

TOWN OF FORT FAIRFIELD, MAINE
as of
JUNE 30, 2016

FELCH & COMPANY, LLC
Certified Public Accountants

Financial Statements

TOWN OF FORT FAIRFIELD, MAINE

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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, 2016, 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, 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, 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 governmental 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 August 12, 2016, 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

Caribou, Maine
August 12, 2016

Town of Fort Fairfield, Maine
Management's Discussion and Analysis
For the Year Ending June 30, 2016

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, 2016

UNAUDITED

	<u>2016</u>	<u>2015</u>
Table 1 Net Position (in thousands)		
Current and other assets	\$1,351	\$1,287
Capital assets	<u>6,544</u>	<u>6,638</u>
Total assets	<u>7,895</u>	<u>7,925</u>
Deferred outflows of resources	<u>70</u>	<u>6</u>
Other liabilities	298	213
Bonds payable	<u>900</u>	<u>1,000</u>
Total liabilities	<u>1,198</u>	<u>1,213</u>
Deferred inflows of resources	<u>71</u>	<u>63</u>
Net position:		
Net investment in capital assets	5,644	5,638
Restricted	87	84
Unrestricted	<u>965</u>	<u>933</u>
Total net position	<u>\$6,696</u>	<u>\$6,655</u>

Town of Fort Fairfield, Maine
Management's Discussion and Analysis
For the Year Ending June 30, 2016

UNAUDITED

Table 2		
Changes in Net Position (in thousands)		
	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues:		
Charges for services	\$ 15	\$ 6
Operating grants	122	103
Capital grants	-	45
General revenues:		
Property taxes	3,872	3,650
Other taxes	594	538
Federal and state assistance	226	224
Other revenues	<u>267</u>	<u>305</u>
Total revenues	<u>5,096</u>	<u>4,871</u>
Program expenses		
General government	490	467
Police	356	302
Fire	123	135
Safety and sanitation	238	255
Public works	1,006	1,045
Recreation	153	157
Education	2,047	1,990
Other	<u>642</u>	<u>674</u>
Total expenses	<u>5,055</u>	<u>5,025</u>
Change in net position	<u>\$ 41</u>	<u>\$ (154)</u>

ANALYSIS OF FINANCIAL POSITION AND SIGNIFICANT TRANSACTIONS

In reviewing this year's financial position, the Town of Fort Fairfield's net position increased from \$6,654,972 to \$6,695,581.

For this fiscal year our budget surplus of \$230,456 (Schedule 1) will be utilized to offset decreased revenues from the State to help balance the budget for fiscal year 2016/2017 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, 2016

UNAUDITED

CAPITAL ASSETS

Capital assets decreased \$81,753 during the year. Additions of \$275,314 were offset by depreciation charges of \$357,067. 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 \$4,994,801, which is \$21,654 over the budgeted amount. Total expenses were \$4,751,696, which were \$208,802 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, 2016ASSETS

Current Assets:

Cash and temporary investments (Note 2)	\$ 868,700
Short-term investments	36,347
Uncollected taxes, net of allowance for uncollectible taxes of \$1,868	357,440
Accounts receivable	<u>29,093</u>
	<u>1,291,580</u>

Other Assets:

Loans receivable (Note 3)	36,397
Expired tax lien property	<u>23,013</u>
	<u>59,410</u>

Capital Assets: (Note 4)

Non-depreciable	110,779
Depreciable, net	<u>6,432,858</u>
	<u>6,543,637</u>

TOTAL ASSETS

7,894,627

DEFERRED OUTFLOWS OF RESOURCES

69,521LIABILITIES

Current Liabilities:

Accounts payable	29,468
Accrued expenses	31,312
Current portion of compensated absences	30,000
Current portion of bonds payable	<u>100,000</u>
	<u>190,780</u>

Non-Current Liabilities: (Note 7)

Bonds payable, net of current portion	800,000
Compensated absences, net of current portion	81,383
Net pension liability	<u>125,867</u>
	<u>1,007,250</u>

TOTAL LIABILITIES

1,198,030

DEFERRED INFLOWS OF RESOURCES

70,537NET POSITION

Net investment in capital assets	5,643,637
Restricted for:	
Special revenue funds	86,760
Unrestricted	<u>965,184</u>

