

Passamaquoddy Forestry Department  
Communication Letters and  
Audited Financial Statements  
For the Year Ended September 30, 2012

the CPA  
Solution, llc

January 28, 2014

To the Honorable Members of the Joint Tribal Council  
of the Passamaquoddy Tribe  
Princeton, Maine

We have audited the financial statements of the Passamaquoddy Forestry Department for the year ended September 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 12, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Passamaquoddy Forestry Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2012. We noted no transactions entered into by the Passamaquoddy Forestry Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was Management's estimate of the contingent liability owed to the Bureau of Indian Affairs as described in Note 7. We evaluated the key factors and assumptions used to develop the contingent liability estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures

and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 28, 2014.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have attached a copy of our communication of significant deficiencies identified during the audit dated January 28, 2014.

This information is intended solely for the use of the Joint Tribal Council of the Passamaquoddy Tribe and management of Passamaquoddy Forestry Department and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*The CPA Solution, LLC*

The CPA Solution, LLC

the CPA  
*Solution, llc*

To the Honorable Members of the Joint Tribal Council  
Princeton, Maine

In planning and performing our audit of the financial statements of the Passamaquoddy Forestry Department as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Forestry Department's internal control over financial reporting (internal control) as a basis for designing 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 Forestry Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Forestry Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies in the Forestry Department's internal control presented in 'Attachment A' to this letter to be significant deficiencies.

This communication is intended solely for the information and use of management, the Joint Tribal Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*The CPA Solution, LLC*

Certified Public Accountants

January 28, 2014

### **1.) Employer Provided Vehicles**

The Forestry Department provides its employees company owned vehicles in carrying out the daily activities and functions of the department. Management has indicated that the vehicles are provided for the convenience of the employer and for increasing work efficiencies within the department. We recommend that a formal policy and approval system be implemented to document and ensure that vehicles are provided solely for the convenience of the employer and include information such as the date and business purpose of all related travel. The policy and procedures should address the issue surrounding personal use of company provided vehicles as well as an acceptable method for computing the value of personal use of company provided vehicles as applicable. All policies should be reviewed to ensure compliance with current IRS guidelines (additional information can be found on the IRS website and via Publication 15B). The policy may be combined with an Accounting and Procedural Manual or may be developed as a stand-alone document.

### **2.) Complete Set of Accounting Records-Payroll Cash Account**

The Forestry Department uses one cash account to record all payroll activity. For the current fiscal year, the activity in the payroll cash account was only partially recorded while the cash account was not reconciled throughout the year. The processing of payroll is performed off-site by an independent payroll company who processes payroll checks, deposits federal and state tax liabilities, and prepares/files the necessary payroll tax returns.

Not recording the payroll activity in the financial system makes it virtually impossible to evaluate the financial position of the enterprise throughout the year. In addition, the cash position of Forestry is overstated with minimal controls being utilized over the payroll bank account.

The bank statement activity should be reviewed, analyzed, and reconciled on a monthly basis within the accounting system to ensure all receipts and disbursements are appropriate, authorized, and recorded. The payroll activity should be recorded on a weekly basis as payroll expenditures are incurred. Considerable effort is expended at year end to record the payroll activity in the financial system.

### **3.) Management Oversight and Review of Financial Information**

One of the strongest internal controls an organization can employ is the review of financial information at regular intervals throughout the fiscal year by the entity with oversight responsibilities. An equally important component to the review process includes a formally approved budget with appropriate detail that allows the oversight agency the ability to monitor activities throughout the year.

During our audit, we were not provided with evidence that the financial activities of the Forestry Department were reviewed on a regular basis nor that a budget was approved by the Joint Tribal Council for the fiscal year ending September 30, 2012. We suggest that, at a minimum, the Joint Tribal Council formally approve an annual budget as well as be provided with a balance sheet, income statement, and statement of cash flow for review and comment on a quarterly basis. Doing so will help to ensure appropriate oversight of the financial activities of the Forestry Department throughout the fiscal year.

#### **4.) Grant/Contract Monitoring**

The Forestry Department is in receipt of grant funds on a regular basis from the Bureau of Indian Affairs and United States Department of Agriculture; during the current fiscal year approximately \$ 414,000 in federal assistance was received by the Forestry Department. Based on the level of assistance provided it is imperative that the accounting records related to grant activity be properly segregated, maintained, and reconciled in a timely manner.

