MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

Michael R. Goodwin, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

October 2013

TO: Senator Colleen M. Lachowicz, Senate Chair
Representative Anne P. Graham, House Chair

FROM: Michael R. Goodwin, Executive Director

RE: Governmental Evaluation Act review

Enclosed please find reports, audits, and other materials in response to the Committee's request for information and a self-evaluation from the Maine Governmental Facilities Authority for the Committee's review of the Authority pursuant to the Governmental Evaluation Act. The enclosures and the material in this memo are directed toward providing the Committee with information to address the eleven elements in the program evaluation report. If there is further information the Authority can provide the Committee or questions to which we might respond, please let me know.

A. Enabling Legislation: Enclosed are twenty copies of the Authority's enabling legislation found in MRSA Title 4, Chapter 33, Section 1601 et.sec., The Maine Governmental Facilities Authority Act. The Authority was originally created in 1987 as the Maine Court Facilities Authority. In 1997, the Maine Court Facilities Act was amended and re-named to create the Maine Governmental Facilities Authority.

B. Pursuant to the Act the Authority has a single program to provide municipal bond financing, normally using tax-exempt bonds, for capital projects as specifically authorized on a project by project basis by an act of the Legislature, for governmental facilities as used by the Judicial, Legislative, and Executive Branches of Maine State Government. (Enclosed are reports showing all of the projects funded by the Authority since 1988 and all of the bonds sales accomplished by the Authority). The goal of the Authority is to sell tax exempt municipal bonds in the national capital markets, in a timely fashion at the lowest cost available in the market, to provide cost effective capital for the construction of Court facilities and other governmental facilities within the State. The pricing of the Authority's various bond sales at competitive prices indicates the accomplishment of that goal.

C. Organizational Structure. The Authority is created in the Act as an instrumentality of the State with a Board of Commissioners and an Executive Director. The Board of Commissioners consists of five members with two ex-officio members, the Commissioner of Administration and Finance and the State Treasurer, and three public members. The currently serving public members are: Timothy Thompson, Joel

Allumbaugh, and Stacey Morrison. The Act provides that the Executive Director of the Maine Municipal Bond Bank shall serve as Executive Director of the Authority.

The Authority is a beneficiary of a joint administrative group that is the result of a cooperative venture among the Maine Municipal Bond Bank, Maine Health and Higher Educational Facilities Authority, Maine Public Utility Finance Bank and the Maine Governmental Facilities Authority. One person serves as the Executive Director of each of the four entities supervising a joint staff of nineteen people. On a full time equivalent basis (FTE) the Authority has under its current budget, one point zero five (1.05) FTEs in its budget. Among the shared staff no one employee allocates more than thirty percent (30%) of his or her time to the Authority. One employee, the Accounting Administrator assigned to the Authority allocates twenty nine percent of his time to the Authority. Two other employees, the Program Officer and Program Assistant, allocate ten percent and fifteen percent, respectively, of their time to the Authority. The balance of the FTE total comes from the Executive Director, computer services, receptionist and similar shared activities. All of the employees are hired by the Maine Municipal Bond Bank and their services are contracted for by the Authority. The Authority receives no direct appropriation from the General Fund to pay for its operations. The Authority assesses origination and loan servicing fees to its borrowers to pay for its operations. All employees are members of a Participating Local District created with the Maine State Retirement System by the Maine Municipal Bond Bank.

D. Compliance with Health and Safety Laws: The Authority requires through its loan agreements and leases with its borrowers that they must comply with all applicable federal, state and local laws and regulations, including those covering health and safety during construction and after occupancy. These compliance requirements include ADA and OSHA. The Authority's office space is in compliance with current ADA and OSHA workplace standards.

E. Ten Year Financial History: Under the terms of the Authority's contracts with its Bondholders or bond resolutions, it is required to have independent financial audits undertaken every year. Enclosed are copies of the Authority's audits for the last ten years through June 30, 2013.

F. Regulatory Agenda and Rules: The Authority has no rules pending on the Regulatory Agenda and has not adopted any rules under the Administrative Procedures Act. Loan requirements for Authority borrowers such as borrower eligibility and project activity are required by the Act to be made individually for each project and borrower by a separate act of the Legislature specifically authorizing that borrower to undertake a specific project within a specific authorized amount.

G. Coordination: At the center of the Authority's work is providing money for capital projects to be undertaken by the three elements of State government. A successful financing for an authorized project demands that the Authority work in close cooperation with that element of State government undertaking the specific project and with the Department of Administration and Finance to assure that money is available in a timely fashion to pay for the project costs and that the structure for ongoing lease or loan payments that in turn will be used to pay bondholders is structured in the most effective and efficient way for the operations of State government and the individual branch of State government or department of State government whose budget covers the ongoing use of the completed project. In particular, the Authority has established a strong working relationship with the Judicial Branch through the Administrative Office of the Courts to allow for close coordination between the Authority and the most regular participant in our services.

In addition, the Authority has established a close working relationship with the Maine Municipal Bond Bank, Maine Health and Higher Educational Facilities Authority and Maine Public Utility Finance Bank through its joint staff arrangements. This coordination of staff and office space has resulted in substantial operational cost savings for the Authority while simultaneously assuring the highest level of professional skills are at the Authority's disposal in what even in the generally somewhat arcane area of public finance is the specialized financing structure of lease appropriation debt. This coordination has eliminated the duplication of effort that would have resulted had the Authority not coordinated its work with these other entities.

H. Constituencies Served: The constituencies served by the Authority are generally defined in the Act as the three branches of State government and specifically identified in the statutory authorization required for each financing the Authority undertakes.

I. Private Services: The Authority makes extensive use of the private sector in the delivery of its services. All of its legal, banking, underwriting, banking trustee, auditing, and printing services amongst others are provided by the private sector. The extensive use of the private sector for the accomplishment of many bond issuance and associated activities, along with its shared services with other entities as mentioned previously, has allowed the Authority to successfully accomplish its responsibilities with the small staff and budget that it has. There are very few if any remaining elements of the Authority's activities that, given the restrictions of the federal tax code, the IRS, the Securities and Exchange Commission and the Municipal Securities Rule Making Board, can be carried out through other delivery mechanisms or private sector providers.

J. Emerging Issues: Federal tax code standards and regulations as they affect the issuance of tax-exempt debt by the States and institutions such as the Authority change, unfortunately, on a regular basis but there are no particular issues on the horizon that would seem to raise issues or problems for the functioning of the Authority.

K. The Authority is not aware of any other specific information regarding its operations that has been requested by the Committee.

L. Federal law/State law comparison: There is no comparable legislation at the federal level to the enabling legislation for the Authority. On the other hand, the Authority's activities are sharply defined and controlled by the provisions of the federal tax code as they apply to issuance of tax-exempt bonds by sub-Federal level governmental entities including state governments and their instrumentalities. There are no comparable restrictions in the state income tax code dealing with the issuance of tax-exempt debt except. The state tax-exemption on the income derived from the Authority bonds for the purchasers of those bonds is established in the enabling legislation for the Authority, as it is done for all other entities in Maine which issue debt, the interest earnings on which is exempt from the state income tax. Maine, as do all other states, defers to the federal tax code in the regulation on the issuance of tax-exempt debt.

M. Privacy/Technology: The Authority does not collect any personal information about anyone either electronically or otherwise. The only personal information the Authority has in its paper files are its personnel files which are maintained in paper form only and retained in locked file cabinets.

The Authority makes extensive use of technology in its operations ranging from computer generation and access to its legal documents associated with a particular bond sale to data for reports, audits and similar activities. The Authority Website (www.mgfa.com) contains general information as well as audited financial statements about its activities and methods for members of the public to communicate with staff of the Authority. Within the statutory limits of things such as personnel files and pending legal action, the Authority general policy is that all of its documents are public records and available to the public.

N. Paperwork Requirements: Under the terms of its bond resolutions and lease agreements the Authority requires that its borrowers submit annually an audited financial statement. All of the Authority borrowers are part of the State of Maine Annual Audit and the Authority's receipt of the annual state audit establishes compliance for all of its borrowers with that requirement. Also, in the Act there is provision for the State to make available the State Audit to nationally recognized information services for compliance with what are known as the secondary market disclosure requirements of the Securities and Exchange Commission. The state audit is submitted to the Authority once each year and is simultaneously made available to comply with the SEC standard. There are no other report of filing requirements made by the Authority for members of the general public.

The Authority believes that it has implemented the duties and responsibilities that it has been charged with in carrying out public policy as established by the Legislature. Through extensive use of private sector services, shared services with other governmental entities, and close coordination with its borrowers the Authority has provided timely, cost effective service to the borrowers we have been specifically directed by the Legislature to serve. If there is any other information about the Authority's activities that I might provide or any other questions the Committee would like me to respond to I will be happy to do so. Thank you

MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

Michael R. Goodwin, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

January 28, 2014

The Honorable Mark W. Eves
Speaker of the House of Representatives
2 State House Station
Augusta ME 04333-0002

The Honorable Justin L. Alfond
President of the Maine Senate
3 State House Station
Augusta ME 04333-0003

Dear Speaker Eves and President Alfond,

Enclosed please find the annual report required under 5 M.R.S.A. c. 379, sub-c 3, section 12023 for Quasi-independent State Agencies for the Maine Governmental Facilities Authority for our fiscal year ended June 30, 2013.

Please feel free to contact me with any questions or comments. I can be reached at 622-9386 or by email at mrg@mgfa.com.

Sincerely Yours,

Michael R. Goodwin
Executive Director

Enc.

127 Community Drive • P.O. Box 2268 • Augusta, Maine • 04338-2268 • www.mgfa.com

MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

Michael R. Goodwin, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

January 24, 2014

The Honorable Mark W. Eves,
Speaker of the House of Representatives
2 State House Station
Augusta, ME 04333-0002

The Honorable Justin L. Alfond
President of the Maine Senate
3 State House Station
Augusta, ME 04333-0003

RE: Quasi-Independent State Entities annual report required under 5 MRSA c.379, sub-c.3, section 12023

Dear Speaker Eves and President Alfond:

I am pleased to provide the following annual report concerning the operating activities of the Maine Governmental Facilities Authority (the Authority) for our fiscal year ended June 30, 2013.

The Authority adopted and implemented policies and procedures concerning purchasing, contributions and lobbying and travel prior to July 1, 2013. All employees of the Authority are familiar with these policies and procedures and are aware that only the Executive Director can waive them. No changes have been made to the policies and procedures since adoption.

The Authority's Board of Commissioners approves an annual operating budget. They are also provided a periodic Treasurer's Report that details all expenditures, including a comparison of budget to actual expenditures and a list of checks written during the period of the report in order to monitor compliance with all policies and procedures. The Commissioners are given an opportunity to question the staff concerning the report before they vote to approve it. Backup for any expenditure is provided to the Board, upon request.

As a bit of background, the Authority shares administrative space, expenses, personnel and associated costs with the Maine Health and Higher Educational Facilities Authority and the Maine Municipal Bond Bank. All shared costs are allocated based on employee time and billed to each entity by the Maine Municipal Bond Bank. All employees are employees of the Maine Municipal Bond Bank.

Expenditures with Competitive Procurement Waived:

The Authority has a continuing relationship with its bond trustee, The Bank of New York/Mellon. This relationship began in the late 1990's and has continued as The Bank of New York/Mellon has honored the original fee schedule and has provided superior service. The Authority paid The Bank of New York/Mellon approximately $22,000.00 in fiscal year 2013. The Bank of New York/Mellon has recently notified the Authority that it will be increasing its fees in fiscal year 2014, which will result in the Authority issuing an RFP for trustee services.

As an issuer of municipal securities, the Authority incurs some bond issue related expenses which are required by the industry and do not lend themselves to be put out for an RFP. These vendors include the rating agencies Standard and Poor's, Moody's Investor Services and Fitch, Inc. who provide bond ratings on all bonds. These payments totaled approximately $41,550 in fiscal year 2013.

The buildings financed by the Authority are used by the State for State purposes. The Authority pays building insurance on those buildings through Risk Management at the State. The total building insurance paid by the Authority for fiscal year 2013 was $25,175.

Other:

The Authority made no contributions to any person during fiscal year 2013.

The Authority does not employ any person, other that Authority staff, for the purpose of lobbying.

Please feel free to contact me with any questions or comments that you might have concerning this report. I can be reached at 622-9386 or by e-mail at mrg@mgfa.com

Sincerely yours,

Michael, R. Goodwin
Executive Director

Maine Revised Statute Title 4, Chapter 33: MAINE GOVERNMENTAL FACILITIES AUTHORITY

Table of Contents

4 §1601. SHORT TITLE

This chapter is known and may be cited as the "Maine Governmental Facilities Authority Act."
[1997, c. 523, §2 (AMD).]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1997, c. 523, §2 (AMD).

4 §1602. MAINE GOVERNMENTAL FACILITIES AUTHORITY; MEMBERS; COMPENSATION

1. Establishment; membership. The Maine Governmental Facilities Authority is created as a body corporate and politic and a public instrumentality of the State. The exercise by the authority of powers conferred by this chapter is considered to be the performance of essential governmental functions. The authority consists of 5 members, one of whom is the Treasurer of State, serving as an ex officio, voting member, one of whom is the Commissioner of Administrative and Financial Services, serving as an ex officio, voting member, and 3 other members who shall each serve for a term of 5 years and are appointed by the Governor, subject to review by the joint standing committee of the Legislature having jurisdiction over state and local government and confirmation by the Legislature. Any member of the authority may be removed by the Governor for cause. In the event of vacancy occurring in the membership, the Governor shall appoint a replacement member for the remainder of that term. Each member of the authority shall serve until that member's successor is appointed and qualified. Any member of the authority is eligible for reappointment.

A. The initial appointed members of the authority are appointed in a manner to stagger the terms of the members. Of the initial 3 appointed members, one is appointed to a term of 3 years; one is appointed to a term of 4 years and one is appointed to a term of 5 years. [1997, c. 523, §2 (AMD).]

[1997, c. 523, §2 (AMD) .]

2. Oath. Each member of the authority before commencing the member's duties shall take an oath to administer the duties of that office faithfully and impartially and that oath must be filed in the office of the Secretary of State.

[1997, c. 523, §2 (AMD) .]

3. Officers; quorum. The authority shall elect from its membership a chair and a vice-chair. In addition, the authority may have a secretary and a treasurer, who may be members or nonmembers of the authority. Three members of the authority constitute a quorum and the vote of 3 members is necessary for any action taken by the authority. A vacancy in the membership of the authority does not impair the right of a quorum to exercise all the rights and perform all the duties of the authority.

[1997, c. 523, §2 (AMD) .]

4. Compensation. Each member of the authority is entitled to compensation in accordance with Title 5, chapter 379. Each member of the authority must be indemnified by the authority against expenses actually and necessarily incurred by the member in connection with the defense of any action or proceeding in which the member is made a party by reason of being or having been a member of the authority, and against any final judgment rendered against the member in that action or proceeding.

[1997, c. 523, §2 (AMD) .]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1997, c. 523, §2 (AMD).

4 §1603. DEFINITIONS

As used in this chapter, unless the context indicates otherwise, the following terms have the following meanings. [1987, c. 438, §1 (NEW).]

1. Act. "Act" means the Maine Governmental Facilities Authority Act.

[1997, c. 523, §3 (AMD) .]

2. Authority. "Authority" means the Maine Governmental Facilities Authority as established by this Act.

[1997, c. 523, §3 (AMD) .]

3. Bonds. "Bonds" means any bonds or securities of the Maine Governmental Facilities Authority issued pursuant to this Act.

[1997, c. 523, §3 (AMD) .]

4. Cost. "Cost," as applied to a project, projects or part of any project, includes, but is not limited to:

A. The purchase price or acquisition cost of any such project, projects or part of any project; [1987, c. 438, §1 (NEW).]

B. The cost of construction, building, alteration, enlargement, reconstruction, renovation, improvement and remodeling; [1987, c. 438, §1 (NEW).]

C. The cost of all labor, materials, machinery, furniture, fixtures and equipment; [1997, c. 523, §4 (AMD).]

D. The cost of all lands, structures, real or personal property, rights, easements, interests and franchises acquired; [1987, c. 438, §1 (NEW).]

E. The cost of all utility extensions, access roads, site development, financing charges, premiums for insurance, interest prior to and during construction and for 6 months after construction; [1987, c. 438, §1 (NEW).]

F. The cost of working capital related to the project, projects or part of any project; [1987, c. 438, §1 (NEW).]

G. The cost of plans and specifications, surveys and estimates of cost and of revenues; [1987, c. 438, §1 (NEW).]

H. The cost of engineering, feasibility, legal and other professional services; [1987, c. 438, §1 (NEW).]

I. The cost of reserves, insurance, letters of credit or other financial guarantees for payment of debt service on securities; [1997, c. 523, §4 (AMD).]

J. The cost of all other expenses necessary or incident to determining the feasibility or practicability of the project, projects or part of any project; [1987, c. 438, §1 (NEW).]

K. Administrative and operating expenses; and [1987, c. 438, §1 (NEW).]

L. Such other expenses as may be necessary or incident to the project, projects or part of any project and financing or refinancing authorized, including the refunding of any outstanding obligations, mortgages or advances issued, made or given by any person for any of the costs mentioned in this subsection. [1987, c. 438, §1 (NEW).]

[1997, c. 523, §4 (AMD) .]

5. Holder of securities or holder. "Holder of securities" or "holder" or any similar term, when used with reference to securities of the Maine Governmental Facilities Authority, means any person who is the bearer of any outstanding securities of the authority registered to bearer or not registered, or the registered owner of any outstanding securities of the authority that, at the time, are registered other than to bearer.

[1997, c. 523, §5 (AMD) .]

6. Notes. "Notes" means any notes of the Maine Governmental Facilities Authority issued pursuant to this Act.

[1997, c. 523, §5 (AMD) .]

7. Project, projects or part of any project. "Project, projects or part of any project" means the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, any structure designed for use as a court facility, state office or state activity space and intended to be used primarily by the State, any agency, instrumentality or department of the State or by any branch of State Government. The structure may include facilities for the use of related agencies of state, county or local government. "Project, projects or part of any project" includes all real and personal property, lands, improvements, driveways, roads, approaches, pedestrian access roads, parking lots, parking facilities, rights-of-way, utilities, easements and other interests in land, machinery and equipment and all fixtures, appurtenances and facilities either on, above or under the ground that are used or usable in connection with the structure, and also includes landscaping, site preparation, furniture, machinery, equipment and other similar items necessary or convenient for the operation of a particular facility or structure in the manner for which its use is intended. "Project, projects or part of any project" also includes the acquisition, construction, improvement, reconstruction or repair of any equipment, device, technology, software or other personal property intended to be used primarily by the State, any agency, instrumentality or department of the State or by any branch of State Government or any related agency of state, county or local government. The exact scope of each project, projects or part of any project, other than those for the Judicial Branch and the Legislative Branch, must be set forth in a written designation by the Commissioner of Administrative and Financial Services to the authority and the exact scope of each project, projects or part of any project for the Judicial Branch must be set forth in a written designation by the State Court Administrator to the authority. The scope of each project for the Legislative Branch must receive a majority vote of the Legislative Council and be set forth in a written designation by the Executive Director of the Legislative Council to the authority. "Project, projects or part of any project" does not include such items as fuel, supplies or other items that are customarily considered as a current operating charge.

[1997, c. 788, §1 (AMD) .]

8. Securities. "Securities" means any bonds, notes or other evidences of indebtedness authorized by this Act.

[1987, c. 438, §1 (NEW) .]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1989, c. 596, §N1 (AMD). 1997, c. 523, §§3-6 (AMD). 1997, c. 788, §1 (AMD).

4 §1604. POWERS

In order to carry out the purposes of this Act, the Maine Governmental Facilities Authority has the following powers with respect to project, projects or part of any project together with all powers incidental to those powers or necessary for the performance of the following: [1997, c. 523, §7 (AMD).]

1. Perpetual succession. To have perpetual succession as a body politic and corporate and an instrumentality of the State;

[1997, c. 523, §8 (AMD) .]

2. Power to sue and be sued. To sue or initiate or appear in any proceeding and the authority may be sued on its written contracts or in accordance with Title 1, section 409, Title 5, chapter 375 or Title 14, chapter 741;

[1997, c. 523, §8 (AMD) .]

3. Official seal. To adopt and have an official seal and alter the seal at pleasure;

[1987, c. 438, §1 (NEW) .]

4. Bylaws; rules. To adopt bylaws and, pursuant to Title 5, chapter 375, adopt any rule necessary or useful for carrying out any of its powers or duties pursuant to this Act. Rules adopted by the authority are routine technical rules pursuant to Title 5, chapter 375, subchapter II-A;

[1997, c. 523, §8 (AMD) .]

5. Acquire real or personal property. To acquire real or personal property, or any interest in real or personal property, including rights or easements, on either a temporary or long-term basis by gift, purchase, transfer, foreclosure, lease or otherwise, to improve, hold, sell with or without public bidding, assign, lease, rent, encumber, mortgage or otherwise dispose of any real or personal property, or any interest in real or personal property, or mortgage interests owned or in its control, custody or possession and release or relinquish any right, title claim, lien, interest, easement or demand, however acquired, including threat of foreclosure;

[1987, c. 438, §1 (NEW) .]

6. Prepare and plan projects and facilities. To prepare or cause to be prepared plans, specifications, designs and estimates of costs for the construction and equipment for the project, projects or part of any project and attendant facilities and from time to time to modify, or cause to be modified, those plans, specifications, designs or estimates;

[1997, c. 523, §8 (AMD) .]

7. Improve, furnish and equip project, projects or part of any project and attendant facilities. By contract or contracts to construct, acquire, alter, repair, reconstruct, rehabilitate and improve, and furnish and equip, the project, projects or part of any project and necessary and usual attendant facilities;

[1987, c. 438, §1 (NEW) .]

8. Maintain, reconstruct and operate. To maintain, reconstruct and operate, or cause to be maintained, reconstructed and operated, the project, projects or part of any project until the cost of the project, projects or part of any project whether or not the outstanding securities issued with respect to the project, projects or any part of the project are no longer considered outstanding;

[1997, c. 523, §8 (AMD) .]

9. Fix and collect fees. To fix and collect fees, rentals and other charges for the use of the project, projects or part of any project; to contract with holders of its securities for the fixing and collection of those fees, rentals and other charges; to provide for the promulgation of such reasonable and proper rules as may be necessary to assure the maximum use of the facilities of any project, projects or part of any project at all times;

[1987, c. 438, §1 (NEW) .]

10. Provide for financing or refinancing. To provide financing for any project, projects or part of any project or to provide for refinancing of existing indebtedness, and, for the financing of the project, projects or part of any project and of other necessary and usual attendant facilities, to borrow money and to issue negotiable securities and to provide for the rights of the holders of those securities;

[1987, c. 438, §1 (NEW) .]

11. Make and execute contracts and other financial documents. To make and execute contracts and all other instruments, including trust agreements and other financial documents, and enter into such transactions as is necessary or convenient for the exercise of its powers and functions under this Act;

[1987, c. 438, §1 (NEW) .]

12. Agreements; acceptions; contributions; aid; grants. To enter into agreements with and accept loans, aid, contributions, grants and the cooperation or assistance of the United States, or any agency of the United States, or of the State or any agency or governmental subdivision in furtherance of the purposes of this Act, including, but not limited to, the development, maintenance, operation and financing of any project, projects or part of any project and to do any and all things necessary in order to avail itself of those loans, aid, contributions, grants and cooperation;

[1987, c. 438, §1 (NEW) .]

13. Agreements or other transactions. To enter into agreements or other transactions with any person, the purpose of which is to effectuate the purposes of this Act, including construction agreements, purchase or acquisition agreements and loan or lease agreements, with leasing corporations or other financial intermediaries;

[1987, c. 438, §1 (NEW) .]

14. Accept aid or contributions. To receive and accept aid or contributions, from any source, of money, property, labor or other things of value, to be held, used and applied to carry out the purposes of this Act, subject to the conditions upon which those grants and contributions may be made, including, but not limited to, gifts or grants from any department or agency of the United States or the State for any purpose consistent with this Act;

[1987, c. 438, §1 (NEW) .]

15. Insurance. To procure insurance against any loss in connection with its securities and its property and other assets in such amounts and from such insurers as it considers desirable;

[1987, c. 438, §1 (NEW) .]

16. Modification of contract, lease, indenture or agreement. To the extent permitted under its contract with the holders of securities, to consent to any modification of any contract, lease, indenture or agreement of any kind to which the authority is a party;

[1987, c. 438, §1 (NEW) .]

17. Manage or operate real and personal property. To manage or operate, or cause to be managed or operated, real and personal property, take assignments of leases and rentals or take any other action necessary or incidental to the performance of its duties under this Act;

[1997, c. 523, §9 (AMD) .]

18. Lease or rent any land, buildings, structures, facilities or equipment. To lease or rent any land, buildings, structures, facilities or equipment comprising all or a portion of a project, projects or part of any project for such amounts as the authority determines to the State or any agency, instrumentality or department of the State or by any branch of State Government or any related agency of state, county or local government, to further the purposes of the Act, provided that the obligation of the State or of any such agency, instrumentality, department or branch to make any rental or other payments is considered executory only to the extent of money made available by the Legislature, and that no liability on account of the state agency, instrumentality, department or branch may be incurred by the State or any such agency, instrumentality, department or branch beyond the money available for that purpose;

[1997, c. 523, §9 (AMD) .]

19. Secured or unsecured loans. To make secured or unsecured loans for the purpose of providing temporary or permanent financing or refinancing of all or part of the cost of any project, projects or part of any project, including the refunding of any outstanding obligations, mortgages or advances issued, made or given by any person or other entity for the cost of a project, projects or part of any projects;

[1987, c. 438, §1 (NEW) .]

20. Investments. Except as otherwise provided in this Act, to invest any funds not needed for immediate use, including any funds held in reserve, in property or securities in which fiduciaries in the State may legally invest funds;

[1987, c. 438, §1 (NEW) .]

21. Appearances. To appear in its own behalf before boards, commissions, departments or agencies of municipal, State Government or Federal Government;

[1987, c. 438, §1 (NEW) .]

22. Executive director; other employees. To employ an executive director, consulting engineers, architects, attorneys, accountants, construction and financial experts and such other employees and agents as may be necessary in its judgment;

[1989, c. 221, §1 (AMD) .]

23. All acts granted or implied. To do any act necessary or convenient to exercise the powers granted in this Act or reasonably implied from this Act;

[1989, c. 221, §1 (AMD) .]

24. Contract with Maine Municipal Bond Bank. In carrying out its powers under this section, the authority shall, whenever possible, contract with the Maine Municipal Bond Bank for necessary clerical and administrative services, including use of the Executive Director of the Maine Municipal Bond Bank as the executive director, secretary and treasurer of the authority;

[1997, c. 523, §10 (AMD) .]

25. Accept federal funds; gifts and contributions. To accept federal funds, gifts and contributions, which include, but are not limited to, money; annuities and investments; furnishings, including paintings, artifacts and similar items; or anything of value for the purposes set forth in section 1619; and

[1997, c. 523, §11 (AMD) .]

26. Delegation to Bureau of General Services. To delegate those powers that the authority may specifically exercise, or cause to be exercised, pursuant to subsection 5, 6, 8, 9, 17 or 18 to the Department of Administrative and Financial Services, Bureau of General Services. The authority may revoke such a delegation upon the failure of the Bureau of General Services to discharge the delegated powers. The Bureau of General Services may provide to the authority an indemnity and hold-harmless agreement with respect to a delegation.

[1997, c. 523, §12 (NEW) .]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1989, c. 221, §§1,2 (AMD). 1997, c. 523, §§7-12 (AMD).

4 §1605. LEASING OR RENTING PROPERTY OF THE AUTHORITY

For the purposes of this chapter, the authority may lease, rent, assign or otherwise dispose of a project, projects or part of any project only to the State, any agency, instrumentality or department of the State or branch of State Government or any related agency of state, county or local government and the revenues derived by the authority from any lease or rental agreement must be used, as necessary, to pay the principal interest and other associated costs on or with respect to any securities issued pursuant to this chapter. [1997, c. 523, §13 (AMD).]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1997, c. 523, §13 (AMD).

4 §1606. ISSUANCE OF SECURITIES

1. Resolution for issuance of securities. The authority may provide by resolution, at one time or from time to time, for the issuance and sale by it of securities, in its own name, for the purpose of paying the cost of any project, projects or part of any project, or the refinancing of existing indebtedness, approved by the authority. Securities of the authority may not be authorized and issued except pursuant to a resolution adopted by the vote of not less than a majority of the members of the authority. The resolution must describe the general purpose or purposes for which the securities are to be issued and state the maximum principal amount of the securities proposed to be issued. Securities may not be issued by the authority without a 2/3 vote of approval in each House of the Legislature.

[1997, c. 523, §14 (AMD) .]

1-A. Resolution for issuance of securities.

[1987, c. 872, §4 (RP) .]

2. Limitation on securities issued. The authority may not issue securities in excess of $189,000,000 outstanding at any one time, of which no less than $136,000,000 must be specifically allocated to projects relating to the Judicial Branch, except for the issuance of revenue refunding securities authorized by section 1610 and securities issued under section 1610-A. The amount of securities that may be outstanding in the name of the authority may be increased by the Legislature upon a showing by the authority that its available revenues are sufficient to support additional issuance of securities and that the issuance of securities will not materially impair the credit standing of the authority, the investment status of securities issued by the authority or the ability of the authority to fulfill its commitments to holders of securities. Nothing in this chapter may be construed to authorize the authority to issue securities to fund the construction, reconstruction, purchase or acquisition of facilities without a majority vote of approval in each House of the Legislature.

[2009, c. 213, Pt. WWWW, §1 (AMD) .]

3. After issuance. After issuance, all securities of the authority shall be conclusively presumed to be fully and duly authorized and issued under the laws of the State and any person or governmental unit shall be estopped from questioning their authorization, sale, issuance, execution or delivery by the authority.

[1987, c. 438, §1 (NEW) .]