TOTAL NET POSITION

\$ 6,695,581*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, 2016

		<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contri- butions</u>	<u>Net Costs</u>
FUNCTION/PROGRAM ACTIVITIES				
General government	\$ 489,629	\$ 9,496	\$ 12,500	\$ (467,633)
Library	58,466	1,916	-	(56,550)
Police Department	356,069	366	-	(355,703)
Community Center	43,094	-	-	(43,094)
Fire Department	123,205	-	1,500	(121,705)
Safety and sanitation	238,470	-	-	(238,470)
Public Works Department	1,006,413	-	97,608	(908,805)
Recreation	152,879	3,163	-	(149,716)
Education	2,047,429	-	-	(2,047,429)
Other	478,569	-	10,771	(467,798)
Interest on long-term debt	32,295	-	-	(32,295)
Unallocated depreciation	28,834	-	-	(28,834)
	<u>\$ 5,055,352</u>	<u>\$ 14,941</u>	<u>\$ 122,379</u>	<u>(4,918,032)</u>
GENERAL REVENUES				
Taxes:				
Property taxes, levied for general purposes				3,725,696
Homestead reimbursement				146,535
Excise taxes				593,976
Federal and state assistance				225,739
Interest income				22,222
Tri-Community distribution				36,882
Rental revenues				16,300
Other general revenues				191,291
				<u>4,958,641</u>
Change in net position				40,609
NET POSITION - JULY 1, 2015				<u>6,654,972</u>
NET POSITION - JUNE 30, 2016				<u>\$ 6,695,581</u>

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

TOWN OF FORT FAIRFIELD, MAINE

EXHIBIT C

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Other Govern- mental Funds</u>	<u>Total Govern- mental Funds</u>
<u>ASSETS</u>			
Cash and temporary investments (Note 2)	\$ 818,287	\$ 50,413	\$ 868,700
Short-term investments	-	36,347	36,347
Uncollected taxes, net of allowance for uncollectible taxes of \$1,844	357,440	-	357,440
Accounts receivable	29,093	-	29,093
Loans receivable (Note 3)	36,397	-	36,397
Due from other funds	26,682	-	26,682
Expired tax lien property	23,013	-	23,013
	<u>\$ 1,290,912</u>	<u>\$ 86,760</u>	<u>\$ 1,377,672</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts payable	\$ 29,468	\$ -	\$ 29,468
Accrued expenses	25,295	-	25,295
Due to other funds	-	26,682	26,682
	<u>54,763</u>	<u>26,682</u>	<u>81,445</u>
<u>DEFERRED INFLOW OF RESOURCES</u>			
Property taxes	<u>236,000</u>	<u>-</u>	<u>236,000</u>
<u>FUND BALANCES</u>			
Restricted special revenue funds	-	86,760	86,760
Unrestricted			
Committed for subsequent years' expenditures (Schedule 5)	554,644	-	554,644
Unassigned	445,505	(26,682)	418,823
	<u>1,000,149</u>	<u>60,078</u>	<u>1,060,227</u>
	<u>\$ 1,290,912</u>	<u>\$ 86,760</u>	<u>\$ 1,377,672</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 FUNDSFOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Other Governmental Funds (Schedule 6)</u>	<u>Total Governmental Funds</u>
SOURCES OF FINANCIAL RESOURCES			
REVENUES			
Property taxes			
Commitment	\$ 3,701,274	\$ -	\$ 3,701,274
Property tax reimbursements from State	146,535	-	146,535
Abatements	(578)	-	(578)
Federal and state assistance	323,347	12,271	335,618
Excise taxes	593,976	-	593,976
Other licenses, permits and fees	23,544	-	23,544
Interest income	21,984	238	22,222
Other revenues	240,387	20,351	260,738
	<u>5,050,469</u>	<u>32,860</u>	<u>5,083,329</u>
USES OF FINANCIAL RESOURCES			
EXPENDITURES			
General government	477,021	-	477,021
Library	54,298	-	54,298
Police Department	350,232	-	350,232
Community center	77,690	-	77,690
Fire Department	107,140	-	107,140
Safety and sanitation	238,470	-	238,470
Public Works Department	956,400	-	956,400
Recreation	138,109	-	138,109
Education	2,047,429	-	2,047,429
Debt service - principal	100,000	-	100,000
- interest	32,873	-	32,873
Other expenditures	457,458	21,111	478,569
	<u>5,037,120</u>	<u>21,111</u>	<u>5,058,231</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>13,349</u>	<u>11,749</u>	<u>25,098</u>
OTHER FINANCING SOURCES/(USES)			
Transfer (to)/from other fund	<u>2,071</u>	<u>(2,071)</u>	<u>-</u>
NET INCREASE IN FUND BALANCE	15,420	9,678	25,098
FUND BALANCE - JULY 1, 2015	<u>984,729</u>	<u>50,400</u>	<u>1,035,129</u>
FUND BALANCE - JUNE 30, 2016	<u>\$ 1,000,149</u>	<u>\$ 60,078</u>	<u>\$ 1,060,227</u>

