

FELCH & COMPANY, LLC
Certified Public Accountants

UNORGANIZED TERRITORIES OF THE
COUNTY OF AROOSTOOK, MAINE
as of
JUNE 30, 2016

Financial Statements

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of the
Unorganized Territories of the County of Aroostook, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Unorganized Territories of the County of Aroostook, Maine as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Territories' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

To the Board of Commissioners of the
Unorganized Territories of the County of Aroostook, Maine

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Unorganized Territories of the County of Aroostook, Maine, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages I through III and Schedule 1, be present to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2016 on our consideration of the Unorganized Territories' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Unorganized Territories' internal control over financial reporting and compliance.

Felch & Company LLC

Caribou, Maine
September 1, 2016

Unorganized Territories of the County of Aroostook, Maine

Management's Discussion and Analysis For the Year Ended June 30, 2016

UNAUDITED

The following narrative is an overview of the Unorganized Territories' financial performance designed to assist the reader in focusing on significant financial issues. This discussion and analysis should be read in conjunction with the attached financial statements together with the related notes.

USING THIS ANNUAL REPORT

In accordance with generally accepted accounting principles, the basic financial statements are presented in two formats. Each format presents information by a different measurement focus. The first of these formats is called the government-wide statements which presents the Unorganized Territories as a whole and presents a longer-term view of the Territories' finances. The second format uses fund accounting and the focus is on current resources available for current obligations.

Reporting the Territories as a Whole

The government-wide statements are designed to present the Territories as a whole similar to the way a business presents financial statements. The Statement of Net Position (Exhibit A) combines the assets and liabilities as presented in the governmental funds with the Territories' capital assets and long-term obligations. In the Statement of Activities (Exhibit B) the focus is on both the gross and net cost of the various activities (or departments) which are funded by various general revenues including tax assessment and intergovernmental revenues. Revenues are recognized when earned regardless of when they are collected and expenses are recognized when the liability becomes due. Since capital asset purchases are not considered an expense under this measurement focus, annual charges for depreciation are recognized to indicate the use of these assets over time.

Fund Financial Statements

In the preparation of these statements, fund accounting is used which is described more fully in the notes to the financial statements. The focus under GASB 34 is on "major funds" which presents a separate column for only the most significant funds of the Territories. These statements (Exhibits C & D) present the Territories' financial position and results of operations using a shorter-term view and show how money flows into and out of the funds and the balances left at year-end that are available for spending. These funds report using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Table 1
Net Position

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$1,117,267	\$ 807,310
Capital assets, net	<u>1,570,248</u>	<u>1,640,749</u>
Total assets	<u>2,687,515</u>	<u>2,448,059</u>
Current liabilities	<u>19,822</u>	<u>68,908</u>
Net position		
Net investment in capital assets	1,570,248	1,640,749
Unrestricted	<u>1,097,445</u>	<u>738,402</u>
Total net position	<u>\$2,667,693</u>	<u>\$2,379,151</u>

Unorganized Territories of the County of Aroostook, Maine

Management's Discussion and Analysis
For the Year Ended June 30, 2016

UNAUDITED

Table 2
Change in Net Position

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Operating grants	\$ <u>74,248</u>	\$ <u>188,708</u>
General revenues:		
Property tax assessment	1,911,743	1,709,616
Excise tax	321,816	248,113
Investment income	7,384	5,194
Other revenues	<u>20,982</u>	<u>16,716</u>
	<u>2,261,925</u>	<u>1,979,639</u>
Total Revenues	<u>2,336,173</u>	<u>2,168,347</u>
Program expenses:		
County tax	695,604	666,769
Roads	157,955	172,274
Public works	92,878	92,906
Public safety	63,605	53,006
Snow removal	365,175	290,762
Solid waste disposal	119,710	116,147
Fire protection	171,937	169,920
Ambulance services	32,873	36,571
Administration	73,344	64,506
Capital outlays	170,181	133,284
Other	<u>104,369</u>	<u>99,528</u>
Total expenses	<u>2,047,631</u>	<u>1,895,673</u>
Increase in net position	\$ <u>288,542</u>	\$ <u>272,674</u>

ANALYSIS OF FINANCIAL POSITION

During the year ending June 30, 2016, the total net position increased \$288,542 to \$2,667,693 at year end. Of the total net position at June 30, 2016, \$1,097,445 may be used to meet the Territories' ongoing obligations to citizens and creditors.

