

County of Lincoln, Maine



Annual Financial Statements For the Year Ended December 31, 2018

Independently Audited By

Berry · Talbot · Royer

CERTIFIED PUBLIC ACCOUNTANTS

County of Lincoln Maine

December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the County Commissioners
County of Lincoln, 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 County of Lincoln as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements.

Management's Responsibility for the Financial Statements

The County's 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.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Lincoln, Maine as of December 31, 2018, 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 on pages 3 – 8, and Schedules A through D on pages 34 – 37, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2019, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Berry Talbot Royer
Certified Public Accountants
Falmouth, Maine
May 21, 2019



Management's Discussion and Analysis

Lincoln County (the County) provides this Management's Discussion and Analysis to present additional information to the readers of the County's basic financial statements. This narrative overview and analysis of the financial activities of the County is for the fiscal year ended December 31, 2018. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the County's basic financial statements and required supplementary information.

Overview of the Financial Statements

The County's basic financial statements include the following components:

- 1) Government-wide Financial Statements,
- 2) Fund Financial Statements, and
- 3) Notes to the Basic Financial Statements.

This report also includes *required supplementary information* (RSI) in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the County's operations in a manner that is similar to private business. These statements provide both short-term as well as long-term information in regards to the County's financial position. These financial statements are prepared using the accrual basis of accounting. This measurement focus takes into account all revenues and expenses associated with the fiscal year regardless of when cash is received or paid. The government-wide financial statements include the following two statements:

The Statement of Net Position – this statement presents *all* of the government's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference being reported as net position.

The Statement of Activities – this statement presents information that shows how the government's net position changed during the period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The type of activity presented for the County of Lincoln is:

Governmental activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). All of the County's basic services are reported in governmental activities, which includes court services, emergency management, district attorney, administration, county buildings, prisoner support, communications, registry of deeds, registry of probate, sheriff's department, recycling, planning and unclassified.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other local governments uses fund accounting to ensure and demonstrate compliance with financial related legal requirement. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds: All of the basic services provided by the County are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balance of spendable resources available at the end of the fiscal year. Such information will be useful in evaluating the government's near-term financing requirements. This approach is known as the current financial resources measurement focus and the modified accrual basis of accounting. Under this approach revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the County's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the County.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers, may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the pages immediately following each governmental fund financial statement.

The general fund is the only fund for which the County legally adopts a budget. The Budgetary Comparison Schedule – General Fund - Budgetary Basis provides a comparison of the original and final budget and the actual expenditures for the current year.

Fiduciary Funds: These funds are used to account for resources held for the benefit of parties outside the County of Lincoln. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the County's own programs. The accounting used for fiduciary funds are much like that of proprietary funds, they use the accrual basis of accounting

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The Notes to the Basic Financial Statements can be found following the Statement of Fiduciary Net Position – Fiduciary Funds.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual – General Fund, a Schedule of County's Proportionate Share of the Net Pension Liability, a Schedule of County Contributions, Schedules of Net OPEB Liability and Contributions (GASB 75), and Notes to the Required Supplementary Information.

Government-Wide Financial Analysis

Our analysis below focuses on the net position, and changes in net position of the County's governmental activities. The County's total net position increased by \$417,681 from \$324,010 to \$741,691.

Net investments in capital assets – a large part of the County's net position reflects its investment in capital asset (e.g. land, buildings, machinery, and equipment). The County uses these assets to provide services to citizens, consequently these assets are not available for future spending. It should also, be noted, that no part of these capital assets are funded by debt.

Restricted net position – represents resources that are subject on how they may be expended.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints, enabling legislation, or other legal requirement – increased to a deficit balance of \$1,865,248 at the end of this year. The deficit balance is primarily resulting from the County's unfunded net pension and net OPEB liabilities.

Condensed Statements of Net Positions
As of December 31, 2018 and 2017

Assets:	2018	2017	\$ Difference	% Difference
Current assets	\$ 3,867,200	\$ 3,283,337	\$ 583,863	17.8%
Capital assets	2,579,266	2,840,143	(260,877)	-9.2%
Total Assets	<u>6,446,466</u>	<u>6,123,480</u>	<u>322,986</u>	5.3%
Deferred Outflows of Resources:				
Deferred outflows related to pensions	404,658	945,270	(540,612)	-57.2%
Deferred outflows related to other post-employment benefits	<u>1,450,405</u>	<u>1,487,497</u>	<u>(37,092)</u>	N/A
Total Deferred Outflows of Resources	<u>1,855,063</u>	<u>2,432,767</u>	<u>(577,704)</u>	-23.7%
Liabilities:				
Current liabilities	389,648	469,586	(79,938)	-17.0%
Long-term debt outstanding	<u>6,177,581</u>	<u>6,518,301</u>	<u>(340,720)</u>	-5.2%
Total Liabilities	<u>6,567,229</u>	<u>6,987,887</u>	<u>(420,658)</u>	-6.0%
Deferred Inflows of Resources:				
Deferred inflows related to pensions	380,946	849,727	(468,781)	-55.2%
Deferred inflows related to other post-employment benefits	<u>611,663</u>	<u>394,623</u>	<u>217,040</u>	N/A
Total Deferred Inflows of Resources	<u>992,609</u>	<u>1,244,350</u>	<u>(251,741)</u>	-20.2%
Net Position:				
Net investment in capital assets	2,579,266	2,840,143	(260,877)	-9.2%
Restricted	27,673	28,160	(487)	-1.7%
Unrestricted	<u>(1,865,248)</u>	<u>(2,544,293)</u>	<u>679,045</u>	-26.7%
Total Net Position	<u>\$ 741,691</u>	<u>\$ 324,010</u>	<u>\$ 417,681</u>	128.9%

Revenues and Expenses

Revenues for the County's governmental activities increased by 3.1%, while total expenses decreased by 2.2%. The County's revenues remained flat while the decrease in expenses was mostly due to the Sheriff's Department, planning and capital project/reserves.