4. Form of securities. The securities of each issue shall be dated, shall mature at such time or times not exceeding 40 years from their date or dates and shall bear interest at such rate or rates, including variable, floating or adjustable rates, as may be authorized by the authority. These securities may be made redeemable, callable or subject to purchase or tender before maturity, at such price or prices and under such terms and conditions as may be provided for by the authority prior to the issuance of the securities. The authority shall determine the form of the securities, including any interest coupons to be attached to the securities, if any, and the manner of execution of the securities and shall fix the denomination or denominations of the securities and the place or places of payment of principal and interest, which may be at any bank, national banking association or trust company within or without the State. Securities shall be executed in the name of the authority by the manual or facsimile signature of such official or officials as may be authorized in the resolution to execute those securities. Coupons, if any, attached to securities, shall be executed with the facsimile signature of the official or officials designated in the resolution. If any official whose signature or a facsimile of whose signature appears on any securities or coupons ceases to be an official before the delivery of the securities, the signature or the facsimile shall be valid and sufficient for all purposes, with the same effect as if he had remained in office until the delivery.

Notwithstanding any of the other provisions of this Act or any recitals in any securities issued under this Act, all such securities shall be deemed to be negotiable instruments issued under the laws of the State. The securities may be issued in coupon or registered form, or both, as the authority may determine. Provisions may be made for the registration of any coupon securities as to principal alone and as to both principal and interest, and for the reconversion into coupon securities of any securities registered as to both principal and interest. The authority may sell the securities in such manner, either at public or private sale, and for such price as it may determine to be for the best interests of the authority.

[1987, c. 438, §1 (NEW) .]

5. Award and select securities. The power to fix the date of sale of any securities, to receive bids or proposals, to award and sell any securities, to set the terms and provisions of any securities and to take all other action necessary to sell and deliver any securities may be delegated to any officer of the authority by a majority of the members of the authority.

[1987, c. 438, §1 (NEW) .]

6. Proceeds of securities. The proceeds of the securities of each issue shall be used solely for the purpose or purposes for which the securities were authorized and shall be disbursed in such manner and under such restrictions as the authority may provide in the resolution authorizing the issuance of the securities or in the trust agreement securing the securities. If the proceeds of the securities, by error of estimates or otherwise, are less than the cost, additional securities may, in like manner, be issued to provide the amount of the deficiency and, unless otherwise provided in the authorizing resolution or in the trust agreement securing the securities, shall be deemed to be of the same issue and shall be entitled to payment from the same fund without preference or priority of the securities first issued for the same purpose. The resolution providing for the issuance of securities and any trust agreement securing the securities may contain such limitations upon the issuance of additional securities as the authority may consider proper. Any additional securities shall be issued under such restrictions and limitations as may be prescribed by the resolution or trust agreement. The authority may provide for the replacement of any securities which become mutilated, destroyed, stolen or lost. Securities may be issued under this Act without obtaining the consent of any department, division, commission, board, bureau or agency of the State and without any other proceedings or the happening of any other conditions or things other than those proceedings, conditions or things which are specifically required by this Act.

[1987, c. 438, §1 (NEW) .]

7. Use of proceeds. The proceeds of the securities of each issue must be used for the payment of all or part of the cost of the project, projects or part of any project for which authorized and must be disbursed in such manner and under such restrictions as are provided in the resolution authorizing the issuance of the bonds or in the trust agreement securing the securities. Proceeds may be used to pay all costs incurred in issuing the securities, interest on the securities for such time as may be authorized by the authority, subject to the provisions of this Act and to establish reserve funds and sinking funds for the securities.

[1997, c. 523, §16 (AMD) .]

8. Interim or temporary securities. Prior to the preparation of definitive securities, the authority may, under like restrictions, issue interim or temporary securities with or without coupons, exchangable for definitive securities when those securities are executed and are available for delivery.

[1987, c. 438, §1 (NEW) .]

9. Securing of principal and interest. The principal of and interest on any securities issued by the authority, together with any related costs and expenses, must be secured by a pledge of the revenues and receipts derived by the authority from the project, projects or part of any project financed and from such other revenues of the authority as may be specially pledged by the authority and may be secured by a mortgage covering all or any part of the project, projects or part of any project, including any enlargements of and additions to the project, projects or part of any project made. The resolution under which the securities may be issued and any mortgage may contain any agreements and provisions respecting the maintenance of the project, projects or part of any project covered, the fixing and collection of rents, fees or other charges, the creation and maintenance of special funds from the revenues and any reserve funds and the rights and remedies available in the event of default, all as the authority considers advisable and not in conflict with the provisions of this Act. Each pledge, agreement and mortgage made for the benefit or security of any of the holders of securities continues in effect until the principal of and interest and any related costs and expenses on the securities for the benefit for which the securities were made have been fully paid.

[1997, c. 523, §16 (AMD) .]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1987, c. 816, §KK6 (AMD). 1987, c. 859, §§1-3 (AMD). 1987, c. 872, §§1-4 (AMD). 1991, c. 868, (AMD). 1997, c. 523, §§14-16 (AMD). 1997, c. 752, §1 (AMD). 1997, c. 788, §2 (AMD). 1999, c. 127, §A2 (AMD). 1999, c. 787, §1 (AMD). 2005, c. 460, §1 (AMD). 2009, c. 213, Pt. WWWW, §1 (AMD).

4 §1607. PLEDGES AND COVENANTS; TRUST AGREEMENT

In the discretion of the authority, any securities issued under this Act may be secured by a trust agreement by and between the authority and a corporate trustee, which may be any trust company or bank or national banking association having the powers of a trust company within or without the State. The trust agreement or the resolution providing for the issuance of the securities may pledge or assign all or any portion of the revenues of the authority or any project, projects or part of any project of the authority and may contain such provisions for protecting and enforcing the rights and remedies of the holders of securities as may be reasonable and proper and not in violation of law. The provisions may include covenants setting forth the duties of the authority in relation to the acquisition of property and the construction, reconstruction, renewal, replacement and insurance of any project, projects or part of any project in connection with which the securities have been authorized, the fees, charges or rents to be charged or other payments to be made for the use thereof or payment therefor, and the custody, safeguarding and application of all money. It is lawful for any bank or trust company incorporated under the laws of the State which may act as depository of the proceeds of securities or of revenues of the authority or any project, projects or part of any project to furnish such indemnifying bonds or to pledge such instruments as may be required by the authority. Any such trust agreement may set forth the rights and remedies of the holders of the securities and of the trustee and may restrict the individual right of action by holders of securities. [1987, c. 438, §1 (NEW).]

Any such trust agreement or other financial document may, to secure the payment of the securities, mortgage or assign the mortgage of any project, projects or part of any project and create a lien upon any or all of the revenues of the authority or any project, projects or part of any project or upon any or all of the real or personal property constituting a part of the project, projects or part of any project. The trust agreement, financial document or resolution may contain such other provisions as the authority may consider reasonable and proper for the security of the holders of securities. [1987, c. 438, §1 (NEW).]

A trust agreement or financial document containing a mortgage or assignment of a mortgage in respect to a project, projects or any part of a project may authorize the trustee or mortgagee in the event of a default as defined, in respect to the securities issued to provide for the costs of the project, projects or any part of a project, to take possession of all or any part of the mortgaged property constituting the project, projects or any part of a project, to hold, operate and manage the project, projects or any part of a project and, with or without such taking of possession, to sell or from time to time to lease the project, projects or any part of a project. A judgment for possession may be without conditions and such a sale or lease shall not be subject to any right to redeem the mortgaged property. Upon satisfaction at any time of the obligations secured by the mortgage in respect to the project, projects or any part of a project, which shall be deemed to include all applicable fees and expenses, any surplus proceeds from the operation, sale or lease of the project, projects or any part of a project shall be paid to the mortgagor of the project, projects or any part of a project or to those claiming under the mortgagee and, subject to any sale or lease under this paragraph, the mortgaged property in respect to the project, projects or any part of a project shall revert or be returned to the mortgagor or to those claiming under the mortgagee. [1987, c. 438, §1 (NEW).]

All expenses incurred in carrying out the trust agreement, financial document or resolution may be treated as a part of the cost of the operation of a project, projects or part of any project. All pledges of revenues under this Act shall be valid and binding from the time when the pledge is made. All such revenues so pledged and thereafter received by the authority shall immediately be subject to the lien of the pledges without any physical delivery or further action under the Uniform Commercial Code of the State or otherwise. The lien of the pledges shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the authority irrespective of whether the parties have notice of the lien. [1987, c. 438, §1 (NEW).]

Any resolution or resolutions authorizing any securities of any issue of securities, or any trust agreement with respect to any securities, may contain provisions, which shall be a part of the contract or contracts with the holders of the securities, as to: [1987, c. 438, §1 (NEW).]

1. Pledge of full faith and credit of authority. Pledging the full faith and credit of the authority or of all or any specified revenues or assets of the authority to secure the payment of the securities or of any issue of securities, subject to such agreements with holders of securities as may then exist;

[1997, c. 523, §17 (AMD) .]

2. Pledging of unencumbered revenues or assets of authority. Pledging all or any part of the unencumbered revenues or assets of the authority to secure the payment of the securities or any issue of securities, subject to such agreements with holders of securities as may then exist;

[1987, c. 438, §1 (NEW) .]

3. Setting aside of reserves or sinking funds. Setting aside of reserves or sinking funds and the regulation and disposition of the funds;

[1987, c. 438, §1 (NEW) .]

4. Limitations on use of proceeds of sale of securities. Limitations on the purpose to which the proceeds of sale of securities may be applied and pledging of the proceeds to secure the payment of the securities or of any issue of securities;

[1987, c. 438, §1 (NEW) .]

5. Limitations on issuance of additional securities. Limitations on the issuance of additional securities, the terms upon which additional securities may be issued and secured and the refunding of outstanding or other securities;

[1987, c. 438, §1 (NEW) .]

6. Amendment or abrogation of contract terms; procedure. The procedure, if any, by which the terms of any contract with holders of securities may be amended or abrogated, the amount of securities the holders of which must consent to and the manner in which the consent may be given;

[1987, c. 438, §1 (NEW) .]

7. Limitations on money expended by authority for expenses. Limitations on the amount of money to be expended by the authority for operating, administrative or other expenses of the authority;

[1987, c. 438, §1 (NEW) .]

8. Trustee, vesting of rights; powers and duties in trust. Vesting in a trustee or trustees such property, rights, powers and duties in trust as the authority may determine which may include any or all of the rights, powers and duties of the trustee appointed for the holders of securities issued pursuant to this Act;

[1987, c. 438, §1 (NEW) .]

9. Default. Defining the acts or omissions to act which shall constitute a default in the obligations and duties of the authority to the holders of the securities and providing for the rights and remedies of the holders of the securities in the event of that default, including as a matter of right the appointment of a receiver, but only if the rights and remedies are not inconsistent with the general laws of the State and the other provisions of this Act; and

[1987, c. 438, §1 (NEW) .]

10. Other matters. Any other matters of like or different character, which in any way affect the security or protection of the holders of the securities.

[1987, c. 438, §1 (NEW) .]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1997, c. 523, §17 (AMD).

4 §1608. TRUST FUNDS

All money received pursuant to the authority of this Act shall be considered to be trust funds, to be held and applied solely as provided in this Act. Any officer to whom, or any bank, trust company or other fiscal agent or trustee to which, that money is paid shall act as trustee of the money and shall hold and apply the money for the purpose of this Act, subject to such rules as may be adopted by the authority pursuant to this Act and as the resolution or trust agreement may provide. [1987, c. 438, §1 (NEW).]

SECTION HISTORY
1987, c. 438, §1 (NEW).

4 §1609. REMEDIES

Any holder of securities issued under this Act or of any of the coupons appertaining to the securities and the trustee under any resolution or trust agreement, except to the extent the rights given may be restricted by the resolution authorizing the issuance of the securities or the trust agreement, or applicable financial document may, either by action, mandamus or other proceeding, protect and enforce any and all rights under the laws of the State or granted under this Act or under the resolution, financial document or trust agreement, including the appointment of a receiver and may enforce and compel the performance of all duties required by this Act or by the resolution, financial document or trust agreement to be performed by the authority, including the collecting of rates, rents, fees and charges for the use of any or all of its facilities of any project, projects or part of any project. Any such suit, action or proceeding shall be brought for the benefit of all the holders of the securities and coupons, subject to the terms of any such resolution, trust agreement or financial document. [1987, c. 438, §1 (NEW).]

SECTION HISTORY
1987, c. 438, §1 (NEW).

4 §1610. REVENUE REFUNDING SECURITIES

The authority may provide by resolution for the issuance of revenue refunding securities of the authority for the purpose of refunding any obligations of the authority or for the purpose of the refinancing of existing indebtedness, then outstanding, that has been issued or incurred under this Act or otherwise, including the payment of any redemption premium and any interest accrued or to accrue to the date of redemption of those obligations and, if considered advisable by the authority, for the additional purpose of construction or enabling the construction of improvements, extensions, enlargements or additions of the project, projects or part of any project in connection with which the obligations to be refunded were issued. The authority may provide by resolution for the issuance of securities of the authority for the combined purpose of refunding any obligations or revenue refunding securities then outstanding or for the purpose of the refinancing of existing indebtedness that has been issued or incurred under this Act, or otherwise, including the payment of any redemption premium on that indebtedness and any interest accrued or to accrue to the date of redemption of the obligations and paying all or any part of the cost of selling the securities or acquiring or constructing or enabling the acquisition or construction of any additional project, projects or part of any project, or any improvements, extensions, enlargements or additions of any project, projects or part of any project. The issuance of the securities, the maturities and other details of the securities, the rights and remedies of the holders of the securities and the rights, powers, privileges, duties and obligations of the authority with respect to the securities, are governed by this Act. [1997, c. 523, §18 (AMD).]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1997, c. 523, §18 (AMD).

4 §1610-A. ADDITIONAL SECURITIES

Notwithstanding any limitation on the amount of securities that may be issued pursuant to section 1606, subsection 2, the authority may issue additional securities in an amount not to exceed $85,000,000 outstanding at any one time for correctional facilities. [1997, c. 752, §2 (NEW).]

SECTION HISTORY
1997, c. 752, §2 (NEW).

4 §1610-B. ADDITIONAL SECURITIES

Notwithstanding any limitation on the amount of securities that may be issued pursuant to section 1606, subsection 2, the authority may issue additional securities in an amount not to exceed $33,000,000 outstanding at any one time for a psychiatric treatment facility. [1999, c. 731, Pt. NNN, §1 (NEW).]

SECTION HISTORY
1999, c. 731, §NNN1 (NEW).

4 §1610-C. ADDITIONAL SECURITIES

Notwithstanding any limitation on the amount of securities that may be issued pursuant to section 1606, subsection 2, the authority may issue additional securities in an amount not to exceed $7,485,000 outstanding at any one time for capital repairs and improvements at various state facilities. [2003, c. 20, Pt. PP, §1 (NEW).]

SECTION HISTORY
2003, c. 20, §PP1 (NEW).

4 §1610-D. ADDITIONAL SECURITIES

Notwithstanding any limitation on the amount of securities that may be issued pursuant to section 1606, subsection 2, the authority may issue additional securities in an amount not to exceed $9,000,000 outstanding at any one time for preliminary planning costs and capital repairs and improvements at various state facilities. [2005, c. 12, Pt. F, §1 (NEW).]

SECTION HISTORY
2005, c. 12, §F1 (NEW).

4 §1610-E. ADDITIONAL SECURITIES; COMPLIANCE WITH FEDERAL LAW

Notwithstanding any limitation on the amount of securities that may be issued pursuant to section 1606, subsection 2, the authority may issue additional securities in an amount not to exceed $1,000,000 outstanding at any one time to make court facilities comply with the federal Americans with Disabilities Act. [2005, c. 463, §1 (NEW); 2005, c. 463, §4 (AFF).]

SECTION HISTORY
2005, c. 463, §1 (NEW). 2005, c. 463, §4 (AFF).

4 §1611. TAX EXEMPTION

Securities issued under this Act shall be considered to constitute a proper public purpose and the securities so issued, their transfer and the income from the securities, including any profits made on the sale of the securities, at all times shall be exempt from taxation within the State. [1987, c. 438, §1 (NEW).]

SECTION HISTORY
1987, c. 438, §1 (NEW).

4 §1612. GOVERNMENTAL FUNCTIONS

The carrying out by the authority of the powers and duties conferred upon it by this Act is considered to be the performance of an essential function. Nothing contained in this Act may in any way limit or restrict the powers and duties of the authority granted to it. [1997, c. 523, §19 (AMD).]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1997, c. 523, §19 (AMD).

4 §1613. LIBERAL CONSTRUCTION

This Act, being necessary for the welfare of the State and its inhabitants, shall be liberally construed to effect its purposes. To the extent of any conflict between this Act and any other law, this Act shall prevail, but the power and authority granted by this Act shall be considered to be in addition to and not in derogation of power and authority granted by any other law. [1987, c. 438, §1 (NEW).]

SECTION HISTORY
1987, c. 438, §1 (NEW).

4 §1614. SECURITIES AS LEGAL INVESTMENT

The securities of the authority are legal investments in which all public officers and public bodies of the State, its political subdivisions, all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, banking associations, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital, in their control or belonging to them. The securities are also, by this Act, made securities that may properly and legally be deposited with and received by all public officers and bodies of the State or any agency or political subdivision of the State and all municipalities and public corporations for any purpose for which the deposit of securities of bonds or other obligations of the State may be authorized by law. [2007, c. 466, Pt. A, §3 (AMD).]

SECTION HISTORY
1987, c. 438, §1 (NEW). 2007, c. 466, Pt. A, §3 (AMD).

4 §1615. CONFLICTS

A member of the authority may not participate in any decision on any contract entered into by the authority under this Act if that member has any interest, direct or indirect, in any firm, partnership, corporation or association that may be party to the contract. The interest must be disclosed to the authority in writing and must be set forth in the minutes of the authority. [1997, c. 523, §19 (AMD).]

SECTION HISTORY

1987, c. 438, §1 (NEW). 1997, c. 523, §19 (AMD).

4 §1616. ACTIONS AGAINST AUTHORITY

A member of the authority, while acting within the scope of the authority of this Act, may not be subject to any personal liability resulting from the exercise or carrying out of any of the authority's purposes or powers. [1997, c. 523, §19 (AMD).]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1997, c. 523, §19 (AMD).

4 §1617. CONTRACT OF STATE

The State pledges and agrees with the holders of securities that the State will not limit or alter the rights vested in the authority to acquire, construct, reconstruct, equip and operate a project, projects or part of any project and related facilities, to establish and collect fees, charges, rentals and other charges referred to in this Act and to fulfill the terms of any agreements made with the holders of the securities or in any way impair the rights and remedies of the holders of securities until the securities, together with interest on securities, interest on any unpaid installments on interest and all costs and expenses in connection with any action or proceeding by or on behalf of the holders of securities are fully met and discharged. [1987, c. 438, §1 (NEW).]

SECTION HISTORY
1987, c. 438, §1 (NEW).

4 §1618. CREDIT OF STATE NOT PLEDGED

Securities issued under this Act do not constitute or create any debt or debts, liability or liabilities on behalf of the State or of any political subdivision of the State other than the authority or a loan of the credit of the State or a pledge of the faith and credit of the State or of any political subdivision other than the authority, but are payable solely from the funds provided for that payment. All such securities must contain on their face a statement to the effect that neither the State nor any political subdivision of the State is obligated to pay the securities or the interest on the securities, except from revenues of the authority or the project, projects or part of any project for which they are issued and that neither the faith and credit nor the taxing power of the State or of any political subdivision of the State is pledged to the payment of the principal of or the interest on the securities. The issuance of securities under this Act does not directly, indirectly or contingently obligate the State or any political subdivision of the State to levy or to pledge any form of taxation whatever or to make any appropriation for their payment. Nothing contained in this section may prevent or be construed to prevent the authority from pledging its full faith and credit to the payment of securities authorized pursuant to this Act. [1997, c. 523, §19 (AMD).]

SECTION HISTORY
1987, c. 438, §1 (NEW). 1997, c. 523, §19 (AMD).

4 §1619. GIFTS AND CONTRIBUTIONS

The authority may accept gifts and contributions as provided in section 1604, subsection 25, for the purpose of designing, constructing, reconstructing, renovating or acquiring a project, projects or part of any project, including facilities for the Supreme Judicial Court, in accordance with section 1606, subsection 2. The authority may accept gifts for the purpose of furnishing a project, projects or part of any project, including the facilities of the Supreme Judicial Court. Furnishings include, but are not limited to, paintings, artifacts, furniture and similar articles. [2005, c. 2, §3 (COR).]

1. Acceptance of money. The authority, in accepting gifts of money, federal funds or other types of income, shall place this money in a special account for the purpose for which it is provided. The authority may invest the money as provided in this chapter, subject to any limitations imposed by the donor.

[1989, c. 221, §3 (NEW) .]

2. Acceptance of furnishings. The authority, in accepting furnishings for court facilities, shall allocate the furnishings as directed by the donor.

[1989, c. 221, §3 (NEW) .]

SECTION HISTORY
1989, c. 221, §3 (NEW). 1997, c. 523, §20 (AMD). RR 2005, c. 2, §3 (COR).

4 §1620. CONTINUING DISCLOSURE

With respect to any securities of the authority, the Treasurer of State may enter into any agreement for the benefit of holders of securities of the authority to provide annual financial information with respect to the State in order to assist underwriters of the securities of the authority in complying with any applicable regulation promulgated by the United States Securities and Exchange Commission with respect to annual financial information. [1997, c. 523, §21 (NEW).]

SECTION HISTORY
1997, c. 523, §21 (NEW).

MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

Michael R. Goodwin, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

TO: Senator Colleen M. Lachowicz, Senate Chair
Representative Anne P. Graham, House Chair

FROM: Michael R. Goodwin, Executive Director

RE: Governmental Evaluation Act review addendum

DATE: January 22, 2014

It was brought to my attention by Alyson Mayo that there were three recently added paragraphs to the Governmental Evaluation Act that were not addressed in my previous submission. Alyson suggested I submit this addendum addressing those paragraphs.

O. The Authority is required to prepare the following reports for the Legislature:
   1. State Government Evaluation Act report pursuant to 3 MRSA , Chapter 35, Section 956.
   2. Quasi-Independent State Entities Report pursuant to 5 MRSA, Chapter 616, Section 12023
   3. Although not required by statute, the Authority also distributes a copy of its Annual Report to all members of the legislature.

P. The Authority has no organizational units.

Q. The Authority is not aware of any provisions contained in its enabling or authorizing statutes that may require legislative review to determine the necessity of amendment to align the statutes with federal law, other state law or decisions of the United States Supreme Court or the Supreme Judicial Court.

NEW ISSUE – BOOK ENTRY ONLY

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Maine Governmental Facilities Authority, under existing statutes and court decisions, and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2013A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2013A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations. In addition, in the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes, interest on the Series 2013A Bonds is exempt from the State of Maine income tax imposed on individuals. See "TAX MATTERS" herein.

$30,290,000
MAINE GOVERNMENTAL FACILITIES AUTHORITY
Lease Rental Revenue Bonds, Series 2013A

Dated: Date of Delivery **Due:** October 1, as shown on the inside cover page hereof

The Lease Rental Revenue Bonds, Series 2013A (the "Series 2013A Bonds") of the Maine Governmental Facilities Authority (the "Authority") will be issued under and pursuant to a General Bond Resolution (the "Resolution") adopted by the Authority on August 18, 1999, as supplemented through a Fourteenth Supplemental Bond Resolution adopted by the Authority on May 9, 2013, and a certificate of determination of an officer of the Authority. The Series 2013A Bonds are being issued to pay a portion of the costs of (i) completion of the construction of a new courthouse in Augusta, Maine, (ii) renovations, and construction of an addition to, a courthouse in Machias, Maine (together, the "2013A Projects") and (iii) the issuance of the Series 2013A Bonds. See "THE 2013A PROJECTS" herein. The Series 2013A Bonds will be secured by the Lease Payments (as defined herein) to be paid by the State of Maine (the "State"), acting through certain departments of the State and certain branches of the State government (collectively, the "Lessee"), pursuant to the Master Lease Agreement, dated as of August 1, 1999, as amended through a Fourteenth Amendment to Master Lease Agreement, dated as of June 1, 2013, by and between the Authority and the Lessee (collectively, the "Lease Agreement"). The Lessee is required under the Lease Agreement to make Lease Payments in an amount at least equal to the principal of, redemption premium, if any, and interest on all Bonds Outstanding including the Series 2013A Bonds. The Lessee's obligation to make Lease Payments and any other obligation of the Lessee under the Lease Agreement are subject to and dependent upon appropriations being made by the Legislature of the State of Maine for such purpose. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2013A BONDS" herein.

The Series 2013A Bonds will be issued as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2013A Bonds. Individual purchases of the Series 2013A Bonds will each be made in book-entry form in the denomination of $5,000 or any integral multiple thereof. Purchasers of the Series 2013A Bonds will not receive physical certificates representing their beneficial ownership interest in the Series 2013A Bonds purchased, but will receive a credit balance on the books of their respective nominees. So long as Cede & Co. is the registered owner, as nominee for DTC, references herein to the registered owners of the Series 2013A Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Series 2013A Bonds. Interest on the Series 2013A Bonds will be payable on April 1 and October 1 of each year, commencing on October 1, 2013, from funds held under the Resolution by The Bank of New York Mellon Trust Company, N.A., as Trustee, to Cede & Co., as the registered owner of the Series 2013A Bonds. So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2013A Bonds, such payments will be made directly to Cede & Co. Disbursement of such payments to the DTC Participants (as defined herein) is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein under "THE SERIES 2013A BONDS—Book-Entry System."

The Series 2013A Bonds maturing after October 1, 2023 shall be redeemable at the option of the Authority, as a whole or in part, commencing October 1, 2023, as more fully described herein. The Series 2013A Bonds are subject to mandatory redemption from (i) unused proceeds of the Series 2013A Bonds and (ii) insurance proceeds or condemnation awards received with respect to the Leased Premises to the extent such proceeds or awards are not applied to restoration of all or a portion of the Leased Premises financed from the proceeds of the Series 2013A Bonds or paid to the Authority, all as more fully described herein. "See THE SERIES 2013A BONDS" herein.

The Series 2013A Bonds are limited revenue obligations of the Authority. The Lessee's obligation to make Lease Payments, the Series 2013A Bonds and the Lease Agreement do not constitute a debt or liability of the State of Maine or any political subdivision of the State of Maine other than the Authority within the meaning of any constitutional or statutory limitation, or a loan of the credit of the State of Maine, or a pledge of the faith and credit of the State of Maine or any political subdivision of the State of Maine other than the Authority, or a contractual obligation in excess of the amounts appropriated therefor, and the State of Maine has no continuing legal or moral obligation to appropriate money for said payments or other obligations under the Lease Agreement. Payments of the principal of, redemption premium, if any, and interest on the Series 2013A Bonds will be made solely from amounts derived under the terms of the Lease Agreement, including the Lease Payments, and certain amounts from time to time on deposit under the Resolution. The Lessee's obligation to make Lease Payments and any other obligation of the Lessee under the Lease Agreement are subject to and dependent upon appropriations being made by the Legislature of the State of Maine for such purpose. Neither the faith and credit nor the taxing power of the State of Maine or of any political subdivision of the State of Maine is pledged to the payment of the principal of, redemption premium, if any, or interest on the Series 2013A Bonds. The Authority has no taxing power.

The Series 2013A Bonds are offered when, as and if issued and received by the underwriters listed below (the "Underwriters"), subject to the approval of legality of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority, and certain other conditions described herein. Certain legal matters will be passed upon for the Lessee by the Attorney General of the State and for the Authority by its general counsel, Verrill Dana LLP, Portland, Maine. Certain legal matters will be passed upon for the Underwriters by their counsel, Preti, Flaherty, Beliveau & Pachios, LLP, Augusta, Maine. It is anticipated that the Series 2013A Bonds will be available for delivery to DTC in New York, New York on or about June 13, 2013.

BofA Merrill Lynch **Wells Fargo Securities**

May 30, 2013

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS*

$30,290,000
Maine Governmental Facilities Authority
Lease Rental Revenue Bonds, Series 2013A

Maturity (October 1)	Principal Amount	Interest Rate	Yield	CUSIP† No. 56041M	Maturity (October 1)	Principal Amount	Interest Rate	Yield	CUSIP† No. 56041M
2014	$1,010,000	2.000%	0.44%	NH3	2023	$ 1,445,000	5.000%	2.82%	NS9
2015	1,030,000	3.000	0.65	NJ9	2024	1,520,000	5.000	2.96*	NT7
2016	1,055,000	3.000	0.94	NK6	2025	1,590,000	5.000	3.06*	NU4
2017	1,090,000	4.000	1.24	NL4	2026	1,675,000	3.125	3.31	NV2
2018	1,130,000	5.000	1.52	NM2	2027	1,725,000	3.250	3.43	NW0
2019	1,190,000	5.000	1.88	NN0	2028	1,780,000	3.375	3.55	NX8
2020	1,245,000	5.000	2.19	NP5	2029	1,840,000	5.000	3.38*	NY6
2021	1,315,000	5.000	2.45	NQ3	2030	1,935,000	5.000	3.44*	NZ3
2022	1,375,000	5.000	2.68	NR1					

$6,340,000 4.00% Term Bond, due October 1, 2033, Price 100%, CUSIP No. 56041MPA6

*Priced at the stated yield to the October 1, 2023 optional redemption date at a redemption price of 100%

No dealer, broker, salesperson or other person has been authorized by the Maine Governmental Facilities Authority or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information and representations must not be relied upon as having been authorized.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2013A BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2013A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Maine Governmental Facilities Authority or the State since the date hereof. This Official Statement is provided in connection with the sale of the Series 2013A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purposes.

† Copyright, American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2013A Bonds. The Authority is not responsible for the selection or uses of the CUSIP numbers and no representation is made as to their correctness on the Series 2013A Bonds or as indicated above. The CUSIP number for a specific maturity is subject to change after the issuance of the Series 2013A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that may be applicable to all or a portion of certain maturities of the Series 2013A Bonds.

