

2017

Fort Fairfield Maine Annual Town Report Audit 2017

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TOWN OF FORT FAIRFIELD, MAINE

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Independent Auditors' Report

To the Town Council of the
Town of Fort Fairfield, 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 Town of Fort Fairfield, Maine as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Town's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fort Fairfield, Maine, as of June 30, 2017, 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, budgetary information and public pension information on Pages I through IV and Schedules 1 through 4 and related notes, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Fort Fairfield, Maine's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of fund balance assigned for subsequent years' expenditures, schedule of revenues, expenditures and changes in fund balance for non-major governmental funds and the schedule of property taxes are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of fund balance assigned for subsequent years' expenditures, schedule of revenues, expenditures and changes in fund balance for non-major funds and the schedule of property taxes are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Town Council of the
Town of Fort Fairfield, Maine

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2017, on our consideration of the Town of Fort Fairfield, Maine's 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 the 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 the Town of Fort Fairfield, Maine's internal control over financial reporting and compliance.

Felch & Company LLC

September 7, 2017

Town of Fort Fairfield, Maine
Management's Discussion and Analysis
For the Year Ending June 30, 2017

UNAUDITED

The following narrative is an overview of the Town of Fort Fairfield's financial performance designed to assist the reader in focusing on only the major financial issues. This discussion and analysis should be read together with the attached financial statements and related notes.

USING THIS ANNUAL REPORT

The basic financial statements are presented in two formats. Each of these formats presents information by a different measurement focus. The first of these formats is referred to as government-wide, which presents the Town as a whole and presents a longer-term view of the Town's finances. The second format uses fund accounting and the focus is on current resources that are available for current obligations.

Reporting the Town as a Whole

The government-wide statements are designed to present the Town 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 Town's 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 property taxes and state revenue sharing. 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 is on "major funds" which presents a separate column for only the most significant funds of the Town with the other funds being combined in one column. These statements (Exhibits C and D) present the Town's 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.

The Town as Trustee

The Town is the trustee for its employees' deferred compensation plan. The assets of the plan belong to the Town's employees and have been excluded from the financial statements described above. The financial position and activities of the deferred compensation plan are reported in a separate Statement of Fiduciary Net Position and Changes in Fiduciary Net Position as Exhibits G and H.

Town of Fort Fairfield, Maine
Management's Discussion and Analysis
For the Year Ending June 30, 2017

UNAUDITED

Table 1
Net Position
(in thousands)

	<u>2017</u>	<u>2016</u>
Current and other assets	\$1,619	\$1,351
Capital assets	<u>6,206</u>	<u>6,544</u>
Total assets	<u>7,825</u>	<u>7,895</u>
Deferred outflows of resources	<u>124</u>	<u>70</u>
Other liabilities	426	298
Bonds payable	<u>800</u>	<u>900</u>
Total liabilities	<u>1,226</u>	<u>1,198</u>
Deferred inflows of resources	<u>52</u>	<u>71</u>
Net position:		
Net investment in capital assets	5,406	5,644
Restricted	117	87
Unrestricted	<u>1,148</u>	<u>965</u>
Total net position	<u>\$6,671</u>	<u>\$6,696</u>

Town of Fort Fairfield, Maine
Management's Discussion and Analysis
For the Year Ending June 30, 2017

UNAUDITED

Table 2		
Changes in Net Position		
(in thousands)		
	<u>2017</u>	<u>2016</u>
Revenues		
Program revenues:		
Charges for services	\$ 69	\$ 15
Operating grants	143	122
General revenues:		
Property taxes	3,850	3,872
Other taxes	611	594
Federal and state assistance	221	226
Other revenues	<u>283</u>	<u>267</u>
Total revenues	<u>5,177</u>	<u>5,096</u>
Program expenses		
General government	533	490
Police	354	356
Fire	125	123
Safety and sanitation	288	238
Public works	1,062	1,006
Recreation	152	153
Education	2,087	2,047
Other	<u>601</u>	<u>642</u>
Total expenses	<u>5,202</u>	<u>5,055</u>
Change in net position	\$ <u>(25)</u>	\$ <u>41</u>

ANALYSIS OF FINANCIAL POSITION AND SIGNIFICANT TRANSACTIONS

In reviewing this year's financial position, the Town of Fort Fairfield's net position decreased from \$6,695,581 to \$6,670,779.

For this fiscal year our budget surplus of \$305,518 (Schedule 1) will be utilized to offset decreased revenues from the State to help balance the budget for fiscal year 2017/2018 and rebuild our capital improvement accounts. This will enable us to continue to provide the services that citizens require and properly maintain our vehicles, equipment and properties.

Town of Fort Fairfield, Maine
Management's Discussion and Analysis
For the Year Ending June 30, 2017

UNAUDITED

CAPITAL ASSETS

Capital assets decreased \$337,247 during the year. Additions of \$63,602 were offset by depreciation charges of \$365,604 and net disposals of \$35,245. Please refer to the notes to the financial statements for more information.

LONG-TERM DEBT ACTIVITY

During the year, the Town made debt payments totaling \$100,000. Refer to the notes to the financial statements for more detailed information.

GENERAL FUND BUDGETARY HIGHLIGHTS

Income for this fiscal year was \$5,134,273, which is \$43,820 over the budgeted amount. Total expenses were \$4,779,433, which were \$261,698 under budget resulting from savings in a number of our Departments. It is our goal to provide expected services while constantly working to minimize expenses regardless of budget authorization. The Department Heads have worked extremely hard to reduce their overall costs in a very restrictive fiscal environment.

FINANCIAL CONTACT

The individual to be contacted regarding this report is the Town Manager of the Town of Fort Fairfield. Specific requests may be submitted to the Town Manager, Town of Fort Fairfield at 18 Community Center Drive, Fort Fairfield, Maine 04742.