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

TOWN OF FORT FAIRFIELD, MAINE

EXHIBIT E

RECONCILIATION OF FUND BALANCE IN GOVERNMENTAL FUNDS TO NET POSITION
JUNE 30, 2016

Fund balance in Governmental Funds (Exhibit C)		\$ 1,060,227
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	\$ 10,236,201	
Accumulated depreciation is	<u>(3,692,564)</u>	
		6,543,637
Certain assets in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Deferred outflows of resources		69,521
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 property tax revenue		236,000
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:		
Accrued interest payable		(6,017)
Net pension liability		(125,867)
Deferred inflows of resources		(70,537)
Bonds payable		(900,000)
Accrued compensated absences		<u>(111,383)</u>
Net position (Exhibit A)		<u>\$ 6,695,581</u>

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

TOWN OF FORT FAIRFIELD, MAINE

EXHIBIT F

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

Net change in fund balance - total governmental funds (Exhibit D)		\$ 25,098
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:		
Capital asset purchases capitalized	\$ 275,314	
Depreciation expense	<u>(357,067)</u>	
		(81,753)
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 increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold.		
		(12,368)
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		25,000
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Bond payments		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	(75,122)	
Change in deferred inflows/outflows of resources	55,530	
Decrease in accrual for compensated absences	<u>3,646</u>	
		<u>(15,368)</u>
Change in net position of governmental activities (Exhibit B)		<u>\$ 40,609</u>

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

TOWN OF FORT FAIRFIELD, MAINE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

EXHIBIT G

Employee
Deferred
Comp Fund

ASSETS

Marketable securities

\$ 933,435

LIABILITIES

-

NET POSITION

Held in trust for future retirement benefits
and other purposes

\$ 933,435

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
 FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Employee Deferred Comp Fund</u>
ADDITIONS	
Contributions	
Employer	\$ 48,132
Employee	<u>44,884</u>
Total additions	<u>93,016</u>
DEDUCTIONS	
Distributions	54,170
Unrealized loss	<u>28,604</u>
Total reductions	<u>82,774</u>
NET CHANGE IN NET POSITION	10,242
NET POSITION - JULY 1, 2015	<u>923,193</u>
NET POSITION - JUNE 30, 2016	<u>\$ 933,435</u>

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

TOWN OF FORT FAIRFIELD, MAINE

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

(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 the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify

TOWN OF FORT FAIRFIELD, MAINE

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

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.

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.

TOWN OF FORT FAIRFIELD, MAINE

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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 reports investments at fair value and all investment income, including changes in the fair value of investments is included in the statement of activities as investment gains or investment losses.

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.

TOWN OF FORT FAIRFIELD, MAINE

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Amounts (Continued)

Deferred Outflows/Inflows of Resources (Continued)

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.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt 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.

TOWN OF FORT FAIRFIELD, MAINE

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Amounts (Continued)

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.

(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, 2016, the Town's deposits of \$965,303 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. Notes receivable includes a \$23,924 note due from a member of the Town Council.