Condensed Statements of Activities
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>\$ Difference</u>	<u>% Difference</u>
Revenues				
Program revenues	\$ 2,023,830	\$ 1,927,653	\$ 96,177	5.0%
General revenues	9,958,111	9,698,775	259,336	2.7%
Total Revenues	<u>11,981,941</u>	<u>11,626,428</u>	<u>355,513</u>	3.1%
Expenses				
Court Services	135,506	99,964	35,542	35.6%
Emergency Management	233,144	231,319	1,825	0.8%
District Attorney	260,665	261,392	(727)	-0.3%
Commissioners	561,041	583,315	(22,274)	-3.8%
County buildings	455,427	429,655	25,772	6.0%
Prisoner Support	2,832,635	2,990,527	(157,892)	-5.3%
Communications	1,196,464	1,101,076	95,388	8.7%
Registry of Deeds	240,583	253,544	(12,961)	-5.1%
Registry of Probate	217,408	217,782	(374)	-0.2%
Community Programs	95,188	93,339	1,849	2.0%
Sheriff's Department	3,035,923	3,115,361	(79,438)	-2.5%
Employee Benefits	96,905	92,848	4,057	4.4%
Planning	209,636	240,296	(30,660)	-12.8%
Recycling	435,676	377,453	58,223	15.4%
Insurances	96,386	89,370	7,016	7.9%
Contingency	-	2,500	(2,500)	N/A
Special Projects/Reserves	449,031	393,048	55,983	14.2%
Capital Projects/Reserves	158,807	365,800	(206,993)	-56.6%
Debt Service:				
TBRJ Debt Service	837,850	867,850	(30,000)	-3.5%
TAN Interest	15,985	14,631	1,354	9.3%
Total Expenses	<u>11,564,260</u>	<u>11,821,070</u>	<u>(256,810)</u>	-2.2%
Change in Net Position	417,681	(194,642)	612,323	-314.6%
Beginning Net Position	<u>324,010</u>	<u>518,652</u>	<u>(194,642)</u>	-37.5%
Ending Net Position	<u>\$ 741,691</u>	<u>\$ 324,010</u>	<u>\$ 417,681</u>	128.9%

Financial Analysis of the County’s Fund Statements

Governmental Funds: The financial reporting focus of the County’s governmental funds is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the County’s financial requirements. In particular, general fund unassigned fund balance may serve as a useful measure of a government’s financial position at the end of the year, and the net resources available for spending.

	<u>2018</u>	<u>2017</u>
General Fund:		
Committed	\$ 1,173,004	\$ 1,143,296
Restricted	27,673	28,160
Assigned	193,548	285,422
Unassigned	<u>2,098,276</u>	<u>1,371,147</u>
Total General Fund	<u>\$ 3,492,501</u>	<u>\$ 2,828,025</u>

The general fund total fund balance increased by \$664,476 from the prior fiscal year.

Budgetary Highlights

The general fund actual revenues were over budget by \$304,670, primarily due to the receipt of greater than anticipated fees and grants. Refer to Schedule A for more detailed information.

The general fund actual expenditures were under budget by \$522,666. Most expenditure categories were under budget with the exception of Courts, Registry of Probate, Employee Benefits and Special/Capital Revenues. Refer to Schedule A for more detailed information.

Capital Assets

As of December 31, 2018, the net book value of capital assets recorded by the County increased by \$260,877 from the prior year. The increase was due to capital additions of \$250,491, less net disposals of \$111,829 and current year depreciation expense of \$399,539.

Capital Assets (Net of Depreciation)
As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>\$ Difference</u>	<u>% Difference</u>
Land	\$ 112,405	\$ 112,405	\$ -	0.0%
Buildings and improvements	1,026,285	1,118,093	(91,808)	-8.2%
Vehicles	470,053	522,560	(52,507)	-10.0%
Machinery and equipment	708,205	798,747	(90,542)	-11.3%
Infrastructure	<u>262,318</u>	<u>288,338</u>	<u>(26,020)</u>	-9.0%
Total	<u>\$ 2,579,266</u>	<u>\$ 2,840,143</u>	<u>\$ (260,877)</u>	-9.2%

Debt

At December 31, 2018, the County had no bonds outstanding. Other long-term obligations include accrued compensated absences, other post-employment benefits and net pension liability. Refer to Note 6 of Notes to Financial Statements for more detailed information.

Currently Known Facts, Decisions or Conditions Economic Factors and Next Year's Budget and Rates

The County's unassigned fund balance has fallen below a level sufficient to sustain government operations for a period of approximately two months, yet continue to maintain significant reserves for future capital and program needs. The county is working to rebuild this balance to a sufficient level.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional information, contact the County Finance Office at 32 High St. Wiscasset, Maine 04578.

STATEMENT OF NET POSITION

As of December 31, 2018

STATEMENT A

	<u>Governmental Activities</u>
Assets	
Current assets:	
Cash	\$ 3,612,002
Accounts receivable	255,198
Total current assets	<u>3,867,200</u>
Noncurrent assets:	
Non depreciable capital assets	112,405
Depreciable capital assets	8,527,889
Accumulated depreciation	<u>(6,061,028)</u>
Total noncurrent assets	<u>2,579,266</u>
Total Assets	<u>6,446,466</u>
Deferred Outflows of Resources	
Deferred outflows related to pensions	404,658
Deferred outflows related to other post-employment benefits	<u>1,450,405</u>
Total Deferred Outflows of Resources	<u>1,855,063</u>
Liabilities	
Current liabilities:	
Accounts payable	202,956
Accrued payroll	171,207
Due to State	536
Other current liabilities	-
Accrued compensated absences	<u>14,949</u>
Total current liabilities	<u>389,648</u>
Noncurrent liabilities:	
Accrued compensated absences	298,962
Net Pension liability	1,279,174
Net OPEB liability	<u>4,599,445</u>
Total noncurrent liabilities	<u>6,177,581</u>
Total Liabilities	<u>6,567,229</u>
Deferred Inflows of Resources	
Deferred inflows related to pensions	380,946
Deferred inflows related to other post-employment benefits	<u>611,663</u>
Total Deferred Inflows of Resources	<u>992,609</u>
Net Position	
Invested in capital assets, net of related debt	2,579,266
Restricted	27,673
Unrestricted	<u>(1,865,248)</u>
Total Net Position	<u>\$ 741,691</u>