During the year, we noted receipts which were not appropriately identified as well as expenses which were coded to incorrect accounts. Part of the reconciliation process should include a review of current grant agreements in place, amount of funds received, funds expended, and remaining funds left to expend. Management, as part of the financial review process, should analyze the grant activity to ensure the accounting data has been properly recorded and maintained for each grant award.

#### **5.) Formal Personnel Policies**

The personnel policies currently in place at the Forestry Department have been established over several years and are based in concept on policies established at Indian Township Tribal Government. However, there are variations from the policies in place at Indian Township Tribal Government and Forestry. When requested during the audit, a written copy of the formal policies in place was not provided nor could it be determined what policies had been approved by the Joint Tribal Council.

We suggest management prepare a formal set of personnel policies to be submitted to the Joint Tribal Council for approval. The policies should address all personnel matters, specifically, available fringe benefits (vacation, retirement, health insurance, etc.). A formal set of personnel policies will eliminate any ambiguities that may exist and will help to ensure the fair and equitable treatment of all employees.

#### **6.) Compensating Controls**

Due to the number of employees and size of the Forestry operation, the accountant is responsible for preparing cash receipts, preparing disbursements, recording deposit and disbursement transactions into the accounting system, and reconciling the bank statement.

Segregation of duties is a commonly used and accepted internal control practice designed to reduce the risk that any one person will be able to carry out and conceal errors or fraud in the normal course of their duties without being detected. The three general categories of duties include the following:

- Custody of assets
- Authorizing or approving transactions affecting those assets
- Recording or reporting of related transactions

In an ideal environment, an employee would only be involved in one of the three general categories. In a small office environment, it is not always practical nor cost effective to segregate each of the above functions. In these instances, compensating controls should be implemented which are designed to reduce the risk of errors or fraud not being detected.

We suggest, at a minimum, the follow compensating controls be implemented:

- The Forestry Director should receive all bank statements and performs an initial review of activity for the month. Once the activity has been reviewed, the Director should initial the bank statement and forward to the accountant.

- Once the bank reconciliation has been performed, the detailed reconciliation should be reviewed in its entirety by the Director, reviewed to the corresponding bank statement, and formally approved by initialing the bank reconciliation report.

### **7.) Proper supporting documentation**

During our review of disbursements selected for testing, we noted the following:

- (3) disbursements did not contain supporting documentation. All 3 disbursements were related to fringe benefits and were paid by electronic withdrawal; the disbursements totaled \$ 2,324.
- (1) disbursement included an invoice and a separate document labelled an inquiry window received from the vendor. The disbursement was less than the invoice but greater than the inquiry window. We could not determine how the actual disbursement of \$ 960 was derived.

We suggest that all disbursements include a requisition and supporting documentation that indicates the business purpose and nature of the payment. Supporting documentation should be properly filed in a manner that allows for efficient retrieval. Should management determine that an invoice is incorrect, a revised invoice should be requested from the vendor that clearly supports the disbursement request.

### **8.) Accounting System**

The department currently utilizes QuickBooks to record, maintain, and process accounting transactions as well as produce internal financial reports.

We suggest that the current system should be reviewed, specifically the following areas:

- The Chart of Accounts should be reviewed and generic categories, such as grant expenses, should be modified. Expense classifications should be based on functional line items and account numbers should be utilized in conjunction with account descriptions. The chart of accounts should be organized in a way that allows for a well-organized financial report for management and other users. A thorough review of the current chart of accounts should be performed by management; accounts no longer needed should be consolidated or designated as inactive. It may be desirable to utilize subaccounts for certain line items such as promissory notes.
- The Class function in QuickBooks should be utilized as an additional way to categorize income and expenses for separate components of existing operations. An example would include breaking out federal awards from general operations.
- Job costing can be utilized to track expenses and revenues for individual grants.

The current account structure is overly complex and difficult to analyze; the system needs to be modified to allow management and the Joint Tribal Council the ability to monitor financial performance and provide proper oversight review including comparing actual results with an approved budget. Additional training for employees is advised in regards to utilizing QuickBooks in the most efficient manner. A written standard operating procedural manual should be developed in regards to processing transactions within QuickBooks which can be utilized as a reference manual for future use.