TOWN OF FORT FAIRFIELD, MAINE

Exhibit A

Statement of Net Position
June 30, 2017

<u>ASSETS</u>	
CURRENT ASSETS	
Cash and temporary investments (Note 2)	\$1,073,407
Short-term investments	77,857
Uncollected taxes, net of allowance for uncollectable taxes of \$1,844	363,518
Due from governmental agencies	42,588
Accounts receivable	2,376
	<u>1,559,746</u>
OTHER ASSETS	
Loans receivable (Note 3)	34,797
Expired tax lien property	23,392
	<u>58,189</u>
NONCURRENT ASSETS	
Capital assets (Note 4)	
Non-depreciable	110,779
Depreciable, net	6,095,611
	<u>6,206,390</u>
Total assets	<u>7,824,325</u>
DEFERRED OUTFLOWS OF RESOURCES (Note 1)	<u>124,191</u>
<u>LIABILITIES</u>	
CURRENT LIABILITIES	
Accounts payable	35,798
Accrued expenses	33,711
Current portion, compensated absences	30,000
Current portion, bonds payable	100,000
	<u>199,509</u>
NONCURRENT LIABILITIES	
Bonds payable, net of current portion (Note 7)	700,000
Compensated absences, net of current portion	104,568
Net pension liability (Note 8)	222,022
	<u>1,026,590</u>
Total liabilities	<u>1,226,099</u>
DEFERRED INFLOWS OF RESOURCES (Note 1)	<u>51,638</u>
<u>NET POSITION</u>	
Net investment in capital assets	5,406,390
Restricted for:	
Special revenue funds	117,198
Unrestricted	1,147,191
	<u>8,670,779</u>
Total net position	<u>\$6,670,779</u>

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

TOWN OF FORT FAIRFIELD, MAINE

Exhibit B

Statement of Activities
For the Year Ended June 30, 2017

<u>Function/Programs</u>	<u>Program Revenues</u>			<u>Net (Cost)</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
General government	\$ 533,085	\$ 12,223	\$ -	\$ (520,862)
Library	58,497	1,500	500	(56,497)
Police Department	353,752	1,344	2,500	(349,908)
Community Center	49,644	-	-	(49,644)
Fire Department	125,075	50,876	25,000	(49,199)
Safety and sanitation	288,079	-	-	(288,079)
Public Works Department	1,061,656	-	91,760	(969,896)
Recreation	151,859	3,376	-	(148,483)
Education	2,086,564	-	-	(2,086,564)
Interest expense	28,632	-	-	(28,632)
Unallocated depreciation	29,079	-	-	(29,079)
Other	435,534	-	22,756	(412,778)
	<u>\$5,201,456</u>	<u>\$ 69,319</u>	<u>\$ 142,516</u>	<u>(4,989,621)</u>
General revenues:				
Taxes				
Property taxes, levied for general purposes				3,641,931
Homestead reimbursement and other property tax related				208,320
Excise				611,288
Federal and state aid not restricted to specific purposes				220,811
Other licenses, permits and fees				25,287
Miscellaneous revenues				257,182
Subtotal, general revenues				<u>4,964,819</u>
CHANGE IN NET POSITION				(24,802)
NET POSITION - JULY 1, 2016				<u>6,695,581</u>
NET POSITION - JUNE 30, 2017				<u>\$ 6,670,779</u>

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

TOWN OF FORT FAIRFIELD, MAINE

Exhibit C

Balance Sheet
Governmental Funds
As of June 30, 2017

	<u>General Fund</u>	<u>Non-major Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and temporary investments (Note 2)	\$1,034,066	\$ 39,341	\$ 1,073,407
Short-term investments	-	77,857	77,857
Uncollected taxes, net of allowance for uncollectable taxes of \$1,844	363,518	-	363,518
Due from governmental agencies	42,588	-	42,588
Accounts receivable	2,376	-	2,376
Loans receivable (Note 3)	34,797	-	34,797
Due from other funds	26,854	-	26,854
Expired tax lien property	23,392	-	23,392
	<u>\$1,527,591</u>	<u>\$ 117,198</u>	<u>\$ 1,644,789</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 35,798	\$ -	\$ 35,798
Accrued expenses	28,272	-	28,272
Due to other funds	-	26,854	26,854
	<u>64,070</u>	<u>26,854</u>	<u>90,924</u>
 Deferred inflow of resources:			
Property taxes	241,000	-	241,000
 Fund balances:			
Restricted			
Special revenue funds	-	117,198	117,198
Unrestricted			
Assigned for subsequent years' expenditures (Schedule 5)	711,826	-	711,826
Unassigned	510,695	(26,854)	483,841
	<u>1,222,521</u>	<u>90,344</u>	<u>1,312,865</u>
Total fund balances	<u>1,222,521</u>	<u>90,344</u>	<u>1,312,865</u>
 Total liabilities and fund balances	 <u>\$1,527,591</u>	 <u>\$ 117,198</u>	 <u>\$ 1,644,789</u>