(4) CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
<u>Governmental Activities</u>				
Capital assets not being depreciated:				
Land	\$ 105,121	\$ 5,658	\$ -	\$ 110,779
Other capital assets:				
Buildings	5,247,585	53,850	25,000	5,276,435
Land improvements	525,420	-	-	525,420
Equipment	1,353,572	66,000	91,000	1,328,572
Vehicles	879,061	48,180	51,293	875,948
Infrastructure	<u>2,017,421</u>	<u>101,626</u>	<u>-</u>	<u>2,119,047</u>
	<u>10,023,059</u>	<u>269,656</u>	<u>167,293</u>	<u>10,125,422</u>
Less accumulated depreciation for:				
Buildings	1,032,326	91,912	15,750	1,108,488
Land improvements	107,400	14,945	-	122,345
Equipment	1,083,246	35,937	91,000	1,028,183
Vehicles	349,539	52,164	48,175	353,528
Infrastructure	<u>917,911</u>	<u>162,109</u>	<u>-</u>	<u>1,080,020</u>
	<u>3,490,422</u>	<u>357,067</u>	<u>154,925</u>	<u>3,692,564</u>
Governmental activities capital assets, net	<u>\$ 6,637,758</u>	<u>\$ (81,753)</u>	<u>\$ 12,368</u>	<u>\$ 6,543,637</u>

TOWN OF FORT FAIRFIELD, MAINE

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

(4) CAPITAL ASSETS (Continued)

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

Governmental Activities	
General government	\$ 34,162
Library	4,168
Police Department	14,274
Fire Department	36,216
Public Works Department	217,639
Recreation	14,770
Community center	7,004
Unallocated depreciation	<u>28,834</u>
	<u>\$357,067</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 October through December 2015, a total of \$400,000 was borrowed and repaid in January 2016.

(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, 2016, consisted of the following:

<u>Entity</u>	<u>Share of Bonded Debt</u>
M.S.A.D. #20	\$1,659,343
Tri-Community Recycling and Sanitary Landfill	See Note 9

(7) LONG-TERM DEBT

As of June 30, 2016, 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%.	\$550,000
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>350,000</u>
	<u>\$900,000</u>

TOWN OF FORT FAIRFIELD, MAINE

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

(7) LONG-TERM DEBT (Continued)

Long-term debt activity during the year ended June 30, 2016, was as follows:

	Balance July 1, <u>2015</u>	Addi- tions	Reduc- tions	Balance June 30, <u>2016</u>	Due Within <u>One Year</u>
<u>Governmental Activities</u>					
Bonds Payable:					
Capital improvement bond	\$ 600,000	\$ -	\$ 50,000	\$ 550,000	\$ 50,000
Capital improvement bond	400,000	-	50,000	350,000	50,000
Other Liabilities:					
Compensated absences	<u>115,029</u>	<u>22,724</u>	<u>26,370</u>	<u>111,383</u>	<u>30,000</u>
	<u>\$1,115,029</u>	<u>\$22,724</u>	<u>\$126,370</u>	<u>\$1,011,383</u>	<u>\$130,000</u>

As of June 30, 2016, the capital improvement bonds mature as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$100,000	\$ 29,210
2018	100,000	25,442
2019	100,000	21,567
2020	100,000	17,798
2021	100,000	15,700
2022-2026	350,000	27,985
2027	<u>50,000</u>	<u>250</u>
	<u>\$900,000</u>	<u>\$137,952</u>

(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, 2015 there were 289 employers in the plan. As of June 30, 2015 the Town had 4 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 or 65. 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.

TOWN OF FORT FAIRFIELD, MAINE

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

(8) EMPLOYEES' RETIREMENT PLANS (Continued)

Pension Benefits (Continued)

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 contribute 7.5% of their wages to the plan. 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, 2016, the Town reported a liability of \$125,867 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the Town's proportion was .04, which was a decrease of .01% from its proportion as measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$35,718. At June 30, 2016, 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	\$ 5,082	\$16,166
Net difference between projected and actual investment earnings on pension plan investments	38,847	48,356
Changes of assumptions	11,123	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>14,469</u>	<u>6,015</u>
Total	<u>\$69,521</u>	<u>\$70,537</u>

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

<u>Year Ending June 30,</u>	
2017	\$3,732
2018	3,732
2019	3,265
2020	(9,712)

TOWN OF FORT FAIRFIELD, MAINE

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

(8) EMPLOYEES' RETIREMENT PLANS (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.5% to 9.5% per year
Investment rate of return	7.125% per annum, compounded annually
Cost of living benefit increases	2.55%

Mortality rates were based on the RP2000 Tables projected forward to 2015 using Scale AA; for recipients of disability benefits, the Revenue Ruling 96-7 Disabled 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, 2015 are summarized as follows:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equities	5.2%
Non-US Equities	5.5%
Private Equity	7.6%
Real Assets:	
Real Estate	3.7%
Infrastructure	4.0%
Hard Assets	4.8%
Fixed Income	0.7%

Discount Rate

The discount rate used to measure the collective pension liability was 7.125% for 2015 and 7.25% for 2014. 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, 2015 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate is 7.125% for the PLD Consolidated Plan.