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

STATEMENT B

Functions / Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Court Services	\$ 135,506	\$ 130,182	\$ -	\$ (5,324)
Emergency Management	233,144	-	102,920	(130,224)
District Attorney	260,665	16,892	-	(243,773)
Commissioners	561,041	21,798	-	(539,243)
County buildings	455,427	-	-	(455,427)
Prisoner Support	2,832,635	10,708	314,069	(2,507,858)
Communications	1,196,464	10,914	47,058	(1,138,492)
Registry of Deeds	240,583	428,351	-	187,768
Registry of Probate	217,408	102,438	-	(114,970)
Community Programs	95,188	-	-	(95,188)
Sheriff's Department	3,035,923	84,338	110,975	(2,840,610)
Employee Benefits	96,905	-	16,557	(80,348)
Planning	209,636	11,000	8,038	(190,598)
Recycling	435,676	125,557	61,340	(248,779)
Insurances	96,386	-	-	(96,386)
Contingency	-	-	-	-
Special Projects / Reserves	449,031	-	394,160	(54,871)
Capital Projects / Reserves	158,807	-	1,418	(157,389)
Debt Service:	-	-	-	-
TBRJ Debt Service	837,850	-	-	(837,850)
TAN Interest	15,985	25,117	-	9,132
Total	\$ 11,564,260	\$ 967,295	\$ 1,056,535	(9,540,430)
General Revenues:				
				9,948,821
Taxes from cities and towns				9,290
Miscellaneous revenues				<u>9,958,111</u>
Total general revenue				<u>9,958,111</u>
Change in Net Position				<u>417,681</u>
Beginning Net Position				<u>324,010</u>
Ending Net Position				<u>\$ 741,691</u>

BALANCE SHEET-GOVERNMENTAL FUNDS

STATEMENT C

As of December 31, 2018

	<u>Major</u>	Other	
	General	Governmental Funds	Total
Assets			
Cash	\$ 3,612,002	\$ -	\$ 3,612,002
Accounts receivable	227,201	27,997	255,198
Due from other funds	-	13,642	13,642
Total Assets	<u>\$ 3,839,203</u>	<u>\$ 41,639</u>	<u>\$ 3,880,842</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	202,956	-	202,956
Accrued payroll	171,207	-	171,207
Due to State	536	-	536
Due to other funds	13,642	-	13,642
Total liabilities	<u>388,341</u>	<u>-</u>	<u>388,341</u>
Fund balances			
Restricted	19,409	8,264	27,673
Committed	1,151,211	21,793	1,173,004
Assigned	181,966	11,582	193,548
Unassigned	2,098,276	-	2,098,276
Total fund balances	<u>3,450,862</u>	<u>41,639</u>	<u>3,492,501</u>
Total Liabilities and Fund Balances	<u>\$ 3,839,203</u>	<u>\$ 41,639</u>	<u>\$ 3,880,842</u>

**RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**

STATEMENT D

As of December 31, 2018

Total governmental funds balances, per Statement C	\$ 3,492,501
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,579,266
Deferred Outflows and Inflows related to pensions	23,712
Deferred Outflows and Inflows related to OPEB	838,742
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Accrued compensated absences	(313,911)
Net OPEB liability	(4,599,445)
Net Pension liability	<u>(1,279,174)</u>
Net position of governmental activities, per Statement A	<u>\$ 741,691</u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

STATEMENT E

For the Year Ended December 31, 2018

	General	Other Governmental Funds	Total
Revenues			
Taxes from cities and towns	\$ 9,948,821	\$ -	\$ 9,948,821
Charges for services	1,364,645	-	1,364,645
Intergovernmental revenues	426,007	208,062	634,069
Interest	25,117	-	25,117
Other revenue	9,290	-	9,290
Total revenues	<u>11,773,880</u>	<u>208,062</u>	<u>11,981,942</u>
Expenditures			
Court Services	135,506	-	135,506
Emergency Management	223,024	-	223,024
District Attorney	260,665	-	260,665
Commissioners	561,041	-	561,041
County buildings	367,862	-	367,862
Prisoner Support	2,830,535	-	2,830,535
Communications	1,153,947	-	1,153,947
Registry of Deeds	237,731	-	237,731
Registry of Probate	217,408	-	217,408
Community Programs	95,188	-	95,188
Sheriff's Department	2,959,428	-	2,959,428
Employee Benefits	96,905	-	96,905
Planning	209,636	-	209,636
Recycling	410,531	-	410,531
Insurances	96,386	-	96,386
Contingency	-	-	-
Special Projects/Reserves	248,371	200,660	449,031
Capital Projects/Reserves	158,807	-	158,807
Debt Service:			
TBRJ Debt Service	837,850	-	837,850
TAN Interest	15,985	-	15,985
Total expenditures	<u>11,116,806</u>	<u>200,660</u>	<u>11,317,466</u>
Change in Fund Balance	657,074	7,402	664,476
Beginning Fund Balance	<u>2,793,788</u>	<u>34,237</u>	<u>2,828,025</u>
Ending Fund Balance	<u>\$ 3,450,862</u>	<u>\$ 41,639</u>	<u>\$ 3,492,501</u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

STATEMENT F

As of December 31, 2018

Net change in total governmental funds balances, per Statement E \$ 664,476

Capital assets acquired during the year are reported as expenditures in the governmental funds, but are not reported as expenses of governmental activities. Instead, they are reported as increases in capital assets in the Statement of Net Position.

Capital asset acquisitions	250,491
Gain/(loss) on disposal of capital assets	(111,829)

Certain expenses and expense adjustments reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Depreciation expense	(399,539)
Change in accrued compensated absences	(9,926)
Change in net pension liability and related deferred outflows and inflows	529,544
Change in accrued post employment benefits and related deferred outflows and inflows	(505,536)

Change in net position of governmental activities, per Statement B \$ 417,681

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
 For the Year Ended December 31, 2018

STATEMENT G

	Pension Liability Trust	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 33,381	\$ 1,163
Investments	491,760	-
TOTAL ASSETS	<u> 525,141</u>	<u> 1,163</u>
LIABILITIES		
Due to specific individuals	<u> -</u>	<u> 1,163</u>
TOTAL LIABILITIES	<u> -</u>	<u> 1,163</u>
NET POSITION		
Total net position held in trust for pensions	<u> \$ 525,141</u>	<u> \$ -</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Lincoln (the County), conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies:

Government-Wide Financial Statements

The statement of net position and statement of activities focuses on the primary government of the County as a whole. All governmental funds are included but are presented using the accrual basis of accounting. Fiduciary funds are excluded from these government-wide financial statements.

