, 1993. Interest was charged at 10% on all taxes unpaid after this date. Assessed values are periodically established by the Territory's Assessor at 100% of assumed market value. At July 15, 1993, the date on which the current year's assessed value was based, the assessed value represented 100% of market value.

The Territory is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$165,613 for the year ended June 30, 1994. The variance between actual property tax revenues and budgeted property tax revenues represents supplemental taxes, overlay and the change in deferred taxes.

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

**Notes to Financial Statements, Continued**

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**PROPERTY TAX, CONTINUED**

---

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Territory has the authority to foreclose on property eighteen months after the filing of the lien if the tax liens and associated costs remained 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. The remaining receivables have been recorded as deferred revenues.

The following summarizes the 1994 levy:

	<u>Assessed value</u>	<u>Tax rate</u>	<u>Commitment</u>
Aroostook	\$ 318,162,824	.00953	3,032,092
Franklin	83,614,251	.01065	890,492
Hancock	48,071,657	.01082	520,135
Kennebec	3,382,904	.00735	24,864
Knox	3,915,072	.00790	30,929
Lincoln	3,059,234	.00749	22,914
Oxford	71,497,241	.00981	701,388
Penobscot	148,284,823	.01257	1,863,940
Piscataquis	391,411,296	.00916	3,585,328
Somerset	327,164,245	.00926	3,029,541
Waldo	290,970	.00784	2,282
Washington	109,201,985	.01105	1,206,683
	1,508,056,502		14,910,588
<u>Supplemental taxes assessed</u>			321,810
			15,232,398
Less:			
Collections			14,798,700
Abatements			202,222
<b><u>Balance at June 30, 1994</u></b>			<b>\$ 231,476</b>
Comprised of:			
Personal property taxes			\$ 20,663
Real estate taxes			210,813
<b><u>Balance</u></b>			<b>\$ 231,476</b>
Due date			10/1/94
Interest rate on delinquent taxes			10%
Percent of collection			98.48%

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

**Notes to Financial Statements, Continued**

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**PENSIONS**

---

**Maine State Retirement - Territory Group**

All employees of the State of Maine Unorganized Territory are considered state employees and are paid by the State of Maine. Membership in the MSRS is a condition of employment for state employees and public school teachers, and is optional for elected and appointed officials. Eligibility is granted upon hiring. For those employed by political subdivisions, local districts and agencies, membership is contingent upon the system's Board of Trustees' approval of the entity's participation in the plan. If approved, membership is a condition of employment for all employees hired after plan inception and is granted upon hiring. Participation of elected officials of political subdivisions is optional. The Territory payroll for employees covered by this group for the fiscal year ended June 30, 1994, can not be broken out from the total state payroll. A member may elect an option for a reduced benefit payable for life with the provision that after the member's death a beneficiary receives benefits for life.

Participating employees who retire after 25 years of creditable service or after attainment of age 60 with either 10 years of creditable service or one year of service immediately before retirement, are entitled to an annual retirement benefit, payable monthly for life, that is generally 2% of the member's average final compensation multiplied by the years of membership service and up to 25 years of prior creditable service, reduced for retirement before age 60. For participants entering the plan after December 1, 1984, the eligibility age is increased to age 62 and early retirement benefits are reduced 6% for each year before age 62. A member may elect an option for a reduced benefit payable for life with the provision that after the member's death a beneficiary receives benefits for life.

The MSRS covered employees are eligible for disability retirement, ordinary and accidental death benefits and a portion of the employer contribution is acknowledged for these purposes. Disability benefits and eligibility are contingent on dates of hire and options selected by employees consistent with applicable statutes.

Employees who have retired on or before February 28 of each year and their beneficiaries are entitled to an automatic cost-of-living adjustment (COLA). The increase is equal to the annual percentage change in the consumer price index(CPI) to a maximum amount of four percent. Additional amounts may be paid, up to the actual amount of the change in the CPI, contingent on sufficient funding and with the Governor's approval. Effective July 1, 1993 employees receiving ordinary and disability retirement benefits and their beneficiaries are provided an automatic cost-of-living adjustment effective September 1 which is applied to all benefits that have been in payment for twelve months.

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**LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

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The UT is aware of the existence of several landfills currently in varying degrees of closure. The liability for closure falls on the individual County's Unorganized Territory funds. The State of Maine Unorganized Territory Education and Services Fund would be effected by virtue of an increase in the municipal cost component needed in a year in which closure costs were incurred. The amount and timing of these potential costs are unknown.