### **9.) Accounting Policies and Procedures Manual**

Due to the turnover in management, accounting personnel, lack of formal documentation of policies, and the oversight responsibilities of the Joint Tribal Council, we suggest that a formal Accounting Policies and Procedures Manual should be developed and approved by the Joint Tribal Council. The Policy and Procedural Manual, should include but is not limited to, the following areas:

- Division of Duties
- Authorized Check Signors
- Cash Receipts Procedures
- Cash Disbursements Procedures
- Reconciliations
- Petty Cash Fund, if applicable
- Purchases
- Fixed Asset Management
- Payroll
- Financial Reporting / Month End checklist
- Grant Reporting / Compliance
- Fiscal Policy Statements
- Computer System Backup Procedures

The purpose of the manual is to document the financial principles and policies governing Forestry's accounting practices as well as provides a foundation for a system of accounting internal controls. The manual will assist in providing employees guidance and allows work to be accomplished efficiently and consistently.

### **10.) Promissory Notes**

The department has an internal unwritten policy to provide loans to tribal loggers, terms are as follows:

- Loan amount not to exceed \$ 1,500
- In extreme cases, the loan may be in excess of \$ 1,500 as approved by the Forestry Supervisor
- Loans are evidenced by a signed promissory note
- Standard repayment terms are \$ 100 per load

During our analysis of transactions throughout the year we noted the following:

- (2) balances were reported as overpaid totaling \$ 200; we could not determine if this was an accounting error or if the balance is owed to the tribal loggers.
- A journal entry was prepared for (1) tribal logger reducing the balance owed; supporting documentation in regards to the credit was not provided.

We suggest, should the practice of promissory notes be continued, that additional controls be implemented, including the following:



- Balances are reviewed on a monthly basis by management and appropriately reconciled. Journal entries require appropriate documentation and approval.
- Formal policies should be developed outlining the conditions in which funds are advanced to tribal loggers, dollar amounts, repayment terms, as well as circumstances which lead to loans in excess of the standard limit. The policies should be reviewed and approved by the Joint Tribal Council.
- A monthly statement should be provided to each tribal logger.

#### **11.) Bureau of Indian Affairs – Contingent Liability**

The Forestry Department has established a verbal agreement with the Bureau of Indian Affairs to pay back grant funds that were received in prior years (fiscal years 2002-2006) and not expended for forestry purposes. The agreement allows the Department to incur expenses for the intended purpose of the original grant and reduce the balance owed to the Bureau. The expenses incurred are reviewed, along with the scope of work, by the Bureau prior to a reduction in balance owed. The latest correspondence from the Bureau was as of September 30, 2009, for which the balance owed equaled \$ 267,047.

We suggest that management communicate with officials at BIA no less than on an annual basis. Internal records indicate the balance owed on the former contracts equals approximately \$ 170,000; however these expenditures or the work accomplished has not been approved by the BIA. The Department has (3) fiscal years of data for which supporting documentation must be obtained and as time passes the ability to retrieve supporting internal documentation becomes increasingly difficult. Based on the dollar amount owed to BIA, it is imperative that communication occurs at least on an annual basis.

#### **12.) Pestomuhkati Mawuhkah**

On September 19, 2005, articles of incorporation were filed with the State of Maine, for Pestomuhkati Mawuhkah, a public benefit corporation formed to administer common Passamaquoddy Tribal affairs and administer forestry affairs for the Passamaquoddy Tribe. The Corporation was organized exclusively for charitable, religious, educational, and scientific purposes with the intent of being exempt from federal income tax under section 501(C)(3) of the Internal Revenue Code.

In May of 2011, a representative of the State of Maine Attorney General contacted the organization requesting minutes of board meetings and copies of Form 990, Return of Organization Exempt from Income Tax, required to be filed with the Internal Revenue Service. We were not provided with additional correspondence since this date other than reviewing the history of annual report filings with the State of Maine.

The issue surrounding the original intent of the organization needs to be reviewed and researched along with a determination on whether the entity owns or holds any assets. We strongly encourage consultation with an attorney in regards to this matter.