Measurement Focus and Basis of Accounting

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

Program revenues include charges to taxpayers who purchase, use, or directly benefit from goods, services, or privileges provided by a given program; and operating or capital grants and contributions that are restricted to meeting the operational or capital requirement of a particular program.

Internal Activity

Amounts reported in the governmental funds as “due to other funds” and “due from other funds” have been eliminated in the statement of net position, except amounts due between the governmental and business-type activities. Any amounts that are “due to” or “due from” the fiduciary funds have been included in the statement of net position.

Capitalization of Assets

For government-wide financial statements, capital assets are valued at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair value on the date of donation. Assets over \$5,000 are capitalized.

Depreciation

For government-wide financial statements, capital assets are depreciated over the assets useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings: 20 – 50 years
Infrastructure: 50 - 100 years
Machinery & Equipment: 3 – 50 years
Vehicles: 3 – 25 years

Property Taxes

Taxes from Cities and Counties are committed on or around May 1st of each year. Taxes are due on or near September 1st. If the taxes are not paid by a City or Town on or before the due date, the County may issue a warrant to the sheriff to levy by distress and sale of real and personal property of any inhabitants.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Fund Financial Statements**Principles Determining Scope of Reporting Entity

The financial statements of the County consist only of the funds of the County. The County has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the County. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

Fund Accounting

The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories, as follows:

General Funds

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

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenues sources that are legally restricted to expenditures for specified purpose.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets received by the County and held in the capacity of a trustee, custodian, or agent.

Pension Liability Trust – The primary purpose of the Pension Liability Trust is to hold money for the purpose of paying the Maine Public Employees Retirement Systems (MEPERS) employee contributions to the MEPERS.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets, generally within sixty days. Property taxes are recorded as revenue when levied even though a portion of the taxes may be collected in subsequent years. Miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Intergovernmental revenues and interest income are accrued when their receipt occurs soon enough after the end of the accounting period so as to be both measurable and available. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Basis of Accounting (Continued)

Exceptions to the general rule include principal and interest on general long-term debt, which is recognized when due. All trust and agency funds are accounted for using the accrual basis of accounting.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosures. Accordingly, actual results could differ from those estimates. None of the estimates used in preparing the financial statements are considered significant.

Budget

The annual budget is the financial plan for the operation of the County for the ensuing annual period. The budget process provides for a professional management approach to the establishment of priorities and implementation of work programs while providing an orderly means for control and evaluation of the financial posture of the government.

The County Commissioners hold a public hearing in the County on the proposed budget no later than 90 days before the end of the County's Fiscal year. At this meeting the budget advisory committee will receive the County Commissioners itemized final estimate in the form of a budget. The budget advisory committee will review the budget and any supplemental information prepared by the department manager and makes any recommendation to the County Commissioners no later than 45 days before the end of the County's fiscal year.

Upon completion of the public hearing and review of budget advisory committee recommendation's the Commissioners may then approve the budget by 2/3 vote of its memberships, in any event, no later than 15 days before the end of the County's fiscal year.

Excess Funds

There is no documented policy on where to hold excess funds.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Allowances for uncollectible accounts are based on management's assessment of the periodic aging of accounts receivable.

Investments

It is the County's policy to state investments at market value at the balance sheet date.

Interfund Receivables and Payables

Interfund activity is reported as either loans or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. All other interfund transactions are treated as transfers. Transfers between governmental funds are eliminated as part of the reconciliation to the government-wide financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Fund Balance

For governmental funds, the nonspendable fund balances represent amounts that will never convert to cash or will not convert to cash to affect the current period; the restricted fund balances represent the amounts that are restricted by external governments, contributors, or external laws; the committed fund balances represent self-imposed limitations by the County Commissioners that must be voted on to be established, modified, or rescinded; the assigned fund balances represent intended use of resources such as encumbrances by the County Administrator that the Administrator feels is necessary to operate the County; and the unassigned fund balances represent anything that does not fit into the above four classifications. The general fund is the only fund that can report a positive unassigned balance.

If expenditures can be applied to either restricted or unrestricted balances, the government's policy is to apply them to restricted balances. If expenditures can be applied to committed, assigned or unassigned, the government's policy is to apply them first to committed balances, then to assigned balances, and any remainder is to be applied to unassigned balances.

The County has not established a policy regarding a minimum fund balance.

Revenues

Tax revenue and other major county revenue sources are susceptible to accrual under the modified accrual basis of accounting. Property tax revenues are recognized in the year for which they are levied. Fees and charges are reported as program revenues for the function that generates them. Grant and contributions are reported as program revenues if their use is restricted to a particular function.

NOTE 2 - CASH**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the County will not be able to recover the value of its deposits or investments that are in the possession of an outside party.

The County currently does not have a policy covering custodial credit risk for deposits. However, the County maintains deposits in qualifying financial institutions that are a member of the FDIC, and the County has an additional municipal deposit collateralization agreement.

At December 31, 2018, the County had a cash balance of \$3,695,378. Of this cash balance, \$350,937 was insured by the federal depository insurance (FDIC), the remaining deposits of \$3,344,441 were insured by a municipal deposit collateralization agreement.

NOTE 3 - INVESTMENTS

At December 31, 2018, the County had the following investments and maturities:

Investment Type	Fair Value	Not Applicable	Maturities		
			< 1 Year	1 - 5 Years	> 5 Years
Equity securities	\$ 306,467	\$ 306,467	\$ -	\$ -	\$ -
Fixed Income	185,293	87,212	24,990	73,091	-
Totals	<u>\$ 491,760</u>	<u>\$ 393,679</u>	<u>\$ 24,990</u>	<u>\$ 73,091</u>	<u>\$ -</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value on an investment. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from fluctuation in interest rates.

Concentration of Credit Risk

The County places no limit on the amount the County may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and Federal agency securities) that represent 5% or more of total investments are as follows:

	% of Total	Fair Value
Dodge & Cox International Stock	13.62%	\$ 66,998
Dodge & Cox Stock	15.66%	77,007
Fidelity Growth Company Fund	17.17%	84,421
Parnassus Mid Cap Fund CLI	8.20%	40,313

Custodial Credit Risk

Custodial credit risk for investments is that, in the event of failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Currently, the County does not have a policy for custodial credit risk for investments.