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

TOWN OF FORT FAIRFIELD, MAINE

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Non-major Funds (Schedule 6)</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes			
Commitment	\$3,637,548	\$ -	\$ 3,637,548
Property tax reimbursement from State	208,320	-	208,320
Abatements	(617)	-	(617)
Federal and state assistance	313,417	49,910	363,327
Excise taxes	611,288	-	611,288
Other licenses, permits, and fees	25,287	-	25,287
Interest income	21,758	86	21,844
Other revenues	<u>331,095</u>	<u>8,807</u>	<u>339,902</u>
TOTAL REVENUES	<u>5,148,096</u>	<u>58,803</u>	<u>5,206,899</u>
EXPENDITURES			
General government	487,240	-	487,240
Library	54,370	-	54,370
Police Department	319,830	-	319,830
Community Center	41,116	-	41,116
Fire Department	100,765	-	100,765
Safety and sanitation	288,079	-	288,079
Public Works Department	873,965	-	873,965
Recreation	137,588	-	137,588
Education	2,086,564	-	2,086,564
Debt service - principal	100,000	-	100,000
- interest	29,210	-	29,210
Other	<u>406,997</u>	<u>28,537</u>	<u>435,534</u>
TOTAL EXPENDITURES	<u>4,925,724</u>	<u>28,537</u>	<u>4,954,261</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>222,372</u>	<u>30,266</u>	<u>252,638</u>
NET INCREASE IN FUND BALANCE	222,372	30,266	252,638
FUND BALANCE - JULY 1, 2016	<u>1,000,149</u>	<u>60,078</u>	<u>1,060,227</u>
FUND BALANCE - JUNE 30, 2017	<u>\$1,222,521</u>	<u>\$ 90,344</u>	<u>\$ 1,312,865</u>

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

TOWN OF FORT FAIRFIELD, MAINE

Exhibit E

Reconciliation of the Fund Balance in Governmental Funds
with the Statement of Net Position
June 30, 2017

Total fund balance - governmental funds (Exhibit C)		\$ 1,312,865
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 as assets in governmental funds:		
The cost of capital assets is	\$10,213,002	
Accumulated depreciation is	<u>(4,006,612)</u>	
		6,206,390
Deferred outflows in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Deferred outflows of resources		124,191
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds:		
Deferred revenue		241,000
Deferred inflows in governmental activities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Deferred inflow of resources		(51,638)
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Bonds payable	(800,000)	
Net pension liability	(222,022)	
Accrued compensated absences	(134,568)	
Accrued interest payable	<u>(5,439)</u>	
		<u>(1,162,029)</u>
Total net position - governmental activities (Exhibit A)		<u>\$ 6,670,779</u>

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

TOWN OF FORT FAIRFIELD, MAINE

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance in Governmental Funds to Change in Net Position
For the Year Ended June 30, 2017

Total net change in fund balances - governmental funds (Exhibit D) \$252,638

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities:

Capital outlays	\$ 63,602	
Depreciation expense	<u>(365,604)</u>	(302,002)

In the statement of activities, only the gain on the sale of fixed assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. Therefore, the change in net assets differs from the change in fund balance by the depreciated value of assets sold. (35,245)

Compensation for accrued vacation and sick pay not yet paid is accumulated using the governmental activities fund to the extent that amounts would be paid to the employees upon retirement. These funds are not accumulated for the governmental activities fund. (23,185)

Some revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds:

Increase in deferred property tax revenue		5,000
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 100,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Decrease in accrued interest payable	578	
(Increase) in deferred pension liability	(96,155)	
Change in deferred inflows/outflows of resources	<u>73,569</u>	(22,008)

Change in net position of governmental activities (Exhibit B) \$ (24,802)

TOWN OF FORT FAIRFIELD, MAINE

Exhibit G

Statement of Fiduciary Net Position
June 30, 2017

Employee
Deferred
Comp Fund

ASSETS

Marketable securities

\$1,075,331

LIABILITIES

-

NET POSITION

Undesignated

\$1,075,331

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

TOWN OF FORT FAIRFIELD, MAINE

Exhibit H

Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

Employee
Deferred
Comp Fund

ADDITIONS	
Contributions	
Employer	\$ 33,813
Employee	56,524
Unrealized gain	<u>98,135</u>
Total additions	<u>188,472</u>
DEDUCTIONS	
Distributions	<u>46,576</u>
NET CHANGE IN NET POSITION	141,896
NET POSITION - JULY 1	<u>933,435</u>
CASH AND NET POSITION - JUNE 30	<u>\$1,075,331</u>

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

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements

June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Fort Fairfield, Maine operates under the Council/Manager form of government. The Council consists of 5 members elected by the voters with individual terms of three years.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Following is a summary of significant accounting principles used by the Town.

Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Town of Fort Fairfield classifies all of its activities as governmental activities.

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 Town's 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 designated by the Town for subsequent year's expenditures and those that are undesignated.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions (police, fire, public works, etc.). The functions are also supported by general government revenues (property and excise taxes, state revenue sharing, 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, state revenue sharing, etc.). The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net position resulting from the current year's activities. The Town does not allocate indirect costs. The effect of significant interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements

The financial transactions of the Town 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 comprises its assets, liabilities, reserves, 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. With 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 (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements
June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The emphasis in fund financial statements is on the major funds in the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB standards set forth minimum criteria based on the size of the funds for the determination of major funds. Town management may also designate additional funds as major funds. The nonmajor funds are combined in a column in the fund financial statements.

The following funds are reported as major by the Town:

Governmental Funds

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

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support Town programs. The reporting focus is on net position and changes in net position and are reported using the accrual basis of accounting.

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (pension and agency). Since these assets are held for the benefit of a third party and may not be used to fund activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Formal budgetary accounting is employed as a management control for all funds of the Town. Annual operating budgets are adopted each year through passage of an annual budget ordinance and amended as required for the General Fund. In accordance with generally accepted accounting principles, these budgets use the same accounting basis 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 insure 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 committed or assigned fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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.

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements
June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. 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.

Financial Statement Amounts

Cash and Temporary Investments

Available cash is deposited in 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 Town's policy is to invest in regional banks and federal securities and to insure the funds to as great a degree as possible. Deposits with a maturity of three months or less are included in cash and temporary investments for financial reporting purposes.

Marketable Securities

The Town has implemented GASB Statement No. 72, Fair Value Measurement and Application, effective for periods beginning after June 15, 2015, which requires certain assets and liabilities to be reported at fair value.

The marketable securities investments measured and reported at fair value are classified according to the following hierarchy:

Level 1 – Investments reflect prices quoted in active markets.

Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3 – Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Debt, equities, and investment derivatives classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements

June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Amounts (Continued)

Property Taxes

Taxes are levied as of April 1, and are used to finance the operations of the Town for the budget year beginning July 1. Taxes are committed for collection on October 1 and are due and payable on or before February 28. In accordance with Maine law, taxes not collected within eight months following the date of commitment are secured by liens. Property tax revenues are recognized when they become available. Availability includes those property tax receivables expected to be collected within sixty days after year-end. This policy is believed to be in conformity with the policy of other local governments in Maine.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 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. 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 10 to 22 years for trucks and equipment, 20 to 50 years for buildings and improvements and 15 to 20 years for infrastructure.

The Town has elected not to report infrastructure prior to June 30, 2003.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report a separate section for deferred outflows of resources. This represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources until then. The Town currently reports only a pension-related item as deferred outflows of resources. In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources until then. The Town currently reports only a pension-related item as deferred inflows of resources in the statement of net position. The Town also reports deferred property taxes as deferred inflows on the fund balance sheet.

Accounts Payable, Accrued Expenses and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

Compensated Absences

Town employees are entitled to certain compensated absences based on their length of employment and their department's individual contract negotiated with the Town. Administration and all other employees not under a departmental contract receive one to four weeks of vacation depending on length of employment and 96 hours of sick leave per year. Unused vacation and sick pay are accumulated at the employees' current rate of pay and is included as a liability in the government-wide financial statements.

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements
June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Amounts (Continued)

Net Position

Net position represents the difference between assets and liabilities. Net position 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 Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Fund Balances

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

Restricted Fund Balance

The Town of Fort Fairfield's restricted fund balance includes amounts that can only be used for specific purposes and includes grant funds and certain donations.

Unrestricted Committed Fund Balance

The Town of Fort Fairfield's Town Council has the authority to commit fund balance amounts for specific purposes. This includes the amounts reserved for subsequent years' expenditures. Town Council approval is also required to modify or rescind a commitment of fund balance.

Unrestricted Assigned Fund Balance

The Town of Fort Fairfield's assigned fund balance includes amounts the Town intends to use for specific purposes but is neither restricted nor committed. The Town Council has authority to assign fund balance.

Unrestricted Unassigned Fund Balance

The Town of Fort Fairfield's unassigned fund balance 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 Town's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts, respectively.

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.

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements
June 30, 2017

(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 Town's deposits may be lost. The Town's investment policy is to invest in regional banks and federal securities and to insure the funds to as great a degree as possible.

As of June 30, 2017, the Town's deposits of \$1,214,032 were fully insured.

(3) LOANS RECEIVABLE

The Town operates various revolving loan funds for business development and housing rehabilitation purposes. The business development loans are receivable in monthly payments of principal and interest at rates ranging from 3% to 6.5%. These loans mature at various dates. The housing rehabilitation loans are also receivable in monthly payments of principal and interest at rates ranging from 0% to 5%. These loans mature at various dates through 2021.

(4) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, <u>2016</u>	<u>Additions</u>	<u>Disposals</u>	Balance June 30, <u>2017</u>
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ <u>110,779</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>110,779</u>
Other capital assets:				
Buildings	5,276,435	10,976	46,820	5,240,591
Land improvements	525,420	-	-	525,420
Equipment	1,328,572	18,000	17,300	1,329,272
Vehicles	875,948	11,500	22,681	864,767
Infrastructure	<u>2,119,047</u>	<u>23,126</u>	<u>-</u>	<u>2,142,173</u>
	<u>10,125,422</u>	<u>63,602</u>	<u>86,801</u>	<u>10,102,223</u>
Less accumulated depreciation for:				
Buildings	1,108,488	92,659	25,751	1,175,396
Land improvements	122,345	14,944	-	137,289
Equipment	1,028,183	36,215	17,300	1,047,098
Vehicles	353,528	48,821	8,505	393,844
Infrastructure	<u>1,080,020</u>	<u>172,965</u>	<u>-</u>	<u>1,252,985</u>
	<u>3,692,564</u>	<u>365,604</u>	<u>51,556</u>	<u>4,006,612</u>
Governmental activities capital assets, net	\$ <u>6,543,637</u>	\$(<u>302,002</u>)	\$ <u>35,245</u>	\$ <u>6,206,390</u>

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements
June 30, 2017

(4) CAPITAL ASSETS (Continued)

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

Governmental Activities	
General government	\$ 33,636
Library	4,127
Police Department	11,336
Fire Department	35,810
Public Works Department	228,817
Recreation	14,271
Community center	8,528
Unallocated depreciation	<u>29,079</u>
	<u>\$365,604</u>

(5) SHORT-TERM DEBT

During the year, the Town issued a tax anticipation note to assist with cash flow needs until property taxes could be collected. During November \$100,000 was borrowed and repaid in January 2017.

(6) COMMITMENTS AND CONTINGENCIES

The Town is liable for its proportionate share of any defaulted debt issued by entities of which it is a member. The overlapping bonded debt applicable to the Town as of June 30, 2017, consisted of the following:

<u>Entity</u>	<u>Share of Bonded Debt</u>
M.S.A.D. #20	\$1,493,246
Tri-Community Recycling and Sanitary Landfill	See Note 9

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements
June 30, 2017

(7) LONG-TERM DEBT

As of June 30, 2017, long-term debt consisted of the following:

Variable rate bond payable in annual principal installments of \$50,000 through May 2027 with interest due semi-annually. Interest on the bond ranges from 1% to 6%.	\$500,000
Variable rate bond payable in annual principal installments of \$50,000 through May 2022 with interest due semi-annually. Interest on the bond ranges from .86% to 2.68%.	<u>300,000</u>
	<u>\$800,000</u>