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

**Notes to Financial Statements, Continued**

---

**COUNTY TAX**

---

The following summarizes the amounts of county taxes paid to each of the counties within the State of Maine Unorganized Territory at June 30, 1994:

Aroostook	\$ 406,949
Franklin	75,123
Hancock	27,359
Kennebec	2,867
Knox	5,476
Lincoln	3,027
Oxford	57,611
Penobscot	121,748
Piscataquis	551,533
Somerset	331,142
Waldo	391
Washington	169,232
<b>Total</b>	<b>\$ 1,752,458</b>

---

**OTHER EMPLOYEE BENEFITS**

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**A. Postretirement Health Care Benefits**

The employees of the State of Maine Unorganized Territory are covered under the State of Maine's employer benefits program. In addition to providing pension benefits, the State of Maine provides certain health care benefits for most retired state employees and 25% of the cost for certain retired teachers. Coverage for non-Medicare eligible retirees includes basic hospitalization, supplemental major medical, care of mental health conditions, alcoholism, substance abuse, and prescription drug costs. Retirees eligible for Medicare are covered under insurance policies designed to supplement Medicare. The benefits to non-Medicare eligible retirees are provided through insurance companies. Expenditures for postretirement health care benefits are recognized as premiums are paid, using funds generated from current contributions.

Effective July 5, 1991 for state employees first employed before July 1, 1991 the Maine State Retirement System pays 100% of the retirees' share of health insurance premiums. For state employees first employed after July 1, 1991 the Maine State Retirement System pays a pro rata portion of the retirees' share of health insurance premiums, ranging from 0% for employees with less than 5 years participation to 100% for employees with 10 or more years of service.

**B. Postretirement Life Insurance Benefits**

In addition to providing pension and health care benefits, the State of Maine provides certain life insurance benefits for retired employees who, as active employees, participated in the group life insurance program. For employees who participated for 10 continuous years prior to retirement payments of claims are made by the Maine State Retirement System using funds generated from premiums paid by employees while in active status and by the state after retirement. The State of Maine recognizes the cost of providing these benefits as

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

**Notes to Financial Statements, Continued**

---

**OTHER EMPLOYEE BENEFITS, CONTINUED**

---

claims are paid to beneficiaries. Costs also include an administrative fee to the retirement system and a retention fee to a life insurance company.

**C. Deferred Compensation**

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code §457. The plan is available to all state employees, and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the state, subject only to the claims of the state's general creditors. Participants' rights under the plan are equal to those of general creditors of the state in an amount equal to the fair market value of the deferred account for each participant. In the past, the plan assets have been used only to pay benefits. The state believes that it is unlikely that it will use the assets to satisfy the claims of general creditors.

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**SELF-INSURANCE**

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**A. Risk Management**

The State of Maine Unorganized Territory falls under the State of Maine's risk management disclosures relative to this fund and is reported in the state's financial statements.

The State of Maine is self-insured for vehicle liability, tort claim liability, civil rights liability, professional liability, and foster parent and respite care liability with a maximum coverage of \$300 thousand per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlements in its internal service fund, the Risk Management Fund. Through the Risk Management Fund the state also purchases commercial insurance for all other risks of loss including property insurance and food stamp coverage which have deductibles of \$1 million and \$500 thousand, respectively. Fund reserves are primarily from contributions from other funds and are planned to match expenses for insurance premiums, self-insurance claims, and operating expenses.

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
General Fund  
Balance Sheet  
June 30, 1994 and 1993

	1994	1993
<b>ASSETS</b>		
Receivables:		
Taxes receivable-- current year	\$ 231,476	228,678
Taxes receivable-- prior years	44,114	24,346
Tax liens	55,568	18,863
Due from State of Maine Treasury	3,510,551	1,391,495
<b>Total assets</b>	<b>\$ 3,841,709</b>	<b>1,663,382</b>
<b>LIABILITIES AND FUND EQUITY</b>		
Liabilities:		
Accounts payable and payroll withholdings	188,338	297,235
Accrued wages	230,000	230,000
Accrued compensated absences	62,000	60,000
Due to State of Maine Treasury - Education	603,317	1,995
Deferred tax revenue	280,000	250,000
<b>Total liabilities</b>	<b>1,363,655</b>	<b>839,230</b>
Fund equity:		
Unreserved:		
Undesignated	2,478,054	824,152
<b>Total fund equity</b>	<b>2,478,054</b>	<b>824,152</b>
<b>Total liabilities and fund equity</b>	<b>\$ 3,841,709</b>	<b>1,663,382</b>



STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual  
Year ended June 30, 1994  
(with comparative actual amounts for the year ended June 30, 1993)

	1994		Variance	1993
	Adjusted budget	Actual	favorable (unfavorable)	Actual
Revenues:				
Taxes:				
Property taxes	\$ 14,910,589	15,173,930	263,341	12,877,511
Change in deferred property tax revenue	-	(30,000)	(30,000)	290,000
Interest and costs on taxes	-	102,614	102,614	69,314
Total taxes	14,910,589	15,246,544	335,955	13,236,825
Intergovernmental:				
State Revenue Sharing	145,000	206,172	61,172	159,582
Total intergovernmental	145,000	206,172	61,172	159,582
Charges for services:				
Educational tuition	130,000	175,463	45,463	163,725
Total charges for services	130,000	175,463	45,463	163,725
Other revenues:				
Miscellaneous	125,000	73,065	(51,935)	39,104
Education -- trust	125,000	109,120	(15,880)	115,191
Education -- miscellaneous	110,000	127,827	17,827	142,782
Total other revenues	360,000	310,012	(49,988)	297,077
Total revenues	15,545,589	15,938,191	392,602	13,857,209
Expenditures:				
Current:				
Education:				
General operations	5,337,903	4,938,679	399,224	4,897,136
Salaries and benefits	2,279,339	2,176,949	102,390	2,042,217
Professional services	327,380	348,839	(21,459)	295,113
Travel expenses	44,319	49,130	(4,811)	46,874
Vehicle operation	157,122	131,624	25,498	131,283
Utility services	44,450	60,206	(15,756)	58,212
Pensions	43,080	52,262	(9,182)	57,768
Rents	505	508	(3)	45,736
Repairs	75,777	59,726	16,051	59,195
Insurance	7,577	20,915	(13,338)	14,837
Fuel	49,000	35,228	13,772	32,850
Supplies	98,604	107,779	(9,175)	91,264
Equipment	230,722	269,411	(38,689)	146,836
Other	21,945	116,317	(94,372)	76,617
Total education	8,717,723	8,367,573	350,150	7,995,938