TABLE OF CONTENTS

PART I: INFORMATION CONCERNING THE 2013A BONDS

PART II: INFORMATION CONCERNING THE STATE OF MAINE

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT
of
MAINE GOVERNMENTAL FACILITIES AUTHORITY
relating to its
$30,290,000 Lease Rental Revenue Bonds, Series 2013A

INTRODUCTION

This Official Statement, including the cover page and appendices hereto (the "Official Statement"), is provided to furnish information with respect to $30,290,000 Lease Rental Revenue Bonds, Series 2013A (the "Series 2013A Bonds"), of the Maine Governmental Facilities Authority (the "Authority"). The Series 2013A Bonds are being issued pursuant to the Maine Governmental Facilities Authority Act, 4 MRSA §1601 and following, as amended (the "Act"), the General Bond Resolution adopted by the Authority on August 18, 1999, as supplemented through a Fourteenth Supplemental Bond Resolution adopted by the Authority on May 9, 2013 (together with all further supplements thereof and amendments thereto, the "Resolution"), and a certificate of determination of an officer of the Authority. The Series 2013A Bonds are being issued to pay a portion of the costs of (i) completion of the construction of a new courthouse in Augusta, Maine, and renovations, and construction of an addition to, a courthouse in Machias, Maine (collectively, the "2013A Projects") and (ii) the issuance of the Series 2013A Bonds. See "ESTIMATED APPLICATION OF SERIES 2013A BOND PROCEEDS" herein. Pursuant to a lease agreement, the 2013A Projects have been or will be leased or subleased by the State of Maine (the "State"), acting through certain departments of the State (collectively, the "Lessee"), or by one or more other legal entities, to the Authority, and pursuant to a Master Lease Agreement, dated as of August 1, 1999, as amended by a First Amendment to Master Lease Agreement, dated as of June 1, 2000, a Second Amendment to Master Lease Agreement, dated as of October 1, 2000, a Third Amendment to Master Lease Agreement, dated as of August 1, 2001, a Fourth Amendment to Master Lease Agreement, dated as of November 1, 2002, a Fifth Amendment to Master Lease Agreement, dated as of September 1, 2003, a Sixth Amendment to Master Lease Agreement, dated as of April 1, 2004, a Seventh Amendment to Master Lease Agreement, dated as of March 1, 2005, an Eighth Amendment to Master Lease Agreement, dated as of November 1, 2005, a Ninth Amendment to Master Lease Agreement, dated as of May 1, 2007, a Tenth Amendment to Master Lease Agreement, dated as of June 1, 2008, an Eleventh Amendment to Master Lease Agreement, dated as of October 1, 2009 (as amended), a Twelfth Amendment to Master Lease Agreement dated as of April 1, 2010, a Thirteenth Amendment to Master Lease Agreement, dated as of October 1, 2011, and a Fourteenth Amendment to Master Lease Agreement, dated as of June 1, 2013 (together with all further supplements thereof and amendments thereto, the "Lease Agreement"), by and between the Authority and the Lessee, the 2013A Projects (the "Leased Premises") will be leased or subleased by the Authority to the Lessee. The principal of, premium, if any, and interest on the Series 2013A Bonds will be payable from the lease payments (the "Lease Payments") to be made pursuant to the Lease Agreement by the Lessee directly to The Bank of New York Mellon Trust Company, N.A. as Trustee under the Resolution (the "Trustee").

The Lessee's obligation to make Lease Payments and the Lessee's other obligations under the Lease Agreement are subject to and dependent upon appropriations being made by the Legislature of the State for such purpose. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2013A BONDS" herein.

Certain financial and other information with respect to the State is set forth in "INFORMATION CONCERNING THE STATE OF MAINE", which is included as Part II of this Official Statement ("Part II"). The information in Part II was provided by the State as of May 14, 2013 and has been supplemented with respect to certain matters as of May 30, 2013 set forth on the third page of Part II, and the Authority makes no representation or warranty as to the accuracy or completeness of the information in Part II. Inclusion of Part II in this Official Statement does not provide any assurance that there has been no change in the information in Part II since May 30, 2013. Upon delivery of the Series 2013A Bonds, the Treasurer of State of the State of Maine will deliver a certificate to the effect that (i) there has been no material adverse change in the property, financial position or results of operation of the State except as set forth in Part II; (ii) Part II contains no untrue statements of a material fact nor omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (iii) except as disclosed, there is no pending or threatened litigation affecting the validity of the Lease; and (iv) no event has occurred requiring a supplement to Part II. Questions regarding Part II or requests for additional information concerning the State should be directed to Kristi Carlow, Acting Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333, telephone: 207-624-7477; facsimile: 207-287-2367.

Certain capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings given to such terms in Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Certain Definitions" herein.

As of the date hereof, the Authority had bonds outstanding in the aggregate principal amount of $169,620,000, all of which were issued pursuant to the Resolution.

The Series 2013A Bonds are being issued pursuant to the Resolution entitled "Maine Governmental Facilities Authority, Lease Rental Revenue Bonds" adopted August 18, 1999, as supplemented through a Fourteenth Supplemental Bond Resolution adopted May 9, 2013, and a certificate of determination of an authorized officer of the Authority. The Series 2013A Bonds, together with the Series 1999 Bonds, the Series 2000 Bonds, the Series 2000B Bonds, the Series 2001 Bonds, the Series 2002 Bonds, the Series 2003 Bonds, the Series 2004 Bonds, the Series 2005A Bonds, the Series 2005B Bonds, the Series 2007A Bonds, the Series 2008A Bonds, the Series 2009A Bonds, the Series 2010A Bonds and the 2011A Bonds (as each are described below), and any Series of Additional Bonds (collectively, the "Bonds"), may be issued from time to time in various Series under the Resolution pursuant to Supplemental Resolutions. See Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Additional Bonds" herein. Upon the issuance of a Series of Additional Bonds under the Resolution, it is provided in the Resolution that the Authority and the Lessee shall enter into an amendment to the Lease Agreement to subject any new project to the terms of the Lease Agreement and to cause the Lease Payments to be increased and computed to amortize in full the principal of, redemption premium, if applicable, and interest on all Series of Bonds Outstanding including such Series of Additional Bonds and any other costs in connection therewith.

Under the Resolution, the Authority is authorized to issue Bonds secured on a parity with the Series 1999 Bonds, the Series 2000 Bonds, the Series 2000B Bonds, the Series 2001 Bonds, the Series 2002 Bonds, the Series 2003 Bonds, the Series 2004 Bonds, the Series 2005A Bonds, the Series 2005B Bonds, the Series 2007A Bonds, the Series 2008A Bonds, the Series 2009A Bonds, the Series 2010A Bonds, the Series 2011A Bonds and the Series 2013A Bonds to finance the Cost of a Project. No such additional Bonds may be issued under the Resolution unless certain conditions set forth therein are met.

THE AUTHORITY

The Authority was created in 1997 as the successor to the Maine Court Facilities Authority that had been created in 1987. The Act broadened the Authority's purposes and the Authority expressly assumed all rights, liabilities, indebtedness and duties entered into by the Maine Court Facilities Authority as of the effective date of the Act. The 1997 Public Law creating the Authority expressly stated that "[a]ll properties, rights in land, buildings and equipment and any funds, money, revenues and receipts or assets of the Maine Court Facilities Authority or due to the Maine Court Facilities Authority belong to the Maine Governmental Facilities Authority as successor." At the time the Authority was created, the Maine Court Facilities Authority ceased to exist. Under the Act, the Authority is a body corporate and politic and a public instrumentality of the State. The Authority was created by the Act for the purpose of assisting in financing the acquisition, construction, improvement, reconstruction and equipping of additions to structures designed for use as governmental facilities. To accomplish its purposes, the Authority is authorized by the Act to acquire real or personal property, prepare and plan projects, furnish and equip projects and provide for financing and refinancing of such projects. The Act also authorizes the Authority to issue bonds and notes to fulfill its corporate purposes.

The Authority may not issue securities in excess of $189,000,000 outstanding at any one time except for the issuance of revenue refunding securities authorized by the Act and provided that no less than $136,000,000 shall be allocated to projects related to the Judicial Branch ("Court Facilities") and provided further, notwithstanding the foregoing limit, the Authority is authorized to issue additional securities not to exceed (i) $85,000,000 outstanding at any one time allocated to correctional facilities, (ii) $33,000,000 outstanding at any one time allocated to a psychiatric treatment facility, (iii) $7,485,000 outstanding at any one time allocated to capital repairs and improvements, (iv) $9,000,000 outstanding at any one time allocated to preliminary planning costs and capital repairs and improvements at various state facilities, (v) $1,000,000 outstanding at any one time to make court facilities comply with the federal Americans with Disabilities Act, and (vi) $1,000,000 for the purpose of paying the cost of multiple repair projects at correctional facilities, for a potential total aggregate maximum amount based on the foregoing allocations of up to $325,485,000 (the "Debt Limit"). The 2013A Projects and the Series 2013A Bonds are authorized by the Legislature of the State under the Court Facilities' allocation described above. On November 18, 1988, the Authority issued its $6,490,000 Lease Rental Revenue Bonds, Series 1988 (State of Maine Superior/District Court Facility) (the "1988 Bonds"); on August 30, 1990 the Authority issued its $8,500,000 Lease Rental Revenue Bonds, Series 1990 (the "1990 Bonds"); on September 29, 1993, the Authority issued its $16,255,000 Lease Rental Revenue Bonds, Series 1993 (the "1993 Bonds"), the proceeds of which were used to refund in whole the 1988 Bonds and the 1990 Bonds and to finance new construction projects; on October 31, 1996, the Authority issued its $5,990,000 Lease Rental Revenue Bonds, Series 1996 to finance courthouse projects or parts of projects; on September 1, 1999, the Authority issued its $86,945,000 Lease Rental Revenue Bonds, Series 1999 (the "Series 1999 Bonds") to finance a portion of the costs of certain projects or parts of projects for use by the legislative and judicial branches of the State and by certain departments of the State; on July 12, 2000, the Authority issued its $51,855,000 Lease Rental Revenue Bonds, Series 2000 (the "Series 2000 Bonds") to finance the remaining portion of the costs of certain projects or parts of projects for use by the legislative and judicial branches of the State and by certain departments of the State not financed with the proceeds of the Series 1999 Bonds; on November 10, 2000, the Authority issued its $6,995,000 Lease Rental Revenue Bonds, Series 2000B (the "Series 2000B Bonds") to finance a portion of the costs of certain projects or parts of projects for use by the judicial branch of the State and by certain departments of the State; on September 6, 2001, the Authority issued its $36,485,000 Lease Rental Revenue Bonds, Series 2001 (the "Series 2001 Bonds") to finance a portion of the costs of certain projects or parts of projects for use by the judicial branch of the State and by certain departments of the State; on December 4, 2002, the Authority issued its $10,860,000 Lease Rental Revenue Bonds, Series 2002 (the "Series 2002 Bonds") to finance a portion of the costs of certain projects or parts of projects for use by the judicial branch of the State and by certain departments of the State; on September 11, 2003, the Authority issued its $18,425,000 Lease Rental Revenue Bonds, Series 2003 (the "Series 2003 Bonds") to finance a portion of the costs of certain projects or parts of projects for use by various departments of the State; on April 22, 2004, the Authority issued its $29,500,000 Lease Rental Revenue Bonds, Series 2004A, Series 2004B and Series 2004C (together, the "Series 2004 Bonds") to finance a portion of the costs of certain projects or parts of projects for use by the judicial branch of the State and to refund certain bonds previously issued by the Authority, including certain of the Bonds; on March 8, 2005, the Authority issued its $54,210,000 Lease Rental Revenue Refunding Bonds, Series 2005A (the "Series 2005A Bonds") to refund certain of its Bonds; on November 17, 2005, the Authority issued its $8,890,000 Lease Rental Revenue Bonds, Series 2005B (the "Series 2005B Bonds") to finance a portion of the costs of capital repairs and improvements to certain facilities owned by the State; on May 17, 2007, the Authority issued its $10,985,000 Lease Rental Revenue Bonds, Series 2007A (the "Series 2007A Bonds") to pay a portion of the costs associated with the construction of a new courthouse in Bangor and with renovating or retrofitting court facilities to comply with the federal Americans with Disabilities Act; on June 19, 2008 the Authority issued its $40,565,000 Lease Rental Revenue Bonds, Series 2008A (the "Series 2008A Bonds") to pay the costs associated with preconstruction costs and capital improvements for a Department of Corrections project at the Women's Re-entry Center in Bangor, the construction of a new courthouse in Bangor, the renovation of a courthouse in Houlton, and the effecting of capital repairs and improvements, including preliminary planning costs (such as, without limitation, needs assessments and space planning, master planning, capital asset assessments, concept design, design development and final design, including construction drawings) to various State-owned facilities throughout the State; on October 29, 2009 the Authority issued its $11,960,000 Lease Rental Revenue Bonds, Series 2009A (the "Series 2009A Bonds") to pay the costs associated with multiple repair projects at correctional facilities within the State, the renovation of a courthouse in Dover-Foxcroft (and other courthouse projects as may be designated by the Authority) and the effecting of capital repairs and improvements, including preliminary planning costs (such as, without limitation, needs assessments and space planning, master planning, capital asset assessments, concept design, design development and final design, including construction drawings) to various State-owned facilities throughout the State; on April 1, 2010, the Authority issued its $25,600,000 Lease Rental Revenue Refunding Bonds, Series 2010A (the "Series 2010A Bonds") to refund certain of its Bonds; and on October 26, 2011, the Authority issued its $33,000,000 Lease Rental Revenue Bonds, Series 2011A (the "Series 2011A Bonds") to construct a new courthouse in Augusta. The 1988 Bonds, the 1990 Bonds, the 1993 Bonds and the 1996 Bonds were issued under resolutions which are unrelated to the Resolution. The issuance of the Series 2013A Bonds will not cause the Debt Limit to be exceeded. Pursuant to the Act, no securities other than revenue refunding securities may be issued by the Authority without the prior approval of the State Legislature. The State Legislature has approved the issuance of bonds of the Authority to finance the 2013A Projects.

The powers of the Authority are vested in its members. The Authority consists of five members, one of whom is the State Treasurer, serving as an ex-officio, voting member, one of whom is the Commissioner of Administrative and Financial Services, serving as an ex-officio, voting member and three other members who each serve a term of five years and are appointed by the Governor, subject to review and confirmation by the State Legislature.

The present members of the Authority, their principal occupations and the expiration dates of their current terms are as follows:

Name and Position of Member	Principal Occupation	Term Expires†
Timothy L. Thompson	Manager, Living Wealth Partners	10/09/15
Joel Allumbaugh	CEO, National Worksite Benefit Group	10/09/16
Christopher E. Howard	Attorney, Pierce Atwood	10/09/12
Sawin Millett	Commissioner, State of Maine Department of Administrative & Financial Services	Ex-officio
Neria Douglass	Treasurer of State, State of Maine	Ex-officio

† All members serve until the appointment and qualification of a successor. The State Treasurer, if not reelected, serves for a period of not less than 30 days after the end of his or her term and until qualification of a successor.

The Executive Director of the Authority is Michael R. Goodwin. Mr. Goodwin also serves as Executive Director of the Maine Municipal Bond Bank and the Maine Health and Higher Educational Facilities Authority. The Authority's office is located at 127 Community Drive, P.O. Box 2268, Augusta, Maine 04338, and its telephone number is (207) 622-9386.

THE 2013A PROJECTS

The 2013A Project consists of completion of the construction of a new courthouse in Augusta, Maine, and renovations to, and construction of, an addition to a courthouse in Machias, Maine.

ESTIMATED APPLICATION OF SERIES 2013A BOND PROCEEDS

The proceeds to be received from the sale of the Series 2013A Bonds are expected to be applied as follows:

Sources of Funds	
Principal Amount of Series 2013A Bonds	$30,290,000.00
Net Premium on Series 2013A Bonds	2,673,296.30
Total Sources of Funds	$32,963,296.30

Uses of Funds	
Deposit to Project Construction Account	$32,500,000.00
Costs of Issuance (including underwriters' discount)	463,296.30
Total Uses of Funds	$32,963,296.30

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2013A BONDS

Under the terms of the Resolution, the Series 2013A Bonds are payable from (a) Lease Payments received by the Trustee from the Lessee under the Lease Agreement and (b) all amounts from time to time deposited in the funds created under the Resolution, including the proceeds received from the sale of the Bonds and investment earnings on amounts from time to time on deposits in such accounts and subaccounts, except amounts, if any, on deposit in the Rebate Fund. The Lease Agreement establishes Lease Payments payable at times and in amounts equal to the principal of and interest on the Bonds, the Trustee's fees and all other enumerated expenses. The Lease Agreement also provides that such Lease Payments will be made directly to the Trustee.

The Lessee's obligation to make the Lease Payments under the Lease Agreement is absolute and unconditional, subject to and dependent upon appropriations being made by the State Legislature for such purpose, and each Lease Payment is payable without any right of set-off or counterclaim, regardless of any contingencies, and whether or not the Lessee possesses or uses the Leased Premises. The Lessee's obligation to make Lease Payments will continue until all Lease Payments and all other amounts due under the Lease Agreement have been paid, unless sooner terminated in accordance with the provisions of the Lease Agreement.

The Bonds are limited revenue obligations of the Authority. The Lessee's obligations to make Lease Payments, the Series 2013A Bonds and the Lease Agreement do not constitute a debt or liability of the State or any political subdivision of the State other than the Authority within the meaning of any constitutional or statutory limitation, or a loan of the credit of the State or a pledge of the faith and credit of the State or any political subdivision of the State other than the Authority, nor a contractual obligation in excess of the amounts appropriated therefor, and the State has no continuing legal or moral obligation to appropriate money for said payments or other obligations under the Lease Agreement. Payments of the principal of and interest on the Series 2013A Bonds will be made solely from amounts derived under the terms of the Lease Agreement, including the Lease Payments, and certain amounts from time to time on deposit under the Resolution. Neither the faith and credit nor the taxing power of the State or of any political subdivision of the State is pledged to the payment of the principal of, redemption premium, if any, or interest on the Series 2013A Bonds. The Authority has no taxing power.

Debt Service Reserve Fund

The Series 2013A Bonds are not secured by the Debt Service Reserve Fund. See Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Debt Service Reserve Fund."

Although under any Supplemental Resolution authorizing a particular Series of Bonds one or more reserve accounts may be established for the purpose of securing only Bonds of such Series, no such reserve accounts are created under the Resolution for the sole benefit of the Series 2013A Bonds.

Additional Bonds

Additional Bonds on a parity with the Bonds then Outstanding may be issued by the Authority pursuant to the Resolution. See Appendix A – "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" for a description of the requirements that must be met under the Resolution prior to the issuance of additional Bonds.

Legislative Appropriation

Pursuant to the Lease Agreement, the Lessee has agreed to seek appropriations in the budget process for the purpose of providing funds to make the Lease Payments. See Part II – "INFORMATION CONCERNING THE STATE OF MAINE" – "FISCAL MANAGEMENT – Overview of the Budget Process" for a description of the State's budget process.

Non-appropriation

In the event the Lease Agreement is terminated due to non-appropriation, the State is under no obligation to make any further payments. Under such circumstances, the Authority and the Lessee shall have no further rights or obligations thereunder. Furthermore, the Bondholders have no right or interest in the Leased Premises.

THE SERIES 2013A BONDS

General

The Series 2013A Bonds will be issued as fully registered bonds in the denomination of $5,000 or any integral multiple thereof. The Series 2013A Bonds shall be dated the date of their delivery and shall bear interest at the rates and mature on the dates as respectively set forth on the inside cover page hereof. Interest on the Series 2013A Bonds will be payable on April 1 and October 1 of each year, commencing on October 1, 2013, and principal of the Series 2013A Bonds is payable on October 1 of each year as set forth on the inside cover page hereof.

Book-Entry System

Beneficial ownership interests in the Series 2013A Bonds will be available in book-entry form only. Purchases and sales by the Beneficial Owners of the Series 2013A Bonds can be made in denominations of $5,000 or any integral multiple thereof. Purchasers of beneficial ownership interests in the Series 2013A Bonds will not receive certificates representing their interests in Series 2013A Bonds purchased and will not be Holders under the Resolution, except as described below.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2013A Bonds. The Series 2013A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2013A Bond certificate will be issued for each maturity of the Series 2013A Bonds, each in the respective aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com**.

Purchases of the Series 2013A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013A Bonds on DTC's records. The ownership interest of each actual purchaser of the Series 2013A Bonds (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2013A Bonds, except in the event that use of the book-entry system for the Series 2013A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2013A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013A Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2013A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013A Bonds, such as redemptions and defaults. For example, Beneficial Owners of the Series 2013A Bonds may wish to ascertain that the nominee holding the Series 2013A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2013A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2013A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest and redemption premium, if any, on the Series 2013A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to the Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2013A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2013A Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2013A Bond certificates will be printed and delivered to DTC.

The preceding information in this subsection "Book-Entry System" concerning DTC and DTC's book-entry system has been extracted from a schedule prepared by DTC as sample disclosure language in connection with the issuance of the Series 2013A Bonds, and has not been independently verified by the Authority. No representation is made by the Authority as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Neither the Authority nor the Trustee shall have any responsibility or obligation to any DTC Participant, any Beneficial Owner or other persons claiming a beneficial ownership interest in the Series 2013A Bonds under or through DTC or any DTC Participant, with respect to: (i) the accuracy of any records maintained by DTC or any DTC Participant with respect to the beneficial ownership interest in the Series 2013A Bonds; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and premium, if any, or interest on the Series 2013A Bonds to any Beneficial Owner or other person for the Series 2013A Bonds; or (iii) the delivery to any Beneficial Owner of the Series 2013A Bonds, or any other person, of any notice which is permitted or required to be given to owners under the Resolution. Neither the Authority nor the Trustee shall have any responsibility with respect to obtaining consents from anyone other than the registered owners.

No assurance can be given by the Authority or the Trustee that DTC will distribute to the Participants or the Participants will distribute to the Beneficial Owners: (i) payment of debt service on the Series 2013A

Bonds paid to DTC or its nominee, as the registered owner; or (ii) any redemption or other notices, or that DTC or the DTC Participants will serve or act on a timely basis or in a manner described in this Official Statement.

Optional Redemption

The Series 2013A Bonds maturing after October 1, 2023 are subject to optional redemption, in whole or in part, and if in part in such order of maturity and related interest rate as the Authority shall determine, or by lot if less than a full maturity at a single interest rate, at any time on and after October 1, 2023, and prior to their respective maturities upon notice as provided in the Resolution, at the Redemption Price of one hundred percent (100%) of the principal amount to be redeemed, plus accrued interest to the redemption date.

Mandatory Redemption

The Series 2013A Bonds are subject to redemption in whole or in part, and if in part in such order of maturity and related interest rate as the Authority shall determine, or by lot if less than a full maturity at a single interest rate, at any time, and prior to their respective maturities upon notice as provided in the Resolution at the Redemption Price of 100% of the principal amount thereof, plus accrued interest to the redemption date, from the net proceeds of any insurance proceeds or condemnation awards received with respect to the Leased Premises financed from the proceeds of the Series 2013A Bonds to the extent such insurance proceeds or condemnation awards are not applied to the restoration of all or a portion of the Leased Premises or paid to the Authority.

See Appendix B – "SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AGREEMENT" herein. The Lease Agreement obligates the Authority to maintain insurance on the Leased Premises at the expense of the Lessee. See Appendix B – "SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AGREEMENT – Fire or Other Casualty; Insurance" herein.

Mandatory Sinking Fund Redemption

The Series 2013A Bonds maturing on October 1, 2033 are subject to mandatory redemption by the Authority prior to maturity, in part by a lot, at a Redemption Price equal to the principal amount thereof, together with accrued interest to the date of redemption, from mandatory Sinking Fund Installments on October 1 of the years and in the principal amounts set forth below; *provided* that the amounts of such Sinking Fund Installments shall be reduced by the credits provided for in the Resolution:

Year	Principal Amount
2031	$2,030,000
2032	2,115,000
2033	2,195,000

Special Redemption

The Series 2013A Bonds are subject to redemption in whole or in part, and, if in part, in such order of maturity and related interest rate as the Authority shall determine, at any time, from amounts on deposit in a sub-account of the Project Construction Account not used to finance the 2013A Projects, and not applied to any substitute authorized project, and prior to their respective maturities, upon notice as provided in the Resolution, at the Redemption Price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

Notice of Redemption

The Trustee is required to give notice of any redemption of Series 2013A Bonds at the direction of the Authority, which notice shall specify the maturities and related interest rates of the Series 2013A Bonds to be redeemed, the redemption date and the place or places of payment and, if less than all of the Series 2013A Bonds of any maturity and related interest rate are to be redeemed, the respective portions thereof to be redeemed. Notice of redemption shall be mailed by the Trustee, postage prepaid, not less than thirty (30) days nor more than sixty (60) days before the redemption date, to the registered owner of any Series 2013A Bond or portion thereof to be redeemed. All Series 2013A Bonds so called for redemption will cease to bear interest on the specified date set for redemption, provided funds for their redemption have been duly deposited with the Trustee pursuant to the Resolution, and, thereafter, the owners of such Series 2013A Bonds called for redemption shall have no rights in respect thereof, except to receive payment of the redemption price and accrued interest to the date of redemption.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., have assigned ratings of "Aa3" and "AA-," respectively, to the Series 2013A Bonds based solely on their respective evaluations of the Series 2013A Bonds. Such ratings express only the views of each such rating agency. Certain information and materials were furnished to such rating agencies to be considered in evaluating the Series 2013A Bonds. Any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of such rating agency, circumstances so warrant. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Series 2013A Bonds. The ratings are not recommendations to buy, sell or hold the Series 2013A Bonds.

Due to the ongoing uncertainty regarding the debts of the United States of America, obligations issued by state and local governments in the United States, such as the Series 2013A Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States of America or of any of its agencies or political subdivisions, then such event could also adversely affect the market for, and ratings, liquidity, and market value of, outstanding debt obligations, including the Series 2013A Bonds.

LEGAL MATTERS

Legal matters incident to the authorization, issuance, sale and delivery of the Series 2013A Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority. The approving opinion of Bond Counsel to the Authority will be delivered with the Series 2013A Bonds in substantially the form included in this Official Statement as Appendix E. Certain legal matters will be passed upon for the Lessee by the Attorney General of the State and for the Authority by its general counsel, Verrill Dana LLP, Portland, Maine.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions, and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2013A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2013A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel to the Authority has relied on certain representations, certifications of fact and statements of reasonable expectations made by the Authority, the Lessee and others in connection with the Series 2013A Bonds, and Bond Counsel to the Authority has assumed compliance by the Authority and the Lessee with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2013A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the Series 2013A Bonds is exempt from the State of Maine income tax imposed on individuals.

Bond Counsel to the Authority expresses no opinion regarding any other Federal, state or local tax consequences with respect to the Series 2013A Bonds. Bond Counsel to the Authority renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action hereafter taken or not taken, or any facts or circumstances that may hereafter come to its attention, or changes in law or in interpretations thereof that may hereafter occur, or for any other reason. Bond Counsel also expresses no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than Hawkins Delafield & Wood LLP ("HD&W") (if such opinion of other counsel shall have been given without consultation with HD&W, or after consultation with HD&W and to which HD&W shall not concur) on the exclusion from gross income for Federal income tax purposes of interest on the Series 2013A Bonds or under the State of Maine income tax imposed on individuals.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2013A Bonds in order that interest on the Series 2013A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2013A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2013A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the Lessee have each covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2013A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2013A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2013A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2013A Bonds.

Prospective owners of the Series 2013A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2013A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Series 2013A Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2013A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2013A Bonds is expected to be the initial public offering price set forth on the inside cover page of this Official Statement. Bond Counsel to the Authority further is of the opinion that, for any Series 2013A Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2013A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2013A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2013A Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series 2013A Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements will apply to interest paid on tax-exempt obligations, including the Series 2013A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2013A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2013A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2013A Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2013A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2013A Bonds. For example, the Fiscal Year 2014 Budget proposed on April 10, 2013 by the Obama Administration recommends a 28% limitation on itemized deductions and "tax preferences," including "tax exempt interest." The net effect of such proposal, if enacted into law, would be that an owner of a Series 2013A Bond with a marginal tax rate in excess of 28% would pay some amount of federal income tax with respect to the interest on such Series 2013A Bond.

Prospective purchasers of the Series 2013A Bonds should consult their own tax advisors regarding the foregoing matters.

UNDERWRITING

The Series 2013A Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Bank, National Association (the "Underwriters"). The Underwriters have agreed to purchase the Series 2013A Bonds, at a price of $32,756,960.58, which purchase price reflects an underwriters' discount from the public offering price of the Series 2013A Bonds in the amount of $206,335.72 and a net premium of $2,673,296.30. The purchase contract relating to the Series 2013A Bonds provides that the Underwriters will purchase all of the Series 2013A Bonds, if any Series 2013A Bonds are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract. The initial public offering prices may be changed, from time to time, by the Underwriters. The Authority has been advised by the Underwriters that (i) the Underwriters presently intend to make a market in the Series 2013A Bonds, (ii) they are not, however, obligated to do so, (iii) any market making may be discontinued at any time, and (iv) there can be no assurance that an active public market for the Series 2013A Bonds will develop. The Underwriters may offer and sell the Series 2013A Bonds to certain dealers (including dealers depositing Series 2013A Bonds into unit investment trusts, certain of which may be sponsored or managed by one or more of the Underwriters) and others at prices lower than the public offering prices stated on the inside cover page hereof.

Wells Fargo Bank, National Association ("WFBNA"), one of the underwriters of the Series 2013A Bonds, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Series 2013A Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2013A Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliates, Wells Fargo Securities, LLC ("WFSLLC") and Wells

Fargo Institutional Securities, LLC ("WFIS"), for the distribution of municipal securities offerings, including the Series 2013A Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, WFIS, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriters and certain of their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Authority.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

SECONDARY MARKET DISCLOSURE

The State will covenant in the Continuing Disclosure Agreement by and among the Authority, the State and the Trustee (the "Continuing Disclosure Agreement"), for the benefit of the Holders and Beneficial Owners (each as defined in the Resolution) of the Series 2013A Bonds, to provide certain financial information and operating data relating to the State (the "Annual Financial Information") within one year after the end of each fiscal year, commencing with the fiscal year ending June 30, 2013, and the Authority will covenant in the Continuing Disclosure Agreement for the benefit of such Holders and Beneficial Owners to provide notices of the occurrence of certain enumerated events. The Continuing Disclosure Agreement requires that the Annual Financial Information be filed by the State with the Municipal Securities Rulemaking Board. The Continuing Disclosure Agreement requires that notices of certain events be provided by the Authority to the Trustee and filed by the Trustee with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Financial Information or the notices of events is set forth in Appendix C – "PROPOSED FORM OF THE CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"). Neither the State nor the Authority has ever failed to comply in all material respects with any previous undertakings with respect to the Rule to provide annual financial information or notices of specified events.