Long-term debt activity during the year ended June 30, 2017, was as follows:

	Balance July 1, <u>2016</u>	Addi- tions	Reduc- tions	Balance June 30, <u>2017</u>	Due Within <u>One Year</u>
<u>Governmental Activities</u>					
Bonds Payable:					
Capital improvement bond	\$ 550,000	\$ -	\$ 50,000	\$500,000	\$ 50,000
Capital improvement bond	350,000	-	50,000	300,000	50,000
Other Liabilities:					
Compensated absences	<u>111,383</u>	<u>30,181</u>	<u>6,996</u>	<u>134,568</u>	<u>30,000</u>
	<u>\$1,011,383</u>	<u>\$30,181</u>	<u>\$106,996</u>	<u>\$934,568</u>	<u>\$130,000</u>

As of June 30, 2017, the capital improvement bonds mature as follows:

Year Ending <u>June 30.</u>	<u>Principal</u>	<u>Interest</u>
2018	\$100,000	\$ 25,442
2019	100,000	21,567
2020	100,000	17,798
2021	100,000	15,700
2022	100,000	12,525
2023-2027	<u>300,000</u>	<u>17,591</u>
	<u>\$800,000</u>	<u>\$110,623</u>

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements
June 30, 2017

(8) EMPLOYEES' RETIREMENT PLANS

MAINEPERS

Plan Description

The Town contributes to the Maine Public Employees Retirement System (MainePERS) which is a multiple-employer cost sharing defined benefit pension plan as a Participating Local District (PLD). Eligible employers (districts) are defined in Maine statute. As of June 30, 2016 there were 283 employers in the plan. As of June 30, 2016 the Town had 5 employees enrolled in the plan.

Pension Benefits

Benefit terms are established in Maine statute and an advisory group, also established by statute, reviews the terms of the plan and periodically makes recommendations to the Legislature to amend the terms. The plan provides defined benefits based on members' average final compensation and service credit earned as of retirement. Vesting occurs upon the earning of five years of service credit. For PLD members, normal retirement age is 60 (if the member participated in the plan on or before June 30, 2014) or 65 (for members added to the plan beginning July 1, 2014). Members are eligible for retirement after twenty-five years of service; or upon reaching normal retirement age of 60 or 65, whether or not they are in service, provided they are vested with 5 or 10 years of service, whichever applies to them; or upon reaching their normal retirement age of 60 or 65, provided they have been in service for at least one year immediately prior to retirement. The monthly benefit of members who retire before normal retirement age by having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below the normal retirement age at retirement. MainePERS also provides disability and death benefits which are established by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest (annual rate is currently 5%), credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights.

Retirement benefits are funded by contributions from members and employers and by earnings on investments. Disability and death benefits are funded by employer normal cost contributions and by investment earnings. Member and employer contribution rates are each a percentage of applicable member compensation. Member contribution rates are defined by law or Board rule. The Town's participants contributed 7.5% of their wages to the plan for the fiscal year ended June 30, 2016. The Town's contribution rate is determined through actuarial valuations.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

At June 30, 2017, the Town reported a liability of \$222,022 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the Town's proportion was .04, which was no change from its proportion as measured as of June 30, 2015.

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements
June 30, 2017

(8) EMPLOYEES' RETIREMENT PLANS (Continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources (Continued)

For the year ended June 30, 2017, the Town recognized pension expense of \$42,195. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual results	\$ 2,692	\$14,280
Net difference between projected and actual investment earnings on pension plan investments	82,043	34,146
Changes of assumptions	23,802	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>15,654</u>	<u>3,212</u>
Total	<u>\$124,191</u>	<u>\$51,638</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending <u>June 30,</u>	<u>Amounts</u>
2017	\$15,032
2018	15,347
2019	29,377
2020	12,797

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	2.75% to 9.0% per year
Inflation rate	2.75%
Investment rate of return	6.875% per annum, compounded annually
Cost of living benefit increases	2.55%

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements

June 30, 2017

(8) EMPLOYEES' RETIREMENT PLANS (Continued)

Actuarial Assumptions (Continued)

Mortality rates were based on the RP2014 Total Dataset Healthy Annuitant Mortality Tables for males and females. For recipients of disability benefits, the RP2014 Total Dataset Disabled Annuitant Mortality Table for males and females was used.

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table. Assets for each of the defined benefits plan are commingled for investment purposes.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equities	20%	5.7%
Non-US Equities	20%	5.5%
Private Equity	10%	7.6%
Real Assets:		
Real Estate	10%	5.2%
Infrastructure	10%	5.3%
Hard Assets	5%	5.0%
Fixed Income	25%	2.9%

Discount Rate

The discount rate used to measure the collective pension liability was 6.875% for 2016, 7.125% for 2015 and 7.25% for 2014 and 2013. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table shows how the collective net pension liability/(asset) as of June 30, 2016 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate.

	Current	
	Discount Rate	
1% Decrease		1% Increase
<u>5.875%</u>	<u>6.875%</u>	<u>7.875%</u>
\$368,516	\$222,022	\$84,103

All other employees are covered under the Social Security System.

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements
June 30, 2017

(8) EMPLOYEES' RETIREMENT PLANS (Continued)

MainePERS issues a publicly available financial report that includes financial statements and required supplementary information that may be obtained on the Internet at www.mainepers.org or at the MainePERS office in Augusta.

Deferred Compensation Plan

The Town has established for its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salaries until future years. The deferred compensation amount is not available to the employees until termination, retirement or death.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, contribution rates depend on individual contracts and a portion of which is matched by the employer. Employees may elect to make member contributions.

Compensation deferred at June 30, 2017, amounts to \$1,075,331 and is included in the Town's Fiduciary Fund under marketable securities which are reported at fair market value.