<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
\$250,765	\$125,867	\$7,457

All other employees are covered under the Social Security System.

TOWN OF FORT FAIRFIELD, MAINE

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

(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.maineopers.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 depends 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, 2016, amounts to \$933,435 and is included in the Town's Fiduciary Fund under marketable securities which are reported at fair market value.

(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 10, 2016. These financial statements are available from the Town. A summary of the facility's activity for 2015 is as follows:

Total assets	\$15,402,168
Deferred outflows of resources	183,650
Total liabilities	12,580,267
Deferred inflows of resources	<u>66,751</u>
Total net position	<u>\$ 2,938,800</u>
Total revenue	\$ 2,557,536
Less total expenditures	<u>2,282,843</u>
Decrease in net position	<u>\$ 274,693</u>

The Town has guaranteed, together with the other member communities, two notes and a bond payable totaling \$8,526,000 for the Landfill. As of December 31, 2015, the balance owed was \$5,918,531.

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, 2015, the estimated total cost of closure and post-closure care was approximately \$18,706,986 of which \$6,220,000 was recognized. The management of the landfill expects to use future

TOWN OF FORT FAIRFIELD, MAINE

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

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

earnings to cover the cost of closure and post-closure care. More information regarding the accounting for these costs is available in the 2015 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) INTERFUND TRANSFERS

During the year ended June 30, 2016, transfers were made between the general fund and non-major governmental funds in order to close out certain governmental funds.

(13) DUE (TO) FROM OTHER FUNDS

The balance of \$26,682 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, 2017.

(14) SUBSEQUENT EVENTS

Management has reviewed subsequent events through August 12, 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.

TOWN OF FORT FAIRFIELD, 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>		
Resources (Inflows):				
Property taxes	\$ 3,826,247	\$ 3,826,247	\$ 3,859,086	\$ 32,839
Federal and state assistance	301,000	301,000	323,347	22,347
Excise taxes	541,750	541,750	593,976	52,226
Licenses, permits and fees	22,450	22,450	23,544	1,094
Interest income	31,500	31,500	21,984	(9,516)
Other	125,200	125,200	172,864	47,664
Transfer from surplus	<u>125,000</u>	<u>125,000</u>	<u>-</u>	<u>(125,000)</u>
Amounts available for appropriation	<u>4,973,147</u>	<u>4,973,147</u>	<u>4,994,801</u>	<u>21,654</u>
Charges to appropriations (Outflows):				
General government	508,175	508,175	474,304	33,871
Library	58,528	58,528	53,933	4,595
Police Department	336,820	336,820	315,869	20,951
Economic and community development	2,475	2,475	1,563	912
Community center	35,000	35,000	32,723	2,277
Fire Department	101,297	101,297	89,928	11,369
Safety and sanitation	249,354	249,354	235,831	13,523
Capital reserve expense	205,000	205,000	205,000	-
Public Works Department	957,027	957,027	873,284	83,743
Recreation	138,852	138,852	135,660	3,192
Education	2,047,429	2,047,429	2,047,429	-
Other expenditures	<u>320,541</u>	<u>320,541</u>	<u>286,172</u>	<u>34,369</u>
Total charges to appropriations	<u>4,960,498</u>	<u>4,960,498</u>	<u>4,751,696</u>	<u>208,802</u>
Excess of resources over charges to appropriations	<u>\$ 12,649</u>	<u>\$ 12,649</u>	243,105	<u>\$ 230,456</u>
Recognition of liability for compensated absences			<u>(32,193)</u>	
Net increase fund balance			210,912	
Budgetary Fund Balance, July 1, 2015			374,375	
Less expenditures recorded directly to surplus			<u>(14,272)</u>	
Budgetary Fund Balance, June 30, 2016			<u>\$ 571,015</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, 2016