Should it be determined the entity has no purpose in relation to forestry operations, communication should occur with the State of Maine and the entity should be dissolved. It is important to note that the State of Maine has the legal authority to dissolve the corporation and transfer corporate assets to a Maine nonprofit with similar purposes. Should it be determined there is a purpose to the organization, there are multiple filing requirements with the Internal Revenue Service that must be completed immediately and requires further consultation.

This report is intended solely for the information and use of Management and the Joint Tribal Council of the Passamaquoddy Tribe and is not intended to be and should not be used by anyone other than these specified parties.

Passamaquoddy Forestry Department  
Audited Financial Statements  
For the Year Ended September 30, 2012

Passamaquoddy Forestry  
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SEPTEMBER 30, 2012

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Joint Tribal Council  
Princeton, Maine

We have audited the accompanying financial statements of the Passamaquoddy Forestry Department, a component unit of the Joint Tribal Council of the Passamaquoddy Tribe, as of and for the year ended September 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Passamaquoddy Forestry Department's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Passamaquoddy Forestry Department and do not purport to, and do not, present fairly the financial position of the Joint Tribal Council of the Passamaquoddy Tribe, as of September 30, 2012, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Passamaquoddy Forestry Department, a component unit of the Joint Tribal Council of the Passamaquoddy Tribe, as of September 30, 2012, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*The CPA Solution, LLC*  
Certified Public Accountants  
January 28, 2014

PASSAMAQUODDY FORESTRY DEPARTMENT  
BALANCE SHEET  
SEPTEMBER 30, 2012

## ASSETS

Current assets:	
Cash-Unrestricted	\$ 9,129
Receivables:	
Contracts/Grants	45,519
Stumpage	2,855
Promissory Notes-Tribal Loggers	5,549
Related Party-Indian Township	1,155
Investments	42,770
Total current assets	<u>106,977</u>
Noncurrent assets:	
Cash-Restricted	28,540
Property, Plant, and Equipment (net of accumulated depreciation)	131,772
Due from Joint Tribal Council	189,952
Total noncurrent assets	<u>350,264</u>
 TOTAL ASSETS	 <u>\$ 457,241</u>

## LIABILITIES

Current liabilities:	
Accounts payable	\$ 56,530
Deferred revenue	7,929
Accrued payroll	4,000
Note payable-current	25,248
Total current liabilities	<u>93,707</u>
Noncurrent liabilities:	
Accrued Compensation	11,675
Retainage-Performance bonds	5,500
Retainage-Advanced stumpage	6,081
Note payable-long term	60,141
Grant Repayment	189,952
Total noncurrent liabilities	<u>273,349</u>
 TOTAL LIABILITIES	 <u>367,056</u>
NET ASSETS	
Invested in capital assets, net of related debt	46,383
Unrestricted	43,802
 TOTAL NET ASSETS	 <u>90,185</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 457,241</u>

\* The accompanying notes are an integral part of these financial statements.

\*\* The Passamaquoddy Forestry Department is a component unit of the Joint Tribal Council of the Passamaquoddy Tribe.

PASSAMAQUODDY FORESTRY DEPARTMENT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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OPERATING REVENUE:	
Stumpage	\$ 478,335
TOTAL OPERATING REVENUE	<u>478,335</u>
OPERATING EXPENSES:	
Salaries	205,537
Fringe benefits	86,753
Travel & training	9,790
Supplies	18,629
Occupancy	12,895
Legal & accounting	11,577
Professional fees & contractual services	114,646
Administrative	11,456
Vehicle	33,394
Donations	6,800
Interest	3,454
Depreciation	36,740
TOTAL OPERATING EXPENSES	<u>551,671</u>
OPERATING INCOME (LOSS)	(73,336)
NON-OPERATING REVENUES AND EXPENSES	
Federal and state grants/contracts revenue	413,945
Federal and state grants/contracts expenditures	(399,041)
Interest and other income	146
TOTAL NON-OPERATING REVENUE AND EXPENSES	<u>15,050</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(58,286)</u>
NET ASSETS - OCTOBER 1	148,471
NET ASSETS - SEPTEMBER 30	<u>\$ 90,185</u>

\* The accompanying notes are an integral part of these financial statements.