STATE OF MAINE UNORGANIZED TERRITORY EDUCATION AND SERVICES FUND  
General Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual, Continued

	1994			
	Adjusted budget	Actual	Variance favorable (unfavorable)	1993 Actual
Expenditures:				
Current:				
County reimbursements for services:				
Aroostook	\$ 559,320	559,320	—	443,935
Franklin	270,052	270,052	—	287,934
Hancock	175,242	175,242	—	—
Oxford	182,859	182,859	—	183,058
Penobscot	788,779	788,779	—	395,237
Piscataquis	510,932	510,932	—	494,115
Somerset	529,403	529,403	—	448,161
Washington	322,248	322,248	—	329,086
Total county reimbursements for services	3,338,835	3,338,835	—	2,581,526
Departmental:				
Fiscal administrator	119,572	94,003	25,569	91,676
Assessments	428,000	427,809	191	407,782
Forest fire service	262,650	90,771	171,879	329,629
General assistance	170,343	70,205	100,138	87,362
Land Use Regulation Commission	426,000	142,635	283,365	145,573
Total departmental	1,406,565	825,423	581,142	1,062,022
Unclassified:				
County tax	1,752,458	1,752,458	—	1,578,619
Overlay	165,613	—	165,613	—
Total unclassified	1,918,071	1,752,458	165,613	1,578,619
Total expenditures	15,381,194	14,284,289	1,096,905	13,218,105
Excess of revenues over expenditures	164,395	1,653,902	1,489,507	639,104
Other financing sources (uses):				
Budgeted use of surplus	286,000	—	(286,000)	—
Budget deallocation	(450,395)	—	450,395	—
Total other financing sources (uses)	(164,395)	—	164,395	—
Excess of revenues and other sources over expenditures and other uses	—	1,653,902	1,653,902	639,104
Fund balance beginning of year		824,152		904,175
Prior period adjustment		—		(719,127)
Fund balance beginning of year (as restated)		824,152		185,048
Fund balances, end of year	\$	2,478,054		824,152

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REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

YEARS ENDED JUNE 30, 1993 AND 1994



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

**Reports Required by Government Auditing Standards**

**June 30, 1994 and 1993**

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Schedule

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Report on Compliance with Laws and Regulations Based on Audits of the Financial Statements Performed in Accordance with Government Auditing Standards	1
Report on Internal Control Structure in Accordance with Government Auditing Standards	2

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Schedule I

Certified  
Public  
Accountants

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS  
BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Alexander M. Runyon  
Glenn S. Kersteen  
Carl N. Ouellette  
John J. Sullivan  
Kathleen B. Tyson

Fiscal Administrator of the State of Maine  
Unorganized Territory Education and Services Fund:

D. Bradlee Hodson  
*Of Counsel*

We have audited the financial statements of the State of Maine Unorganized Territory Education and Services Fund (Unorganized Territory) as of and for the years ended June 30, 1994 and 1993, and have issued our reports thereon dated March 29, 1995.

We conducted our audit in accordance with generally accepted auditing standards and 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 general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Unorganized Territory is the responsibility of the State of Maine's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Unorganized Territory's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the Unorganized Territory, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Unorganized Territory had not complied, in all material respects, with those provisions.

This report is intended for the information of the State of Maine's management, the legislature, and the State of Maine Department of Audit as agent for the Unorganized Territory. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

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*Runyon, Kersteen, Ouellette*

March 29, 1995  
South Portland, Maine

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**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Fiscal Administrator of the State of Maine  
Unorganized Territory Education and Services Fund:

We have audited the financial statements of the State of Maine Unorganized Territory Education and Services Fund (Unorganized Territory), as of and for the years ended June 30, 1994 and 1993, and have issued our reports thereon dated March 29, 1995.

We conducted our audit in accordance with generally accepted auditing standards and 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 misstatements.

In planning and performing our audits for the years ended June 30, 1993 and 1994, we considered the Unorganized Territory's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control structure.