The following table sets forth by level, within the fair value hierarchy, the fair value measurements at June 30, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash Management	\$ 279,388	\$ 279,388	\$ -	\$ -
Corporate Bonds	11,918	11,918	-	-
Equities	<u>784,025</u>	<u>784,025</u>	<u>-</u>	<u>-</u>
	<u>\$1,075,331</u>	<u>\$1,075,331</u>	<u>\$ -</u>	<u>\$ -</u>

(9) JOINT VENTURE - TRI-COMMUNITY RECYCLING AND SANITARY LANDFILL

The Tri-Community Recycling and Sanitary Landfill is owned jointly by the Towns of Fort Fairfield and Limestone and the City of Caribou of which the Town owns 26%. The Board of Directors consists of four members residing in the three communities.

Financial statements for this joint venture were issued and reported on by us in a separate report dated March 1, 2017. These financial statements are available from the Town. A summary of the facility's activity for 2016 is as follows:

Total assets	\$15,106,665
Deferred outflows of resources	241,569
Total liabilities	12,582,052
Deferred inflows of resources	<u>113,032</u>
Total net position	<u>\$ 2,653,150</u>
Total revenue	\$ 2,687,191
Less total expenditures	<u>2,972,841</u>
Decrease in net position	<u>\$ (285,650)</u>

TOWN OF FORT FAIRFIELD, MAINE

Notes to the Financial Statements
June 30, 2017

(9) JOINT VENTURE - TRI-COMMUNITY RECYCLING AND SANITARY LANDFILL (Continued)

The Town has guaranteed, together with the other member communities, two notes and a bond payable totaling \$8,526,000 for the Tri-Community Recycling and Sanitary Landfill. As of December 31, 2016, the balance owed was \$5,313,282.

The State of Maine Department of Environmental Protection requires the Landfill to place a final cover on its landfill once it is closed and perform certain maintenance and monitoring functions at the site for twenty years after closure. These estimated closure and post-closure care costs are being recognized in the financial statements referred to above at the rate of utilization of the landfill site. As of December 31, 2016, the estimated total cost of closure and post-closure care was approximately \$19,290,643 of which \$6,700,000 was recognized. The management of the landfill expects to use future earnings to cover the cost of closure and post-closure care. More information regarding the accounting for these costs is available in the 2016 financial statements of the Tri-Community Recycling and Sanitary Landfill.

(10) LEASE

During the year ended June 30, 2013, the Town completed construction of a health clinic and sold a 25% interest to Pines Health Services for a capital investment of \$212,000. The owners entered into a lease agreement with Pines Health Services to operate a health center in this facility. The term of the initial lease is for a period of ten years commencing on June 1, 2013. The tenant will pay no rent during the initial term, but is responsible for the operating costs of the facility.

(11) TAX INCREMENT FINANCING (TIF) DISTRICT

The Town has established a TIF District in the form of a Credit Enhancement Agreement for the Senior Citizen Complex. Under the terms of this agreement, the Town will reimburse the taxpayer 75% of the property taxes, in order to ensure that the rental income will be sufficient to meet the operating costs of this facility as a requirement from the Maine State Housing Authority for the Complex to receive funding. This agreement will expire in 2028 when the Northern New England Housing Investment Fund ownership will be deeded to the Fort Fairfield Residential Development Corporation.

(12) DUE (TO) FROM OTHER FUNDS

The balance of \$26,854 due to the general fund from other governmental funds resulted from deficits in capital project fund balances which were paid from the general fund until the monies from funding sources are received. These funds are expected to be repaid to the general fund in the year ending June 30, 2018.

(13) SUBSEQUENT EVENTS

Management has reviewed subsequent events through September 7, 2017, 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.

TOWN OF FORT FAIRFIELD, MAINE

Schedule 1

Budgetary Comparison
General Fund
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts (Budgetary Basis)	Final Budget Favorable (Unfavorable)
RESOURCES (INFLOWS):				
Property taxes	\$3,864,050	\$3,864,050	\$3,808,400	\$ (55,650)
Federal and state assistance	311,038	311,038	313,417	2,379
Excise taxes	552,000	552,000	611,288	59,288
Licenses, permits and fees	21,535	21,535	25,287	3,752
Interest income	20,100	20,100	21,758	1,658
Other	91,274	91,274	123,667	32,393
Transfer from surplus	230,456	230,456	230,456	-
AMOUNTS AVAILABLE FOR APPROPRIATION	<u>5,090,453</u>	<u>5,090,453</u>	<u>5,134,273</u>	<u>43,820</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	498,514	498,514	481,802	16,712
Library	58,302	58,302	54,179	4,123
Police Department	332,375	332,375	308,885	23,490
Economic and community development	2,475	2,475	1,931	544
Community center	103,500	103,500	101,381	2,119
Fire Department	101,341	101,341	74,780	26,561
Safety and sanitation	247,640	247,640	237,220	10,420
Capital reserve expense	140,000	140,000	80,000	60,000
Public Works Department	979,662	979,662	905,421	74,241
Recreation	145,231	145,231	134,629	10,602
Education	2,086,564	2,086,564	2,086,564	-
Other	345,527	345,527	312,641	32,886
TOTAL CHARGES TO APPROPRIATIONS	<u>5,041,131</u>	<u>5,041,131</u>	<u>4,779,433</u>	<u>261,698</u>
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	<u>\$ 49,322</u>	<u>\$ 49,322</u>	354,840	<u>\$ 305,518</u>
Recognition of liability for compensated absences			(26,447)	
NET INCREASE IN FUND BALANCE			328,393	
BUDGETARY FUND BALANCE - JULY 1, 2016			571,015	
Less transfer from surplus			(230,456)	
Less transfers to reserves			(45,757)	
Less expenditures recorded directly to surplus			(12,100)	
BUDGETARY FUND BALANCE - JUNE 30, 2017			<u>\$ 611,095</u>	