Credit Risk

Under Maine statute, municipalities may invest in corporate bonds and other obligations of any U.S. or Canadian corporation, provided that the securities are rated within the three highest grades by any rating service approved by the Superintendent of Financial institutions and are payable in U.S. funds. At December 31, 2018, the County's investments in corporate securities were in compliance with this statute.

Fair Value Hierarchy

The County categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 (GASB 72), *Fair Value Measurement and Application*.

NOTE 3 - INVESTMENTS (Continued)

Fair Value Hierarchy (Continued)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The three levels of the fair value hierarchy are as follows:

Level I – Unadjusted quoted prices for identical assets or liabilities in active markets;

Level II – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability;

Level III – Unobservable inputs for the asset or liability, which include management’s own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions risk.

The County had the following fair value measurements as of December 31, 2018:

Investments by fair value level	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Equity securities	\$ 306,467	\$ 306,467	\$ -	\$ -
Fixed Income	185,293	87,212	98,081	-
Totals	<u>\$ 491,760</u>	<u>\$ 393,679</u>	<u>\$ 98,081</u>	<u>\$ -</u>

Equity securities are classified in Level I are valued using prices quoted in active markets for those securities.

Certificates of deposits are classified in Level II are valued using standard inputs consisting of publically reliable sources or using a matrix pricing technique. All other fixed income investments are classified in Level I.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance, as Restated	Additons	Retirements	Ending Balance
<i>Non-depreciable assets</i>				
Land	\$ 112,405	\$ -	\$ -	\$ 112,405
<i>Depreciable assets</i>				
Buildings & Improvements	3,889,072	25,667	-	3,914,739
Vehicles	1,096,732	187,180	(92,496)	1,191,416
Machinery & Equipment	2,932,911	37,644	(29,987)	2,940,568
Infrastructure	481,166	-	-	481,166
	<u>8,399,881</u>	<u>250,491</u>	<u>(122,483)</u>	<u>8,527,889</u>
Total capital assets	8,512,286	250,491	(122,483)	8,640,294
<i>Accumulated Depreciation</i>				
Buildings & Improvements	(2,770,979)	(117,475)	-	(2,888,454)
Vehicles	(574,172)	(147,191)	-	(721,363)
Machinery & Equipment	(2,134,164)	(108,853)	10,654	(2,232,363)
Infrastructure	(192,828)	(26,020)	-	(218,848)
	<u>(5,672,143)</u>	<u>(399,539)</u>	<u>10,654</u>	<u>(6,061,028)</u>
Net capital assets	<u>\$ 2,840,143</u>	<u>\$ (149,048)</u>	<u>\$ (111,829)</u>	<u>\$ 2,579,266</u>

Depreciation was charged to governmental functions as follows:

Emergency Management	\$ 16,383
County Buildings	141,761
Support of Prisoners	3,399
Communicaitons	68,832
Deeds	4,617
Probate	-
Sheriff	123,839
Recycling	40,708
Total	<u>\$ 399,539</u>

NOTE 5 - SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANs or TANs).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs) or grant anticipation notes (GANs).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the General Fund.

Details related to the short-term debt activity for the fiscal year ended December 31, 2018, is as follows:

Type	Purpose	Rate	Due Date	Balance 1/1/18	Issued	Retired	Balance 12/31/18
TAN	Cash flow	1.70%	12/31/2018	\$ -	\$ 2,750,000	\$ 2,750,000	\$ -

Total TAN related interest during the year was \$15,985.

NOTE 6 - LONG-TERM DEBT

Summarized below are the long-term debt liabilities at December 31, 2018:

	Balance 1/1/2018	Additions	Deletions	Balance 12/31/2018	Current Portion
Accrued compensated	\$ 303,985	\$ 9,926	\$ -	\$ 313,911	\$ 14,949
Net OPEB Liability	4,348,042	251,403	-	4,599,445	-
Net pension Liability	1,880,548	-	601,374	1,279,174	-
Totals	<u>\$ 6,532,575</u>	<u>\$ 261,329</u>	<u>\$ 601,374</u>	<u>\$ 6,192,530</u>	<u>\$ 14,949</u>

NOTE 7 - COMPONENTS OF FUND BALANCE

At December 31, 2018, the components of fund balances consisted of the following:

	Restricted	Committed	Assigned	Unassigned
General Fund				
Unassigned Fund Balance	\$ -	\$ -	\$ -	\$ 2,098,276
Assigned for 2019 Expenditure	-	-	170,262	-
Buildings & Grounds Reserve	-	100,256	-	-
Capital Equipment Reserve	-	125,171	-	-
Capital Improvement Reserve	-	126,053	-	-
Civil Process	-	-	-	-
Communications Reserve	-	129,892	-	-
County Map & Promo Reserve	-	3,226	-	-
DA Lost Victims Fund	-	-	-	-
Dare	-	-	205	-
Deeds Preservation	-	166,273	-	-
Education Instruction	-	14,775	-	-
EMA In-kind	-	-	7,004	-
EMA - Project Life Saver	-	-	3,432	-
Hazmat Team	-	-	1,063	-
Hibbert's Gore Reserve	-	3,007	-	-
IT Infrastructure	-	35,392	-	-
Probate Preservation	-	11,421	-	-
Records Preservation	-	27,570	-	-
Recycling Reserve	-	177,868	-	-
Roads & Bridges Reserve	19,409	-	-	-
Sheriff IT Reserve	-	14,402	-	-
Sheriff Training Reserve	-	35,000	-	-
Superior Court Restoration	-	-	-	-
TBRJ Capital Reserve	-	-	-	-
Termination Reserve	-	95,900	-	-
Unemployment Reserve	-	12,526	-	-
Uninsured Loss Reserve	-	72,479	-	-
Special Revenue Funds				
Community Program Reserve	-	21,793	-	-
Drug Forfeiture	-	-	853	-
Faunce Grant Work	-	-	-	-
Heidi K-9	-	-	10,729	-
HSGP 2017	8,264	-	-	-
Total	<u>\$ 27,673</u>	<u>\$ 1,173,004</u>	<u>\$ 193,548</u>	<u>\$ 2,098,276</u>

NOTE 8 - EMPLOYEE BENEFIT PLANSPlan Description

The County is a participant of the Maine Public Employees State Retirement System's (MainePERS or the System) multiple employer cost sharing consolidated retirement plan. Accordingly, due to the consolidation, details of the pension obligation pertaining to the County can no longer be presented. Additional information may be obtained from the MainePERS, 46 State House Station; Augusta, Maine 04333-0046.