LITIGATION

There is no controversy or litigation of any nature now pending, or to the knowledge of the Authority, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Series 2013A Bonds, or in any way contesting or affecting the validity of the Series 2013A Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 2013A Bonds, or the existence or powers of the Authority, or prohibiting the Authority from financing the 2013A Projects with the proceeds of the Series 2013A Bonds.

MISCELLANEOUS

The foregoing summaries or descriptions of the Series 2013A Bonds, the Continuing Disclosure Agreement, the Resolution and the Lease Agreement and all references to other materials not purporting to be quoted in full are only brief outlines of certain provisions thereof, and do not constitute complete statements of such provisions and do not summarize all the pertinent portions of such provisions.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the Authority and the Underwriters or owners of any of the Series 2013A Bonds. The execution and distribution of this Official Statement have been duly authorized by the Authority.

The information set forth in PART II has been furnished by the State, and the Authority makes no representation or warranty as to the accuracy or completeness of such information. The information relating to DTC and the book-entry-only system described under the heading "THE SERIES 2013A BONDS—Book-Entry System" has been furnished by DTC.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

By: /s/ Michael R. Goodwin
Michael R. Goodwin
Executive Director

Dated: May 30, 2013

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions of the Resolution. The summary does not purport to be comprehensive and is subject to all of the terms and provisions of the Resolution, to which reference is hereby made, and copies of which are available from the Authority or the Trustee.

Certain Definitions

The following are definitions in summary form of certain terms contained in the Resolution.

Act shall mean the Maine Governmental Facilities Authority Act, being 4 MRSA §1601 et seq., as amended.

Additional Bonds shall mean one or more Series of additional bonds, notes or other obligations, other than the Series 1999 Bonds, issued, executed, authenticated and delivered under the Resolution.

Amortized Value shall mean, when used with respect to securities purchased at a premium above or a discount below par, the value as of any given date obtained by dividing the total amount of the premium or discount at which such securities were purchased by the number of days remaining to maturity on such securities at the time of such purchase and by multiplying the amount so calculated by the number of days having passed since the date of such purchase; and (i) in the case of securities purchased at a premium, by deducting the product thus obtained from the purchase price; and (ii) in the case of securities purchased at a discount, by adding the product thus obtained to the purchase price.

Arbitrage and Use of Proceeds Certificate shall mean, with respect to a Series of Bonds, the Arbitrage and Use of Proceeds Certificate to be delivered on the date of issuance and delivery of such Series of Bonds by the Authority.

Authorized Representative or Authorized Officer shall mean the Executive Director of the Authority or any member of the Authority, or, when used with reference to an act or document, any other person authorized by resolution or the by-laws of the Authority to perform such act or sign such document.

Bond or **Bonds** shall mean the Series 1999 Bonds authorized and issued pursuant to the Resolution and any Additional Bonds.

Bond Counsel shall mean a firm of attorneys specializing in the field of municipal finance and nationally recognized as expert in the field.

Bondholder, or **Holder**, or **Holder of Bonds**, or any similar term, shall mean any person or party who shall be the registered owner of any Outstanding Bond or Bonds.

Business Day shall mean any day which shall not be a Saturday, Sunday or legal holiday or a day on which banks located in the city of the principal office in which the Trustee and, with respect to any Series of Bonds held by a securities depository, such securities depository, are located are authorized by law or executive order to close.

Capitalized Interest Account shall mean the account by that name established by the Resolution.

Cash Equivalent shall mean a Letter of Credit, Insurance Policy, Surety, Guaranty or other Security Arrangement (each as defined and provided for in a Supplemental Resolution providing for the issuance of a Series of Bonds rated by the Rating Agencies or in another Supplemental Resolution), provided by an institution which has received a rating of its claims paying ability from the Rating Agencies at least equal to the then existing rating on such Series of Bonds or whose unsecured long-term debt securities are rated at least the then existing rating on such Series of Bonds (or "A-1" or "P-1", as applicable, if the Cash Equivalent has a remaining term at the time of acquisition not exceeding one year) by the Rating Agencies; provided, however, that a Cash Equivalent may be provided by an institution which has received a rating of its claims paying ability which is lower than that set forth above or whose unsecured long-term (or short-term) debt securities are rated lower than that set forth above, so long as the providing of such Cash Equivalent does not, as of the date it is provided, in and of itself, result in the reduction or withdrawal of the then existing rating assigned to the such Series of Bonds by any of the Rating Agencies.

Code shall mean the Internal Revenue Code of 1986 (Title 26 of the United States Code), as amended.

Cost and **Cost of the Project** shall mean together with any other proper item of cost not specifically mentioned herein but authorized pursuant to the Act, the cost of construction, acquisition, building, alteration, enlargement, reconstruction, renovation, remodeling, improvement, equipping or furnishing of a Project and the financing or refinancing thereof, including interest on a Series of Bonds from the date thereof to the date when such interest shall be paid by the Authority from Lease Payments, the cost of acquisition of any land or interest (including rights, easements and franchises) therein required as the site of a Project or for use in connection therewith, the cost of preparation of the site of a Project (including, without limitation, utility extensions and access roads) and of any land to be used in connection therewith, the cost of any indemnity and surety bonds and premiums on insurance, administrative expenses of the Lessee, the cost of reserves or a Credit Facility, all related direct administrative expenses and allocable portions of direct costs of the Authority, legal fees, fees and expenses of trustees, depositories and paying agents for a Series of Bonds, cost of issuance of a Series of Bonds and financing charges and fees and expenses of financial advisers and consultants in connection therewith, costs of audits, the cost of all machinery, apparatus, furniture, fixtures and equipment, cost of engineering, architectural services, design, plans, specifications and surveys, estimates of cost, and all other expenses necessary or incident to determining the feasibility or practicability of a Project, and such other expenses not specified herein as may be necessary or incident to the construction, acquisition, building, alteration, enlargement, reconstruction, renovation, remodeling, improvement, equipping and furnishing of a Project, the financing or refinancing thereof and the placing of the same in use and operation.

Cost of Issuance shall mean the items of expense to be paid or reimbursed directly or indirectly by the Authority and related to the authorization, sale and issuance of a Series of Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, fees to any Credit Facility Provider in connection with a Credit Facility, legal fees and charges, professional consultants' fees, costs of credit ratings, fees and charges of execution, transportation and safekeeping of a Series of Bonds, and other costs, charges and fees in connection with the foregoing.

Cost of Issuance Account shall mean the account by that name established by the Resolution.

Counsel's Opinion shall mean an opinion signed by an attorney or firm of attorneys selected by the Authority. Any such attorney may be a lawyer in the regular employment of the Authority.

Credit Facility shall mean (i) an unconditional and irrevocable letter of credit with respect to a Series of Bonds in form and drawn on a bank or banks acceptable to the Authority (which bank or banks must be rated by each of the Rating Agencies in a category at least equal to the rating category of such Series of Bonds (or "A-1" or "P-1", as applicable, if the Credit Facility has a remaining term at the time it is provided not exceeding one year); provided, however, that such letter of credit may be provided by a bank or banks whose rating is lower than that set forth above, so long as the providing of such letter of credit does not, as of the date it is provided, in and of itself, result in a reduction or withdrawal of the then existing rating assigned to such Series of Bonds by any of the Rating Agencies; (ii) cash; (iii) a certified or bank check; (iv) Investment Securities; or (v) any other credit facility similar to the above in purpose and effect, including, but not limited to, a guaranty, standby loan or purchase commitment, insurance policy, surety bond or financial security bond or any combination thereof, which is approved by each of the Rating Agencies.

Credit Facility Provider shall mean the issuer of or obligor under a Credit Facility.

Debt Service Fund shall mean the Fund by that name established by the Resolution.

Debt Service Reserve Fund shall mean the Fund by that name established by the Resolution.

Debt Service Reserve Fund Requirement shall mean, as of any date of calculation, the aggregate of the amounts specified as the Debt Service Reserve Fund Requirement for each Series of Bonds in the Supplemental Resolution authorizing the issuance of a Series of Bonds; provided, however, that a Supplemental Resolution may provide that the Debt Service Reserve Fund Requirement for the Series of Bonds authorized thereunder may be funded, in whole or in part, through Cash Equivalents and such method of funding shall be deemed to satisfy all provisions of the Resolution with respect to the Debt Service Reserve Fund Requirement and the amounts required to be on deposit in the Debt Service Reserve Fund. The Debt Service Reserve Fund Requirement for the Series 1999 Bonds shall be 0.

Defeasance Securities shall mean Federal Securities and/or Municipal Obligations.

Federal Securities shall mean, to the extent permitted by law for investment as herein contemplated, (i) any direct and general obligations of, or any obligations the timely payment of principal of and interest on which are fully guaranteed by, the United States of America; and (ii) certificates of ownership of the principal of or interest on direct and general obligations of, or obligations guaranteed by, the United States of America, which obligations are held in trust, including CATS, TIGRS, STRPS and such other similar obligations.

Fiscal Year shall mean the twelve (12) consecutive calendar months commencing with the first day of July and ending on the last day of the following June.

Interest Account shall mean the account by that name established by the Resolution.

Investment Obligations shall mean and include any of the following obligations, to the extent the same are at the time legal for investment of funds of the Authority under the Act:

1. (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS (United States Treasury Obligations), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively United States Obligations).

2. Federal Housing Administration debentures.

3. Obligations of government-sponsored agencies which are not backed by the full faith and credit of the U.S. government:

   -Federal Home Loan Mortgage Corporation (FHLMC)
      Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts) Senior Debt obligations
   -Farm Credit Banks (formerly: Federal Land Banks, Federal
      Intermediate Credit Banks, and Banks for Cooperatives) Consolidated systemwide bonds and notes
   -Federal Home Loan Banks (FHL Banks)
      Consolidated debt obligations
   -Federal National Mortgage Association (FNMA)
      Senior debt obligations
      Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
   -Student Loan Marketing Association (SLMA)
      Senior debt obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
   -Financing Corporation (FICO)
      Debt obligations
   -Resolution Funding Corporation (REFCORP)
      Debt obligations

4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than one year) of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A "or better by S&P.

5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least $5 million; certificates of deposit secured at all times by collateral described in 1. and/or 2. above, issued by commercial banks, savings and loan associations or mutual savings banks where the collateral is held by a third party and the Trustee has a perfected first security interest in the collateral.

6. Commercial paper rated, at the time of purchase, "A-1" or better by S&P and "Prime-1" by Moody's.

7. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-g", "AAAm" or "AA-m" by S&P and, if rated by Moody's, rated "Aaa", "Aa1" or "Aa2".

8. State Obligations

   (a) Direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

   (b) Direct, general short-term obligations of any state agency or subdivision described in (a) above and rated "A-1+" by S&P and "Prime-1" by Moody's.

(c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated "AA" or better by S&P and "Aa" or better by Moody's.

9. Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

(a) the municipal obligations are (i) not subject to redemption prior to maturity or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions; and

(b) the municipal obligations are secured by cash or United States Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations.

10. Repurchase agreements:

(a) if the Repurchase Agreement has a term of less than seven years:

(i) and the Agreement is to be uncollateralized with United States Obligations:

(1) with any domestic bank or foreign bank with senior unsecured debt ratings of at least "AA-" by S&P and "Aa3" by Moody's;

(2) with registered broker/dealers subject to the Securities Investors Protection Corporation Liquidation Act which is rated, or whose parent is rated, at least "AA-" by S&P and "Aa3" by Moody's;

(3) with domestic or Canadian life insurance companies with a claims-paying or financial strength rating of "AAA" and "Aaa" by S&P and Moody's, respectively;

(4) with wholly-owned and guaranteed financial institution subsidiaries of (y) one of the institutions referred to in (1), (2) or (3) above, or (z) an insurance holding company rated "AAA" and "Aaa" by S&P and Moody's, respectively;

(5) with a domestic financial guaranty insurance company or an affiliate of a domestic financial guaranty insurance company, whose obligations are fully guaranteed by an affiliate or the parent company which has a rating of "AAA" and "Aaa" by S&P and Moody's, respectively; or

(6) with a structured entity rated "AAA" by S&P and "Aaa" by Moody's;

(ii) and the Agreement is to be collateralized with United States Obligations (which securities must be valued weekly, marked to market at current market price plus accrued interest; the value of the securities must be equal to 104% of the amount of cash transferred by the Authority under the Agreement plus accrued interest; provided that if the value of the securities declines to below 104%, then additional cash and/or securities must be transferred; and if the securities are Federal National Mortgage Association or Federal Home Loan Mortgage Corporation, the value of the securities must be 105% as provided above):

(1) with any domestic bank or foreign bank with senior unsecured debt ratings of at least "A-" by S&P and "A3" by Moody's;

(2) with registered broker/dealers subject to the Securities Investors Protection Corporation Liquidation Act which is rated, or whose parent is rated, at least "A-" by S&P and "A3" by Moody's;

(3) with wholly-owned and guaranteed financial institution subsidiaries of (y) one of the institutions referred to in (1) or (2) above, or (z) an insurance holding company rated "AAA" and "Aaa" by S&P and Moody's, respectively;

(4) with a domestic financial guaranty insurance company or an affiliate of a domestic financial guaranty insurance company, whose obligations are fully guaranteed by an affiliate or the parent company which has a rating of at least "A-" and "A3" by S&P and Moody's, respectively; or

(5) with a structured entity rated "AA-" by S&P and "Aa3" by Moody's;

(b) if the Repurchase Agreement has a term of seven years or greater:

(i) and the Agreement is to be uncollateralized with United States Obligations:

(1) with any domestic bank with senior unsecured debt ratings of at least "AA" by S&P and "Aa2" by Moody's; with any foreign bank with senior unsecured debt ratings of at least one triple A by either S&P or Moody's and at least double-A by the other rating agency (i.e., "AAA" by S&P and "Aa2" by Moody's or "AA" by S&P and "Aaa" by Moody's);

(2) with domestic or Canadian life insurance companies with a claims-paying or financial strength rating of "AAA" and "Aaa" by S&P and Moody's, respectively;

(3) with wholly-owned and guaranteed financial institution subsidiaries of (y) one of the institutions referred to in (1) or (2) above, or (z) an insurance holding company rated "AAA" and "Aaa" by S&P and Moody's, respectively; or

(4) with a domestic financial guaranty insurance company or an affiliate of a domestic financial guaranty insurance company, whose obligations are fully guaranteed by an affiliate or the parent company which has a rating of "AAA" and "Aaa" by S&P and Moody's, respectively;

(ii) and the Agreement is to be collateralized with United States Obligations (which securities must be valued weekly, marked to market at current market price plus accrued interest; the value of the securities must be equal to 104% of the amount of cash transferred by the Authority under the Agreement plus accrued interest, provided that if the value of the securities declines to below 104%, then additional cash and/or securities must be transferred; and if the securities are Federal National Mortgage Association or Federal Home Loan Mortgage Corporation, the value of the securities must be 105% as provided above):

(1) with any domestic bank with senior unsecured debt ratings of at least "AA" by S&P and "Aa2" by Moody's; with any foreign bank with senior unsecured debt ratings of at least one triple A by either S&P or Moody's and at least double-A by the other rating agency (i.e., "AAA" by S&P and "Aa2" by Moody's or "AA" by S&P and "Aaa" by Moody's);

(2) with wholly-owned and guaranteed financial institution subsidiaries of (y) one of the institutions referred to in (1) above, or (z) an insurance holding company rated "AAA" and "Aaa" by S&P and Moody's, respectively; or

(3) with a domestic financial guaranty insurance company or an affiliate of a domestic financial guaranty insurance company, whose obligations are fully guaranteed by an affiliate or the parent company which has a rating of "AAA" and "Aaa" by S&P and Moody's, respectively.

11. Investment Agreements with such entities having such ratings (based on more than seven years, or seven years or less, and uncollateralized or collateralized, as applicable) for whom the Authority may enter into Repurchase Agreements as provided in 10. above; provided, that, by the terms of the Investment Agreement:

(a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the Investment Agreement is for the Project Construction Account or the Capitalized Interest Account, construction draws) on the Bonds;

(b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Trustee shall be required to give notice in accordance with the terms of the Investment Agreement so as to receive funds thereunder with no penalty or premium paid;

(c) the Investment Agreement must provide that if during its term the provider's rating by either Moody's or S&P falls below the rating permitted for such provider as set forth above, the provider must, at the direction of the Authority or the Trustee, within ten (10) days of receipt of such direction, either (y) collateralize the Investment Agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the Holder of the Collateral) United States Treasury Obligations which are free and clear of any third-party liens or claims at the collateral level set forth in 10. above; or (z) repay the principal of and accrued but unpaid interest on the investment (the choice of (y) or (z) above shall be that of the Authority or the Trustee, as appropriate), in either case with no penalty or premium to the Authority or the Trustee; and

(d) the Investment Agreement must provide that if during its term:

(i) the provider shall default in its payment obligations, the provider's obligations under the Investment Agreement shall, at the direction of the Authority, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or the Trustee, as appropriate, and

(ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. (an event of insolvency), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or the Trustee, as appropriate.

Lease Agreement shall mean the Master Lease Agreement, dated as of August 1, 1999, with respect to a Project or Projects or part of a Project the Costs of all or a portion of which are being financed or refinanced through the issuance of a Series of Bonds pursuant to the Resolution, between the Authority, as lessor, and the Lessee, as tenant, providing, among other things, (y) for the lease by the Authority to the Lessee of the Authority's interest in such Project, Projects or part of a Project (which interest of the Authority may be fee title, a leasehold estate or other interest capable of being leased), and (z) for the obligation of the Lessee to pay rentals or other payments thereunder to be considered executory only to the extent of money made available therefor by the State Legislature, with no liability of the Lessee to make such rentals or other payments beyond the money so made available by the State Legislature for such purpose.

Leased Premises or **Premises** shall mean, with respect to a Project or Projects or part of a Project, those certain premises, facilities and other property or interests therein leased by the Authority to the Lessee pursuant to the Lease Agreement.

Lease Payments shall mean the lease rental payments due and payable by the Lessee to the Authority in accordance with the applicable provisions of the Lease Agreement.

Lessee shall mean the State of Maine acting either directly on its own behalf or on behalf of any agency, instrumentality or department of the State of Maine or any branch of State Government, as shall be the lessee of the Authority under the Lease Agreement.

Moody's shall mean Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Moody's shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

Municipal Obligations shall mean any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor prior to maturity or as to which irrevocable notice has been given by the obligor to call on the date specified in the notice; and (ii) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of direct obligations of the United States of America, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; and (iii) which fund is sufficient, as verified by an independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (i) of this paragraph, as appropriate; and (iv) which are rated, based on the escrow, in the highest rating category of the Rating Agencies; provided, however, that the interest on any Municipal Obligation may, but is not required to, be excluded from gross income under Section 103 of the Code.

Outstanding, when used with reference to Bonds, shall mean, as of any date, Bonds which have been delivered under the provisions of the Resolution, except: (i) any Bonds cancelled by the Trustee at or prior to such date; (ii) Bonds for the payment or redemption of which monies equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee in trust (whether at or prior to the maturity or redemption date); provided that if such Bonds are to be redeemed, notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice; (iii) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the Resolution; and (iv) Bonds or portions of Bonds deemed to have been paid as provided in the Resolution.

Principal Account shall mean the account by that name established by the Resolution.

Project shall mean

(a) in the case of the Series 1999 Bonds, each of the following projects, and shall include repayment of any interim obligations incurred by the Authority for any of the following:

(i) up to $40,200,000 (from a total legislative authorization of up to $52,500,000 of which $4,000,000 must be expended for Part I, $19,283,830 must be expended for Part II, and $29,216,170 must be expended for Part III, each as defined below) of principal amount of the Series 1999 Bonds for the purposes of paying the cost of construction of a connector between the State Office Building and the State Capitol Building (Part I), the preservation and renovation of the State Capitol Building (Part II), and the renovations of the State Office Building, the Tyson Building and the Marquadt Building (Part III), provided that the proceeds of the Series 1999 Bonds must be expended as follows:

Part I	$ 1,960,000
Part II	$ 9,025,000
Part III	$29,215,000;

(ii) up to $1,305,000 of principal amount of the Series 1999 Bonds (from a total legislative authorization of up to $5,500,000) for the purposes of paying the costs of courthouse projects or parts of courthouse projects in Lewiston, Springvale and other locations designated in writing to the Trustee by an Authorized Representative of the Authority; and

(iii) up to $45,440,000 (from a total legislative authorization of up to $85,000,000) of principal amount of the Series 1999 Bonds for the purposes of paying the cost of correctional facilities construction projects located in Warren and Windham;

(clauses (i), (ii) and (iii) being collectively referred to as the Series 1999 Projects);

(b) in the case of any Series of Additional Bonds (including any Project constituting part of the Series 1999 Projects but the financing of all or part of the costs of which are intended to derive from a Series of Additional Bonds), and together with any other project not specifically mentioned herein but authorized pursuant to the Act,

(i) the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, any structure designed for use as a court facility, State office or State activity space and intended to be used primarily by the State, any agency, instrumentality or department of the State or by any branch of State government. The structure may include facilities for the use of related agencies of State, county or local government. Project, projects or part of any project includes all real and personal property, lands, improvements, driveways, roads, approaches, pedestrian access roads, parking lots, parking facilities, rights-of-way, utilities, easements and other interests in land, machinery and equipment and all fixtures, appurtenances and facilities either on, above or under the ground that are used or usable in connection with the structure, and also includes landscaping, site preparation, furniture, machinery, equipment and other similar items necessary or convenient for the operation of a particular facility or structure in the manner for which its use is intended. Project, projects or part of any of project also includes the acquisition, construction, improvement, reconstruction or repair of any equipment, device, technology, software or other personal property intended to be used primarily by the State, any agency, instrumentality or department of the State or by any branch of State Government or any related agency of state, county or local government. Project, projects or part of any project does not include such items as fuel, supplies or other items which are customarily considered as a current operating charge; and

(ii) the issuance of revenue refunding securities as provided in Section 1610 of the Act; and

(c) in the case of any Series of Bonds, including the Series 1999 Bonds, for the purpose of financing all or a portion of the Cost of the Project.

Project Construction Account shall mean the account by that name established by the Resolution.

Rating Agencies shall mean, collectively, (i) S&P when the Bonds are rated by S&P and (ii) Moody's when the Bonds are rated by Moody's or, if neither S&P nor Moody's is maintaining a rating on the Bonds, then any other nationally recognized rating agency when the Bonds are rated by such agency, pursuant to a request for a rating by the Authority.

Rebate Amount shall mean, with respect to a Series of Bonds, amounts determined pursuant to the provisions of the Accounting Memorandum attached as an exhibit to the related Arbitrage and Use of Proceeds Certificate.

Rebate Fund shall mean the fund by that name established by the Resolution.

Record Date shall mean the close of business on the fifteenth day of the month preceding an interest payment date, or, if such fifteenth day is not a Business Day, the next succeeding Business Day.

Redemption Account shall mean the account by that name established by the Resolution.

Redemption Price shall mean, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution.

Refunding Bonds shall mean a Series of Bonds issued under the Resolution for the purpose of refunding all Outstanding Bonds or all or any part of one or more Series of Outstanding Bonds.

Revenue Fund shall mean the Fund by that name established by the Resolution.

S&P shall mean Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority, by notice to the Trustee.

Series shall mean all of the Bonds designated as being of the same Series authenticated and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter authenticated and delivered in lieu thereof or in substitution therefor pursuant to the Resolution.

Series 1999 Bonds shall mean the Authority's $86,945,000 Lease Rental Revenue Bonds, Series 1999, authorized, issued, executed, authenticated and delivered under the Resolution.

Sinking Fund Installment shall mean the amount required by the Resolution as payable on a single future date for the retirement of any Outstanding Bonds of a Series which are expressed to mature after such future date, but does not include any amounts payable by reason only of the maturity of a Bond.

Sinking Fund Installment Account shall mean the account by that name established by the Resolution.

State shall mean the State of Maine.

Supplemental Resolution shall mean a resolution supplemental to or amendatory of the Resolution, adopted by the Authority in accordance with the Resolution.

Additional Bonds

So long as the Lease Agreement is in effect, one or more Series of Additional Bonds may be issued, authenticated and delivered upon original issuance for the purpose of financing in whole or in part the Costs of the Project including, without limitation, (a) completing a Project including any or all of the Series 1999 Projects or any part of any thereof; (b) providing funds in excess of insurance proceeds to repair, relocate, replace, rebuild or restore a Project in the event of damage, destruction or taking by eminent domain; (c) providing extensions, additions, improvements or facilities to a Project; or (d) refunding in whole or in part Outstanding Bonds of one or more Series. Such Series of Additional Bonds shall be payable from the Lease Payments payable by the Lessee under the Lease Agreement. Prior to the issuance of a Series of Additional Bonds, the Authority and the Lessee shall enter into an amendment to the Lease Agreement, which shall provide, among other things, that the Lease Payments payable under the Lease Agreement shall be increased and computed so long as to amortize in full the principal of, redemption premium, if applicable, and interest on all Series of Bonds Outstanding including such Series of Additional Bonds and any other costs in connection therewith.

Each Series of Additional Bonds issued pursuant to the Resolution shall be equally and ratably secured under the Resolution with the Series 1999 Bonds and all other Series of Additional Bonds, if any, issued pursuant to the Resolution, without preference, priority or distinction of any Bond over any other Bonds except as expressly provided in or permitted by the Resolution and any Supplemental Resolution, including without limitation with respect to pledges for the benefit of Credit Facility Providers.

All or any part of one or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all Outstanding Bonds or any part of one or more Series of Outstanding Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other monies available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Act, the Resolution and of the Supplemental Resolution authorizing said Series of Refunding Bonds.

Refunding Bonds may be authenticated and delivered only upon receipt by the Trustee (in addition to the receipt by it of certain documents specified in the Resolution) of:

(1) Irrevocable instructions from the Authority to the Trustee, satisfactory to it, to give due notice of redemption pursuant to the Resolution to the Holders of all the Outstanding Bonds to be refunded prior to maturity on the redemption date specified in such instructions; and

(2) Either:

(a) monies in an amount sufficient to effect payment at maturity or upon redemption at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the maturity or redemption date, which monies shall be held by the Trustee in a separate account irrevocably in trust for and assigned to the respective Holders of the Outstanding Bonds being refunded, or

(b) Defeasance Securities in such principal amounts, having such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the defeasance provisions of the Resolution, and any monies required pursuant to said provisions, which Defeasance Securities and monies shall be held in trust.

The Authority shall furnish to the Trustee at the time of delivery of the Series of Refunding Bonds an opinion of independent certified public accountants as to the sufficiency of the monies and/or Defeasance Securities held by the Trustee (and/or any escrow agent as shall be appointed in connection therewith) as required to effect such payment at maturity or earlier redemption.

No Series of Additional Bonds shall be issued (other than Refunding Bonds to refund in whole all Outstanding Bonds under the Resolution) unless the Lease Agreement is in effect and at the time of issuance there is no Event of Non Appropriation or Event of Default thereunder or event of default under the Resolution nor any event which upon notice or lapse of time or both would become an Event of Non Appropriation or Event of Default under the Lease Agreement or an event of default under the Resolution.

Certain Project Trust Accounts

The Resolution establishes a special trust account, which shall be deposited with and held by the Trustee and which is designated as the "Project Construction Account". Upon the issuance, sale and delivery of a Series of Bonds pursuant to the Resolution to finance all or part of the Cost of the Project, there shall be deposited to the credit of a special sub-account(s) of the Project Construction Account established for the related Project or Projects (except that in the case of a Series of Refunding Bonds, there shall instead be deposited in such other account or with such other person such portion of the proceeds of the Series of Bonds as specified in the certificate of an Authorized Representative of the Authority delivered to the Trustee) from the proceeds of such Series of Bonds that amount specified in a certificate of an Authorized Representative of the Authority delivered to the Trustee. No moneys shall be disbursed from a sub-account in the Project Construction Account with respect to any Project unless such Project shall be made subject to the Lease Agreement. Monies deposited in a sub-account of the Project Construction Account shall be used by the Authority for payment of the Cost of the Project of the related Project.

The Authority by the Resolution has also created and established a special trust account which shall be deposited with and held by the Trustee and which is designated as the "Cost of Issuance Account". Upon the issuance, sale and delivery of a Series of Bonds there shall be deposited to the credit of a special sub-account(s) of the Cost of Issuance Account from the proceeds of such Series of Bonds that amount specified in a certificate of an Authorized Representative of the Authority delivered to the Trustee. Amounts on deposit in a sub-account of the Cost of Issuance Account shall be expended for the Cost of Issuance of the related Series of Bonds and to pay an amount to the Authority equal to the Authority's initial program fee, and for no other purpose. Upon payment of all Cost of Issuance for the related Series of Bonds, any amount remaining in such sub-account of the Cost of Issuance Account shall be paid to and deposited in a sub-account of the Project Construction Account, the Redemption Account or such other Fund, Account or sub-account so designated in writing by an Authorized Officer of the Authority upon receipt by the Trustee of a certificate of an Authorized Officer stating that such monies are no longer needed for the payment of Costs of Issuance.

The Authority by the Resolution has further created and established a special trust account which shall be deposited with and held by the Trustee and which is designated as the "Capitalized Interest Account". Upon the issuance, sale and delivery of a Series of Bonds there shall be deposited to the credit of a special subaccount(s) of the Capitalized Interest Account established for the related Project or Projects from the proceeds of such Series of Bonds that amount specified in a certificate of an Authorized Representative of the Authority delivered to the Trustee. Such certificate shall be accompanied by a schedule instructing the Trustee to withdraw amounts from such special subaccount(s) to be applied to the payment of the interest on the related Series of Bonds (as the same may be amended from time to time by certificate delivered by an Authorized Representative of the Authority delivered to the Trustee, the "Capitalized Interest Payment Schedule").

The Trustee shall apply the amounts on deposit in each sub-account of the Capitalized Interest Account to the payment of the interest on the related Series of Bonds as the same shall become due in accordance with the related Capitalized Interest Payment Schedule, until the earlier of one year after the completion of the related Project or the exhaustion of amounts in such sub-account (the "Capitalized Interest Period"). On each interest payment date during the Capitalized Interest Period, the Trustee shall transfer from each sub-account of the Capitalized Interest Account to the Interest Account of the Debt Service Fund the amount set forth in the related Capitalized Interest Payment Schedule to pay interest on the related Series of Bonds becoming due on such interest payment date. If any balance of funds shall remain in a sub-account of the Capitalized Interest Account on the date which is one year after the completion of the related Project, the Trustee shall deliver written notice of such balance to the Authority and transfer such funds, at the written direction of an Authorized Officer of the Authority, to the related sub-account of the Project Construction Account for the applicable Project to pay any remaining Costs of the Project, and/or to the Redemption Account of the Debt Service Fund to be applied to the redemption of the related Series of Bonds (or purchase and cancellation of the related Series of Bonds).