RECONCILIATION OF RESOURCES OVER CHARGES

Excess of resources over charges to appropriations (Schedule 1)	\$ 243,105
Adjustments to reconcile budgetary basis accounting to modified accrual:	
Decrease in accounts receivable	(36,417)
Increase in accrued expenses not recognized on a budgetary basis	(5,584)
Increase in deferred revenue	(25,000)
Activity in Reserves for Capital Outlays not included in budget:	
Income credited directly to reserves	122,796
Add back appropriations	205,000
Add back transfers to reserves	2,071
Transfer from reserves	(15,000)
Expenditures charged directly to reserves	(425,439)
Deduct transfer from surplus recorded as income on a budgetary basis	
Expenditures charged directly to compensated absences	(35,840)
Expenditures charged directly to surplus	<u>(14,272)</u>
Excess of expenditures over revenues (Exhibit D)	<u>\$ 15,420</u>

RECONCILIATION OF FUND BALANCE

Budgetary fund balance, June 30, 2016 (Schedule 1)	\$ 571,015
Adjustments to reconcile to undesignated fund balance on a GAAP basis (Exhibit D):	
Accounts receivable at June 30, 2016	29,093
Deferred revenue at June 30, 2016	(236,000)
Accrued expenses at June 30, 2016	(29,985)
Compensated absence liability at June 30, 2016 not recognized on a GAAP basis	<u>111,382</u>
Unassigned fund balance on a GAAP basis, June 30, 2016 (Exhibit C)	445,505
Assigned fund balance (Exhibit C)	<u>554,644</u>
Fund balance on a GAAP basis, June 30, 2016 (Exhibit D)	<u>\$1,000,149</u>

TOWN OF FORT FAIRFIELD, MAINE

SCHEDULE 3

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST THREE FISCAL YEARS

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

TOWN OF FORT FAIRFIELD, MAINE

SCHEDULE 4

SCHEDULE OF THE TOWN'S CONTRIBUTIONS
LAST THREE FISCAL YEARS

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

TOWN OF FORT FAIRFIELD, MAINE

NOTES TO SCHEDULES 3 AND 4
JUNE 30, 2016

NOTE 1 - VALUATION DATE

Only fiscal years 2013, 2014 and 2015 are reported. The amounts presented have a measurement date as of June 30, 2015. 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 change in the discount rate from 7.25% to 7.125% was the only change in assumption in the 2015 valuation.

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, 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	7.125% compounded annually for 2015 7.25% compounded annually for 2014 and 2013
Retirement age	60 or 65, depending on years of creditable service at certain dates
Mortality	RP2000 Tables projected to 2015 using Scale AA, with ages set back two years

FUND BALANCE ASSIGNED FOR SUBSEQUENT YEARS' EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016

	Balances July 1	Appropri- ations	Transfers	Other	Total Available	Expenditures	Balances June 30
Administration reserve	\$ 77,322	\$ -	\$ -	\$ 616	\$ 77,938	\$ -	\$ 77,938
Fire Department reserve	7,169	10,000	-	-	17,169	17,033	136
Forest Heights reserve	26,729	-	-	-	26,729	-	26,729
Industrial park reserve	91,131	-	-	-	91,131	-	91,131
Library reserve	(1,071)	4,000	-	-	2,929	-	2,929
Parks and recreation reserve	3,355	-	-	-	3,355	2,862	493
Police Department reserve	5,518	28,000	-	8,549	42,067	33,288	8,779
Public works reserve	24,196	25,000	-	31,381	80,577	71,516	9,061
Community center reserves	1,165	78,000	-	1,491	80,656	70,378	10,278
21st Century program	26,940	-	-	-	26,940	26,940	-
Paving reserves	69,560	35,000	-	-	104,560	69,561	34,999
Re-evaluation reserve	-	25,000	-	-	25,000	-	25,000
Street light reserves	15,086	-	-	2,076	17,162	5,746	11,416
Monson Pond	15,324	-	-	-	15,324	-	15,324
Mama Bear	1,782	-	-	600	2,382	2,270	112
Fort Fairfield rail line	-	-	-	2,122	2,122	-	2,122
Community bandstand	448	-	-	-	448	100	348
Demolition Redemption Center	(19,644)	-	-	-	(19,644)	666	(20,310)
Sesquicentennial	396	-	-	600	996	666	330
Recreation - furniture rental	837	-	-	135	972	-	972
Farm Park	989	-	-	935	1,924	1,577	347
Meadows Development TIF	-	-	-	25,179	25,179	25,179	-
Stray animals	(3,258)	-	-	1,657	(1,601)	1,191	(2,792)
Riverside Park	3,877	-	-	-	3,877	405	3,472
Giggey's Boat Landing Dock	-	-	2,071	-	2,071	-	2,071
Farm Park fees	300	-	-	400	700	300	400
Recreation - ski rental	11,717	-	-	735	12,452	-	12,452
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	-	4,239
Festival reserve	61,575	-	(15,000)	45,920	92,495	39,112	53,383
Spec Building	4,992	-	-	-	4,992	3,142	1,850
Revolving loan funds	334,274	-	-	400	334,674	53,507	281,167
	\$ 665,216	\$ 205,000	\$ (12,929)	\$ 122,796	\$ 980,083	\$ 425,439	\$ 554,644