As of June 30, 2018, there were 304 employers participating in the plan.

Benefit terms are established in Maine statute; in this case of the PLD Consolidated Plan, an advisory group, also established by statute, reviews the terms of the plan and periodically makes recommendations to the Legislature to amend them. The System's retirement programs provide defined retirement benefits based on members' average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten-year requirement was reduced by legislative action to five years for employees of the PLD). In some cases, vesting occurs on the earning of one year of service credit immediately preceding retirement at or after normal retirement age. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. For PLD members, normal retirement age is 60 or 65. The monthly benefit of members who retire before normal retirement age by virtue of 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 his/her normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employee and teacher members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 2.4%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of December 31, 2018 and 2017 the County reported a liability of \$1,279,174 and \$1,880,548, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating local municipalities, actuarially determined. As of both December 31, 2018 and 2017, the County's proportion, was 0.46%.

For the years ended December 31, 2018 and 2017, the County recognized pension expense of \$109,693 and \$36,285, respectively.

NOTE 8 - EMPLOYEE BENEFIT PLANS (Continued)

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

As of December 31, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	PLD Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 14,049
Change of assumptions	204,166	-
Net difference between projected and actual earnings on pension plan investments	4,005	308,869
Changes in proportion and differences between employer contributions and proportionate share of contributions	63,084	58,028
District contributions subsequent to the measurement date	133,403	-
Total	<u>\$ 404,658</u>	<u>\$ 380,946</u>

Deferred outflows relating to pensions resulting from County contributions subsequent to the measurement date in the amount of \$133,403, as of December 31, 2018, will be recognized as a reduction of the net pension liability in 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2018, will be recognized in pension expense as follows:

Year	PLD Plan
2019	\$ 162,947
2020	17,312
2021	(210,123)
2022	(79,829)
Total	<u>\$ (109,693)</u>

NOTE 8 - EMPLOYEE BENEFIT PLANS (Continued)**Actuarial Methods and Assumptions**

The collective total pension liability for the Plan was determined by an actuarial valuation as of June 30, 2018, using the following methods and assumptions, applied to all periods included in the measurement.

Actuarial Cost Method

The Entry Age Normal actuarial funding method is used to determine costs. Under this funding method, the total employer contribution rate consists of two elements, the normal cost rate and the unfunded actuarial liability (UAL) rate.

The individual entry age normal method is used to determine liabilities. Under the individual entry age normal method, a normal cost rate is calculated for each employee. This rate is determined by taking the value, as of age at entry into the Plan, of the member's projected future benefits, and dividing it by the value, also as of the member's entry age, of his expected future salary. The normal cost for each employee is the product of his pay and his normal cost rate. The normal cost for the group is the sum of the normal costs for all members.

Experience gains and losses, i.e., decreases or increases in liabilities and/or in assets when actual experience differs from the actuarial assumptions, affect the unfunded actuarial accrued liability (UAAL).

Asset Valuation Method

The actuarial valuation employs a technique for determining the actuarial value of assets which dampens the swing in the market value. The specific technique adopted in this valuation recognizes in a given year one-third of the investment return that is different from the actuarial assumption for investment return.

Amortization

The net pension liability of the PLD Consolidated Plan is amortized on a 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.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2018 are as follows:

- *Investment Rate of Return* – 6.75% per annum for the year ended June 30, 2018 and 6.875% for year ended June 30, 2017, compounded annually.
- *Inflation Rate* – 2.75% per annum for the years ended June 30, 2018 and 2017.
- *Annual Salary Increases, Merit, and Inflation*– members of the PLD Consolidated Plan, 2.75% to 9.00% for the years ended June 30, 2018 and 2017.
- *Cost of Living Benefit Increases* – 1.91% for the year ended June 30, 2018 and 2.20% for year ending June 30, 2017 participating local districts
- *Mortality Rates* –For the years ended June 30, 2018 and 2017, for active members and non-disabled retirees of the participating local districts, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used. For all recipients of disability benefits, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used.

NOTE 8 - EMPLOYEE BENEFIT PLANS (Continued)

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 Plan's target asset allocation as of June 30, 2018, are summarized in the following table. Assets of the Plan are commingled for investment purposes.

	Target Allocation	Long-Term Expected Real Rate of Return
Public Equities	30.0%	6.0%
US Government	7.5%	2.3%
Private equity	15.0%	7.6%
Real assets:		
Real estate	10.0%	5.2%
Infrastructure	10.0%	5.3%
Natural Resources	5.0%	5.0%
Traditional Credit	7.5%	3.0%
Alternative Credit	5.0%	4.2%
Diversifiers	10.0%	5.9%

Discount Rate

The discount rate used to measure the collective total pension liability was 6.75% for 2018 and 6.875% for 2017. 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 Plan's fiduciary net position was projected to be available to make all projected future benefit payments to 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 as of June 30, 2018 would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate.

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
County's proportionate share of the net pension liability	\$ 3,014,842	\$ 1,279,174	\$ (343,200)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MainePERS financial report.

NOTE 8 - EMPLOYEE BENEFIT PLANS (Continued)

Financial Reporting

The Plan issues stand-alone financial reports which can be found online at:

<http://www.maineopers.org/Publications/Publications.htm#Annual Reports>

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS – OPEB (GASB 75)

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement established standard for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses. This statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to period of employee service. Note disclosure and required supplementary information requirements about OPEB are also addressed.

General Information about the OPEB Plan

Plan Description: The County, in accordance with its current health insurance company agreement, provides optional health and other benefits to eligible retirees. Benefit provisions for contractual employees are established and amended through negotiations between the County Commissioners and the respective unions. For all other employees, benefit provisions are established and amended by the County Commissioners.