The management of the State of Maine is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

1. Accounting Applications
  - . Cash and investments
  - . Revenues and receivables
  - . Expenditures/expenses and accounts payable
  - . Property and equipment
  - . Payroll
2. Controls used in administering compliance with laws and regulations
  - . General controls
  - . Specific controls

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the Territory's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

However, we noted several reportable conditions that we believe to be material weaknesses and have segregated those conditions under the heading "Material Weaknesses" below.

We have also noted other matters involving the internal control structure and its operation, as well as general suggestions for management, and have reported these comments in a separate letter also dated March 29, 1995.

\* \* \* \* \*

**MATERIAL WEAKNESSES**

Accounting System and Structure

We feel the current accounting system does not meet the needs of the Unorganized Territory and does not provide a basis for proper compliance with Governmental Accounting Standards Board (GASB) standards. The State of Maine provides for oversight of the revenue collections and expenditure functions of the Unorganized Territory. As such, it is responsible for providing an adequate accounting system for all Unorganized Territory assets, liabilities, equity, revenues and expenditures. Accounts or groups of accounts have been set up over the years to accommodate the needs of particular segments of the Unorganized Territory's operations. Some of these accounts are maintained in the State of Maine's General Fund, others in special revenue funds and trust funds. State law requires an annual financial report of the Unorganized Territory. In order to ascertain actual activity of the Unorganized Territory for a particular period, it becomes necessary to perform an analysis of activity in accounts, determine the extent of and the balances of Unorganized Territory activity in those accounts and manually develop a trial balance for audit purposes. The level of audit risk is high due to the co-mingling of accounts of the Unorganized Territory among other State accounts and funds. Posting errors could go unnoticed, accounts may remain unreconciled, and most importantly the value all auditors place on a **self-balancing** group of accounts that represents the financial position and results of operations of an entity does not exist. We feel it is critical, in order to effectively report on the Unorganized Territory's financial position and results of operations periodically, to establish a separate and distinguishable group of accounts which would represent all of the activity of the Unorganized Territory. This fund would include all assets, liabilities, and equity of the Unorganized Territory, as well as its revenue and expenditures for the current period. We feel this transition should take place as soon as possible,

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

perhaps as early as July 1, 1995. If this is not practical, at a minimum, separate account activity codes (org. numbers) should be set up to segregate revenues and expenditures that relate to Unorganized Territory activity from all other activities of departments or bureaus which service the Unorganized Territory.

Management Response

Department of Conservation - Division of Fire Control

In the Fall of 1994, we established a separate report org. that is unique to the Forest Fire Control activity in the Unorganized Territory in the state. This includes any fire payrolls and fire support activity for which expenditures are charged. The separate report org. has made reporting much more reliable. In addition, this information is reconciled with field staff records as a double check.

Department of Administrative and Financial Services - Bureau of  
Accounts and Control

We feel that these findings have been, to a large extent, sent to the wrong department. Legislative action made the State Department of Audit responsible for keeping financial records for transactions of the Unorganized Territory. Therefore, the administrator of the Unorganized Territory is responsible for furnishing the audit firm with the self-balancing set of accounts.

Department of Audit

Title 5, MRSA, Section 244 states that "The State Auditor shall keep no accounts in the Department of Audit....". Thus, we are not authorized to improve the system of accountability. However, Title 5, MRSA, Section 1541, states in part that "The Department of Administrative and Financial Services, through the Bureau of Accounts and Control, has authority:

**1. Official system of general accounts.** To maintain an official system of general accounts, unless otherwise provided by law, embracing all the financial transactions of the State Government;"....

This Department is anxious to work with the Bureau of Accounts and Control to set up a system that will capture Unorganized Territory

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

expenditures within the Bureau of Taxation, Property Tax Division and the Department of Human Services for general assistance payments--the only two departments which do not capture these expenditures. We feel that this should not be a difficult task.

Maine statutes (Title 36, MRSA, Chapter 115) require the Unorganized Territory Education and Services Fund to reimburse the General Fund for these "expenditures", and to have an annual audit of these expenditures. Without separate accounting within each state department that provides services to the Unorganized Territory, there is no way to identify actual expenditures and they are not auditable.

Department of Education - Division of School Operations

No response received.

Department of Human Services - Special Services/Emergency Assistance

No response received.

Budgeting and Expenditure Recognition Problems

In reviewing the budget to actual variances for the past several years, it becomes obvious that the process of budgeting for the needs of the Unorganized Territory in certain departments is haphazard at best. We understand that needs can vary significantly from one year to the next, making the budget process a difficult one. Part of the reason for large fluctuations however, appear to be a result of inconsistent revenue and expenditure recognition procedures from one year to the next. Accounts payable are not recognized properly by the state accounting system, thus requiring manual audit entries at year end for these amounts. Additionally, reimbursements for services are not necessarily made in the period the service was rendered. For example, we noted that in Fiscal Year 1993 the reimbursement to the Department of Conservation for forest fires amounted to \$329,629. When reviewing the detail provided to us by the Department of Conservation, it was noted that many of the instances of fires in which the department was seeking reimbursement, were dated prior to the beginning of the fiscal year in which the reimbursement was requested. The cost of these fires represent liabilities of the Unorganized Territory as of the balance sheet date for the year in which the fires occurred. Other departments effected include Human Services. If expenditures have not been made as of the end of the fiscal year, the amounts are not reported to the Fiscal Administrator for reimbursement.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

One or more months of expenditures (for example, expenditures for May and June) may have not yet been paid out to the Agents. Again, this represents a liability of the Unorganized Territory which should be recognized in the financial statements of the period.