\*\* The Passamaquoddy Forestry Department is a component unit of the Joint Tribal Council of the Passamaquoddy Tribe.

PASSAMAQUODDY FORESTRY DEPARTMENT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 519,811
Payments to vendors and related parties	(200,695)
Payments to employees for salaries and fringe	(316,565)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	<u>2,551</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Federal and state grants received	384,078
Federal and state grants expended	(399,040)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(14,962)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments	(24,381)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(24,381)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
(Purchase)/Sale of investments	(39,916)
Interest income	146
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(39,770)</u>
NET INCREASE <DECREASE> IN CASH	(76,562)
CASH & CASH EQUIVALENTS - OCTOBER 1, 2011	<u>114,231</u>
CASH & CASH EQUIVALENTS - SEPTEMBER 30, 2012	<u>\$ 37,669</u>
RECONCILIATION OF OPERATING INCOME	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (73,336)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	36,740
Changes in operating assets and liabilities:	
(Increase) Decrease in receivables	41,476
(Increase) Decrease in prepaids	5,235
(Decrease) Increase in accounts payable	16,711
(Decrease) Increase in accrued expenses	(24,275)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,551</u>
Supplemental disclosures:	
Interest paid	\$ 3,454

\* The accompanying notes are an integral part of these financial statements.

\*\* The Passamaquoddy Forestry Department is a component unit of the Joint Tribal Council of the Passamaquoddy Tribe.



PASSAMQUODDY FORESTRY DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Passamaquoddy Forestry Department provides forest services for lands owned by and held in trust for the Joint Tribal Council of the Passamaquoddy Tribe (JTC). The services it provides are funded primarily through the collection of stumpage from Tribal loggers and independent contracts.

The Forestry Department is a component unit of JTC. JTC is the governing body of the Passamaquoddy Tribe. The Tribe has separate governing bodies at two reservations: Pleasant Point located in Perry, Maine and Indian Township located in Princeton, Maine. These separate governing bodies combine to govern the affairs of the JTC.

The accounting policies of the Passamaquoddy Forestry Department conform with generally accepted accounting principles. Following is a summary of the significant policies:

Principles Determining Scope of Reporting Entity

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

Basic Financial Statements - Fund Financial Statements

The financial transactions of the Passamaquoddy Forestry Department are reported in an individual fund in the fund financial statements. The fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenses.

Fund Type

The Passamaquoddy Forestry Department records all activities in a proprietary fund type. The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Operating revenues include charges for stumpage, contract services, and other miscellaneous fees which are a direct result of the proprietary activity. Nonoperating revenues are any revenues which are generated outside of the general proprietary activity, i.e. grant awards and interest income.

The proprietary fund type used by the Passamaquoddy Forestry Department is an enterprise fund. An enterprise fund is required to be used to account for operations for

PASSAMQUODDY FORESTRY DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. Using an enterprise fund is appropriate since the periodic determination of revenues earned, expenses incurred, and net income is desired for the purpose of facilitating management control and accountability.

When both restricted and unrestricted resources are available for use, restricted resources are utilized first, then unrestricted resources as they are needed.

Basis of Accounting

Basis of accounting refers to when revenues and 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.

Fund accounting for the Enterprise Fund requires the full accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Use of Estimates

The preparation of general purpose financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables

Receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. There is no current provision required for possible bad debts.

PASSAMQUODDY FORESTRY DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

Inventory

Inventory consists of expendable supplies and is expensed when purchased due to the fact that material levels of inventory are not maintained.

Prepaid Items

Payments made to vendors for services that benefit periods beyond the end of the fiscal year are recorded as prepaid items.

Deferred Revenue

The Passamaquoddy Forestry Department report deferred revenue in connection with resources that have been received, but not yet earned, related to federal contracts.

Compensated absences

Employees accumulate vacation, sick, personal, and flex time for subsequent use or for payment upon termination or retirement. Expenses to be paid in future periods are reported as accrued compensation as time is earned.

Retainage

Retainage in the liability section of the balance sheet consists of performance bonds and advanced stumpage received from logging contractors. The performance bonds and advanced stumpage are received to ensure compliance with the terms of the contract. Upon satisfactory completion of the contract, the retained funds are returned to the logging contractors.