At December 31, 2018, the following employees were covered by the benefit terms:

Active Employees	70
Inactive Employees Entitled to But Not Yet Receiving Benefits	-
Inactive Employees Currently Receiving Benefits	<u>14</u>
Total	84

Total OPEB Liability

The County’s total OPEB liability of \$4,599,445 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs: The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, and other inputs, applied to all periods included in the measurement, unless otherwise specified:

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS – OPEB (GASB 75) (Continued)

Actuarial assumptions and other inputs

Measurement Date	December 31, 2018
Actuarial Cost Method	Entry Age Normal
Discount Rate	3.64%
Inflation Rate	2.50%
Salary Rate Increase	3.00%
Health Care Trend Rates	
PreMedicare-Medical	7.32%
Medicare Eligible Medical	6.39%
Ultimate Health Care Cost Trend Rate	5.00%
Fiscal Year the Ultimate Rate is Reached	Fiscal Year 2032

A rate of 3.64% is used, which is the S&P Municipal Bond 20 Year High-Grade Rate Index as of September 21, 2018.

Mortality rates were based on the RP-2014 Combined Annuitant Mortality Tables for males and females.

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study.

Actuarial Assumptions

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of the most recent actuarial experience study.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at December 31, 2017	\$ 4,348,042
Changes for the year:	
Service Cost	319,209
Interest	141,818
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions of other inputs	(299,957)
Benefit Payments	(74,948)
Other Changes	165,281
Net Changes	<u>251,403</u>
Balance at December 31, 2018	<u>\$ 4,599,445</u>

The Discount Rate and Actuarial Cost Method were changed based on GASB 75 rules. Retiree Contributions were changed due to the revised County policy. Starting per capita costs were updated using most recent premiums. The health care trend rates were reset based on recent experiences. Decrements were changed per AMM allowances. The election at retirement assumptions was changed.

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS – OPEB (GASB 75) (Continued)

Sensitivity Information

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the total OPEB liability of the County, as well as what the County’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current discount rate:

	<u>1% Increase</u>	<u>Valuation Rate</u>	<u>1% Decrease</u>
Total OPEB Liability	\$ 3,014,842	\$ 1,279,174	\$ (343,200)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates: The following presents the total OPEB liability of the County, as well as what the County’s total OPEB liability would be if it were calculated using health-care cost trend rates that 1-percentage-point lower (6.5 percent decreasing to 4.0 percent) or 1-percentage-point higher (8.50 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	<u>1% Increase</u>	<u>Valuation Rate</u>	<u>1% Decrease</u>
Total OPEB Liability	\$ 5,686,966	\$ 4,599,445	\$ 3,770,745

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the County recognized an OPEB expense of \$319,209. At December 31, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected & Actual Experience	\$ -	\$ 80,282
Changes of Assumptions	1,450,405	531,381
Total	\$ 1,450,405	\$ 611,663

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

<u>Fiscal Year Ending:</u>	<u>Outflows</u>	<u>Inflows</u>
December 31, 2019	\$ 202,373	\$ 82,917
December 31, 2012	202,373	82,917
December 31, 2021	202,373	82,917
December 31, 2022	202,373	82,917
December 31, 2023	202,373	82,917
Thereafter	438,540	197,078
Total	\$ 1,450,405	\$ 611,663

NOTE 10 - DEFERRED COMPENSATION PLAN

There is a deferred compensation 457(b) plan sponsored by the County, but as it is administered by nongovernmental third parties and the plan administrators invest plan assets at the direction of the plan's participants, the plan is not reported in the financial statements of the County.

Employees are not required to contribute to the plan, but if the employees choose to contribute, the County will match up to 8% of employee contributions. During the year ended December 31, 2018, the County contributed \$55,769.

NOTE 11 - RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The County, along with numerous other municipalities in the State, is a member of three public entity risk pools in the State currently operating as a common risk management and insurance program for which all political subdivisions in the State of Maine are eligible to participate. The pools provide coverage for worker's compensation, unemployment and property liability insurance. As a member of the pools, the County shares in contributing to the cost of and receiving benefits from a self-insured pooled risk management program. There were no unpaid contributions at year-end. There were no deductible claims for the fiscal year.

The pool agreement permits the pool to make additional assessments to members should there be deficiency in pool assets to meet its liabilities. At this time, the pool foresees no likelihood of an additional assessment for past years.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The County participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the County has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2018 may be impaired. In the opinion of the County, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective agents; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 13 - OVERLAPPING DEBT

The County is contingently responsible for the following debt as of December 31, 2018 (also see Joint Venture note below):

Governmental Unit	Net debt outstanding	County's Percentage	County's share of debt
Lincoln and Sagadahoc Multi-County Jail Authority	\$ 8,630,000	50%	\$ 4,315,000

The debt of Lincoln and Sagadahoc Multi-County Jail Authority is paid through annual assessments to the County. The debt will be fully paid in 2025.

NOTE 14 - JOINT VENTURE

On March 6, 2003 the Maine legislature passed LD 1199, an act to establish the Lincoln and Sagadahoc Multi-County Jail Authority (Jail Authority). The bill authorized the County of Lincoln, Maine and County of Sagadahoc, Maine to form a multi-county jail authority and to issue debt and collect assessments to operate the jail. The jail became the responsibility of the Board of Directors upon completion. The Board of Directors consists of six public members, one from each of the Commissioners Districts; four County Commissioners, two from each County; and two Sheriffs, one from each County. The Board of Directors conducts all of the affairs of the Jail Authority. Upon dissolution of the Jail Authority, by a 2/3 vote of the Board of Directors, the Jail Authority will liquidate assets and liabilities of the Jail Authority. All expenses will be paid and any residual funds will be distributed evenly by the Counties. The Jail Authority is a separate reporting entity and has not been included within the financial statements of the County.

The Jail Authority issued revenue bonds in the amount of \$14,920,000 in 2014. Although the bonds are in the name of the Jail Authority, the Lincoln County Commissioners have passed a resolution authorizing the guarantee of half of the debt service, or \$7,460,000. Lincoln County's share of principal and interest for the fiscal year ended December 31, 2018 was \$620,000, and \$215,850, respectively. Lincoln and Sagadahoc Counties operate under a cost sharing agreement entered into by the commissioners on November 5, 2002, which obligates Lincoln County to share in the operating and capital costs of the jail. The share of operating costs is split 50/50 between the two counties. For the fiscal year ended December 31, 2018, Lincoln County's share was \$2,420,839. In addition to contributions from the two counties, the Jail Authority receives revenues from the boarding of prisoners from outside the two supporting jurisdictions, from various grants and other miscellaneous revenue.