In order to correct this problem, it is necessary to determine and to record all accounts payable at fiscal year end. Although the law requires that each department report to the Fiscal Administrator amounts spent through the fiscal year end by July 2nd, the departments may have additional expenditures relating to the prior period which should have been classified as accounts payable. As a result, many such invoices were not recorded as expenditures in the proper year. In order to ensure a proper accounts payable cutoff at future year ends, we recommend that the deadline date for reimbursement requests by the department be extended to July 15th, then most of the pre-July bills could be included and this would provide a more appropriate cutoff and a more realistic approach to accounting on a modified accrual basis. If the State of Maine's current accounting system cannot accommodate this change, then, at a minimum, the first transfer of the subsequent fiscal period should be broken down between expenditures being reimbursed for a prior period (ie. the accounts payable at year end) and the current year reimbursement estimate (the 90% currently transferred early in the year). This would provide for a "catch up" mechanism as well as result in an audit trail to assist in determining proper cut off. We recommend the use of the "Post-Code F" reports to facilitate this process. Improved expenditure cut off procedures not only will result in acceptable accounting practices, but will also assist in leveling out the budget needs from one year to the next.

Management Response

Department of Conservation - Division of Fire Control

Due to the restraints of the budgeting process, fire suppression activities are not projected in the budget. Also, the unpredictable nature of forest fire occurrence from season to season limits the ability of staff to forecast revenue and expenditures needs. Normally high fire activity occurs in the spring of the year and the receipt of invoices for those fires are often delayed until after the fiscal year end. For example, if a paper company has charged us for the use of equipment, the charges have to be reviewed by field staff to verify correctness. The state only recognizes the expenditure at time of payment. The state deadline will allow for

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

submission of bills up to July 10th, but if they haven't been received by the department accounting staff, they can't be processed.

Department of Human Services - Special Services\Emergency Assistance

We appreciate the auditors' recommendation but wish to point out that the operation/design of the State's accounting system is beyond our control. The state determines when expenditures will or will not be accepted and, hence, to which fiscal year they will apply.

Department of Education - Division of School Operations

We concur with the recommendation to advance the accounts payable cut-off date to July 15th. It is essential that this cut-off date be consistent with the deadlines required of state agencies as set by Accounts and Controls.

Department of Audit

Since the Maine statutes and the state accounting system will not allow this change, we will work with the Bureau of Accounts and Control to see if it is possible to receive "Post-Code F" reports for each state department who provides services to the Unorganized Territory in order to track and record these expenditures.

Department of Administrative and Financial Services - Bureau of Accounts and Control

No response received.

Revenue Recognition Problems

The state's system does not provide for adequate cut off and recognition procedures for revenues. The posting of property tax receipts is not necessarily tied to the date of receipt, thus resulting in cut off problems at year end. Also, and more significantly, GASB requires that only revenue which represents "current financial resources" be recognized in the current accounting period. Property taxes not yet received at year end or within a 60 day period subsequent to year end should be reported as deferred revenue. An audit adjustment was made to correct this deficiency, however, detail lists of outstanding taxes were not available to support the adjustment amount. We recommend that at a

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

minimum detail tax receivable lists be maintained for not only year end balances but also for balances still outstanding 60 days subsequent to the fiscal year end.

Management Response

Department of Administrative and Financial Services - Bureau of Taxation

The Bureau of Taxation will examine June receipts which may have been posted in July. If the difference in deposits between years for the particular period in time is material in nature, a journal entry will be recommended to the Controller. The Bureau will also examine at September 1 of each year, the taxes receivable accounts to ascertain the amounts of deferred revenue. Upon this determination, the Bureau will recommend to the Controller, a journal entry to establish the deferred revenue. The Bureau will maintain twelve months of delinquent account reports, detailing the outstanding amounts of taxes receivable.

Fixed Assets

The Unorganized Territory have not historically maintained detailed records of its general fixed assets. The importance of a detailed fixed asset ledger supported by balances posted to the general ledger is obvious. Sound financial administration in safeguarding the Territory's investment in fixed assets is of utmost importance in the exercise of stewardship responsibilities. The responsibilities can be effectively discharged only through adequate fixed asset accounting.

By maintaining fixed asset records, the Territory will realize several benefits:

Fixed assets can be inventoried periodically to ensure that they are properly controlled.

Responsibility of custody and effective use of fixed assets can be clearly established.

Information regarding sources of supply, prices, and useful lives will be readily available. If information regarding maintenance costs is also included in the subsidiary ledgers, ratios of cumulative maintenance costs to original costs can be developed.



**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

Records will be readily available to substantiate the amount of grants used to finance expenditures for fixed assets. Furthermore, the determination of costs for building or equipment use is facilitated. The latter is important to obtain reimbursement for the use of buildings and equipment in Federal and State aid programs.