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue						Total Nonmajor Governmental Funds
	Cemetery	Library	Alpha One	Fire Department Grants	Other Grants	Capital Projects	
SOURCES OF FINANCIAL RESOURCES							
REVENUES							
Federal and state assistance	\$ -	\$ -	\$ -	\$ 1,500	\$ 10,771	\$ -	\$ 12,271
Other revenue	-	873	-	-	-	9,478	10,351
Donation	-	10,000	-	-	-	-	10,000
Interest income	14	224	-	-	-	-	238
	<u>14</u>	<u>11,097</u>	<u>-</u>	<u>1,500</u>	<u>10,771</u>	<u>9,478</u>	<u>32,860</u>
USES OF FINANCIAL RESOURCES							
EXPENDITURES							
Administration and other	-	8,791	211	1,174	10,771	164	21,111
	<u>14</u>	<u>2,306</u>	<u>(211)</u>	<u>326</u>	<u>-</u>	<u>9,314</u>	<u>11,749</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES							
OTHER FINANCING USES							
Transfers to general fund	-	-	-	-	-	2,071	2,071
	<u>2,214</u>	<u>70,327</u>	<u>1,486</u>	<u>-</u>	<u>10,298</u>	<u>(33,925)</u>	<u>50,400</u>
FUND BALANCE (DEFICIT) - JULY 1, 2015							
	<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 (DEFICIT) - JUNE 30, 2016							

TOWN OF FORT FAIRFIELD, MAINE

SCHEDULE 7

SCHEDULE OF PROPERTY TAXES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Total</u>	<u>2016/2017 Taxes</u>	<u>2015/2016 Taxes</u>	<u>2014/2015 Taxes</u>	<u>Prior Taxes and Liens</u>
UNCOLLECTED AT - JULY 1	\$ 335,687	\$ -	\$ (10,356)	\$ 283,067	\$ 62,976
2015 - 2016 COMMITMENT (\$152,092,840 @ .0245)	<u>3,726,275</u>	<u>-</u>	<u>3,726,275</u>	<u>-</u>	<u>-</u>
COLLECTIONS	3,691,414	7,984	3,409,015	214,994	59,421
TAX ACQUIRED	10,686	-	3,621	3,510	3,555
ABATEMENTS	<u>578</u>	<u>-</u>	<u>578</u>	<u>-</u>	<u>-</u>
	<u>3,702,678</u>	<u>7,984</u>	<u>3,413,214</u>	<u>218,504</u>	<u>62,976</u>
UNCOLLECTED AT - JUNE 30	<u>\$ 359,284</u>	<u>\$ (7,984)</u>	<u>\$ 302,705</u>	<u>\$ 64,563</u>	<u>\$ -</u>
REPRESENTED BY					
Real estate taxes and liens	\$ 351,246	\$ (7,955)	\$ 294,638	\$ 64,563	\$ -
Personal property taxes	<u>8,038</u>	<u>(29)</u>	<u>8,067</u>	<u>-</u>	<u>-</u>
	<u>\$ 359,284</u>	<u>\$ (7,984)</u>	<u>\$ 302,705</u>	<u>\$ 64,563</u>	<u>\$ -</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 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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated August 12, 2016.

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
August 12, 2016