TOWN OF FORT FAIRFIELD, MAINE

Schedule 2

Reconciliation of Budgetary Comparison
to Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2017

RECONCILIATION OF FUND BALANCE

Fund balance - budgetary basis (Schedule 1)	\$ 611,095
Adjustments to reconcile to undesignated fund balance on a modified accrual basis (Exhibit C):	
Accounts receivable at June 30, 2017	44,964
Accrued expenses at June 30, 2017	(38,931)
Compensated absence liability not recognized on a modified accrual basis	134,567
Deferred revenue at June 30, 2017	<u>(241,000)</u>
Unassigned fund balance on a GAAP basis, June 30, 2017 (Exhibit C)	510,695
Assigned fund balance (Exhibit C)	<u>711,826</u>
Total fund balance - general fund (Exhibit D)	<u>\$ 1,222,521</u>

RECONCILIATION OF RESOURCES OVER CHARGES

Excess of resources over charges to appropriations (Schedule 1)	\$ 354,840
Adjustments to reconcile budgetary basis accounting to modified accrual:	
Deduct transfer from surplus recorded as income on a budgetary basis	(230,456)
Increase in accounts receivable	15,871
(Increase) in accrued expenses not recognized on a budgetary basis	(8,945)
(Increase) in deferred revenue	(5,000)
Activity in Reserves for Capital Outlays not included in budget:	
Income credited directly to reserves	196,702
Add back appropriations	80,000
Transfer from reserves recorded as revenue in budget	(15,000)
Expenditures charged directly to reserves	(150,277)
Expenditures charged directly to compensated absences	(3,263)
Expenditures charged directly to surplus	<u>(12,100)</u>
Total net change in fund balance - governmental funds (Exhibit D)	<u>\$ 222,372</u>

TOWN OF FORT FAIRFIELD, MAINE

Schedule 3

Schedule of the Town's Proportionate Share of the Net Pension Liability
For the Last Four Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Town's proportion of the net pension liability	0.041786%	0.039450%	0.032977%	0.036880%
Town's proportionate share of the net pension liability	\$ 222,022	\$ 125,867	\$ 50,754	\$ 113,686
Town's covered-employee payroll	220,363	206,783	175,899	205,061
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	100.75%	60.87%	28.85%	55.44%
Plan fiduciary net position as a percentage of the total pension liability	81.60%	88.30%	94.10%	87.50%

TOWN OF FORT FAIRFIELD, MAINE

Schedule 4

Schedule of the Town's Contributions
For the Last Four Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 19,608	\$ 16,129	\$ 11,433	\$ 10,868
Contributions in relation to the contractually required contribution	<u>19,608</u>	<u>15,746</u>	<u>11,349</u>	<u>11,038</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 383</u>	<u>\$ 84</u>	<u>\$ (170)</u>
Town's covered-employee payroll	\$220,363	\$206,783	\$175,899	\$205,061
Contributions as a percentage of covered-employee payroll	8.90%	7.61%	6.45%	5.38%

TOWN OF FORT FAIRFIELD, MAINE

Notes to Schedules 3 and 4
June 30, 2017

NOTE 1 – VALUATION DATE

Only fiscal years 2016, 2015, 2014 and 2013 are reported. The amounts presented have a measurement date as of June 30, 2016. The Town will continue to present information until a full ten-year trend is compiled.

NOTE 2 – BENEFIT CHANGES

There were no benefit changes for Town employees in the employees' retirement plan.

NOTE 3 – CHANGE IN ASSUMPTIONS

The discount rate decreased from 7.125% to 6.875% in 2016. The inflation rate decreased from 3.5% to 2.75%. Annual salary increases, including inflation, went from 3.5%-9.5% to 2.75%-9.0%. The cost of living benefit increases went from 2.55% to 2.20%.

NOTE 4 – METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Actuarial cost method	Entry age normal
Amortization method	For the actuarial value as of June 30, 2016 and June 30, 2015, level percentage of payroll using a method where a separate twenty-year closed period is established annually for the gain or loss for that year For the actuarial value as of June 30, 2014 and 2013, the net pension liability was amortized on an open basis over a period of 15 years
Asset valuation method	One-third of the investment return that is different from the actuarial assumption for investment return
Investment rate of return	6.875% compounded annually for 2016 7.125% compounded annually for 2015 7.25% compounded annually for 2014 7.25% compounded annually for 2013
Retirement age	60 or 65, depending on years of creditable service at certain dates
Mortality	RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females

TOWN OF FORT FAIRFIELD, MAINE

Schedule 5

Fund Balance Assigned for Subsequent Years' Expenditures
For the Year Ended June 30, 2017