Information is readily available both to determine insurance needs and to substantiate losses recoverable from insurance.

Information is available for the preparation of a Statement of General Fixed Assets required by generally accepted accounting principles.

Establishing fixed asset records when none existed before can be a difficult and time consuming task. However, it would be relatively simple to keep records of new fixed asset purchases. We urge that a record be kept of the date, item, and cost of new fixed assets. This will simplify the task of establishing historical records in the future. Ultimately, we would hope that a complete record could be established.

Management Response

Department of Education - Division of School Operations

We concur with the recommendation to maintain fixed asset records. The report needs to include a definition of fixed assets. We do maintain and update property records; however, to set-up and maintain these records properly will require additional staff time that we are not in a position to provide at the present time. We will continue to add newly acquired equipment, over \$1,000 in value, to this inventory.

Department of Administrative and Financial Services - Bureau of Accounts and Control

We concur.

Department of Audit

Every effort will be made to encourage the above departments to update and maintain their fixed assets records.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

Accrued Payroll Liabilities

The Territory's Department of Education budgets its teachers pay on a cash basis. However, under most contracts, compensation is remitted over a twelve month period. It therefore appears that a liability should be accrued at June 30 each year for the amount of unpaid teachers compensation (July and August pay) since the teachers have a right to receive such compensation, that right is vested, the payments will be remitted and the amount can reasonably be estimated. This liability was estimated for reporting purposes for the 1993 and 1994 financial statements. We recommend that a record keeping system be established which will simplify the process of determining the amount of these liabilities at each fiscal year end.

Management Response

Department of Education - Division of School Operations

We take exception to budgeting the total contract amounts that teachers are paid during July and August, because the actual liability is only for those staff who elect to take their full salary at the close of the school year and those who retire or leave the system and need to collect their full salary prior to June 30th. Past experience has shown that the number of times these situations occur number 2-3 per year.

Based upon this experience we would suggest that only a percentage of total teacher payroll be carried as a contingent amount.

An alternative could be to budget a contingency amount in "all other" that could be transferred to Personal Services to cover such occurrences in the event salary savings are not sufficient to cover salary liability in a given year. We believe this liability would be covered without adding a substantial one time increase which may never be used and will always be questioned.

Landfill Closure and Postclosure Care Costs

Effective for years beginning after June 15, 1993, GASB requires that governmental entities record a liability for the estimated total current costs of landfill closure and postclosure care. Landfill closure costs could cause a substantial increase in the Municipal Cost Component in any given year in which the costs are incurred. We feel it is important for the Unorganized

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

Territory to have the information available not only to be in compliance with the GASB, but also so that it can be considered in the budget process. It may make sense for the Unorganized Territory to build into the Municipal Cost Component a reserve for these future costs. Finally, it should be determined whether the Unorganized Territory would be eligible for partial State reimbursements of these costs similar to the current process for municipalities.

Management Response

Department of Audit

Landfills within the Unorganized Territory are the responsibility of the County Commissioners. They have built into their budgets capital reserves to close and monitor the landfills within the Unorganized Territory of their county. With the exception of the landfills which were closed prior to the reimbursement program, the counties have applied and have either received or are scheduled to receive partial State reimbursement of associated costs. This is reflected in the May 1, 1995, Maine Department of Environmental Protection's report on landfills.

We will continue to monitor the audit reports of the counties to ensure that this area is covered.

Reconciliation of Uncollected Taxes and Tax Liens

Detail tax records are not reconciled to the general ledger on a regular basis. The general ledger acts as a control of all tax payments received by the Unorganized Territory. For this reason, the general ledger should be reconciled to the detail records regularly (preferably monthly), and the cause of any differences should be immediately ascertained and corrected. This process can ensure the timely posting to the tax commitments, abatements, supplemental taxes and can permit early detection of errors. Reconciliation of detail tax records to the general ledger under the present system is, admittedly, a time consuming process, however, it is a job which must be done to insure that all payments have been recorded correctly. We recommend that such reconciliations be performed and documented, at a minimum, on a quarterly basis.

To ensure a proper collection process and to aid in tax reconciliations consideration should be given to cross training the various state department employees who handle the various pieces of the property tax functions (i.e.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

assessing, collecting and recording transactions). It is our belief that this knowledge would greatly contribute to their understanding of the importance of their individual functions.

Management Response

Department of Administrative and Financial Services - Bureau of Accounts and Control

We feel that the Bureau of Taxation should be consulted about any responsibility they may have for collections, reconciliation and posting to their records.

Department of Administrative and Financial Services - Bureau of Taxation

The Bureau of Taxation will reconcile the taxes receivable accounts to the general ledger on a monthly basis, commencing April 30, 1995.

**REPORTABLE CONDITIONS**

All Departments

Application of Overhead Costs

We noted inconsistencies in how various departments, which provide services to the Unorganized Territory, charge for certain overhead costs. For example, the Department of Education does not charge for space utilized by the Unorganized Territory, however, the Property Tax Division does include a cost based on square footage. We recommend consistent guidelines in the allocation of these types of overhead costs be adopted by the Unorganized Territory.