Fund equity

Fund equity is classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component. Accumulated depreciation and the outstanding balance of debt that are attributable to the acquisition, improvement of these assets reduce this category.

Restricted – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law or legislation.

PASSAMQUODDY FORESTRY DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**

Fund equity continued

Unrestricted – This category represents the net assets which are not restricted for any project or other purpose. A deficit will require future funding.

Subsequent events

Management has evaluated events, if any, that have occurred subsequent to September 30, 2012 through January 28, 2014, the date the financial statements were available to be issued, and included information in the notes to the financial statements related to any identifiable events, if necessary.

Amortization

The discount under the noninterest bearing note will be amortized over the 5-year term of the note using the interest method.

**NOTE 2 - CASH**

At year end, cash and cash equivalents consisted of a checking and savings accounts totaling \$ 37,669; \$22,500 of the cash balance was restricted for a letter of credit (see note 11) and \$6,040 of the cash balance was restricted for retainage related to ongoing stumpage contracts with logging contractors. These funds are retained to ensure compliance with terms of existing logging contracts. Once the contracts are satisfactorily completed, these funds will be returned to the logging contractors.

The checking and savings accounts were 100% FDIC insured.

For purposes of the statement of cash flows, the Company considers all cash and other highly liquid investments with initial maturities of three months or less when purchased to be cash equivalents.

**NOTE 3 – CAPITAL ASSETS AND DEPRECIATION EXPENSE**

Capital assets purchased or acquired with an original cost of \$5,000 or more that have a useful life of one year or greater are reported at historical cost. Depreciation is provided using the straight line method over the asset's estimated useful life which typically range from 5 – 7 years.

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**NOTE 3 – CAPITAL ASSETS AND DEPRECIATION EXPENSE continued**

Capital asset activity for the year ended September 30, 2012 consisted of the following:

	<u>10/1/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>9/30/2012</u>
Vehicles	\$ 152,974	\$ -	\$ (8,530)	\$ 144,444
Equipment	54,956	-	-	54,956
Accumulated Depreciation	(30,888)	(36,740)	-	(67,628)
Totals	<u>\$ 177,042</u>	<u>\$ (36,740)</u>	<u>\$ (8,530)</u>	<u>\$ 131,772</u>

Depreciation expense recorded for 2012 totaled \$ 36,740.

**NOTE 4 – RELATED PARTY TRANSACTIONS/DISTRIBUTIONS TO PLEASANT POINT AND INDIAN TOWNSHIP**

The Passamaquoddy Forestry Department is a component unit of JTC, the governing body of the Passamaquoddy Tribe. As indicated in Note 1, the Tribe has separate governing bodies at two reservations: Pleasant Point located in Perry, Maine and Indian Township located in Princeton, Maine. Pleasant Point and Indian Township are related parties to the Forestry Department for financial statement purposes. At September 30, 2012, the Department has a related party receivable from Indian Township totaling \$1,155.

**NOTE 5 – INVESTMENTS**

The Bureau of Indian Affairs (BIA) holds investment funds in trust for the Forestry Department. The United States code of federal regulations requires 10% of stumpage revenue be sent to BIA to be held in trust. These funds are then eligible for release back to Forestry upon BIA receiving a JTC resolution detailing the purpose of the funds and authorizing their release. At September 30, 2012, BIA was holding \$ 42,770 in United States Treasury obligations on behalf of the Forestry Department.

**NOTE 6 –RETIREMENT PLAN**

The Forestry Department has established a 403(b) defined contribution retirement plan, administered by an independent plan administrator. The plan mandates that enrolled employees can contribute up to the maximum allowed by law. The company is not required to make matching contributions in any plan year, but can contribute a maximum of 4% of compensation. During the year ended September 30, 2012, the company contributed the maximum 4%.

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**NOTE 7 – DUE FROM JOINT TRIBAL COUNCIL AND GRANT REPAYMENT LIABILITY**

In prior years, the Joint Tribal Council was the recipient of several Bureau of Indian Affairs grants related to forestry operations. As of September 30, 2005, \$457,754 of grants received by the Joint Tribal Council had not been expended for forestry purposes. Consequently, Joint Tribal Council owes the Forestry Department for these unexpended funds.