	Balances <u>July 1</u>	Appropriations	Transfers	Other	Total <u>Available</u>	Expenditures	Balances <u>June 30</u>
Administration reserve	\$ 77,938	\$ -	\$ -	\$ -	\$ 77,938	\$ -	\$ 77,938
Fire Department reserve	136	20,000	-	11,841	31,977	22,579	9,398
Forest Heights reserve	26,729	-	-	-	26,729	-	26,729
Industrial park reserve	91,131	-	-	3,110	94,241	13,477	80,764
Library reserve	2,929	-	-	1,500	4,429	-	4,429
Parks and recreation reserve	493	-	-	40	533	-	533
Police Department reserve	8,779	-	15,757	4,424	28,960	8,589	20,371
Public works reserve	9,061	-	30,000	13,148	52,209	23,700	28,509
Community center reserves	10,278	-	-	-	10,278	8,205	2,073
Paving reserves	34,999	35,000	-	-	69,999	-	69,999
Re-evaluation reserve	25,000	25,000	-	-	50,000	-	50,000
Monson Pond	15,324	-	-	-	15,324	-	15,324
Mama Bear	112	-	-	-	112	-	112
Fort Fairfield rail line	2,122	-	-	1,111	3,233	-	3,233
Community bandstand	348	-	-	83,752	84,100	2,800	81,300
Demolition Redemption Center	(20,310)	-	-	-	(20,310)	-	(20,310)
Sesquicentennial	330	-	-	470	800	740	60
Recreation - furniture rental	972	-	-	319	1,291	289	1,002
Farm Park	347	-	-	4,047	4,394	2,601	1,793
Meadows Development TIF	-	-	-	25,179	25,179	25,179	-
Street light reserves	11,416	-	-	-	11,416	156	11,260
Stray animals	(2,792)	-	-	2,431	(361)	1,224	(1,585)
Riverside Park	3,472	-	-	265	3,737	301	3,436
Giggey's Boat Landing Dock	2,071	-	-	-	2,071	272	1,799
Farm Park fees	400	-	-	950	1,350	1,000	350
Recreation - ski rental	12,452	-	-	930	13,382	2,104	11,278
Recreation - adventure program	1,461	-	-	-	1,461	-	1,461
Maine Potato Blossom Festival	(101,193)	-	-	-	(101,193)	-	(101,193)
Blue Grass Festival	4,239	-	-	-	4,239	1,000	3,239
Festival reserve	53,383	-	(15,000)	42,485	80,868	34,286	46,582
Spec Building	1,850	-	-	-	1,850	1,500	350
Revolving loan funds	281,167	-	-	700	281,867	275	281,592
	<u>\$ 554,644</u>	<u>\$ 80,000</u>	<u>\$ 30,757</u>	<u>\$196,702</u>	<u>\$ 862,103</u>	<u>\$ 150,277</u>	<u>\$ 711,826</u>

TOWN OF FORT FAIRFIELD, MAINE

Schedule 6

Schedule of Revenues, Expenditures and Changes in Fund Balance
For Non-Major Funds
For the Year Ended June 30, 2017

	Special Revenue					Capital Projects	Total Non-major Funds
	<u>Cemetery</u>	<u>Library</u>	<u>Alpha one</u>	Fire Department <u>Grants</u>	Other <u>Grants</u>		
REVENUES							
Federal and state assistance	\$ -	\$ -	\$ -	\$ 25,000	\$24,910	\$ -	\$ 49,910
Other revenue	-	1,862	145	-	-	-	2,007
Donation	-	6,800	-	-	-	-	6,800
Interest income	<u>14</u>	<u>72</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86</u>
Total Revenues	<u>14</u>	<u>8,734</u>	<u>145</u>	<u>25,000</u>	<u>24,910</u>	<u>-</u>	<u>58,803</u>
EXPENDITURES							
Administration and other	<u>-</u>	<u>3,427</u>	<u>846</u>	<u>1,002</u>	<u>23,090</u>	<u>172</u>	<u>28,537</u>
NET INCREASE (DECREASE) IN FUND BALANCE	14	5,307	(701)	23,998	1,820	(172)	30,266
FUND BALANCE (DEFICIT) - JULY 1	<u>2,228</u>	<u>72,633</u>	<u>1,275</u>	<u>326</u>	<u>10,298</u>	<u>(26,682)</u>	<u>60,078</u>
FUND BALANCE - JUNE 30	<u>\$ 2,242</u>	<u>\$77,940</u>	<u>\$ 574</u>	<u>\$ 24,324</u>	<u>\$12,118</u>	<u>\$(26,854)</u>	<u>\$ 90,344</u>

TOWN OF FORT FAIRFIELD, MAINE

Schedule 7

Schedule of Property Taxes - General Fund
For the Year Ended June 30, 2017

	<u>Total</u>	<u>2017/2018 Taxes</u>	<u>2016/2017 Taxes</u>	<u>2015/2016 Taxes</u>	<u>Prior Taxes and Liens</u>
UNCOLLECTED AT JULY 1	<u>\$ 359,284</u>	<u>\$ -</u>	<u>\$ (7,984)</u>	<u>\$302,705</u>	<u>\$ 64,563</u>
2016 COMMITMENT (\$148,675,440 @.024500)	<u>3,642,548</u>	<u>-</u>	<u>3,642,548</u>	<u>-</u>	<u>-</u>
COLLECTIONS	3,626,875	11,209	3,318,961	235,938	60,767
TAX-ACQUIRED PROPERTY	8,978	-	2,849	2,604	3,525
ABATEMENTS	<u>617</u>	<u>-</u>	<u>617</u>	<u>-</u>	<u>-</u>
	<u>3,636,470</u>	<u>11,209</u>	<u>3,322,427</u>	<u>238,542</u>	<u>64,292</u>
UNCOLLECTED AT JUNE 30	<u>\$ 365,362</u>	<u>\$(11,209)</u>	<u>\$ 312,137</u>	<u>\$ 64,163</u>	<u>\$ 271</u>
REPRESENTED BY					
Real Estate Taxes	\$ 358,116	\$(11,209)	\$ 304,891	\$ 64,163	\$ 271
Personal Property Taxes	<u>7,246</u>	<u>-</u>	<u>7,246</u>	<u>-</u>	<u>-</u>
	<u>\$ 365,362</u>	<u>\$(11,209)</u>	<u>\$ 312,137</u>	<u>\$ 64,163</u>	<u>\$ 271</u>

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 Town Council of the
Town of Fort Fairfield, 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, each major fund, and the aggregate remaining fund information of the Town of Fort Fairfield, Maine as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 7, 2017.

Internal Control Over Financial Reporting

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

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Town Council of the
Town of Fort Fairfield, Maine

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Fort Fairfield, Maine's financial statements are free of 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*.

Purpose of this Report

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

Felch & Company LLC

Caribou, Maine
September 7, 2017