Management Response

Department of Education - Division of School Operations

The Department of Education does not charge for space occupied by the E.U.T. office. The Division of State Schools, E.U.T., is considered an integral part of the Department of Education. State and Department administrative overhead charges are charged against all E.U.T. Federal Accounts which are special revenue accounts.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS, CONTINUED**

Department of Administrative and Financial Services - Bureau of Taxation

The audit refers to non-uniform application of charges to the Unorganized Territory. Property tax is specifically mentioned for budgeting office rental whereas education does not. If the Unorganized Territory is thought of as a large municipality then it is reasonable for the taxpayers of the Unorganized Territory to pay for office space. Conversely the General Fund taxpayers should not have to pay for overhead costs attributable to Unorganized Territory services administration.

Department of Audit

The Maine statutes provide that the Unorganized Territory Education and Services Fund will reimburse the General Fund for any expenditures associated with the Municipal Cost Component. If there are actual expenditures for rent, then the fund would reimburse the General Fund for this cost. If there are no expenditures for rent, then the fund should not be reimbursing the General Fund for nonexistent costs. This is another reason why it is so important for there to be a separate accounting of actual expenditures made exclusively for the Unorganized Territory.

Accounting Implications of Individual Responsibilities

Currently, there are many individual state employees who, in one aspect or another, perform duties which assist in the processing and recording of transactions of the Unorganized Territory. One problem we noted repeatedly in talking with these individuals was that they performed the function in a certain way because it had always been performed in that manner. In some cases, there was very little understanding as to why the function was performed or what effect their function had on the overall accounting cycle for the Unorganized Territory. We encourage ongoing communication and training so that a better level of understanding can be obtained of what individuals roles are in the accounting process.

Management Response

Department of Education - Division of School Operations

We concur with this observation and would welcome additional training in this area.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
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STANDARDS, CONTINUED**

Department of Administrative and Financial Services - Bureau of Taxation

A joint training session of the Unorganized Territory staff in Property Tax and the appropriate staff in Revenue Processing will be conducted.

Department of Audit

We concur.

Department of Human Services

Agent Fees

We noted several inconsistencies in the general assistance operations of the Unorganized Territory. First, the agents contracted out by the Department of Human Services to file the general assistance claims are paid different monthly stipends with no reasonable basis for their calculation. In addition to individual agents, some towns file general assistance claims on behalf of the Unorganized Territory. Some of these Towns collect a fee for this service which, again, has no reasonable basis for its calculation. We recommend that the amounts being paid be reviewed and that a logical formula be developed to substantiate the amounts being paid each agent as well as the fees paid to the towns acting as agents. Also, the individual agents should be issued 1099's at the end of each calendar year to report to the Internal Revenue Service the total amounts paid to them for their services rendered.

Management Response

Department of Human Services - Special Services\Emergency Assistance

The audit recommends that a formula be developed that would standardize the fees being paid to the agents operating the General Assistance Program in the Unorganized Territory. While generally we would support the standardization of fees we need to point out that these arrangements have been in effect for years and are the result of negotiating the best deals possible for the service. Although we certainly would be willing to review this subject in depth, due to time constraints we can not jeopardize the current operation of the program which means that any change in fee structure could not be implemented prior to July 1, 1996.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
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Additionally, the audit states that the individual agents should be issued 1099's to report to the Internal Revenue Service the total amounts paid to them. This has become a moot point due to the fact that the Bureau of Purchases has rejected all 11 of the individual agents' contracts that were to go into effect on 7/1/95 due to the fact that the state does not have a method whereby they can withhold taxes from these individuals. This has resulted in the necessity to approach a temporary employment agency to see if they can provide this service. If so, this will represent a significant increase in cost to the program, which increases our concern about changing the existing fee structure.

**Bureau of Taxation**

**Excise Tax Collections**

Currently, the Bureau of Taxation acts as an agent for the Unorganized Territory by administering the collection of excise tax revenues. These revenues are physically collected by 64 different agents around the state. Some agents are organized municipalities, others are residents of the Unorganized Territory. The funds are collected by these agents, turned over to the State, which remits the total received back to the Unorganized Territory via quarterly payments to the counties. These excise revenues partially offset the budget developed by each county for services provided to the Unorganized Territory. In order to assure that all excise tax registrations are properly accounted for with 64 agents collecting, we recommend the following procedures:

All blank registration forms for the Unorganized Territory should be issued out of the Division of Property Tax office and all numbers should be accounted for.

All state pre-printed forms should be filed numerically by townships and all numbers accounted for. All state monthly pre-printed excise tax lists should be kept as well.

All registrations which are either voided or not re-registered should be kept and so marked and forwarded to the Division of Property Taxes so all numbers can be accounted for.

The Unorganized Territory's County budgets should be reviewed to ensure that the amounts estimated for excise revenues approximate actual receipts for the prior year.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
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This will allow for the accountability of all registrations and, as a result, will provide for better controls over the excise tax collection process.