CAPITAL ASSET ACTIVITY

Capital assets, net of depreciation totaled \$1,570,248 as of June 30, 2016, representing a \$70,501 decrease from the prior year end. This decrease is due to charges for depreciation. For more detail, please refer to Note 4 to the financial statements.

Unorganized Territories of the County of Aroostook, Maine

Management's Discussion and Analysis
For the Year Ended June 30, 2016

UNAUDITED

GENERAL FUND BUDGETARY HIGHLIGHTS

The Territories took in \$100,354 more than anticipated in revenues which was primarily due to an increase in excise tax. The Territories also spent \$258,689 less than anticipated, which was a result of a decrease in capital outlays. This resulted in a net favorable budget variance of approximately \$359,043. For the budgetary comparison, please refer to Schedule 1.

FINANCIAL CONTACT

The individual to be contacted regarding this report is the County Administrator, County of Aroostook, 144 Sweden Street, Suite 1, Caribou, ME 04736.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

EXHIBIT A

STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Governmental Activities
<u>ASSETS</u>	
CURRENT ASSETS	
Cash	\$ 12,267
Due from other governments	<u>1,105,000</u>
Total current assets	<u>1,117,267</u>
CAPITAL ASSETS	
Capital assets (Note 4)	
Non-depreciable	74,900
Depreciable, net	<u>1,495,348</u>
Total capital assets	<u>1,570,248</u>
Total assets	<u>2,687,515</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	<u>19,822</u>
<u>NET POSITION</u>	
Net investment in capital assets	1,570,248
Unrestricted	<u>1,097,445</u>
Total net position	<u>\$ 2,667,693</u>

The accompanying notes are an integral part of this financial statement.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

EXHIBIT B

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contri- butions</u>	<u>Capital Grants and Contri- butions</u>	
County tax	\$ 695,604	\$ -	\$ -	\$ -	\$ (695,604)
Roads	157,955	-	74,248	-	(83,707)
Public works	92,878	-	-	-	(92,878)
Public safety	63,605	-	-	-	(63,605)
Snow removal	365,175	-	-	-	(365,175)
Solid waste disposal	119,710	-	-	-	(119,710)
Fire protection	171,937	-	-	-	(171,937)
Ambulance services	32,873	-	-	-	(32,873)
Administration	73,344	-	-	-	(73,344)
Capital outlays	170,181	-	-	-	(170,181)
Other	104,369	-	-	-	(104,369)
	<u>\$ 2,047,631</u>	<u>\$ -</u>	<u>\$ 74,248</u>	<u>\$ -</u>	<u>(1,973,383)</u>
General Revenues:					
					1,911,743
					321,816
					7,384
					<u>20,982</u>
					<u>2,261,925</u>
CHANGE IN NET POSITION					288,542
NET POSITION - JULY 1, 2015					<u>2,379,151</u>
NET POSITION - JUNE 30, 2016					<u>\$ 2,667,693</u>

The accompanying notes are an integral part of this financial statement.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

EXHIBIT C

BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>
ASSETS	
Cash (Note 2)	\$ 12,267
Due from other governments	<u>1,105,000</u>
	<u>\$ 1,117,267</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES	
Accounts payable	<u>\$ 19,822</u>
 FUND BALANCES	
Unrestricted:	
Assigned for future expenditures	924,065
Unassigned	<u>173,380</u>
	<u>1,097,445</u>
	<u>\$ 1,117,267</u>

The accompanying notes are an integral part of this financial statement.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