In addition, if, on any interest payment date occurring prior to the first anniversary of the completion of a Project, the amount on deposit in the related sub-account of the Capitalized Interest Account is not sufficient to pay that portion of the interest on the related Series of Bonds becoming due on such interest payment date and as set forth on the related Capitalized Interest Payment Schedule, the Trustee shall transfer from the related sub-account of the Project Construction Account to the Interest Account of the Debt Service Fund an amount equal to the deficiency.

Lien of Bondholders

Subject to the applicable provisions of the Resolution,

(i) the monies deposited to the credit of each sub-account of the Project Construction Account, including all obligations held as investments thereof and the proceeds of such investments, shall be held in trust and applied only to pay the Costs of the Project with respect to the related Project, or as otherwise permitted by the Resolution and are pledged to the Trustee, pending such application, for the benefit of the Holders of the Bond until paid out and transferred as provided in the Resolution;

(ii) the monies deposited to the credit of each sub-account of the Cost of Issuance Account, including all obligations held as investments thereof and the proceeds of such investments, shall be held in trust and applied only to pay the Cost of Issuance of the related Series of Bonds and are pledged to the Trustee, pending such application, for the benefit of the Holders of the Bonds, and for the security of the payment of the principal of and interest on the Bonds, and shall at all times be subject to the lien of such pledge until paid out and transferred as provided in the Resolution; and

(iii) the monies deposited to the credit of each sub-account of the Capitalized Interest Account, including all obligations held as investments thereof and the proceeds of such investments, shall be held in trust and applied only for the purpose of paying the interest on the related Series of Bonds in accordance with the applicable Capitalized Interest Payment Schedule and are pledged to the Trustee, pending such application, for the benefit of the Holders of the Bonds, and for the security of the payment of the principal of and interest on the Bonds, and shall at all times be subject to the lien of such pledge until paid out and transferred as provided in the Resolution.

Project Construction Account

All payments from each sub-account of the Project Construction Account shall be subject to the provisions and restrictions of the Resolution and the Authority covenants that it will not cause or permit to be paid from any sub-account of the Project Construction Account any sums except in accordance with such provisions and restrictions. In addition to the withdrawals permitted by the Resolution with respect to amounts on deposit in any sub-account of the Project Construction Account, the Authority may direct the Trustee to apply such amounts to the payment of a portion of the purchase price of Investment Obligations which Investment Obligations are to be held by the Trustee pursuant to the provisions of the Resolution.

The Trustee shall from time to time pay out, or permit the withdrawal of, monies in a sub-account of the Project Construction Account for the purpose of paying all or a portion of the Costs of the Project for the related Project, upon receipt by the Trustee of a written requisition of the Authority signed by an Authorized Officer or its duly authorized agent accompanied by a certificate signed by an Authorized Officer of the Authority certifying that the amount being paid from such sub-account of the Project Construction Account pursuant to such requisition, together with all prior withdrawals from such sub-account of the Project Construction Account with respect to a Project, will not exceed in the aggregate the Cost of the Project for such Project.

Transfer of Surplus or Undisbursed Funds

The Authority covenants that, promptly upon receipt of a certificate from the Lessee as to the completion or abandonment of a Project, as provided for in the Lease Agreement, it will deliver to the Trustee a certificate, signed by an Authorized Officer, certifying receipt of such certificate from the Lessee and stating the amount of money, if any, required for the payment of any Cost of the Project with respect to a Project remaining to be paid and directing that any related amounts remaining in the applicable sub-account of the Project Construction Account in excess of such amount remaining to be paid shall be transferred to the Redemption Account. Upon receipt of each such certificate by the Trustee, the Trustee shall, in accordance with such certificate, transfer such amounts from the applicable sub-account of the Project Construction Account into the Redemption Account for the purchase or redemption of the related Series of Bonds. To the extent that the Cost of the Project of any one Project shall be funded with the proceeds of more than one Series of Bonds issued at a later date, the completion of such Project shall be determined without reference to the disbursement in full of the proceeds of the first Series of Bonds issued for such purpose.

Pledge, Limited Liability

Lease Payments and all Funds and Accounts established by the Resolution (except any amounts deposited in the Rebate Fund), including the investments thereof and the proceeds of such investments, if any, are pledged by the Resolution to the Trustee for the payment of the principal and Redemption Price of and interest on the Bonds in accordance with the terms and provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution; provided, however, the Authority may, pursuant to a Supplemental Resolution authorizing the issuance of a Series of Bonds, also pledge such Lease Payments, Funds and Accounts to one or more Credit Facility Providers who have provided Credit Facilities to secure such Series of Bonds and such further pledge may be either on a parity with or subordinate to the pledge set forth in the Resolution to secure the payment of the Bonds, all as set forth in such Supplemental Resolution; and provided further, however, that the Authority may, pursuant to a Supplemental Resolution, provide that amounts in an Account or sub-account established pursuant to such Supplemental Resolution be excluded from the pledge set forth in the Resolution to secure the payment of the Bonds or otherwise limit such pledge with respect to such Account or sub-account. The pledge of the Resolution shall be valid and binding from and after the date of adoption of the Resolution, and the Lease Payments and all other monies and securities in the Funds, Accounts and sub-accounts established by the Resolution and thereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

The Bonds are limited revenue obligations of the Authority. The Lessee's obligation to make Lease Payments, the Bonds and the Lease Agreement do not create or constitute a debt, liability or liabilities of the State of Maine or any political subdivision of the State of Maine other than the Authority within the meaning of any constitutional or statutory limitation or a loan of the credit of the State of Maine or a pledge of the faith and credit of the State of Maine or any political subdivision of the State of Maine other than the Authority, nor a contractual obligation in excess of the amounts appropriated therefor, and the State of Maine has no continuing legal or moral obligation to appropriate money for such payments or other obligations under the Lease Agreement. Lease Payments of the principal of, premium, if any, and interest on the Bonds will be made solely from amounts derived under the terms of the Lease Agreement, including the Lease Payments, and certain amounts from time to time on deposit under the Resolution. Neither the State of Maine nor any political subdivision of the State of Maine shall be obligated to pay the principal or Redemption Price of or interest on the Bonds, except from the Lease Payments pledged therefor pursuant to the Resolution, and neither the faith and credit nor the taxing power of the State of Maine or of any political subdivision of the State of Maine is pledged to the payment of the principal or Redemption Price of or the interest on the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the State of Maine or any political subdivision of the State of Maine to levy or to pledge any form of taxation whatever or to make any appropriation for their payment. The Lessee's obligation to make Lease Payments and any other obligation of the Lessee under the Lease Agreement are subject to and dependent upon appropriations being made by the Legislature of the State of Maine for such purpose. Neither the faith and credit nor the taxing power of the State of Maine or of any political subdivision of the State of Maine is pledged to the payment of the principal of, redemption premium, if any, or interest on the Bonds. The Authority has no taxing power.

Establishment of Funds and Accounts

In addition to the special trust accounts and sub-accounts established as provided above, the Resolution also establishes the following special Funds and Accounts:

(1) Revenue Fund

(2) Debt Service Fund
- Interest Account
- Principal Account
- Redemption Account
- Sinking Fund Installment Account

(3) Debt Service Reserve Fund

(4) Rebate Fund

Revenue Fund

The Revenue Fund shall be held by the Trustee. All Lease Payments held or collected by the Authority or the Trustee shall be deposited upon receipt in the Revenue Fund. There shall also be deposited in the Revenue Fund all investment income or earnings on amounts held in all Funds and Accounts other than the Rebate Fund. Nothing contained in the Resolution shall be construed to prohibit the deposit of monies or investments in the Revenue Fund from sources other than those set forth above. Monies and the proceeds of sale of securities from time to time in the Revenue Fund shall be paid out and applied for the uses and purposes for which the same are pledged by the provisions of the Resolution, in the manner provided in the Resolution.

On or before each interest payment date on the Bonds, the Trustee shall first withdraw from the Revenue Fund and deposit to the credit of the following Accounts in the Debt Service Fund the following amounts in the following order:

First, to the Interest Account an amount which, when added to the amount then on deposit in the Interest Account, will on such interest payment date be equal to the installment of the interest on the Bonds then becoming due.

Second, to the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, will on such date be equal to the amount of the principal of the Bonds then becoming due.

Third, to the Sinking Fund Installment Account an amount which, when added to the amount then on deposit in the Sinking Fund Installment Account, will on such date be equal to the amount of the Sinking Fund Installment for the Bonds then becoming due.

Fourth, to the Debt Service Reserve Fund such amount (or the balance of the monies so remaining in the Revenue Fund if less than the required amount) as shall have been previously withdrawn from the Debt Service Reserve Fund for the purpose of making up deficiencies in the Interest Account, Sinking Fund Installment Account or Principal Account pursuant to the applicable provisions of the Resolution or as shall be required to make the amount on deposit in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement.

On or before each principal payment date or Sinking Fund Installment payment date (but not more frequently than once in any twelve-month period) on the Bonds, following the transfer of amounts from the Revenue Fund to the Accounts in the Debt Service Fund as provided above, the Trustee shall withdraw an amount not to exceed one tenth of one percent (.1%) of the original aggregate principal amount of each Series of the Bonds from the Revenue Fund and pay such amount to the Authority free and clear of the lien of the Resolution as the program fee and compensation due by the Lessee to the Authority.

Debt Service Fund

The Debt Service Fund shall be held by the Trustee and shall be used solely for the purpose of paying the principal and Redemption Price of and interest on the Bonds and of retiring such Bonds at or prior to maturity in the manner provided in the Resolution; provided, however, that if, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility are to be used to make the payments on the Bonds, then amounts in the Debt Service Fund which would have otherwise been used to make such payments may be applied to reimburse the Credit Facility Provider for the amounts so obtained, all in accordance with such Supplemental Resolution.

The Resolution creates and establishes in the Debt Service Fund an account called the "Interest Account". The Trustee shall, on or before each interest payment date of the Bonds, pay out of the monies then held for the credit of the Interest Account, the amounts required for the payment of the interest becoming due on the Bonds on such interest payment date; provided, however, that if, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility are to be used to make the payments of interest on the Bonds, then amounts in the Debt Service Fund which would have otherwise been used to make such payments may be applied to reimburse the Credit Facility Provider for the amounts so obtained, all in accordance with such Supplemental Resolution.

The Resolution also creates and establishes in the Debt Service Fund an account called the "Principal Account". The Trustee shall, on or before each principal payment date of the Bonds, pay out of the monies then held for the credit of the Principal Account, the amounts required for the payment of the principal becoming due at maturity on the Bonds on such principal payment date; provided, however, that if, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility are to be used to make the payments of principal on the Bonds, then amounts in the Debt Service Fund which would have otherwise been used to make such payments may be applied to reimburse the Credit Facility Provider for the amounts so obtained, all in accordance with such Supplemental Resolution.

The Resolution also creates and establishes in the Debt Service Fund an account called the "Sinking Fund Installment Account". The Trustee shall, on or before each Sinking Fund Installment payment date for the Bonds, pay out of the monies then held for the credit of the Sinking Fund Installment Account, the amounts required for the payment of the Sinking Fund Installment becoming due for the Bonds on such Sinking Fund Installment payment date (subject to the credits provided for below); provided, however, that if, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility are to be used to make the payments of Sinking Fund Installments on the Bonds, then amounts in the Debt Service Fund which would have otherwise been used to make such payments may be applied to reimburse the Credit Facility Provider for the amounts so obtained, all in accordance with such Supplemental Resolution. The Trustee shall call for redemption, in the manner provided in the Resolution, Bonds of a Series and maturity for which Sinking Fund Installments are applicable in a principal amount equal to the Sinking Fund Installment then due with respect to such Bonds. Such call for redemption shall be made even though at the time of mailing of the notice of such redemption sufficient monies therefor shall not have been deposited in the Sinking Fund Installment Account of the Debt Service Fund.

Upon the purchase or redemption (other than through the application of the Sinking Fund Installment Account) of any Bonds of a Series and maturity for which Sinking Fund Installments are applicable, an amount equal to the principal of such Bonds so purchased or redeemed shall be credited against the next ensuing and future Sinking Fund Installments for such Bonds in direct chronological order (unless the Authority shall instruct the Trustee in writing to credit such purchases or redemptions in a different order) of the due dates of such Sinking Fund Installments until the full principal amount of such Bonds so purchased or redeemed shall have been so credited. The portion of any such Sinking Fund Installment remaining after the deduction of such amounts so credited shall constitute and be deemed to be the amount of such Sinking Fund Installment for the purposes of any calculation thereof under the Resolution.

The Authority shall receive a credit in respect of Sinking Fund Installments for any Bonds of a Series and maturity which are subject to mandatory Sinking Fund Installment redemption and which are delivered by the Authority to the Trustee on or before the forty-fifth (45th) day next preceding any Sinking Fund Installment payment date and for any such Bonds which prior to such date have been purchased or redeemed (otherwise than through the operation of the Sinking Fund Installment Account) and cancelled by the Trustee and not theretofore applied as a credit against any Sinking Fund Installment (whether pursuant to the above paragraph or otherwise). Each Bond so delivered, cancelled or previously purchased or redeemed shall be credited by the Trustee at one hundred per cent (100%) of the principal amount thereof against the obligation of the Authority to make Sinking Fund Installments on such Sinking Fund Installment payment date with respect to Bonds of such Series and maturity and the principal amount of such Bonds to be redeemed by operation of the Sinking Fund Installment Account on the due date of such Sinking Fund Installment shall be reduced accordingly, and any excess over such principal amount shall be credited on future Sinking Fund Installments in direct chronological order (unless the Authority shall instruct the Trustee in writing to credit the Bonds so delivered, previously purchased or redeemed in a different order) and the principal amount of Bonds of such Series and maturity to be redeemed by application of Sinking Fund Installment payments shall be accordingly reduced.

The Resolution further creates and establishes in the Debt Service Fund an account called the "Redemption Account". The Authority shall deposit or cause to be deposited in the Redemption Account such monies as shall be designated to be deposited therein pursuant to the provisions of the Resolution.

The Trustee shall promptly apply monies so deposited in the Redemption Account to the purchase of Bonds of such Series and maturity designated by the Authority at such purchase price, not exceeding the Redemption Price which would be payable on the next ensuing date on which such Bonds are redeemable at the option of the Authority as shall be determined by the Authority in its discretion and as shall be set forth in written instructions to the Trustee. The Trustee, to the extent monies are available in the Interest Account, shall pay the interest accrued on the Bonds so purchased to the date of delivery thereof to the Trustee from the Interest Account and any balance of such interest and the balance of the purchase price from monies deposited in the Redemption Account, but no such purchase shall be made by the Trustee within the period of forty-five (45) days next preceding a date on which such Bonds are subject to redemption under the provisions hereof.

In the event the Trustee is unable to purchase Bonds as provided above, the Trustee shall call for redemption on the next applicable redemption date on which such Bonds are redeemable at the option of the Authority, such amounts of Bonds as the Authority, in written instructions to the Trustee, shall determine, at the Redemption Price thereof, as will exhaust such monies as nearly as may be. The Trustee, to the extent monies are available in the Interest Account, shall pay the interest accrued on the Bonds so redeemed to the date of redemption from the Interest Account and any balance of such interest and the Redemption Price from monies deposited in the Redemption Account.

The Authority may, from time to time, by written instructions direct the Trustee to make purchases of Bonds only after receipt of tenders after notice. The Authority may specify the length of notice to be given and the dates on which tenders are to be accepted or may authorize the Trustee to determine the same in its discretion. All such tenders shall be sealed proposals and no tenders shall be considered or accepted at any price exceeding the price specified above for the purchase of Bonds. The Trustee shall accept bids with the lowest price and if the monies available for purchase pursuant to such tenders are not sufficient to permit acceptance of all tenders and there shall be tenders at an equal price above the amount of monies available for purchase, then the Trustee shall select by lot, in such manner as the Trustee shall determine in its discretion, the Bonds tendered which shall be purchased. No purchase of Bonds, either on tenders or otherwise, shall be made by the Trustee within the period of forty-five (45) days next preceding any date on which such Bonds are subject to redemption.

If, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility are to be used to purchase or redeem Bonds, then amounts in the Redemption Account which would otherwise have been used for such purposes may be applied to reimburse the Credit Facility Provider for the amounts so obtained, all in accordance with such Supplemental Resolution.

With respect to those Series of Bonds which by the terms of the Supplemental Resolution authorizing such Series are secured by the Debt Service Reserve Fund, in the event there shall be on any interest payment date, a deficiency in the Interest Account, or, in the event there shall be, on any principal payment date, a deficiency in the Principal Account, or, in the event there shall be, on any Sinking Fund Installment payment date, a deficiency in the Sinking Fund Installment Account, the Trustee shall make up such deficiencies from the Debt Service Reserve Fund, by the withdrawal of monies therefrom for that purpose and by the sale or redemption of securities held in the Debt Service Reserve Fund, if necessary, in such amounts as will, at the respective times, provide monies in the Interest Account, the Principal Account and the Sinking Fund Installment Account sufficient to make up any deficiency, and the Trustee shall pay into the Debt Service Reserve Fund from the Revenue Fund, to the extent that monies therein are available for such purpose, the amounts withdrawn therefrom for the purpose of making up any such deficiencies. Whenever the assets of the Debt Service Fund and the Debt Service Reserve Fund shall be sufficient in the aggregate to provide monies to pay, redeem or retire all Bonds secured by the Debt Service Reserve Fund then Outstanding, including such interest thereon as may thereafter become due and payable to maturity or date of redemption, no further payments need be made into the Debt Service Fund or Debt Service Reserve Fund.

If, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility are to be used to pay the principal, Sinking Fund Installments, Redemption Price of or interest on Bonds, then amounts in the Debt Service Reserve Fund which would otherwise have been used for such purposes may be applied to reimburse the Credit Facility Provider for the amounts so obtained, all in accordance with such Supplemental Resolution.

The Debt Service Fund shall be drawn upon for the sole purpose of paying the principal, Sinking Fund Installments, Redemption Price of and interest on the Bonds and, if, pursuant to a Supplemental

Resolution, amounts obtained under a Credit Facility are to be used to pay the principal, Sinking Fund Installments, Redemption Price of or interest on the Bonds, to reimburse the Credit Facility Provider for the amounts so obtained, all in accordance with such Supplemental Resolution. Monies set aside from time to time with the Trustee for the payment of such principal, Sinking Fund Installments, Redemption Price and interest shall be held in trust for the Holders of the Bonds in respect of which the same shall have been so set aside. Until so set aside for the payment of principal, Sinking Fund Installments, Redemption Price or interest as aforesaid, all monies in the Debt Service Fund shall be held in trust for the benefit of the Holders of all Bonds at the time Outstanding equally and ratably.

Debt Service Reserve Fund

The Debt Service Reserve Fund is to be held by the Trustee. Upon the issuance, sale and delivery of a Series of Bonds pursuant to the Resolution, there shall be deposited to the credit of the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Fund Requirement, which amount may be zero, and the Trustee shall deposit in and credit to such Debt Service Reserve Fund all monies transferred from the Revenue Fund pursuant to the applicable provisions of the Resolution. Monies in the Debt Service Reserve Fund may be used for the payment of the principal, Sinking Fund Installments, Redemption Price of and interest on those Series of Bonds which are secured by the Debt Service Reserve Fund pursuant to the terms of the Supplemental Resolution authorizing the issuance of such Series of Bonds to the extent that other funds are not available.

Whenever there shall be a deposit of monies to the Redemption Account or the Sinking Fund Installment Account pursuant to the provisions of the Resolution which requires or permits the purchase or redemption of Bonds which would result in the reduction of the Debt Service Reserve Fund Requirement upon the purchase or redemption of such Bonds, at the direction of the Authority the Trustee shall, in connection with each such event, withdraw from the Debt Service Reserve Fund and deposit in the Redemption Account or the Sinking Fund Installment Account an amount of monies equal to the reduction of the Debt Service Reserve Fund Requirement which would result upon the redemption of such Bonds upon the next succeeding redemption date or Sinking Fund Installment payment date.

Whenever the Trustee shall determine that, on any maturity or principal payment date of the Bonds then Outstanding, the monies and securities in the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement for all Bonds, will be equal to or in excess of the Redemption Price of all of the Bonds secured by the Debt Service Reserve Fund then Outstanding, the Trustee shall, upon the direction of the Authority, use and apply such excess in the Debt Service Reserve Fund to the redemption, on such maturity or principal payment date, of all Bonds secured by the Debt Service Reserve Fund then Outstanding.

Whenever the Trustee shall determine that on the final maturity date of those Series of Bonds which are secured by the Debt Service Reserve Fund then Outstanding, the monies and securities in the Debt Service Reserve Fund will be in excess of the Debt Service Reserve Fund Requirement for all such Bonds, the Trustee shall use and apply such excess in the Debt Service Reserve Fund to the payment, on the final maturity date, of the principal of such Bonds then Outstanding and deposits in the Principal Account and/or the Sinking Fund Installment Account may be reduced proportionately.

If, pursuant to a Supplemental Resolution, amounts obtained under a Credit Facility are to be used to pay the principal, Sinking Fund Installments, Redemption Price of or interest on Bonds, then amounts in the Debt Service Reserve Fund which would otherwise have been used for such purposes may be applied to reimburse the Credit Facility Provider for the amounts so obtained, all in accordance with such Supplemental Resolution.

The Authority may, at any time, provide to the Trustee one or more Cash Equivalents for deposit in the Debt Service Reserve Fund in an amount not exceeding the amount of the Debt Service Reserve Fund Requirement specified in the Resolution. In the event any such Cash Equivalents are so provided, the

Trustee shall make such deposit and transfer funds in an equivalent amount from the Debt Service Reserve Fund to the Revenue Fund.

The Series 1999 Bonds shall not be secured by the Debt Service Reserve Fund.

Rebate Fund

The Trustee, upon the receipt of a certification of the Rebate Amount from an Authorized Representative of the Authority, shall, upon written direction of the Authority delivered pursuant to the related Arbitrage and Use of Proceeds Certificate, deposit in the Rebate Fund on the first Business Day following each Computation Date (as defined in such Arbitrage and Use of Proceeds Certificate), an amount such that the amount held in the Rebate Fund after such deposit is equal to the relevant Rebate Amount calculated pursuant to the related Arbitrage and Use of Proceeds Certificate. In addition, the Trustee shall deposit in the Rebate Fund, on any date, the amounts, if any, set forth in a written direction of the Authority. Any amounts deposited in the Rebate Fund pursuant to the two previous sentences shall be withdrawn from such Fund, Account or sub-account as the Authority shall direct the Trustee in writing or shall come from any other amounts delivered by the Authority to the Trustee.

In the event that on the first day of any Bond Year (as defined in the related Arbitrage and Use of Proceeds Certificate) the amount on deposit in the Rebate Fund exceeds the relevant Rebate Amount, the Trustee, upon the receipt of written instructions from an Authorized Representative of the Authority, shall withdraw such excess amount and deposit it in the Revenue Fund.

The Trustee, upon the receipt of written instructions from an Authorized Representative of the Authority, shall pay to the United States, out of amounts in the Rebate Fund, (i) not less frequently than once each Computation Date, an amount such that, together with prior amounts paid to the United States, the total paid to the United States is equal to 90% of the Rebate Amount with respect to such Series of Bonds as of the date of such payment and (ii) not later than sixty (60) days after the date on which all Bonds of a Series have been paid in full, 100% of the relevant Rebate Amount as of the date of payment.

The Rebate Fund and the amounts deposited therein shall not be subject to a security interest, pledge, assignment, lien or charge in favor of the Trustee. All investment income or earnings on amounts held in the Rebate Fund shall be held in the Rebate Fund.

Earnings

Except as otherwise provided in a Supplemental Resolution with respect to an Account established thereunder which is not pledged to the payment of the Bonds or to any Credit Facility Provider in connection with a Credit Facility securing one or more Series of Bonds, all investment income or earnings on amounts held in the Project Construction Account, the Costs of Issuance Account, the Capitalized Interest Account, the Debt Service Reserve Fund, the Revenue Fund and the Debt Service Fund, including amounts held in any sub-account for any such Account or Fund, shall be transferred to the Revenue Fund, or, at the written direction of the Authority, transferred to such Fund, Account or sub-account as the Authority shall direct the Trustee in writing; provided, however, that (y) investment income or earnings on amounts held in any sub-account of the Project Construction Account or of the Capitalized Interest Account shall remain in and be credited to such respective sub-account; and (z) the transfer of any income or interest earned by, or increment to, the Debt Service Reserve Fund due to the investment thereof shall be made only to the extent that any such transfer will not reduce the value of the obligations purchased as an investment of monies on deposit in the Debt Service Reserve Fund plus any other monies on deposit therein to less than the Debt Service Reserve Fund Requirement.

Investment of Funds and Accounts Held by the Trustee

Upon direction of the Authority confirmed in writing by an Authorized Officer, monies in the Funds, Accounts and sub-accounts established pursuant to the Resolution shall be invested by the Trustee in Investment Obligations so that the maturity date or date of redemption at the option of the holder of such Investment Obligations shall coincide, as nearly as practicable, but shall not be later than, the times at which monies in such Funds, Accounts or sub-accounts will be required for the purposes set forth in the Resolution.

In computing the amount in any Fund, Account or sub-account held by the Trustee under the provisions of the Resolution, obligations purchased as an investment of monies therein shall be valued, except as expressly set forth in the Resolution, on each interest payment date at par if purchased at par, or at their Amortized Value if purchased at other than par; provided, however, that investments of amounts held in the Debt Service Reserve Fund shall be valued at the lower of cost or fair market value as determined by the Trustee one month prior to each interest payment date.

The Trustee shall, upon the direction of the Authority, confirmed in writing by an Authorized Officer, sell at the best price obtainable by the Trustee, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide monies to meet any payment or transfer from the Fund or Account for which such investment was made except that, in the case of investment arrangements involving Investment Obligations or other obligations, the Trustee shall sell such obligations in accordance with the terms of such investment arrangements. The Trustee shall advise the Authority in writing, on or before the twentieth day of each calendar month, of the details of all investments held for the credit of each Fund, Account and sub-account in its custody under the provisions of the Resolution as of the end of the preceding month.

Resignation of Trustee

The Trustee may at any time resign and be discharged of the duties and obligations created by the Resolution by giving not less than sixty (60) days' written notice to the Authority, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed, in which event such resignation shall take effect immediately on the appointment of such successor, provided that such resignation shall not take effect unless and until a successor shall have been appointed.

Removal of Trustee

The Trustee shall be removed by the Authority if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Authority, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority. The Authority may also remove the Trustee at any time, except during the existence of an event of default, for such cause as shall be determined in the sole discretion of the Authority, by filing with the Trustee an instrument signed by an Authorized Officer of the Authority.

Appointment of Successor Trustee

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Authority covenants and agrees that it will thereupon appoint a successor Trustee.

If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within forty-five (45) days after the Trustee shall have given to the Authority written notice or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee may appoint a temporary successor Trustee and the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed in succession to the Trustee shall be a bank or trust company organized under the laws of the State of Maine or a national banking association, authorized to do business in the State of Maine, and having a capital and surplus aggregating at least twenty-five million dollars ($25,000,000), if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

Extension of Payments of Bonds

The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or claims for interest by the purchase or funding of such Bonds or by any other arrangement and in case the maturity of any of the Bonds or claims for interest shall be extended such Bonds or claims for interest shall not be entitled in case of any default under the Resolution to the benefit of the Resolution or to any payment out of any assets of the Authority or the funds (except funds held in trust for the payment of particular Bonds or claims for interest pursuant to the Resolution) held by the Trustee, except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by extended claims for interest.

No Pecuniary Liability of Authority or Officers

No provision, covenant or agreement contained in the Resolution or in the Bonds or any obligations in the Resolution or in the Bonds imposed upon the Authority or the breach thereof, shall constitute or give rise to a charge upon its general credit or impose upon the Authority a pecuniary liability except as set forth in the Resolution.

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution shall be deemed to be covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer, agent or employee thereof in his individual capacity. No recourse shall be had for the payment of the principal or Redemption Price, if any, of, Sinking Fund Installments for, or interest on the Bonds, for the performance of any obligation under the Resolution, or for any claim based thereon or under the Resolution against any such member, officer, agent or employee or against any natural person executing the Bonds. No such member, officer, agent, employee or natural person is or shall become personally liable for any such payment, performance or other claim, and in no event shall any monetary or deficiency judgment be sought or secured against any such member, officer, agent, employee or other natural person.

Power to Issue Bonds and Make Pledges

The Authority is duly authorized pursuant to law to create and issue the Bonds and to adopt the Resolution and to pledge and assign the Lease Payments and other monies, securities, funds and property purported to be pledged and assigned by the Resolution in the manner and to the extent provided in the Resolution. The Lease Payments and other monies, securities, funds and property so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, subject to the provisions of the Resolution regarding permitted pledges to Credit Facility Providers, and all corporate action on the part of the Authority to that end has been duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the Authority in accordance with their terms and the terms of the Resolution. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Lease

Payments and other monies, securities, funds and property pledged and assigned under the Resolution and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

Agreement of the State

Pursuant to Section 1617 of the Act, the State pledges and agrees with the Holders of the Bonds that the State will not limit or alter the rights vested in the Authority to fulfill the terms of any agreements made with Bondholders, or in any way impair the rights and remedies of such Holders until the Bonds, together with the interest thereon, with interest on any unpaid installment of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully met and discharged. The obligation to make Lease Payments and any other obligations of the Lessee under the Lease Agreement are subject to and dependent upon appropriations being made by the Legislature of the State for such purpose.

Accounts

The Authority shall keep proper books of record and account in which complete and correct entries shall be made of its transactions relating to the Lease Agreement, the Lease Payments and all Funds, Accounts and sub-accounts established by the Resolution, which shall at all times be subject to the inspection of the Trustee (it being understood that the Trustee shall have no obligation to do so) and the Holders of an aggregate of not less than ten per centum (10%) in aggregate principal amount of the Bonds then Outstanding or their representatives duly authorized in writing or any Credit Facility Provider.