Management Response

Department of Administrative and Financial Services - Bureau of Taxation

Four recommendations are made,

1. All blank registration forms for the Unorganized Territory should be issued out of the Division of Property Tax office and all numbers should be accounted for. Currently private collectors receive prenumbered forms from the Property Tax Division whereas, municipal agents receive their prenumbered forms from the Bureau of Motor Vehicles. We do not think it practical to expect municipal collectors to segregate forms for the Unorganized Territory. We will account for Property Tax Division issued forms and work with the Bureau of Motor Vehicles to see that adequate accounting exists with regard to forms they issue.
2. All state pre-printed forms should be filed numerically by townships and all numbers accounted for. All state monthly pre-printed excise tax lists should be kept as well. Currently all forms and lists are retained and filed by country by collector. We do not understand the benefit in altering this approach.
3. All registrations which are either voided or not re-registered should be kept and so marked and forwarded to the Division of Property Taxes so all numbers can be accounted for. This is consistent with current common practice. However, we will educate all collectors to the practice and monitor to insure adherence.
4. The Unorganized Territory County budgets should be reviewed to ensure that the amounts estimated for excise revenues approximate actual receipts for the prior year. The Property Tax Division will annually report prior year excise tax as compared to estimates to the Fiscal Administrator.

Posting of Abatements and Supplemental Taxes

Currently, abatements and supplemental taxes are posted directly to the property tax revenue accounts. This makes it difficult to reconcile the total revenues



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back to the total commitment on an annual basis. Additionally, it appears that no one is reconciling these accounts on a regular basis to the authorizations for the abatements and supplemental taxes. We recommend that additional accounts be set up for abatements and supplemental taxes (in the 014-27A-0433 series) and that someone be responsible for reconciling the balances of these accounts with the authorizations for these journals. To simplify this process, an annual listing should be maintained of both abatements made and supplemental taxes levied. Finally, the revenue accounts used to record the tax commitment should not be adjusted for anything other than the change in the deferred tax revenue account from one year to the next.

Management Response

Department of Administrative and Financial Services - Bureau of Taxation

The Bureau of Taxation will request from the controller that four new "object and revenue" source codes be created. This will allow the Bureau to record the abatements and supplemental taxes separate and apart from the Property and Real Estate Tax revenue accounts.

Personnel and Miscellaneous Cost allocations

As part of our review of costs charged to the Unorganized Territory by the Bureau of Taxation, it was noted that personnel costs are allocated based on historical estimates. There are no time records to support the time allocated to, and subsequently charged to the Unorganized Territory. Additionally, flat annual charges for business office expenses (mail, deposits, and data entry) as well as for costs associated with the Bureau of Data Processing were noted. We are not questioning the amounts charged, however, we recommend that documentation be provided annually to the Unorganized Territory to support both personnel time allocated and other costs.

Management Response

The Bureau of Taxation's cost estimates are based on actual experience or best estimates and are verified by office staff to assure reasonable accuracy. Time reports are kept but do not have hourly details. If implemented it is estimated that staff time and accounting would consume 100 man hours of staff time annually. (5 min. per person per week to track) Office supplies and mailing costs are kept and had the records been reviewed by the auditors we feel they would be deemed reasonable.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
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**Department of Education**

**Purchasing Policy**

Ideal internal controls for the expenditure cycle are aimed at ensuring and documenting that all purchases are authorized, within the budget, and in accordance with the laws; that prices paid are the lowest commensurate with quality, service, delivery and reliability; that all materials or services paid for are received and examined for acceptability; that each department has been fully charged with its proper expenditures; that cash disbursements are valid; and that adequate segregation of duties is accomplished.

A written purchasing policy documenting the regulations designed to provide the above mentioned controls needs to be developed, approved and scheduled to be implemented. These policies should also include how much the principals are authorized to purchase, what needs to go to bid, which purchases need to be authorized, etc.

Most invoices paid by the Department of Education were supported by a purchase order or purchase requisition. However, the numbers of those purchase orders/ requisitions issued are not tracked. We suggest a system in which each school administrator (or principal) would be provided with a block of pre-numbered purchase orders by the central office (Department of Education for the Unorganized Territory). The principal would complete the purchase order and forward it to the central office for approval. Small purchases (perhaps less than \$500) should be exempted from the purchase order system and authority should be given to local schools to make small purchases provided the budget has provided for them. The original purchase order would then be sent to the vendor. Two copies of the purchase order would remain at the school, one being a receiving copy to be forwarded to the central office once the item was received or the service was rendered.

**Management Response**

**Department of Education - Division of School Operations**

The description of a purchase order system suggested in this report closely parallels that of our system. The system seems to be functioning well; however, we will be modifying it as more site-based management functions are delegated to individual schools. We will consider implementing parts of the modifications suggested.

**REPORT ON INTERNAL CONTROL STRUCTURE IN  
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This report is intended for the information of the State of Maine's management, the legislature, and the State of Maine Department of Audit as agent for the Unorganized Territory. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Rune M. Keusken Ouellette*

March 29, 1995  
South Portland, Maine



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