EXHIBIT D

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General <u>Fund</u>
REVENUES	
Property tax	\$ 1,911,743
Excise tax	321,816
Local road assistance	74,248
Interest income	7,384
Other revenues	<u>20,982</u>
	<u>2,336,173</u>
EXPENDITURES	
County tax	695,604
Roads	124,507
Public works	92,878
Public safety	63,605
Snow removal	365,175
Solid waste disposal	119,710
Fire protection	145,243
Ambulance services	32,873
Administration	73,344
Capital outlays	170,181
Other	<u>94,010</u>
	<u>1,977,130</u>
EXCESS OF REVENUES OVER EXPENDITURES	359,043
FUND BALANCE - JULY 1, 2015	<u>738,402</u>
FUND BALANCE - JUNE 30, 2016	<u>\$ 1,097,445</u>

The accompanying notes are an integral part of this financial statement.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

EXHIBIT E

RECONCILIATION OF FUND BALANCE IN GOVERNMENTAL FUNDS TO NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

Fund balance in governmental funds (Exhibit C)		\$1,097,445
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Capital assets	\$ 2,227,852	
Accumulated depreciation	<u>(657,604)</u>	
		<u>1,570,248</u>
Net position (Exhibit A)		<u>\$ 2,667,693</u>

The accompanying notes are an integral part of this financial statement.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE
RECONCILIATION OF CHANGE IN FUND BALANCE IN GOVERNMENTAL FUNDS
TO CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

EXHIBIT F

Net change in fund balance - total governmental funds (Exhibit D)	<u>\$ 359,043</u>
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Depreciation expense	<u>(70,501)</u>
Change in net position of governmental activities (Exhibit B)	<u>\$ 288,542</u>

The accompanying notes are an integral part of this financial statement.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Unorganized Territories of the County of Aroostook, Maine provides various services to the Territories' residents. The Territories operate under the Manager/Board of Commissioners form of government. The Territories' major operations include the maintenance of roads and fire protection.

The accounting and reporting policies of the Unorganized Territories relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Government Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Government Units*. The Territories' significant accounting policies are described below.

These basic financial statements include the accounts of all of the Unorganized Territories. The criteria for including organizations as component units within the Unorganized Territories' reporting entity as set forth by GASB have been considered. It has been determined that the Unorganized Territories have no component units for inclusion in these financial statements.

Basis of Presentation

The Territories basic financial statements include both government-wide (reporting the Territories as a whole) and fund financial statements (reporting the Unorganized Territories major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. The Territories do not have any activities classified as business-type activities.

Government-Wide Statements and Measurement Focus

In the government-wide Statement of Net Position the governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Territories' net position is reported in three parts - net investment in capital assets, restricted net position and unrestricted net position. The unrestricted net position includes those assigned by the Territories for subsequent years' expenditures, since they are considered available for use, and those that are unassigned.

The government-wide Statement of Activities reports both the gross and net cost of each of the Territories' functions (roads, public works, public safety, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or department. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs by department are normally covered by general revenue (property and excise taxes). The government-wide focus is on the sustainability of the Territories as an entity and the change in the Territories' net position resulting from the current year's activities. The Territories do not allocate indirect costs.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements and Measurement Focus

The financial transactions of the Territories are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The various funds are reported by generic classification within the financial statements.

All governmental funds are accounted for using a flow of current financial resources measurement focus. Under this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources and uses of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. For this reason, a reconciliation is presented with brief explanations to identify the differences between the two sets of financial statements.

The emphasis in fund financial statements is on the major funds. GASB standards set forth minimum criteria based on the size of the funds for the determination of major funds. The Territories management may also designate additional funds as major funds. Each major fund is presented in a separate column in the financial statements. The nonmajor funds are combined in a column in the fund financial statements.

The Unorganized Territories reports the following major governmental fund:

The *General Fund* is the general operating fund of the Territories. It is used to account for all financial resources except those required to be accounted for in another fund.

Formal budgetary accounting is employed as a management control for the General Fund of the Territories. Annual operating budgets are adopted by the Finance Committee of the Board of Commissioners. In accordance with generally accepted accounting principles, these budgets use the same accounting method to reflect actual revenues and expenditures. Budgetary control is exercised at the departmental level or by project. All unencumbered budget appropriations, except project budgets, lapse at the end of each fiscal year.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is used where purchase orders, contracts and other commitments for the expenditure of resources are recorded to ensure that that portion of fund balance is utilized for its intended purpose. In the general fund, for budgetary purposes, appropriations lapse at fiscal year-end except for that portion related to encumbered amounts. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The term "basis of accounting" refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. This differs from measurement focus in that it refers to the timing of recognition. Measurement focus refers to what is being measured and included in the financial statements.