Pledge and Assignment of Lease Payments

The Lease Payments are pledged and assigned by the Resolution to the Trustee for the benefit of the Holders of the Bonds and for the application thereof in accordance with the provisions of the Resolution, and the Trustee shall have the legal right to enforce such pledge and assignment and the provisions of the Lease Agreement providing for the payment thereof in the manner provided in the Lease Agreement and the Resolution.

All Lease Payments shall be paid directly to the Trustee for the account of the Authority and deposited by the Trustee in the Revenue Fund. Any Lease Payments which may be received by the Authority shall be paid over to the Trustee as received, and the Authority covenants and agrees so to do. The obligation to make Lease Payments and any other obligations of the Lessee under the Lease Agreement are subject to and dependent upon appropriations being made by the Legislature of the State for such purpose.

Compliance with Lease Agreement

The Authority covenants that it shall take all steps, actions and proceedings as may be necessary in order to require compliance by the Lessee with the covenants, terms and conditions of the Lease Agreement, the breach of which would in any way affect or impair the obligation of the Lessee to pay the Lease Payments at the times and in the manner and amounts provided in the Lease Agreement. The Authority further covenants that, except as provided for in the Lease Agreement and the Resolution, it will not pledge, mortgage, sell or otherwise encumber or alienate its interest in a Project or any part thereof. Nothing contained in this covenant, however, shall require the Authority to exercise any landlord remedies with respect to the Lessee or any Project or Projects under the Lease Agreement.

Waiver of Laws

The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the Resolution or in the Bonds, and all benefit or advantage of any such law or laws is hereby, to the maximum extent permitted by applicable law, expressly waived by the Authority.

Tax Covenants

The Authority shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall not be included in gross income for Federal income tax purposes pursuant to Section 103 of the Code.

Supplemental Resolutions; Adoption and Filing

The Authority may, without consent of the Bondholders, adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer:

(1) To cure any formal defect, omission or ambiguity in the Resolution or in any description of property subject to the lien of the Resolution, if such action is not materially adverse to the interests of the Bondholders (without regard to any Credit Facility);

(2) To grant to or confer upon the Trustee for the benefit of the Bondholders, any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(3) To add to the covenants, agreements, limitations and restrictions of the Authority in the Resolution other covenants, agreements, limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(4) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution, of the Lease Payments or of any other monies, securities or funds, or to subject to the lien or pledge of the Resolution additional revenues, properties or collateral;

(5) To modify or amend such provisions of the Resolution as shall, in the opinion of Bond Counsel, be necessary to assure that the interest on the Bonds not be includable in gross income for federal income tax purposes;

(6) To effect any other change in the Resolution which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the Bondholders (without regard to any Credit Facility);

(7) To modify, amend or supplement the Resolution or any Supplemental Resolution in such manner as to permit the qualification hereof and thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Resolution or any Supplemental Resolution such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;

(8) To provide for the issuance of a Series of Bonds pursuant to the provisions of the Resolution and to specify and determine such matters and things referred to in the Resolution and to prescribe the terms and conditions pursuant to which such Series of Bonds may be issued, paid or redeemed;

(9) To provide for such changes as are deemed necessary by the Authority upon delivery to the Trustee of a Credit Facility; or

(10) To modify any of the provisions of the Resolution or any previously adopted Supplemental Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such new Supplemental Resolution shall cease to be Outstanding, and all Bonds issued under such resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions;

provided, however that any such Supplemental Resolution which would increase or modify the Lessee's obligations under the Resolution shall require the written consent of the Lessee prior to its adoption.

Supplemental Resolutions Effective with Consent of Bondholders

Except as permitted above, the provisions of the Resolution may be modified at any time or from time to time by a Supplemental Resolution, subject to the consent of Bondholders as provided below, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer.

Amendments of Resolution; Power of Amendment

Except as permitted above, any modification or amendment of the Resolution and of the rights and obligations of the Authority, and of the Holders of the Bonds under the Resolution, in any particular, may be made by a Supplemental Resolution with the written consent given as provided below, (a) of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, and (b) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Holders of each Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or Sinking Fund Installment therefor, or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment. For the purposes of this paragraph, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series; provided, however, in the determination of whether a modification or amendment of the Resolution adversely affects or diminishes the rights of the Holders of the Bonds of any Series, such determination shall not take into account any Credit Facility in effect with respect to such Series of Bonds at the time such determination is made.

Consent of Bondholders

The Authority may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of the above paragraph. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee) together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Authority to the Bondholders in the same manner provided in the Resolution with respect to the redemption of Bonds (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to by the Bondholders as provided below). Such Supplemental Resolution shall not be effective unless and until there shall have been filed with the Trustee (i) the written consents of Holders of the percentages of Outstanding Bonds specified in the paragraph above; and (ii) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Authority in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms. Any such consent shall be binding upon the Holder of the Bonds giving such consent and, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof).

Modification of the Resolution by Unanimous Consent

The terms and provisions of the Resolution and the rights and obligations of the Authority and of the Holders of the Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the Authority of a Supplemental Resolution certified by an Authorized Officer and the consent of the Holders of all of the Bonds then Outstanding.

Exclusion of Bonds

Bonds owned or held by or for the account of the Authority or the Lessee shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the Resolution and the Authority shall not be entitled with respect to such Bonds to give any consent or to take any other action provided for in the Resolution.

Events of Default

Each of the following events is hereby declared an "event of default", that is to say; if:

1. default is made in the payment of the principal or Redemption Price of, Sinking Fund Installments for, or interest on any Bond when and as the same shall become due, whether at maturity or upon call for redemption, and such default shall continue for a period of two (2) business days; or

2. the Authority shall fail or refuse to comply with the provisions of the Act, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Resolution or any Supplemental Resolution, or in the Bonds contained, and continuance of such default for a period of ninety (90) days after written notice thereof requiring the same to be remedied shall have been given to the Authority by the Trustee, which shall give such notice at the written request of the Holders of not less than five per centum (5%) in aggregate principal amount of the Outstanding Bonds; or

3. the Authority shall file a petition seeking a composition of indebtedness under the Federal bankruptcy laws or any other applicable law or statute of the United States of America or of the State.

Remedies

Upon the happening and continuance of any event of default specified above, then, and in each such case, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five per centum (25%) principal amount of the Outstanding Bonds shall proceed, in its own name, to protect and enforce its rights and the rights of the Bondholders by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce such rights:

(i) by suit, action or proceeding in accordance with applicable law, to enforce all rights of the Bondholders, including the right to require the Authority to collect Lease Payments adequate to carry out the covenants and agreements as to, and pledge of, such, Lease Payments, and other properties pledged by the Resolution and to require the Authority to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;

(ii) by bringing suit upon the Bonds;

(iii) by action or suit, to require the Authority to account as if it were the trustee of an express trust for the Holders of the Bonds;

(iv) by action or suit, to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Bonds; and

(v) in accordance with the provisions of the Act, by declaring all Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Holders of not less than twenty-five per centum (25%) in aggregate principal amount of the Outstanding Bonds, to annul such declaration and its consequences.

In the enforcement of any remedy under the Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and any time remaining, due from the Authority for principal, Redemption Price, interest or otherwise, under any provision of the Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any monies available for such purpose, in any manner provided by law, the monies adjudged or decreed to be payable.

Priority of Payments After Default

In the event that the funds held by the Trustee following the occurrence of an event of default shall be insufficient for the payment of interest and principal or Redemption Price then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other monies received or collected by the Trustee acting pursuant to the remedy provisions of the Resolution, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds, and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee (including counsel's fees and expenses) in the performance of its duties under the Resolution, shall be applied as follows:

(a) unless the principal of all of the Bonds shall be due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; or

(b) if the principal of all the Bonds shall be due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amount due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rate of interest specified in the Bonds.

The above provisions of the Resolution are in all respects subject to the provisions of the Resolution described above under "Extension of Payments of Bonds."

Whenever monies are to be applied by the Trustee pursuant to the above provisions, such monies shall be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine having due regard to the amount of such monies available for application and the likelihood of additional money becoming available for such application in the future; and the Trustee shall incur no liability whatsoever to the Authority, to the Bondholders or to any other person for any delay in applying any such monies, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Resolution as may be applicable at the time of application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such monies, it shall fix the date (which shall be an interest payment date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any Bond unless such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Termination of Proceedings

In case any proceedings taken by the Trustee on account of any event of default shall have been discontinued or abandoned for any reason, then in every such case the Authority, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, power and duties of the Trustee shall continue as though no such proceeding had been taken.

Bondholders' Direction of Proceedings

Anything in the Resolution to the contrary notwithstanding, the Holders of the majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee under the Resolution; provided that such direction shall not be otherwise than in accordance with law or the provisions of the Resolution, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Rights of Bondholders

No Holder of any Bond shall have any right to institute any suit, action or other proceeding under the Resolution, or for the protection or enforcement of any right under the Resolution or any right under law unless such Holder shall have given to the Trustee written notice of the event of default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than twenty-five per centum (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have occurred, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Resolution or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee security and indemnity to its reasonable satisfaction against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Resolution or for any other remedy under the Resolution or under law. It is understood and intended that no one or more Holders of the Bonds secured by the Resolution shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Resolution, or to enforce any right under the Resolution or under law with respect to the Bonds or the

Resolution, except in the manner provided in the Resolution, and that all proceedings shall be instituted, had and maintained in the manner provided in the Resolution and for the benefit of all Holders of the Outstanding Bonds. Notwithstanding the foregoing provisions, the obligation of the Authority shall be absolute and unconditional to pay the principal or Redemption Price of and interest on the Bonds to the respective Holders thereof at the respective due dates thereof from the Lease Payments and Funds, Accounts and sub-accounts pledged therefor, and nothing in the Resolution shall affect or impair the right of action, which is absolute and unconditional, of such Holders to enforce such payment.

Each Holder of any Bond by his acceptance thereof shall be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Resolution or any Supplemental Resolution, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding at least twenty-five per centum (25%) in aggregate principal amount of the Bonds Outstanding, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal or Redemption Price of or interest on any Bond on or after the respective due dates thereof expressed in such Bond.

Possession of Bonds by Trustee Not Required

All rights of action under the Resolution or under any of the Bonds, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds or the production thereof at the trial or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Holders of such Bonds, subject to the provisions of the Resolution.

Remedies Not Exclusive

No remedy in the Resolution conferred upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under the Resolution or now or hereafter existing at law or in equity or by statute.

No Waiver of Default

No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Resolution to the Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Notice of Event of Default

The Trustee shall give to the Bondholders notice of each event of default of which an officer of the Trustee in its corporate trust department has actual knowledge, or has received written notice, within ninety (90) days after knowledge of the occurrence thereof, unless such event of default shall have been remedied or cured before the giving of such notice. Each such notice of event of default shall be given by the Trustee by mailing written notice thereof to all Holders of Bonds, as the names and addresses of such Holders appear upon the books for registration and transfer of Bonds as kept by the Trustee.

Release of Lien of the Resolution

If the Authority shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of the Bonds then Outstanding, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then and in that event the covenants, agreements and other obligations of the Authority to the Bondholders shall be discharged and satisfied. In such event, the Trustee shall, upon request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such release and discharge and the Trustee shall pay over or deliver to the Authority all monies or securities held by it pursuant to the Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Payment of Bonds

Bonds or interest installments for the payment or redemption of which sufficient monies shall then be held by the Trustee (through deposit by the Authority of funds for such payment or redemption or otherwise) whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning of the above paragraph.

All Outstanding Bonds of a Series shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in the provision of the Resolution entitled "Release of Lien of the Resolution" if (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to mail as provided in the Resolution notice of redemption on such date of such Bonds, (b) there shall have been deposited with the Trustee either monies in an amount which shall be sufficient, or Defeasance Securities, the principal of and the interest on which when due will provide monies which, together with the monies, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on such Bonds or portion of all Outstanding Bonds of such Series on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Resolution and stating such maturity or redemption date upon which monies are to be available for the payment of the principal or Redemption Price, if applicable, on such Bonds. Neither the Defeasance Securities nor monies deposited with the Trustee pursuant to the above nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust, for the payment of the principal or Redemption Price, if any, and interest on such Bonds or a portion of such Bonds, as the case may be; provided that any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such redemption date or maturity date thereof, as the case may be.

Any income or interest earned by, or increment to, the investment of any such monies so deposited, shall, to the extent certified by the Trustee to be in excess of the amounts required hereinabove to pay the principal, Redemption Price, if any, and interest on such Bonds, as realized, be transferred by the Trustee to the Authority, and any such monies so paid by the Trustee to the Authority shall be released of the lien and pledge created by the Resolution.

No Recourse Under Resolution or on Bonds

All covenants, stipulations, promises, agreements and obligations of the Authority contained in the Resolution or any Supplemental Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority and not of any member, officer or employee of the Authority in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of, Sinking Fund Installments for or interest on the Bonds or for any claim based thereon or on the Resolution or any Supplemental Resolution against any member, officer or employee of the Authority or any natural person executing the Bonds.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE LEASE AGREEMENT

The following is a summary of certain provisions of the Master Lease Agreement and is qualified in its entirety by reference to the document itself

Definitions

The terms defined below, for all purposes of the Lease, have the following meanings:

(a) "Act" shall mean Chapter 33 of Title 4 of the Maine Revised Statutes, as amended from time to time.

(b) "Authority-Leased Project" shall mean any Project comprising part of the Premises and to which the Landlord shall have a leasehold interest.

(c) "Authority-Owned Project" shall mean any Project comprising part of the Premises and to which the Landlord shall have title.

(d) "Bond" shall mean any bonds or the issue of bonds established and created pursuant to the Bond Resolution (hereinafter defined) and issued from time to time under the Bond Resolution including the Series 1999 Bonds (as defined in the Bond Resolution) and any Series of Additional Bonds (as also defined in the Bond Resolution).

(e) "Bond Resolution" shall mean the General Bond Resolution, authorizing the issuance of Maine Governmental Facilities Authority Lease Rental Revenue Bonds, adopted by Landlord on August 18, 1999, entitled "A General Bond Resolution Authorizing the Issuance of Lease Rental Revenue Bonds of the Maine Governmental Facilities Authority; Providing for the Issuance from Time to Time of Such Bonds; Providing for the Payment of Principal and Interest of Such Bonds; and Providing for the Rights of the Holders Thereof", as the same may be amended, restated or supplemented from time to time.

(f) "Debt Service" shall mean the amounts of principal, Sinking Fund Installments, interest and Redemption Price, if any, payable on the Bonds.

(g) "Debt Service Fund" shall mean the Debt Service Fund established by the Bond Resolution.

(h) "Debt Service Payment Date" shall mean each date upon which the principal of, Sinking Fund Installments for, redemption premium, if any, or interest on the Bonds shall be due and payable pursuant to the Bond Resolution.

(i) "Debt Service Reserve Fund" shall mean the Debt Service Reserve Fund established in the Bond Resolution.

(j) "Governmental Authority or Authorities" shall mean (i) the United States of America; (ii) the State of Maine; (iii) any county, city, town or village of the State of Maine having jurisdiction over the Premises or any portion thereof; and (iv) any agency, department, commission, board, bureau, instrumentality or political subdivision of any of the foregoing entities described in (i), (ii) and (iii) above, now existing or hereafter created, having jurisdiction over the Premises or any portion thereof.

(k) "Landlord" shall mean the Maine Governmental Facilities Authority.

(l) "Lease" shall mean the Master Lease Agreement, dated as of August 1, 1999, between the Landlord and the Tenant, and shall include any and all amendments thereof and supplements thereto.

(m) "Premises" shall mean all of those respective Projects described in the Appendices attached to and made a part of the Lease.

(n) "Project" shall mean one of those separate properties described in the Appendices attached to and made a part of the Lease and constituting part of the Premises.

(o) "Revenue Fund" shall mean the Revenue Fund established by the Bond Resolution.

(p) "State Legislature" shall mean the Legislature of the State of Maine.

(q) "Tenant" shall mean the State of Maine, acting either directly or on its own behalf or by and through those agencies, instrumentalities or departments of the State or branches of State government, identified within the Lease.

Premises

Landlord leases, demises and lets unto Tenant, and Tenant take and hire from Landlord, for the term and upon and subject to the terms and conditions set forth in the Lease, the "Premises". Upon the issuance of a Series of Additional Bonds (as defined in the Bond Resolution), Landlord and Tenant shall enter into an amendment to the Lease, to the extent necessary, to include in the Premises demised under the Lease certain of the additional land, buildings, structures, facilities, improvements, machinery, equipment or other property of the Project being financed from the proceeds of such Series of Additional Bonds. Prior to the issuance of a Series of Additional Bonds, and the addition of one or more Projects to the Premises demised under the Lease, the Landlord shall determine as to each Project whether such Project shall constitute an Authority-Owned Project or an Authority-Leased Project.

Term

The term of the Lease shall be for a period commencing on September 1, 1999, and ending at midnight on October 1, 2019 (or such longer term ending on the last date upon which principal or interest on any Bond shall be payable in accordance with its terms), unless sooner terminated or extended as provided in the Lease. Notwithstanding the foregoing, if the Bonds are prepaid in whole, or provision for payment in full thereof shall be made in accordance with the Bond Resolution, then the Lease shall terminate within thirty (30) days after the payment in full of all of the indebtedness evidenced by the Bonds.

Rent; Limited Obligation

Tenant shall pay to Landlord, as rent, during the term of the Lease, the following amounts at the following times: (i) two (2) business days preceding each Debt Service Payment Date, an amount equal to the Debt Service payable on such Debt Service Payment Date less the amount paid or provided for and available to pay Debt Service under the Bond Resolution from monies on deposit in the following accounts established under the Bond Resolution the Revenue Fund, the Capitalized Interest Account (including all sub-accounts held therein) and the Interest Account of the Debt Service Fund; (ii) at the times specified in the Bond Resolution, such sum or sums, if any, as shall be necessary to maintain the Debt Service Reserve Fund at an amount equal to the Debt Service Reserve Fund Requirement; (iii) at the times specified in the Bond Resolution, all Trustee's fees and all administrative costs and expenses of the Trustee; (iv) two (2) business days preceding each Principal Payment Date or Sinking Fund Installment payment date (but not more often than once in each twelve month period), a program fee equal to 0.1% of the original principal amount of each Series of the Bonds; and (v) at the times specified in the Bond Resolution, all Credit Facility Providers' (as defined in the Bond Resolution) fees. Landlord directs that the amounts identified in clauses (i), (ii), (iii), (iv) and (v) above be paid directly to the Trustee, with the amount payable in clause (iv) above to be then remitted by the Trustee to the Landlord, and with the amount payable in clause (v) above to be then remitted to the Credit Facility Providers. In addition to the basic rent referred to in this paragraph, Tenant shall pay as additional rent an amount equal to (y) the insurance premiums paid by Landlord for the insurance required by the Lease, and (z) all such other costs, expenses or charges of any kind whatsoever as the Landlord may incur with respect to the Bonds, the Bond Resolution, the Lease, the Premises, or otherwise, such amounts under clause (y) or (z) to be repaid to Landlord within thirty (30) days after Tenant's receipt of Landlord's written request therefor. The Tenant confirms that its rental obligation with respect to the Bonds is inclusive of the Series 1999 Bonds.

Notwithstanding anything in the Lease to the contrary, the obligation of Tenant to pay rent as provided in the previous paragraph or to pay or expend any other sum of money under the Lease shall not constitute or create a debt or liability of the State of Maine and shall be subject to and dependent upon appropriations being made from time to time by the State Legislature, and the Tenant's liability under the Lease with respect thereto shall be limited to the amount of such appropriations. The Tenant's obligation to pay rent does not constitute a debt or liability of the State or any political subdivision of the State, within the meaning of any constitutional or statutory limitation, or a loan of credit of the State nor a contractual obligation in excess of the amounts appropriated therefor, and the State has no continuing legal or moral obligation to appropriate money for said payments or other obligations under the Lease. The issuance of the Bonds under the Act does not directly, indirectly or contingently obligate the State or any political subdivision of the State to levy or to pledge any form of taxation whatever or to make any appropriation for their payment. Tenant shall include in its biennial budget, or any other applicable budget submission, a request for an appropriation to pay the rent as provided in the paragraph above, and other charges due and payable under the Lease, during the period covered by such budget.

There is expressly reserved to Tenant the right, and Tenant is authorized and permitted, at any time it may choose, to pay rent in addition to the rent otherwise payable under the Lease. Tenant has the right to stipulate that all sums paid by it pursuant to this paragraph be applied either (i) to the purchase or redemption of Bonds; (ii) as a credit against the rent to become due and payable under the Lease; or (iii) to the Landlord or to any Person entitled to payment from the Landlord to the extent of and in accordance with the terms of a Credit Facility or other Cash Equivalent. Such additional rentals described in clause (i) above may then be so deposited in the Redemption Account and applied to the redemption or purchase of Bonds in the manner and to the extent permitted under the Bond Resolution. Such additional rentals described in clause (ii) above shall be deposited in the Revenue Fund; provided, however, that no such additional rental described in clause (i) above shall be so deposited until the Landlord shall have first delivered to the Trustee an opinion of Bond Counsel to the effect that such deposit is authorized or permitted by the Lease and the Bond Resolution and will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation. Such additional rentals described in clause (iii) above shall be transferred or applied to or for the order of the Person entitled thereto to the extent of and in accordance with the terms of the related Credit Facility or other Cash Equivalent.

Except as set forth above, the obligation of Tenant to pay rent shall be absolute and unconditional, and the rent shall be payable without any rights of set off, recoupment or counterclaim Tenant might have against Landlord or any assignee thereof or any other Person, whether or not the Project or Projects are completed or used or occupied by or through Tenant or available for use or occupancy by or through Tenant, whether or not all or any part of the Premises has been sold or otherwise disposed of and whether or not Landlord shall be in default of its obligations under the Lease. Tenant shall not be precluded from bringing any action it may otherwise have against Landlord.

Tenant will not terminate the Lease for any cause, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute an eviction or constructive eviction, failure of consideration, failure of title or frustration of purpose, or any damage to or destruction of the Premises, or the taking by eminent domain of title to, or any interest in, or the right of temporary use of all or any part of the Premises, or the sale or other disposition of all or any part of the Premises, or the failure of Landlord to perform and observe any agreement or covenant, whether expressed or implied, or any duty, liability or obligation arising out of or connected with the Lease.

Solely for the purpose of accounting for the separate rental obligations attributable to each Project, but without limiting the obligation of the Tenant to pay rent in the amounts set in the first paragraph under this heading (and subject to the limitations set forth in the second paragraph under this heading), each Project comprising a part of the Premises shall be accountable for rental payments in those amounts and for those payment dates set forth in the respective appendices attached to the Lease, each of which rental payment schedules is subject to modification and substitution within the discussion of the Authority upon written notice of such modification delivered by the Authority to the Tenant

Construction of the Projects

Tenant shall diligently undertake and complete the studies, site acquisition, planning, design, construction, renovation, equipping, reconstruction and development of the Project or Projects on the respective Premises. Landlord is relieved of any obligation to construct or reconstruct the Project or Projects or any part thereof. Landlord shall not be liable in any manner for payment or otherwise to any contractor, subcontractor, laborer or supplier of materials in connection with the purchase of any materials to be incorporated into the Project or Projects on the respective Premises.

Tenant agrees that, whenever requested by Landlord, it shall provide and certify, or cause to be provided and certified, in form satisfactory to the Landlord, such information concerning Tenant, the respective Premises, operations and finances of Tenant and such other matters that Landlord considers necessary, to enable Landlord to complete and publish an official statement, placement memorandum or other similar document relating to the sale of Bonds, or to enable Landlord to make any reports required by law or governmental regulations in connection with any Bonds.

Upon completion of any Project, the Tenant shall promptly deliver to the Landlord a certificate of an authorized representative of the Tenant certifying as to the date of such completion, and the amount, if any, required for the payment of any Cost of the Project with respect to such completed Project required to be paid. To similar effect, upon the abandonment of any Project, the Tenant shall promptly deliver to the Landlord a certificate of an authorized representative of the Tenant certifying as to such abandonment and stating the amount, if any, required for the payment of any Cost of the Project with respect to such abandoned Project required to be paid.

Impositions and Utilities

Tenant covenants and agrees to pay, all of the following items ("Impositions"): (i) water, water meter and sewer rents, rates and charges; (ii) excises; (iii) levies; (iv) license and permit fees; (v) protection, street and highway construction, maintenance and lighting, sanitation and water supply, if any; (vi) fines, penalties and other similar or like governmental charges applicable to the foregoing and any interest or costs with respect thereto; and (vii) any and all other governmental levies, fees, rents, assessments or taxes and charges, general and special, ordinary and extraordinary, foreseen and unforeseen, of any kind and nature whatsoever, and any interest or costs with respect thereto, which at any time prior to or during the term of the Lease (1) are assessed, levied, confirmed, imposed upon, or would grow or become due and payable out of or in respect of, or charged with respect to (A) the Premises or any part thereof, (B) any document to which Landlord or Tenant is a party, creating or transferring an interest or estate in the Premises or any part thereof, (C) the use and occupancy of the Premises or any part thereof by Tenant, or (D) this transaction, and (2) are or would be encumbrances or liens on (A) the Premises, or any part thereof, (B) the sidewalks or streets in front of or adjoining the Premises, (C) any vault, passageway or space in, over or under such sidewalk or street, (D) any other appurtenances of the Premises, (E) other personal property, equipment or other facility used in the operation thereof, or (F) the rent (or any portion thereof) payable by Tenant under the Lease.

Tenant shall pay all charges for fuel, electricity, light, heat or power, sewage, telephone and other utility services, rendered or supplied to, upon or in connection with the Premises during the term of the Lease.

Tenant shall have the right at its own expense to contest the amount or validity, in whole or in part, of any Imposition by appropriate proceedings diligently conducted in good faith.

Use of Premises

Tenant shall use and occupy the Premises solely as a qualified "project" and other purposes now or hereafter permitted under the Act and the Internal Revenue Code of 1986, as amended, and for no other purposes whatsoever.

Tenant, at its sole cost and expense, shall promptly comply with any and all present and future laws, rules, orders, ordinances, regulations, statutes, requirements, codes and executive orders (collectively, "Requirements"), without regard to the nature of the work required to be done, extraordinary as well as ordinary, of any Governmental Authorities now existing or hereafter created, and of any and all of their departments and bureaus, affecting the Premises or any street, avenue and/or sidewalk comprising a part or in front thereof and/or any vault in or under the same, or requiring the removal of any encroachment or affecting the maintenance, use or occupation of the Premises, whether or not the same involve or require any structural changes or additions in or to the Premises, and without regard to whether or not such changes or additions are required on account of any particular use to which the Premises, or any part thereof, may be put. Tenant may contest in good faith the validity of any Requirements or the application thereof at Tenant's sole cost and expense.

Repairs and Alterations

Tenant shall be responsible for, and shall pay or cause to be paid all costs of operating the Premises, maintaining the same in good condition, and making all necessary repairs thereto and reconstructions thereof, interior and exterior, structural and non structural, and Landlord shall not have any obligation to operate, repair, maintain or reconstruct the Premises.

Tenant shall use its best efforts to discharge or cause to be discharged within sixty (60) days after notice of filing thereof, any mechanic's, laborer's or materialmen's lien against the Premises or any part thereof and any public improvements lien against any asset of or fund of Landlord.

Indemnification of Landlord

Subject to appropriations being made therefor by the State Legislature, Tenant shall, to the fullest extent permitted by law, indemnify and save Landlord harmless from and against any and all liabilities, suits, obligations, fines, damages, penalties, claims, costs, charges and expenses, including, without limitation, reasonable attorneys' fees and disbursements, which may be imposed upon or incurred by or asserted against Landlord by reason of any failure on the part of Tenant to perform its obligations under the Lease.

Fire or Other Casualty; Insurance

In the event that, at any time during the term of the Lease, any one or more of the buildings on the Premises shall be destroyed or damaged in whole or in part by fire or other cause, Landlord shall have no obligation to restore same, and Tenant may, at its option, either repair and restore the damaged buildings to complete architectural units, or demolish and remove the damaged buildings and all rubble from the Premises.

Tenant shall not be entitled to any suspension or abatement of rent by reason of any destruction or damage to the buildings and improvements upon the Premises.

Landlord shall insure the buildings and other improvements now or hereafter constructed upon the Premises against such risks and in such amounts as are commercially reasonable and are agreed upon by Landlord and Tenant.

Eminent Domain

If the whole or substantially all of the Premises or any buildings located thereon shall be taken for a public or quasi-public purpose by any lawful power or authority by the exercise of the rights of condemnation or eminent domain, or by agreement among Landlord, Tenant and those authorized to exercise such right, then, upon demand by Landlord, the entire award in any proceeding with respect to such taking shall be paid to Landlord without deduction therefrom for any estate vested in Tenant by reason of the Lease. As long as any Bond is Outstanding (as defined in the Bond Resolution), no such taking or agreement shall entitle Tenant to terminate the Lease and shall not impair or result in any diminution of the obligations of Tenant under the Lease.

If less than substantially all of the Premises or any buildings located thereon shall be so taken, then, upon demand by Landlord, Tenant, at its sole cost and expense, but only to the extent of available condemnation award proceeds, shall proceed diligently to repair and restore any remaining part not so taken, so that the Premises shall be restored as nearly as possible to the character existing immediately prior to such taking.

However, if all or any portion of the Premises shall be damaged or destroyed by casualty or taken by condemnation or eminent domain, then the insurance or condemnation proceeds, when received, shall be paid into the Redemption Account, if Bonds remain Outstanding (as defined in the Bond Resolution), or to Landlord as Agent if no Bonds remain Outstanding (as defined in the Bond Resolution). Such amounts in the Redemption Account or held by Landlord as Agent shall be held until Tenant has made its election as hereinafter provided. At the election of Tenant (such election to be made within 180 days after receipt by Tenant of notice of Landlord's or Trustee's receipt of all such funds), any such funds placed in the Redemption Account or held by Landlord pursuant to the Lease either may be used to redeem the Bonds or may be made available to Tenant to restore the Premises. If Tenant elects not to restore the Premises, any such funds in the Redemption Account or held by Landlord shall be used to redeem the Bonds, and the surplus, if any, shall be the property of Landlord.

Event of Non-Appropriation; Event of Default

An "Event of Non-Appropriation" shall occur under the Lease if, as a result of failure by the State Legislature to appropriate monies to fund amounts due under the Lease, Tenant:

(i) fails to pay when due the rent required to be paid pursuant to the Lease; or

(ii) fails to perform any covenant or agreement on its part required to be performed under the Lease.