The Jail Authority issues its own financial statements and copies can be obtained from the Jail Authority at 522 Bath Road Wiscasset, Maine 04578.

NOTE 15 - JAIL OPERATIONS

During its 2007 Fiscal Year, the State of Maine enacted legislation known as LD 2080 "An Act to Better Coordinate and Reduce the Cost of the delivery of State and County Correctional Services", located in Public Laws 2007, Chapter 653. This Act has in essence capped what counties can assess their municipalities for taxes to fund their corrections budgets, and will also establish the annual growth limitations for future corrections expenditures. A Board of Overseers at the State of Maine has been appointed to supervise county correction operations. At the present time issues such as the funding of accrued benefits; ownership and maintenance of correction assets; external funding of certain corrections operations; corrections capital/reserve funding and ownership; and the treatment of net position (deficit) have not been specifically addressed in this Act. Any financial and/or other impact on the County cannot be determined at the time of the issuance of this report.

NOTE 16 - SUBSEQUENT EVENTS

In preparing these financial statements, the County has evaluated events and transactions for potential recognition or disclosure through May 21, 2019, the date the financial statements were available to be issued.

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
For the Year Ended December 31, 2018

SCHEDULE A

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes from cities and towns	\$ 10,031,426	\$ 9,948,821	\$ 9,948,821	\$ -
Charges for services	839,381	839,381	1,364,645	525,264
Intergovernmental revenues	676,008	676,008	426,007	(250,001)
Interest	5,000	5,000	25,117	20,117
Other revenue	-	-	9,290	9,290
Total Revenues	11,551,815	11,469,210	11,773,880	304,670
Expenditures				
Current:				
Court Services	133,303	133,303	135,506	(2,203)
Emergency Management	230,473	230,473	223,024	7,449
District Attorney	274,501	274,501	260,665	13,836
Commissioners	581,411	581,411	561,041	20,370
County Buildings	389,963	389,963	367,862	22,101
Prisoner Support	2,926,072	2,926,072	2,830,535	95,537
Communications	1,327,319	1,327,319	1,153,947	173,372
Registry of Deeds	242,850	242,850	237,731	5,119
Registry of Probate	214,043	214,043	217,408	(3,365)
Community Programs	95,188	95,188	95,188	-
Sheriff's Department	3,059,772	3,059,772	2,959,428	100,344
Employee Benefits	89,934	89,934	96,905	(6,971)
Planning	229,842	229,842	209,636	20,206
Recycling	465,324	465,324	410,531	54,793
Insurances	100,000	100,000	96,386	3,614
Contingency	95,000	95,000	-	95,000
Overlay	-	87,657	-	87,657
Special Projects/Reserves	70,000	70,000	248,371	(178,371)
Capital Projects/Reserves	148,970	148,970	158,807	(9,837)
Debt Service:				
TBRJ Debt Service	835,850	835,850	837,850	(2,000)
TAN Interest	42,000	42,000	15,985	26,015
Total Expenditures	11,551,815	11,639,472	11,116,806	522,666
Budgetary Surplus (Deficit)	-	(170,262)	657,074	827,336
Use of Fund Balance				
Assigned	170,262	170,262		
	<u>\$ 170,262</u>	<u>\$ 170,262</u>		

SCHEDULE OF COUNTY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM CONSOLIDATED PLAN

SCHEDULE B

	2018	2017	2016	2015	2014
Proportion of the net pension liability	0.46%	0.46%	0.46%	0.48%	0.50%
Proportionate share of net pension liability	\$ 1,279,174	\$ 1,880,548	\$ 2,449,960	\$ 1,518,429	\$ 7,744
Covered-employee payroll	\$ 2,482,837	\$ 2,593,004	\$ 2,441,522	\$ 2,279,942	\$ 2,536,777
Proportionate share of the net pension liability as a percentage of covered-employee payroll	51.5%	72.5%	100.3%	66.6%	30.5%
Plan fiduciary net position as a percentage of the total pension liability	78.32%	86.42%	81.61%	88.30%	94.10%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF COUNTY CONTRIBUTIONS

SCHEDULE C

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM CONSOLIDATED PLAN

	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 255,903	\$ 235,796	\$ 224,018	\$ 111,717	\$ 118,851
Contributions in relation to the actuarially determined contribution	<u>255,903</u>	<u>(235,793)</u>	<u>(224,018)</u>	<u>(111,717)</u>	<u>(118,851)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,482,837	\$ 2,593,004	\$ 2,441,522	\$ 2,279,942	\$ 2,536,777
Contributions as a percentage of covered-employee payroll	10.3%	9.1%	9.2%	4.9%	4.7%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULES OF NET OPEB LIABILITY AND CONTRIBUTIONS (GASB 75)

SCHEDULE D

	2018	2017
<u>Net OPEB Liability</u>		
Net OPEB liability	\$ 4,599,445	\$ 4,348,042
Covered payroll	3,168,653	3,168,653
Net OPEB liability as a percentage of covered payroll	145.15%	137.22%
Plan fiduciary net position as a percentage of total OPEB liability	0.00%	0.00%
<u>Contributions</u>		
Actuarially determined contribution	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Contributions as a percentage of covered payroll	0.00%	0.00%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See notes to the County financial statements for summary of significant actuarial methods and assumptions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESGeneral

The County is required to have a budget for the General Fund. The County is not required to adopt an annual budget for its special revenues. Budgets for individual special revenues funds are utilized in accordance with the requirement for the grantor agencies.

Basis of Accounting

The modified accrual basis of accounting is used in preparing budgets except when non-cash items are involved. In that case, the non-cash items are omitted from the budget.

NOTE 2 – ORIGINAL AND FINAL BUDGET DIFFERENCES

The County is required by state statute to adopt a budget before December 31st. There were some adjustments that happen between December 31st and when the County committed taxes in May. Overall, there was a budgeted decrease in the budgetary surplus of \$170,262.



**Independent Auditor's 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***

County Commissioners
County of Lincoln, 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 County of Lincoln (the County), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 21, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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.

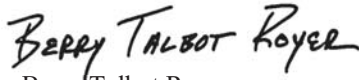
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

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.



Berry Talbot Royer
Falmouth, Maine
Certified Public Accountants
May 21, 2019