The governmental activities in the government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting.

The governmental funds financial statements are presented on the modified accrual basis of accounting. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recognized when the exchange takes place (accrual basis). Under the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Territories, available means expected to be received within 60 days of fiscal year-end.

Nonexchange transactions, in that the Territories receive value without directly giving equal value in return, include property taxes, grants, entitlements and donations. The State of Maine levies property and excise taxes and remits them to the Territories on a quarterly basis throughout the year. Property taxes, excise taxes and state assistance are recognized when received in cash. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Territories must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Territories on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions is considered to be available since it has already been received.

Financial Statement Amounts

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Following is a summary of significant accounting principles used by the Territories.

Cash and Temporary Investments

Available cash is deposited into interest-bearing accounts to as great a degree as possible. These residual investments are classified for reporting purposes as cash and temporary investments. Earnings from these investments are reported by the applicable funds. The Territories' policy is to invest in local banks and to insure the funds to as great a degree as possible.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Initial acquisitions of equipment purchased or acquired with an original cost of \$500 or more are reported at actual or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized if they exceed \$5,000. Infrastructure assets are capitalized if their value exceeds \$50,000. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives of 5 to 10 years for vehicles and equipment, 20 to 40 years for buildings and improvements. Due to the Unorganized Territories' size it has elected not to report infrastructure prior to January 31, 2004.

Net Position

Net position represents the difference between assets, liabilities and deferred inflows and outflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use either through the enabling legislation adopted by the Territories or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Balance Classifications

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted Fund Balance

The Unorganized Territories' restricted fund balance includes amounts that can only be used for specific purposes. The Territories do not currently have any restricted balances.

Unrestricted - Committed

The Territories' board of commissioners has the authority to commit fund balance amounts for specific purposes. Board approval is also required to modify or rescind a commitment of fund balance. The Territories do not currently have any committed balances.

Unrestricted - Assigned

The Territories' Administrator has the authority to assign fund balance amounts for specific purposes. Management approval is also needed to modify or rescind an assignment of fund balance.

Unassigned

The Unorganized Territories' unassigned fund balances includes amounts that have not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

When restricted and other fund balances resources are available for use, it is the Territories' policy to use restricted resources first, followed by committed, assigned, and unassigned amounts, respectively. The Unorganized Territories do not currently have a minimum fund balance policy.

(2) CASH AND TEMPORARY INVESTMENTS

Deposits with financial institutions are subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Territories' deposits may be lost. As of June 30, 2016, the Territories' deposits with financial institutions of \$188,136 were fully insured or collateralized with government securities held in the Territories' name.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

(3) RELATED PARTY TRANSACTIONS

The Unorganized Territories are related to Aroostook County, Maine through a Board of Commissioners and common management. The County oversees the day to day operations, maintenance of roads and bridges, snow removal and other needs of the residents of the Unorganized Territories. For these services, the Unorganized Territories paid the County an annual administration fee of \$73,344 for the year ended June 30, 2016.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Disposals</u>	Balance June 30, <u>2016</u>
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ <u>74,900</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>74,900</u>
Depreciable assets:				
Land improvements	4,755	-	-	4,755
Building and improvements	253,599	-	-	253,599
Vehicles	287,533	-	-	287,533
Equipment	269,166	-	-	269,166
Infrastructure	<u>1,337,899</u>	<u>-</u>	<u>-</u>	<u>1,337,899</u>
	<u>2,152,952</u>	<u>-</u>	<u>-</u>	<u>2,152,952</u>
Less accumulated depreciation for:				
Land improvements	1,586	159	-	1,745
Building and improvements	80,156	5,560	-	85,716
Vehicles	163,436	14,947	-	178,383
Equipment	132,960	16,387	-	149,347
Infrastructure	<u>208,965</u>	<u>33,448</u>	<u>-</u>	<u>242,413</u>
	<u>587,103</u>	<u>70,501</u>	<u>-</u>	<u>657,604</u>
 Total Capital Assets	 <u>\$1,640,749</u>	 <u>\$(70,501)</u>	 <u>\$ -</u>	 <u>\$1,570,248</u>