Either of the following shall be an "Event of Default" under the Lease:

(i) if for any reason, other than a failure by the State Legislature to appropriate monies for such purpose, Tenant shall fail, for more than two (2) business days, to pay when due the rent required to be paid pursuant to the Lease;

(ii) if for any reason, other than a failure by the State Legislature to appropriate monies for such purpose, Tenant shall fail to perform any covenant or agreement on its part required to be performed (other than the covenant to pay rent under the Lease) and such failure shall have continued for sixty (60) days after written notice of such failure has been received by Tenant.

If an Event of Non-Appropriation shall occur, Landlord may give written notice to Tenant of its election to end the term of the Lease as to any or all of the Projects on the date specified in such notice, which date shall be at least ten (10) days after the giving of such notice, and, upon the date specified in such notice, the Lease and the term demised and all rights of Tenant under the Lease as to any or all of the Projects shall expire and terminate. It is expressly understood and agreed by Landlord and Tenant that Landlord may terminate the Lease only in the case of an Event of Non-Appropriation and for no other reason, and if an Event of Default shall occur, Landlord shall not be entitled to terminate the Lease, but instead shall be entitled to suspend Tenant's right to occupy or use any or all of the Authority-Owned Projects until such Event of Default is cured, or to pursue against any Authority-Owned Project any other rights Landlord may have at law or in equity.

The remedies conferred upon or reserved to Landlord under the immediately preceding paragraph shall be the sole and exclusive remedies available to Landlord in respect to an Event of Non-Appropriation.

The remedies conferred upon or reserved to Landlord in respect of an Event of Default are not intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Lease or now or hereafter existing at law or in equity or by statute, subject, however, to the application of any such remedy only to Authority-Owned Projects and to the provisions of the second paragraph under the heading "Rents; Limited Obligation" above.

In the event of breach by Tenant of the performance or observance of any obligation, agreement or covenant under the Lease, other than the obligation to pay when due the rent required to be paid under the Lease, Landlord may take whatever action in equity which may appear necessary or desirable to enforce such performance or observance. The remedies conferred upon Landlord in this Section shall be the sole and exclusive remedies available to Landlord in respect to such breach of performance or observance.

Force Majeure

In any case where either party to the Lease is required to do any act (except for the payment of rent and other charges by Tenant), the time for the performance thereof shall be extended by a period equal to any delay caused by or resulting from act of God, war, civil commotion, fire or other casualty, labor difficulties, shortages of energy, labor, materials or equipment, government regulations, delays caused by either party to the other, or other causes beyond such party's reasonable control, whether such time be designated by a fixed date, a fixed time or a "reasonable time".

Tenant's Option to Purchase All or a Portion of the Premises; Extension Terms

Tenant shall have the exclusive right and option to purchase all of the properties included within the Premises, and all appurtenances thereto and all improvements thereon, including any improvements erected thereon by Tenant, upon the expiration of the term of the Lease, as the same may be extended by Tenant as provided below, provided that such right and option may be exercised by Tenant only if all Bonds issued under the Bond Resolution shall no longer be Outstanding at the time of such exercise.

Tenant shall also have the exclusive right and option to purchase a portion (but not all) of the properties included within the Premises, and all appurtenances thereto and all improvements thereon, including any improvements erected thereon by Tenant, upon the related Series of Bonds issued therefor (or related portion of any Series of Bonds) ceasing to be Outstanding.

Tenant shall have the right, at the expiration of the term of the Lease, to extend such term for up to sixty (60) successive periods of one month each, each of such periods to be exercised separately in the manner provided in the Lease, and to be on all the same terms, covenants, provisions and conditions contained in the Lease and at a rental per month of an amount equal to one twelfth of one tenth of one percent of the original principal amount of each Series of the Bonds.

Waivers

Failure of either party to complain of any act or omission on the part of the other party, no matter how long the same may continue, shall not be deemed to be a waiver by said party of any of its rights under the Lease. No waiver by either party at any time, express or implied, of any breach of any provision of the Lease shall be deemed a waiver of a breach of any other provision of the Lease or a consent to any subsequent breach of the same or any other provision. If any action by either party shall require the consent or approval of the other party, the other party's consent to or approval of such action on any one occasion shall not be deemed a consent to or approval of said action on any subsequent occasion or a consent to or approval of any other action on the same or any subsequent occasion. Any and all rights and remedies which either party may have under the Lease or by operation of law, either at law or in equity, upon any breach, shall be distinct, separate and cumulative and shall not be deemed inconsistent with each other; and no one of them, whether exercised by said party or not shall be deemed to be in exclusion of any other; and any two or more of all of such rights and remedies may be exercised at the same time.

Real Estate Taxes

Tenant shall be responsible to pay any and all real estate taxes imposed on or levied against the Premises during the term of the Lease, if any.

Special Covenants

Landlord and Tenant covenant that they shall take no action, nor shall they approve the taking of any action or making any investment or use of the proceeds of Bonds, which would cause the Bonds to be "arbitrage bonds" within the meaning of Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and any proposed or final regulations thereunder as are applicable to the Bonds at the time of such action, investment or use.

Landlord and Tenant shall at all times do and perform all acts and things necessary or desirable and within its power in order to assure that interest paid on the Bonds shall, for the purposes of Federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

APPENDIX C

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Agreement") dated as of June 1, 2013 by and among Maine Governmental Facilities Authority (the "Issuer"), the State of Maine (the "State") and The Bank of New York Mellon Trust Company, N.A., as Trustee (the "Trustee") under a General Bond Resolution (the "Resolution") adopted by the Issuer on August 18, 1999, as supplemented through a Fourteenth Supplemental Bond Resolution adopted by the Issuer on May 9, 2013 (the Fourteenth Supplemental Bond Resolution"), is executed and delivered in connection with the issuance of the Issuer's $30,290,000 aggregate principal amount of Lease Rental Revenue Bonds, Series 2013A (the "Bonds"). Capitalized terms used in this Agreement which are not otherwise defined in the Resolution shall have the respective meanings specified above or in Article IV hereof. Pursuant to Section 205 of the Fourteenth Supplemental Bond Resolution, the parties agree as follows:

ARTICLE I

The Undertaking

Section 1.1. Purpose. This Agreement shall constitute a written undertaking for the benefit of the holders of the Bonds, and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule. The Trustee has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Agreement, and has no liability to any person, including any Bondholder, with respect to any such reports, notices or disclosures.

Section 1.2. Annual Financial Information. The State, acting by and through the Treasurer, shall provide Annual Financial Information with respect to each fiscal year of the State, commencing with fiscal year ending June 30, 2013, within one year after the end of the respective fiscal year, to the MSRB. The Trustee is under no obligation to verify the content or correctness of, and shall not be responsible for the sufficiency of, said Annual Financial Information or for compliance of the contents of the Annual Financial Information with the Rule or this Agreement.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2 hereof, the State, acting by and through the Treasurer, shall provide Audited Financial Statements, when and if available, to the MSRB. The Trustee is under no obligation to verify the content or correctness of, and shall not be responsible for the sufficiency of, said Financial Statements or for compliance of the contents of the Audited Financial Statements with the Rule or this Agreement.

Section 1.4. Notice Events Notices. (a) If a Notice Event occurs, the Issuer shall provide, in a timely manner, not in excess of nine (9) Business Days after the occurrence of such Notice Event, notice of such Notice Event to the Trustee. The Trustee shall provide a copy of each such notice of a Notice Event to the MSRB within one Business Day after receipt by the Trustee. The Trustee shall have no duty to file a notice of a Notice Event unless it is directed in writing to do so by the Issuer, and shall have no responsibility for verifying any of the information in any such notice or determining whether any such underlying event is a Notice Event.

(b) Any such notice of a defeasance of Bonds shall state whether funds sufficient for the payment of the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Trustee shall promptly advise the Issuer whenever, in the course of performing its duties as Trustee under the Resolution, the Trustee has actual notice of an occurrence which, if material, would require the Issuer to provide notice of a Notice Event hereunder; provided, however, that the failure of the

Trustee so to advise the Issuer shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Resolution.

Section 1.5. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer and that, under some circumstances, additional disclosures or other action may be required to enable the Issuer to fully discharge all of its duties and obligations under such laws.

Section 1.6. Additional Information. Nothing in this Agreement shall be deemed to prevent the Issuer or the State from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of a Notice Event hereunder, in addition to that which is required by this Agreement. If the Issuer or the State chooses to do so, neither the Issuer nor the State shall have any obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Notice Event hereunder.

Section 1.7. No Previous Non-Compliance. The Issuer represents that, in the previous five years, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule. The State represents that, in the previous five years, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II
Operating Rules

Section 2.1. Reference to Other Documents. It shall be sufficient for purposes of Section 1.2 or Section 1.3 hereof if the State provides Annual Financial Information by specific reference to documents either (i) available to the public on the MSRB Internet Website (currently, www.emma.msrb.org) or (ii) filed with the SEC. The provisions of this Section shall not apply to notices of Notice Events pursuant to Section 1.4 hereof.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time. The Issuer may from time to time designate an agent to act on its behalf in providing or filing notices, documents and information as required of the Issuer under this Agreement, and revoke or modify any such designation.

Section 2.3. Notice Event Notices. Each notice of a Notice Event hereunder shall be captioned "Notice of Notice Event" and shall prominently state the title, date and CUSIP numbers of the Bonds.

Section 2.4. Transmission of Notices, Documents and Information. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided to the MSRB shall be transmitted simultaneously with a copy to the Issuer and provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 2.5. Fiscal Year. (a) The State's current fiscal year is July 1 – June 30, and the State shall promptly notify the MSRB and the Trustee in writing of each change in the State's fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III
Effective Date, Termination, Amendment or Enforcement

Section 3.1. Effective Date, Termination. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The State's, the Issuer's and the Trustee's obligations under this Agreement shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Bonds.

(c) This Agreement, or any provision hereof, shall be null and void in the event that (1) the Issuer delivers to the Trustee an opinion of Counsel, addressed to the State, the Issuer and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) the Trustee delivers copies of such opinion to the MSRB. The Trustee shall so deliver such opinion within one Business Day after receipt by the Trustee.

Section 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules, regulations or official pronouncements) or in interpretations thereof (including no-action positions), or a change in the identity, nature or status of the State or the Issuer or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the State, the Issuer and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the Issuer shall have delivered to the Trustee, an opinion of Counsel unaffiliated with the Issuer or the State (such as bond counsel) and acceptable to the State and the Issuer, addressed to the State, the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Resolution with consent of holders of Bonds pursuant to Section 1002 of the Resolution as in effect on the date of this Agreement, and (5) the Trustee shall have delivered copies of such opinion(s) and amendment to the MSRB. The Trustee shall so deliver such opinion(s) and amendment within one Business Day after receipt by the Trustee.

(b) In addition to subsection (a) above, this Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement, which is applicable to this Agreement, (2) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the State, the Issuer and the Trustee, to the effect that performance by the State, the Issuer and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Trustee shall have delivered copies of such opinion and amendment to the MSRB. The Trustee shall so deliver such opinion and amendment within one Business Day after receipt by the Trustee.

(c) This Agreement may be amended by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) the Issuer shall have delivered to the Trustee and the State an opinion of Counsel, addressed to the Issuer, the State and the Trustee, to the effect that the amendment is permitted by rule, order or other official pronouncement, or is consistent with any interpretive advice or no-action positions of Staff, of the SEC, and (2) the Trustee shall have delivered copies of such opinion and amendment to the MSRB. The Trustee shall so deliver such opinion and amendment within one Business Day after receipt by the Trustee.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the State in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in accounting principles on the presentation of the financial information. The Trustee shall not be required to accept or acknowledge any amendment of this Agreement if the amendment adversely affects its respective rights or immunities or increases its respective duties hereunder.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement and shall be deemed to be holders of Bonds for purposes of Section 3.3(b) hereof. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the State and the Issuer to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or by the Trustee on behalf of the holders of Outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the State's or the Issuer's obligations under this Agreement. Neither any holder of the Bonds nor the Trustee may institute any suit, action or proceeding at law or in equity involving the State (a "Proceeding") as provided in this Section 3.3 unless such holder or the Trustee, as the case may be, shall have filed with the Treasurer and the Attorney General a written request to cure such breach, and the State shall have refused or failed to comply within a reasonable time. Any assertion of beneficial ownership must be included in such written request and must be supported by independent evidence or documents. Proceedings filed by the Trustee, holders or beneficial owners against the State may be subject to the defense of sovereign immunity which may substantially limit the scope and nature of any legal action against the State or of any order of specific performance that may be granted against the State.

(c) Any failure by the State, the Issuer or the Trustee to perform in accordance with this Agreement shall not constitute a default or an event of default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an event of default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted only in a State court of competent jurisdiction located in the City of Augusta, Maine for the equal benefit of all beneficial owners of the Outstanding Bonds; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV
Definitions

Section 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data with respect to the State, for each fiscal year of the State, of the type set forth in Part II of the Official Statement, and (ii) the information regarding amendments to this Agreement required pursuant to Section 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the State, audited by such auditor as shall then be required or permitted by State law. Audited Financial Statements shall be prepared in accordance with GAAP.

(3) "Counsel" means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(4) "GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(5) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(6) "Notice Event" means any of the following events with respect to the Bonds, whether relating to the State, the Issuer or otherwise:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material or events affecting the tax status of the Bonds;

(vii) modifications to rights of Bondholders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the Issuer or the State; which event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer or the State in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer or the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer or the State;

(xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the State or the sale of all or substantially all of the assets of the Issuer or the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(7) "Official Statement" means the Official Statement dated May 30, 2013 with respect to the Bonds.

(8) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(9) "SEC" means the United States Securities and Exchange Commission.

(10) "Treasurer" means the Treasurer of State of the State of Maine.

(11) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

(12) "Underwriters" means Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Bank, National Association.

ARTICLE V
Miscellaneous

Section 5.1. Responsibilities of Trustee. Article VII of the Resolution is hereby made applicable to this Agreement as if this Agreement were, solely for this purpose, contained in the Resolution.

Section 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 5.3. Notices. Unless otherwise expressly provided, all notices to the Issuer, the State, and the Trustee shall be in writing and shall be deemed sufficiently given if sent by registered or certified mail, postage prepaid, or delivered during business hours to such parties at the address specified in the Resolution or, as to all of the foregoing, to such other address as the addressee shall have indicated by prior written notice to the one giving notice.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

STATE OF MAINE

By: ______________________________
Neria Douglass
Treasurer of State

MAINE GOVERNMENTAL FACILITIES AUTHORITY

By: ______________________________
Michael R. Goodwin
Executive Director

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: ______________________________

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

Upon the delivery of the Series 2013A Bonds, Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel to the Authority, proposes to issue its approving opinion in substantially the following form:

Hawkins Delafield & Wood LLP

One Chase Manhattan Plaza
New York, NY 10005
www.hawkins.com

June __, 2013

Maine Governmental Facilities Authority
Augusta, Maine

Dear Members:

We have examined a record of proceedings relating to the issuance of the $30,290,000 aggregate principal amount of the Lease Rental Revenue Bonds, Series 2013A (the "Series 2013A Bonds") of the Maine Governmental Facilities Authority (the "Authority"), a body corporate and politic and a public instrumentality and agency of the State of Maine (the "State") created and existing under the laws of the State.

The Series 2013A Bonds are authorized to be issued pursuant to the Maine Governmental Facilities Authority Act, being 4 MRSA §1601 et seq., as amended (the "Act"), the Maine Governmental Facilities Authority General Bond Resolution adopted by the Authority on August 18, 1999 entitled "A General Bond Resolution Authorizing the Issuance of Lease Rental Revenue Bonds of the Maine Governmental Facilities Authority; Providing for the Issuance from Time to Time of Such Bonds; Providing for the Payment of Principal and Interest of Such Bonds; and Providing for the Rights of the Holders thereof", as supplemented through "A Fourteenth Supplemental Bond Resolution Authorizing the Issuance of Lease Rental Revenue Bonds, Series 2013A, of the Maine Governmental Facilities Authority; Providing for the Issuance of Such Bonds; Providing for the Payment of Principal of and Interest on Such Bonds; and Providing for the Rights of the Holders Thereof" adopted by the Authority on May 9, 2013 (the "Resolution"), and a certificate of determination of an authorized officer of the Authority (the "Certificate of Determination"). The Bank of New York Mellon Trust Company, N.A. is acting as Trustee (the "Trustee") under the Resolution. The Authority is issuing the Series 2013A Bonds as an authorized issue of bonds under the Resolution entitled "Maine Governmental Facilities Authority, Lease Rental Revenue Bonds" for the purposes of paying a portion of the costs of (i) completion of the construction of a new courthouse in Augusta, Maine and the renovations, and construction of an addition to, a courthouse in Machias, Maine (collectively, the "2013A Projects"), and (ii) the issuance of the Series 2013A Bonds. Pursuant to a Master Lease Agreement, dated as of August 1, 1999, as amended through a Fourteenth Amendment to Master Lease Agreement, dated as of June 1, 2013, by and between the Authority and the Lessee (collectively, the "Lease Agreement"), by and between the Authority and the State of Maine, acting either directly on its own behalf or by and through certain agencies, instrumentalities or departments of the State or branches of State government (collectively, the "Lessee"), the Authority will lease or sublease the Premises (as defined in the Lease Agreement) to the Lessee.

The Series 2013A Bonds are dated their date of delivery, except as otherwise provided in the Resolution. The Series 2013A Bonds are issuable only in fully registered form in the denominations of $5,000 or integral multiples thereof. The Series 2013A Bonds will mature on the respective dates in the respective principal amounts and will bear interest from their date, payable on April 1 and October 1 of each year, commencing on October 1, 2013, at the respective rates of interest per annum, all as provided in the Resolution and the Certificate of Determination. The Series 2013A Bonds are subject to redemption as provided in the Resolution and the Certificate of Determination.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2013A Bonds in order that interest on the Series 2013A Bonds be and remain excluded from gross income under Section 103 of the Code. Noncompliance with such requirements may cause interest on the Series 2013A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority and the Lessee have each covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2013A Bonds from gross income under Section 103 of the Code.

In rendering the opinions set forth in paragraphs 6 and 7 hereof, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Lessee and others in connection with the Series 2013A Bonds, and we have assumed compliance by the Authority and the Lessee with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2013A Bonds from gross income under Section 103 of the Code.

We are of the opinion that:

1. The Authority has been duly created and is validly existing under the Act and has the right, power and authority to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms.

2. The Resolution creates the valid pledge which it purports to create of the Lease Payments and all Funds and Accounts (as such terms are defined in the Resolution) established by the Resolution (except the Rebate Fund), including the investments thereof and the proceeds of such investments, if any, subject only to the provisions of the Resolution permitting the application thereof to the purposes and on the terms and conditions set forth in the Resolution.

3. The Series 2013A Bonds are valid and binding limited revenue obligations of the Authority payable as provided in the Resolution, and enforceable in accordance with their terms and the terms of the Resolution and are entitled to the benefits of the Act and the Resolution. Pursuant to the Lease Agreement, the Lessee has covenanted to make the Lease Payments, which payments by the Lessee are executory to the extent of the monies made available to the Lessee by the State Legislature, and no monetary liability on account thereof is incurred by the Lessee beyond monies legally made available for such payments by the State Legislature.

4. The Authority has the right and power pursuant to the Act to enter into the Lease Agreement, and the Lease Agreement has been duly authorized, executed and delivered by the Authority, is in full force and effect, and, assuming the due authorization, execution and delivery of the Lease Agreement by the Lessee, constitutes a valid and binding agreement of the Authority enforceable against the Authority in accordance with its terms.

5. The Series 2013A Bonds do not constitute a legally enforceable obligation upon the part of the State nor create a debt on behalf of the State enforceable against the State.

6. Under existing statutes and court decisions, (i) interest on the Series 2013A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2013A Bonds is not treated as a preference item in calculating the alternative minimum

tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. For any Series 2013A Bonds having original issue discount ("OID"), OID that has accrued and is properly allocable to the owners of such Series 2013A Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2013A Bonds.

7. Interest on the Series 2013A Bonds is exempt under existing statutes from the State of Maine income tax imposed on individuals.

Except as stated in paragraphs 6 and 7 above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the Series 2013A Bonds or the ownership or disposition thereof. Furthermore, we express no opinion as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves (if such opinion of other counsel shall have been given without consultation with us or after consultation with us and to which we shall not concur) on the exclusion from gross income for Federal income tax purposes of interest on the Series 2013A Bonds, or the exclusion of interest on the Series 2013A Bonds under the State of Maine income tax imposed on individuals.

We are rendering this opinion under existing statutes and court decisions as of the date hereof. We assume no obligation to update our opinion after the date hereof to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise.

In rendering this opinion, we are advising you that the enforceability of the Series 2013A Bonds, the Resolution and the Lease Agreement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies heretofore or hereafter enacted and is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

We have examined an executed Series 2013A Bond numbered AR-1 and, in our opinion, the form of said Bond and its execution are regular and proper.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Very truly yours,

[THIS PAGE INTENTIONALLY LEFT BLANK]

PART II
of
OFFICIAL STATEMENT
of
MAINE GOVERNMENTAL FACILITIES AUTHORITY
relating to its
Lease Rental Revenue Bonds, Series 2013A

INFORMATION CONCERNING THE STATE OF MAINE

The information concerning the State of Maine (the "State"), which is set forth in this Part II and which is comprised of the Supplement dated as of May 30, 2013 and Exhibits A through F listed on the page following such Supplement, consists of certain financial and economic information concerning the State which was furnished by the State and the other sources indicated herein as of May 14, 2013 and has been supplemented as of May 30, 2013. The information is authorized by the State to be distributed to prospective purchasers of the Maine Governmental Facilities Authority Lease Rental Revenue Bonds, Series 2013A (the "Bonds") and to the Municipal Securities Rulemaking Board for purposes of its Rule 15c2-12. This Part II may not be reproduced or used in whole or in part for any other purpose without the express written consent of the Treasurer of State.

Upon delivery of the Bonds, the Treasurer of State will deliver a certificate to the effect that to the best of her knowledge after reasonable investigation, this Part II does not include any untrue statement of a material fact and does not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading.

Any statement in this Part II involving any matter of opinion, whether or not expressly so stated, is intended merely as an opinion and not as a representation of fact. The information and expressions of opinions in this Part II are subject to change without notice and neither the delivery of this Part II nor any sale of the Bonds described in this Official Statement in which this Part II is included shall, under any circumstances, create any implication that there has been no change in the affairs of the State, or its agencies, authorities and political subdivisions, since the date hereof.

STATE OF MAINE

By: /s/ Neria R. Douglass
Neria R. Douglass
Treasurer of State

Dated: May 30, 2013

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUPPLEMENT

DATED MAY 30, 2013

To

THE STATE OF MAINE

INFORMATION STATEMENT

The information set forth below supplements the information which was provided by the State of Maine as of May 14, 2013 and which is set forth under the heading "STATE BUDGETS" in the State of Maine Information Statement which is Exhibit A of Part II of the Official Statement of the Maine Governmental Facilities Authority dated May 30, 2013. Such information set forth below should be read in conjunction with the information set forth under such heading.

Significant Legislative Developments since May 14, 2013

On May 23, 2013, the Legislature passed LD 1546, "An Act to Strengthen Maine's Hospitals, Increase Access to Health Care and Provide for a New Spirits Contract". However, the Governor vetoed the bill on May 28, 2013, and the Senate sustained the veto on May 29, 2013. Accordingly, it did not become law. The bill provided authorization for revenue bonds from liquor operations; payment of MaineCare debt to hospitals accrued prior to December 1, 2012; and expanded MaineCare coverage for qualifying adults up to 133% of poverty to receive 100% funding under the federal Affordable Care Act. The bill further provided that excess revenues from liquor sales after those payments were authorized for Drinking Water and Wastewater treatment revolving loans; Highway and bridge construction; Budget Stabilization Fund replenishment; and personnel positions in the Bureau of Family Independence of the Department of Health and Human Services. While the veto of the measure was sustained, the provisions for repayment of hospital debt with revenue bonds from liquor sales and enactment of MaineCare coverage under the Affordable Care Act are still under discussion in the Legislature.

A majority of members of the Joint Standing Committee on Taxation have proposed delaying changes in the income and estate tax code enacted by the 125th Legislature, and Democratic legislative leaders made similar statements to the press on May 29, 2013. The proposal is contained in a letter from the Taxation Committee to the Joint Standing Committee on Appropriations and Financial Affairs dated May 22, 2013. No official action by such Committee has yet been taken on this proposal. Delaying the tax code changes would restore approximately $400 million to the biennial budget according to the letter.

TABLE OF EXHIBITS

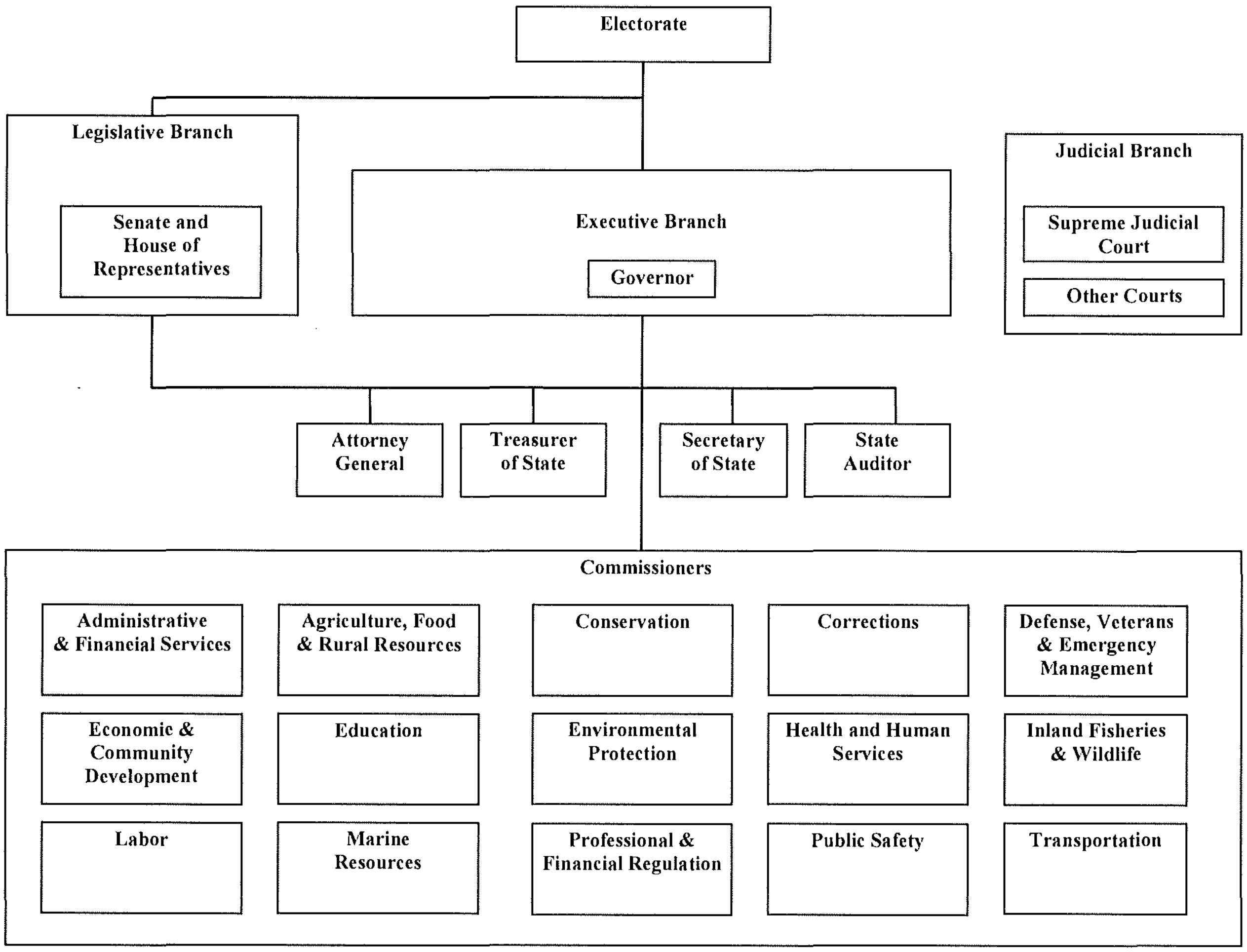
STATE OF MAINE INFORMATION STATEMENT

EXHIBIT A

TABLE OF CONTENTS

GOVERNMENTAL ORGANIZATION

The State of Maine (the "State" or "Maine") became the twenty-third of the United States in 1820. The government of the State is divided into three distinct branches, the legislative, executive and judicial, as outlined in the chart below.



Executive Branch

The Offices of Governor, Secretary of State, Treasurer of State and Attorney General are created by the Constitution of the State. The Governor is elected quadrennially at a general election and is limited to two consecutive four-year terms of office. The first term of the present Governor began in January 2011. The Secretary of State, Treasurer of State and Attorney General are each elected biennially by a joint ballot of the state Senators and Representatives in convention. A person may not serve more than four consecutive terms as either Secretary of State, Treasurer of State or Attorney General.

Governor. The executive power of the State, including the power to recommend measures to the Legislature, and the power to appoint, with the advice and consent of the Senate, certain officers of State government, is vested in the Governor. The Governor is responsible for the enforcement of the laws of the State.

Governor's Cabinet. The Governor's cabinet, which assists the Governor in administration and policymaking, includes the commissioners who head the 14 executive departments and who serve at the pleasure of the Governor.

Secretary of State. The Secretary of State, a constitutional officer, serves as executive head of the Department of the Secretary of State, and is authorized to keep his office at the seat of government, have the custody of the state seal and preserve all records in such office at the expense of the State; to keep and preserve the records of all the official acts and proceedings of the Governor, Senate and House of Representatives, and, when required, lay the same before either branch of the Legislature, and perform such other duties as are enjoined by the Constitution or required by law. The Secretary of State attends to the Governor, Senate and House of Representatives as they shall respectively require; appoints and renews all notaries public commissions; prepares commissions for appointees, and certificates of election to office for presentation to the Governor under the seal of the State; distributes printed information and instructions, ballots and blanks for all election returns required by law to clerks of the several towns; files articles of incorporation; files notices of certain security interests and performs other receiving, filing and recording functions for which fees may be collected; files rules adopted pursuant to the Administrative Procedure Act; annually registers motor vehicles and issues licenses for operators thereof; issues certificates of title, licenses new and used car dealers; maintains official state records considered to be permanently valuable; administers the State's address confidentiality program and the Office of the Small Business Advocate; and supervises the Department's subdivisions as required by statute and recommends to the Legislature such changes as may be required to modernize and improve the functions and services rendered by the Department.