The Forestry Department has established a verbal agreement with the Bureau to pay back these funds by incurring expenses for the intended purpose of the original grants; the expenses are periodically reviewed by the Bureau as well as the scope of work performed with no defined time limit on when expenses may be incurred. The most recent repayment amount agreed upon by representatives of the Bureau was as of September 30, 2009 equaling \$ 267,047. As of September 30, 2012, the estimated balance owed to the Bureau of Indian Affairs equaled \$ 189,952 which includes expenditures incurred in fiscal years 2010 and 2011 of \$ 62,759 and \$ 14,336, respectively. The Department is in current negotiations with the Bureau on reviewing cost information for fiscal years 2010, 2011, and 2012.

**NOTE 8 – NOTES PAYABLE**

Note Payable activity for the year ended September 30, 2012 consisted of the following:

	<u>10/1/2011</u>		<u>Increases</u>		<u>Decreases</u>		<u>9/30/2012</u>		<u>Due &lt; 1 Yr.</u>
Toyota Financial	\$ 109,770	\$	-	\$	(24,381)	\$	85,389	\$	25,248

The Note Payable relates to a vehicle loan with Toyota Financial Services Corporation.

**Toyota Financial Services Corporation Note Payable**-The loan originated on January 19, 2011, with a face value of \$139,176; the loan is noninterest bearing. To reflect the time value of money, the note reflects future payments discounted at an imputed interest rate of 4%, which was the estimated long-term borrowing rate in effect at origination. The loan requires 60 monthly payments of \$2,319.59 and matures in January 2016. Proceeds of the note were used to purchase four Toyota trucks which represent the collateral on the note.

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**NOTE 8 – NOTES PAYABLE continued**

The following is a summary of future principal and interest requirements for the next five fiscal years ending September 30:

		<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2013	\$	25,248	\$	2,587	\$	27,835
2014		26,146		1,689		27,835
2015		27,050		759		27,809
2016		6,945		41		6,986

**NOTE 9 – OTHER NONCURRENT LIABILITIES**

Activity for other noncurrent liabilities consisted of the following:

	<u>10/1/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>9/30/2012</u>
Retainage	\$ 11,581	\$ -	\$ -	\$ 11,581
Grant Repayment - BIA	189,952	-	-	189,952
Accrued Compensation	25,393	-	(13,718)	11,675
	<u>\$ 226,926</u>	<u>\$ -</u>	<u>\$ (13,718)</u>	<u>\$ 213,208</u>

**NOTE 10 – RENTAL**

The Forestry Department rents a satellite office from Jackman Lumber for \$300 per month. The rental is month to month.

**NOTE 11 – LETTER OF CREDIT**

The Forestry Department has established an irrevocable letter of credit at Bangor Savings Bank in favor of the Passamaquoddy Joint Tribal Council (beneficiary). The letter of credit was established in the aggregate amount of \$22,500 to act as a performance bond for tribal loggers related to the East Shore Timber Sale. The letter of credit is secured by a \$22,500 certificate of deposit currently deposited at Bangor Savings Bank. The letter of credit can be drawn upon if tribal loggers fail to meet performance requirements at the East Shore Timber site. The letter of credit was not drawn upon during the year ended September 30, 2012.

**NOTE 12 – IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES**

In December 2010, the GASB issued Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements that supersedes Statement No. 20.

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**NOTE 12 – IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES  
continued**

Pending implementation of Statement 62, enterprise funds and business-type activities elect to apply post November 30, 1989 FASB Statements and Interpretations that do not conflict or contradict GASB pronouncements. Statement 62 is effective for financial statements for periods beginning after December 15, 2011. Management believes the implementation of GASB 62 will have minimal impact on the Tribe's financial statements.

In June 2011, the GASB issued Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB 63 established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The guidance also discusses how net position, rather than net assets, should be displayed. The new framework will serve to standardize the presentation of deferred balances and their effects on a government's net position. Net position will continue to be displayed in three components, similar to those currently required for net assets. The statement is effective for periods beginning after December 15, 2011. Management believes the implementation of GASB 63 will have minimal impact on the Tribe's financial statements.