Depreciation expense was charged to functions in the Statement of Activities as follows:

<u>Governmental Activities</u>	
Roads	\$33,448
Fire Protection	26,694
Other	<u>10,359</u>
	<u>\$70,501</u>

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2016

(5) COMMITMENTS AND CONTINGENCIES

The Unorganized Territories are exposed to various risks of loss related to torts; theft or damages to assets for which it carries commercial insurance. Settled claims, if any, resulting from these risks have not significantly exceeded commercial insurance coverage.

The Unorganized Territories is the recipient of various grants which are subject to review and/or compliance audits by various authorities. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. In the opinion of management, there are no such amounts that will be disallowed as of June 30, 2016.

(6) SUBSEQUENT EVENTS

Management has reviewed subsequent events through September 1, 2016, the date that these financial statements were available to be issued and determined that no additional adjustments or disclosures are required in order for these financial statements to be fairly stated.

UNORGANIZED TERRITORIES OF THE COUNTY OF AROOSTOOK, MAINE

SCHEDULE 1

BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<u>Resources (Inflows)</u>				
Property tax	\$ 1,911,743	\$ 1,911,743	\$ 1,911,743	\$ -
Excise tax	240,000	240,000	321,816	81,816
Local road assistance	59,076	59,076	74,248	15,172
Interest income	4,000	4,000	7,384	3,384
Other revenues	<u>21,000</u>	<u>21,000</u>	<u>20,982</u>	<u>(18)</u>
Amounts available for appropriation	<u>2,235,819</u>	<u>2,235,819</u>	<u>2,336,173</u>	<u>100,354</u>
<u>Charges to appropriations (Outflows)</u>				
County tax	695,604	695,604	695,604	-
Roads	160,000	160,000	124,507	35,493
Public works	95,787	95,787	92,878	2,909
Public safety	64,932	64,932	63,605	1,327
Snow removal	376,574	376,574	365,175	11,399
Solid waste disposal	131,583	131,583	119,710	11,873
Fire protection	149,145	149,145	145,243	3,902
Ambulance services	40,976	40,976	32,873	8,103
Administration	73,344	73,344	73,344	-
Capital outlays	349,000	349,000	170,181	178,819
Other	<u>98,874</u>	<u>98,874</u>	<u>94,010</u>	<u>4,864</u>
Total charges to appropriations	<u>2,235,819</u>	<u>2,235,819</u>	<u>1,977,130</u>	<u>258,689</u>
Excess of resources over charges to appropriations	<u>\$ -</u>	<u>\$ -</u>	359,043	<u>\$ 359,043</u>
FUND BALANCE - JULY 1, 2015			<u>738,402</u>	
FUND BALANCE - JUNE 30, 2016			<u>\$ 1,097,445</u>	

FELCH & COMPANY, LLC

Certified Public Accountants

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

To the Board of Commissioners of the
Unorganized Territories of the County of Aroostook, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Unorganized Territories of the County of Aroostook, Maine as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Unorganized Territories' basic financial statements, and have issued our report thereon dated September 1, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

The size of the Territories imposes practical limitations on the establishment of those internal control structure policies and procedures that depend on segregation of duties. One individual signs checks and is also responsible to record journal entries and reconcile the bank account. Failure to segregate these duties could lead to unintentional errors in cash or the misuse of cash without being detected in the normal course of business.

To the Board of Commissioners of the
Unorganized Territories of the County of Aroostook, Maine

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Unorganized Territories financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Unorganized Territories Response to Findings

The Territories' response to the above-mentioned finding is that management has segregated duties to the extent it considers feasible for the size of its office staff. It has also implemented various compensating controls in order to minimize its risk. The Unorganized Territories' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Felch & Company LLC

Caribou, Maine
September 1, 2016