Treasurer of State. The Treasurer of State, a constitutional officer, is authorized to receive and keep records of all items of income accruing to the State; to deposit such items in banks, reconciling said balances and temporarily investing idle funds; to sell bonds and notes of the State as approved by law and keep records pertaining to such debt; to maintain monthly exhibits concerning these moneys; to enter into contracts or agreements with banks for custodial care and servicing of negotiable securities belonging to the State; and to establish accounts with such banks for servicing State agencies. The Treasurer of State also administers the Unclaimed Property Program. The Treasurer of State is an ex officio member of the boards of a number of authorities and bodies established by the State, including the Maine Municipal Bond Bank, the Maine Public Employees Retirement System, the Maine Health and Higher Educational Facilities Authority, the Maine Governmental Facilities Authority, the Maine State Housing Authority, the Finance Authority of Maine, the Maine Public Utility Financing Bank, the Adaptive Equipment Loan Board, the Northern Maine Transmission Corporation, the Board of Emergency Municipal Finance, the Indian Housing Mortgage Insurance Committee, the Dirigo Health Agency Board of Trustees, Maine Vaccine Board and the Maine Educational Loan Authority, and is Chair of the NextGen Investment Advisory Board.

The Treasurer of State is responsible daily for the investment of those funds not required to meet current expenditures. Daily deposits are placed in local depositories statewide, wired daily to a central working account and invested fully. All check disbursements are made by the Treasurer of State on warrants issued by the State Controller. Funds are disbursed on bank accounts established under competitive bidding. Funds are transferred from receipt accounts to disbursement accounts by wire as needed to meet balance requirements.

The Treasurer of State maintains a record of all receipts, disbursements and transfer activity and balances to the State Controller monthly. The Treasurer of State maintains the records of the investments of the State through the State investment pool. The investment pool comprises the entire cash availability of the State (all funds) as well as component units that elect to participate. Monthly transfers of earnings are made by the Treasurer of State to participating funds. The Treasurer of State compiles a listing of State investments held monthly.

When there is money in the State Treasury that is not needed to meet current obligations, the Treasurer of State may invest, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and with the consent of the Governor, those amounts in bonds, notes, certificates of indebtedness or other obligations of the United States and its agencies and instrumentalities that mature not more than 36 months from the date of investment, or in repurchase agreements that mature within the succeeding 12 months that are secured by obligations of the United States and its agencies and instrumentalities, prime commercial paper, tax-exempt obligations and corporate bonds rated "AAA" that mature not more than 36 months from the date of investment, or banker's acceptances or so-called "no-load" shares of any investment company registered under applicable Federal law that complies with certain Federal guidelines and maintains a constant share price.

Attorney General. The Attorney General's primary responsibility is to protect public rights and preserve order through serving as the State's chief law officer and legal representative of the State. In this capacity, the Attorney General ensures enforcement of Maine laws through instituting, conducting, and maintaining such actions and proceedings as the public interest may require. No State agency may appear and advocate positions before a court without the approval of the Attorney General.

The Department of the Attorney General is authorized to (a) appear for the State, or any State agency or official, in all civil actions and proceedings in which the State is a party or interested, or in which the official acts of such officers are questioned in State or Federal courts or Federal agencies; (b) control and direct the investigation and prosecution of homicides and other major crimes, including frauds against the State; (c) render all legal services required by State officers, boards and commissions in matters relating to their official duties; (d) issue written opinions upon questions of law submitted by the Governor, the head of any State department or agency, or by either branch of the Legislature or any member of the Legislature on legislative matters; (e) enforce due application of funds given or appropriated to public trusts and charities within the State and prevent breaches of trust in the administration thereof; (f) consult with and advise the District Attorneys in matters relating to their duties, and, in the discretion of the Attorney General, act in place of or with them in instituting and conducting prosecutions for crime; and (g) administer and enforce the State unfair trade practices and antitrust laws.

Beyond the general purposes discussed above, the Attorney General has a wide range of duties which the office is specifically directed to perform. Those duties include a review and approval as to form and legality of all regulations of State agencies subject to the Administrative Procedure Act. Among other specific statutory functions, the Attorney General must also review and approve write-offs of debts owed to the State, enforce standards of conduct of the legal profession and participate in making investment decisions regarding the State trust funds.

The Legislature

The legislative power of the State is vested in a Senate and a House of Representatives (collectively, the "Legislature"), each of which has a negative on the other. The Senate consists of 35 members and the House of Representatives consists of 151 members, all of whom are elected for two-year terms from single-member districts. A person may not serve more than four consecutive terms as either a senator or a representative.

The Legislature is organized into 16 Joint Standing Committees, each comprised of 3 Senators and 10 Representatives. Current Joint Standing Committees are: Agriculture, Conservation and Forestry; Appropriations and Financial Affairs; Labor, Commerce, Research and Economic Development; Criminal Justice and Public Safety; Education and Cultural Affairs; Health and Human Services; Inland Fisheries and Wildlife; Insurance and Financial Services; Judiciary; Veterans and Legal Affairs; Marine Resources; Environment and Natural Resources; State and Local Government; Taxation; Transportation; and Energy Utilities and Technology. From time to time, the Legislature has established joint select committees on such matters as Maine's workforce and economic future, property tax reform, health care reform, research and development, corrections, Indian affairs and rules.

The Legislature of the State convenes in even-numbered years on the first Wednesday of December following the general election in what is designated the first regular session of the Legislature and also convenes on the first Wednesday after the first Tuesday of January in the subsequent even-numbered year in what is designated the second regular session of the Legislature. The business of the second regular session of the Legislature is limited to budgetary matters, legislation in the Governor's call, legislation of an emergency nature admitted by the Legislature, legislation referred to committees for study and report by the Legislature in the first regular session and legislation presented to the Legislature by written petition of the voters pursuant to the Constitution of the State. The Legislature may convene at such other times in special session on the call of the President of the Senate and the Speaker of the House, with the consent of the majority of the members of the Legislature of each political party, all members of the Legislature having first been polled. The Governor may, on extraordinary occasions, also convene special sessions of the Legislature.

The Constitution requires the Legislature to enact appropriate statutory limits on the length of the first and second regular sessions. Under the statute currently in effect, the first regular session of the Legislature adjourns no later than the third Wednesday in June and the second regular session of the Legislature adjourns no later than the third Wednesday in April. The Legislature, in the case of emergency, may by a vote of two-thirds of the members of each of the Senate and House of Representatives present and voting, extend the date for adjournment by no more than five legislative days, and, in the case of further emergency, further extend the date for adjournment by five additional legislative days. The times for adjournment for the first and second regular sessions may also be extended for one additional legislative day for the purpose of considering any veto by the Governor of any bill or resolution passed by the Legislature. The 126th Legislature is currently meeting in its first regular session .

The Legislature, with certain exceptions, is authorized to make and establish all reasonable laws and regulations for the defense and benefit of the people of the State, not repugnant to the Constitution of the State, nor to that of the United States. Legislation enacted by the Legislature may be vetoed by the Governor. The Governor's veto may be overridden by the subsequent vote of at least two-thirds of each of the House of Representatives and the Senate. The Governor also has "line-item" veto power to decrease appropriations or allocations and to increase deappropriations or deallocations within one day after the Governor receives legislation for approval. The Governor's "line-item" veto may be overridden by the subsequent vote of at least a majority of each of the House of Representatives and the Senate. Legislation does not become effective until 90 days after the recess of the session of the Legislature in which it was passed, unless in case of emergency the Legislature shall, by a vote of two-thirds of all the members elected to each of the House of Representatives and the Senate, otherwise direct.

The Constitution of the State provides that, upon written petition by voters equal to not less than 10% of the total vote cast in the last gubernatorial election preceding such petition and filed on or before the ninetieth day after recess of the Legislature requesting that legislation passed by the Legislature but not then in effect be submitted to referendum for ratification by a majority of those voting thereon, such legislation does not take effect, if at all, until thirty days after the Governor has announced that such legislation has been ratified by the voters. Any such ratification vote would take place at the next statewide or general election, not less than 60 days after the Governor has proclaimed that sufficient signatures have been submitted.

The Constitution of the State provides that, by written petition, voters equal to not less than 10% of the total vote cast in the last gubernatorial election preceding such petition and filed before a regular session of the Legislature may propose legislation to the Legislature for its consideration. The legislation, unless adopted by the Legislature without change, must be submitted to referendum in the next November after the Legislature recesses.

Pursuant to the Constitution of the State, legislative enactments, including bills, orders or resolutions, may originate in either the Senate or the House of Representatives, and may be altered, amended, or rejected in the other, but all bills for raising a revenue shall originate in the House of Representatives, but the Senate may propose amendments as in other cases, provided that the Senate shall not, under color of amendment, introduce any new matter which does not relate to raising a revenue.

The Judiciary

The judicial power of the State is vested in the Supreme Judicial Court and such other courts as the Legislature may establish. The Legislature has established the Superior Court and the District Court. The courts are administered by the Administrative Office of the Courts under the direction of the State Court Administrator, who is appointed by and serves at the pleasure of the Chief Justice. In addition, the Constitution of the State provides for probate courts in each of the 16 counties of the State.

The Supreme Judicial Court is the highest court in Maine, and as the Law Court is the court of final appeal. It consists of the Chief Justice and six Associate Justices, each of whom is appointed by the Governor with the consent of the Legislature for a seven-year term.

The Superior Court and the District Court are both trial courts of limited, complimentary jurisdiction. The Superior Court offers jury trials and the District Court does not. The Superior Court consists of a Chief Justice and 16 justices, who are appointed by the Governor with the consent of the Legislature for a seven-year term. The Superior Court holds sessions in each of the 16 counties.

The District Court consists of a Chief Judge, a Deputy Chief Judge and 34 judges, each of whom is appointed by the Governor with the consent of the Legislature for a seven-year term. There are 13 districts and several divisions of the court.

Independent Authorities and Agencies

The State has established several independent authorities and agencies, the budgets of which are not included in the annual budget of the State. Certain of these authorities and agencies receive appropriations from the State from time-to-time. Certain of these authorities and agencies are authorized by the statutes creating such authorities and agencies to issue bonds and to undertake financial obligations, payment of which are secured in part by special reserve funds ("Capital Reserves") to which the State may appropriate funds in order to maintain the Capital Reserves at amounts determined by such statutes or by such authorities and agencies (a "Capital Reserve Provision"). While the bonds and obligations of such authorities and agencies and the Capital Reserve Provisions do not constitute legally enforceable obligations of the State or create any debt on behalf of the State, the Constitution of the State does not prohibit future Legislatures from appropriating sums requested by any such authority or agency in compliance with its Capital Reserve Provision. Certain of these authorities and agencies have been authorized by statute to insure or guarantee repayment of certain loans and bonds. See "Fiscal Management - Constitutional Debt Limit" and "Certain Public Instrumentalities" herein.

County and Municipal Government

The State is divided into 16 county governments responsible for various functions, including the operation of county jails and registries of probate and deeds. Each county government assesses the costs of its operations upon the cities, towns and Unorganized Territories located within the county. A law which took effect in 2008 modified the responsibility of county governments to operate county jails. That law was intended to produce savings in State General Fund expenditures for county jail operations in future fiscal years and also established a State board of corrections, the purpose of which is to develop and implement a unified State and county correctional system.

The State is further divided into 22 cities, 433 towns, 34 plantations, and 4 Indian nations or territories which exercise the functions of municipal government, including the provision of elementary and secondary education. There are also a number of unorganized townships and coastal and inland islands and three Indian Reservations. Cities are governed by several variations of the mayor and council form of government. In most towns, executive power has been placed in a board of three, five, or seven selectmen, elected to terms of from one to three years and legislative power has been retained by the voters themselves, who assemble in periodic open town meetings. There are various regional districts for school, water supply, solid waste, wastewater disposal and other purposes.

Municipal revenues consist of property taxes, local aid (including State subsidies for education and revenue sharing), local receipts (including motor vehicle and watercraft excise taxes, fines, license and permit fees, charges for local services and investment income) and other sources.

FISCAL MANAGEMENT

Department of Administrative and Financial Services

The Department of Administrative and Financial Services, under the supervision and control of the Commissioner of Administrative and Financial Services, is the principal fiscal department of State government. The Commissioner of Administrative and Financial Services has certain duties and authorities, including serving as the Governor's principal fiscal aide, coordinating financial planning and programming activities of the State government for review and action by the Governor, preparing and reporting to the Governor and the Legislature such financial data or statistics as may be required or requested by them, planning with respect to the fiscal needs of State government and ensuring that all publications stating the salary of a State employee also state the value of the employee's fringe benefits. The Department of Administrative and Financial Services includes the Bureau of the Budget, headed by the State Budget Officer, the Office of the State Controller and the Bureau of Maine Revenue Services, headed by the State tax assessor and the Associate Commissioner for Tax Policy.

Constitutional Debt Limit

Article IX, Section 14, of the Constitution of the State provides that the Legislature shall not at any time create any debt or debts, liability or liabilities, on behalf of the State, which shall singly, or in the aggregate, with previous debts and liabilities incurred, exceed $2,000,000, (i) except to suppress insurrection, to repel invasion, or for purposes of war; (ii) except for temporary loans to be paid out of money raised by taxation during the fiscal year in which they are made; and (iii) excepting also that whenever two-thirds of both the Senate and the House of Representatives shall deem it necessary, by proper enactment ratified by a majority of the electors voting thereon at a general or special election, the Legislature may authorize the issuance of bonds on behalf of the State at such times and in such amounts and for such purposes as may be approved by such action. See Exhibit D, "Selected Information Regarding Authorized and Outstanding Debt of the State - Authorized Expenditures," herein sets forth information regarding bonds currently authorized pursuant to certain enactments which have been ratified by a majority of the voters at various elections. Temporary loans to be paid out of moneys raised by taxation during any fiscal year shall not exceed in the aggregate during the fiscal year in question an amount greater than ten percent of all the moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, exclusive of proceeds or expenditures from the sale of bonds, or greater than one percent of the total valuation of the State, whichever is the lesser.

The Constitution also allows the Legislature to authorize the issuance of bonds (i) in the amount of up to $4,000,000 to guarantee student loans; (ii) to insure payments on up to $4,000,000 of mortgage loans for war veterans; and (iii) to insure payments on up to $90,000,000 of mortgage loans for industrial, manufacturing, fishing agricultural and recreational enterprises. The Finance Authority of Maine is authorized to guarantee student loans and to insure payments on certain mortgage loans. See "Certain Public Instrumentalities – Finance Authority of Maine." The Governor has proposed a bond authorization in an amount not to exceed $100,000,000 for transportation projects that would qualify for federal matching funds, LD 1095, that has not yet been enacted upon. The Governor has proposed revenue bonds to be issued by Maine Municipal Bond Bank, LD 239 for payment of obligations due to Maine's hospitals and revenue bonds of up to $100,000,000 for correctional facilities construction projects to be issued by the Maine Governmental Facilities Authority, LD 1509. The Constitution also allows the Legislature to authorize the issuance of bonds to insure payments on up to $1,000,000 of mortgage loans for Indian housing. The Maine State Housing Authority is authorized to insure payments on mortgage loans for Indian housing. See "Certain Public Instrumentalities – Maine State Housing Authority" herein. Although the Constitution also allows the Legislature to authorize the issuance of bonds to insure the payment of revenue bonds of the Maine School Building Authority on school projects not exceeding $6,000,000, the statutory authorization for insurance of Maine School Building Authority revenue bonds has been repealed. No bonds are outstanding pursuant to any of the authorizations described in this paragraph.

Overview of the Budget Process

The budget of the State government must present a complete financial plan for each fiscal year of the ensuing period of two fiscal years, commencing July 1 in odd-numbered years. The budget must set forth all proposed expenditures for the administration, operation and maintenance of the departments and agencies of State government, all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year of such two-year period. In addition, the budget must set forth the anticipated revenues of the State government and any other means of financing expenditures proposed for each fiscal year of such two-year period.

The State budget consists of a budget message by the Governor (or the Governor-elect) that outlines the financial policy of the State government for the ensuing period of four fiscal years, describing in connection therewith the important features of the financial plan. The Governor's budget overview must also lay out a vision for the State's long-range financial plan and describe how the proposed budget complements that longer vision, which includes the current biennium and the two succeeding biennia.

The budget includes a general budget summary setting forth the aggregate figures of the budget showing the balance between total proposed expenditures and total anticipated revenues, together with other means of financing the budget for each fiscal year of the ensuing two fiscal years, contrasted with the corresponding figures for the last completed fiscal year and the fiscal year in progress. For information regarding the revenue projection process, see "Fiscal Management – Revenue Forecasting" below. The budget specifically describes the estimated loss in revenue during the last completed fiscal year and the fiscal year in progress and the anticipated loss in revenue for each fiscal year of such two-year period caused by tax expenditures provided by law. The general budget summary must be supported by explanatory schedules or statements, classifying the expenditures contained therein by organization units, objects and funds, and the income by organization units, sources and funds. The budget also includes statements of the bonded indebtedness of the State government showing the debt redemption requirements, the debt authorized and unissued, and the condition of the sinking funds.

Pursuant to Public Laws of Maine 2005, chapter 2 ("2005 Chapter 2"), the total General Fund appropriation for each of the two fiscal years in the biennial budget may not exceed the General Fund appropriation limit established by law, except as otherwise provided by law. See "Fiscal Management – General Fund Appropriation Limit." 2005 Chapter 2 became effective for fiscal biennia of the State beginning July 1, 2005 and is subject to modification or repeal at any time by the Legislature.

On or before September 1 of even-numbered years, all departments and other agencies of the State government and corporations and associations receiving or desiring to receive State funds must prepare and submit to the State Budget Officer estimates of their expenditure and appropriation requirements for each fiscal year of the ensuing two-year fiscal period contrasted with the corresponding figures of the last completed fiscal year and the estimated figures for the fiscal year in progress. The growth in the State's General Fund appropriations is limited by law to the ten-year average annual growth in real personal income (not to exceed 2.75%) plus the ten-year average in population growth. State general purpose aid for kindergarten to grade 12 education ("GPA") is excluded from the General Fund appropriation limit until such time as the State's share of education funding reaches 55% of total state and local education funding. See "Fiscal Management – General Fund Appropriation Limit" and "State Budgets" below.

The Governor (or the Governor-elect), with the assistance of the State Budget Officer, reviews the budget estimates and may alter, revise, increase or decrease the items of the estimates as may be deemed necessary in view of the needs of the various departments and agencies and the total anticipated income of the State government during the ensuing two-year fiscal period. The State Budget Officer, at the direction of the Governor (or the Governor-elect), then prepares a State budget in the form required by law. The Governor must transmit the budget to the Legislature not later than the Friday following the first Monday in January of odd-numbered years. A Governor-elect to his first term of office must transmit the State budget to the Legislature not later than the Friday following the first Monday in February in odd-numbered years.

Not later than June 1 of each year, the head of each department and agency of State government must submit to the State Bureau of the Budget a work program for the ensuing fiscal year. Such work program must include all appropriations, revenues, transfers and other funds made available to that department or agency for its operation and maintenance and for the acquisition of property, and must show the requested allotments of said sums by quarters for the entire fiscal year, classified to show allotments requested for specific amounts for personal services, capital expenditures and amounts for all other departmental expenses. The Governor, with the assistance of the State Budget Officer, reviews the requested allotments with respect to the work program of each department or agency and may revise, alter or change its allotments before approving the same. The aggregate of such allotments may not exceed the total sums made available to each department or agency for the fiscal year in question. The State Budget Officer transmits a copy of the allotments as approved by the Governor to the head of the department or agency concerned and also a copy to the State Controller. The State Controller authorizes all expenditures to be made from the sums available on the basis of such allotments and not otherwise. Thereafter, the head of any department or agency of the State government may request, and the Governor may approve, revisions of the allotments for the remaining quarters of a fiscal year.

Whenever it appears to the Commissioner of Administrative and Financial Services that the anticipated revenue and other available funds of the State will not be sufficient to meet the expenditures authorized by the Legislature, the Commissioner so reports in writing to the Governor and to certain officers of the Legislature. After receiving the report, the Governor may temporarily curtail allotments equitably so that expenditures will not exceed the anticipated income and other available funds. The Governor, upon the curtailment of any allotment, notifies certain officers of the Legislature of the specific allotments curtailed, the extent of curtailment of each allotment and the effect of each curtailment on the objects and purposes of the program so affected.

No State department or agency may make expenditures of any Federal funds or expenditures in anticipation of receipt of Federal funds for any new or expanded programs, unless such Federal funds are approved by the Legislature. The Governor may authorize the expenditure of such Federal funds for a period not to exceed twelve calendar months and shall notify the Office of Fiscal and Program Review of the Legislature of such action.

Revenue Forecasting

Statutory Responsibilities. A Revenue Forecasting Committee is responsible for providing the Governor, the Legislature and the State Budget Officer with analyses, findings and recommendations relating to the projection of revenues for the General Fund and the Highway Fund based on economic assumptions recommended by the Consensus Economic Forecasting Commission. The Revenue Forecasting Committee includes the State Budget Officer, the Associate Commissioner for Tax Policy, the State Economist, an economist on the faculty of the University Maine System selected by the chancellor, the Director of the Office of Fiscal and Program Review of the Legislature and another member of the Legislature's nonpartisan staff familiar with revenue estimating issues appointed by the Legislative Council. The Revenue Forecasting Committee meets at least four times a year.

The Revenue Forecasting Committee develops current fiscal biennium and two ensuing fiscal biennia revenue projections using the economic assumptions recommended by the Consensus Economic Forecasting Commission. The Revenue Forecasting Committee submits recommendations for State revenue projections for the next two fiscal biennia and analyzes revenue projections for the current fiscal biennium. No later than December 1 of each even-numbered year, the Revenue Forecasting Committee submits to the Governor, certain members of the Legislature and the State Budget Officer analyses, findings and recommendations for General Fund and Highway Fund revenue projections for the next two fiscal biennia. No later than May 1 and December 1 of each odd-numbered year and no later than March 1 and December 1 of each even-numbered year, the Revenue Forecasting Committee submits to the Governor, certain members of the Legislature and the State Budget Officer analyses, findings and recommendations for adjustments to General Fund and Highway Fund revenue for the current and ensuing fiscal biennia.

The Revenue Forecasting Committee makes all determinations necessary to calculate the General Fund appropriation limit established by law. See "Fiscal Management – General Fund Appropriation Limit."

The State Budget Officer uses the revenue projections of the Revenue Forecasting Committee in setting revenue estimates for inclusion in the State budget and in preparing General Fund and Highway Fund revenue and expenditure forecasts for the budget.

The Consensus Economic Forecasting Commission is responsible for providing the Governor, the Legislature and the Revenue Forecasting Committee with analyses, findings and recommendations representing State economic assumptions relevant to revenue forecasting. The Consensus Economic Forecasting Commission consists of five members appointed by the Governor as provided by law. Each Consensus Economic Forecasting Commission member must have professional credentials and demonstrated expertise in economic forecasting. The Consensus Economic Forecasting Commission meets at least four times a year.

The Consensus Economic Forecasting Commission develops five-year and ten-year macroeconomic secular trend forecasts and one-year, two-year and four-year economic forecasts. The Consensus Economic Forecasting Commission submits recommendations for State economic assumptions for the next fiscal biennium and analyzes economic assumptions for the current fiscal biennium. No later than November 1 of each even-numbered year, the Commission submits to the Governor, the Revenue Forecasting Committee and certain members of the Legislature analyses, findings and recommendations for economic assumptions related to revenue forecasting for the next fiscal biennium. No later than April 1 and November 1 of each odd-numbered year and no later than February 1 and November 1 of each even-numbered year, the Commission submits to the Governor, the Revenue Forecasting Committee and certain members of the Legislature the Commission's findings and recommendations for adjustments to the economic assumptions for the current fiscal biennium.

Fiscal Year 2012 and 2013 Reports. The Consensus Economic Forecasting Commission ("CEFC") issued its latest report dated April 1, 2013 which updated the forecast it released in November 2012. National and state economic indicators suggest a continued lack of improvement in economic conditions since the CEFC report dated November 2012. Maine's coincident economic activity index decreased in the three months ending in December 2012 and remains below pre-recession levels. Most states saw growth over the three months ending in December. Nationwide, consumer sentiment and small business optimism are down over year-ago levels. Personal income in Maine grew 3.5% year-over-year in the first three quarters of 2012, while wage and salary income grew 2.1% over the same period. The Consumer Price Index was 2.0% higher in February 2013 than it was in February 2012.

The price of crude oil declined 4.5% in the fourth quarter of 2012 to $88 per barrel. Home sales in Maine were up 21% in January 2013 compared to January 2012. Month-over-month, housing permits in Maine grew 38% in January 2013. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) increased 4.6% year-over-year in the fourth quarter of 2012. Mortgage delinquency rates remain well above pre-recession levels but below peak crisis levels. The foreclosure rate in Maine increased in the third quarter of 2012 and remains well above pre-recession levels.

While Congress and the President succeeded in coming to an agreement on many of the "fiscal cliff" issues, the automatic spending cuts known as "budget sequestration" took effect as originally scheduled on March 1, 2013. The CEFC assumed that, while some of the economic effects of these spending cuts will certainly be felt in Maine, Congress and the President will reach a solution that prevents extensive deterioration of economic conditions. Given the negative impact to the economy if a solution is not successfully reached, the CEFC will reevaluate their forecast in the third quarter of the calendar year 2013 in response to actual policy decisions at the federal level.

Actual wage and salary employment data for 2011 and 2012 were stronger than previously forecasted, resulting in higher growth rates for those two years. The 2013-2017 employment forecast was left unchanged. Personal income growth was revised downwards for 2012 following the release of actual estimates from the U.S. Bureau of Economic Analysis. Personal income was also revised down for 2013 in part to reflect a partial shift in bonuses and dividends from 2013 to 2012 to take advantage of lower tax rates. 2014 and 2017 were revised upwards while 2016 was revised slightly downwards and 2015 was left unchanged. Inflation, as measured by the Consumer Price Index (CPI), was revised upwards for 2012 and 2013 and slightly downwards for 2014-2017.

The Revenue Forecasting Committee met in late April 2013 to review and update the November 2012 revenue forecast. The revised forecast, which was issued on May 1, 2013, adjusted General Fund revenue estimates up by $43.5 million in fiscal year 2013 and downward by $58.1 million in the 2014-2015 biennium with sales taxes representing a majority of the downward adjustment.

Individual Income Tax revenues were increased in this forecast by $81.1 million in fiscal year 2013 and $28.7 million in the 2014-2015 biennium. There are numerous reasons for the changes made on the individual income tax line. A large portion of the changes are technical in nature, reflecting the improvements to the new database underlying the tax forecasting and estimating models used by Maine Revenue Services' Office of Tax Policy, and additional analysis of Internal Revenue Service (IRS) tax filings by Maine residents for the 2010 and 2011 tax years. Data from the IRS shows that there has been a significant drop in the mortgage interest deduction in recent years because of historically low interest rates. Adjustments to the State's models to account for this lower level of itemized deductions and other calibrations of the model to state and federal data are the reasons for the on-going higher level of individual income tax receipts.

The May 2013 forecast projects decreases in sales and use tax revenues of $22.1 million in fiscal year 2013 and $44.5 million in the 2014-2015 biennium as a result of a weak economic recovery, expiration of the federal payroll tax holiday and uncertainty regarding resolution of US and European fiscal policy challenges. Corporate Income Tax receipts were reduced by $15.0 million in fiscal year 2013 and $46.2 million the 2014-2015 biennium. Corporate income tax receipts are down approximately 20% during the first nine months of fiscal year 2013 compared to the same nine month period last year. With limited tax data to go on, the Revenue Forecasting Committee attributed the recent weakness to a timing issue reflecting the recognition by corporations of the impact of the Maine Capital Investment Credit on their 2011 Maine Tax Liability. Going forward, the expiration of the investment credit and enhanced Sec. 179 expensing, the ability to use net operating loss carryforwards again at the State level now that the disallowance of carryforwards for 2009, 2010, and 2011 has ended and the recapture of previous bonus depreciation the State did not conform to create such a high level of uncertainty that it is prudent to significantly scale back its corporate income tax forecast for the next biennium.

Because of assumptions made by the CEFC in their November 2012 forecast the Revenue Forecasting Committee did not try to estimate behavior by Maine households making end-of-year financial decisions to avoid potential tax increases at the federal level as a result of the expiration of the Bush tax cuts and other tax stimulus programs enacted in 2009, 2010, and 2011 and tax increases included in the Affordable Care Act that began in 2013. It's now clear that there was significant shifting of income from calendar year 2013 and beyond into calendar year 2012 to avoid these increases. The large one-time revenue adjustment to individual income tax receipts in fiscal year 2013 reflects this taxpayer behavior.

For a description of enacted and proposed laws amending the budgets for fiscal years 2011, 2012 and 2013 and for information regarding fiscal year 2011, 2012 and 2013 revenues, see "State Budgets" below.

General Fund Appropriation Limit

Pursuant to 2005 Chapter 2, the rate of growth of General Fund appropriations in a fiscal year is limited in one of two ways (the "Growth Limit Factor"). For fiscal years when the "state and local tax burden" of the State ranks in the highest one-third of all states, the Growth Limit Factor is "average real personal income growth," but no more than 2.75%, plus "average population growth." For fiscal years when the "state and local tax burden" of the State ranks in the middle one-third of all states, the Growth Limit Factor is "average real personal income growth" plus "forecasted inflation" plus "average population growth."

"Average population growth" means the average for the prior ten calendar years of the percent change in population from July 1 of each year. "Average real personal income growth" means the average for the prior ten calendar years of the percent change in personal income in the State less the percent change in the consumer price index for the calendar year. "Forecasted inflation" means the average amount of change of the consumer price index for the calendar years that are part of the ensuing two fiscal years forecasted by the Consensus Economic Forecasting Commission in its November 1 report in even-numbered years. "State and local tax burden" means the total amount of state and local taxes paid by residents of the State per $1,000 of income.

As of December 1 of each even-numbered year, a General Fund appropriation limit is established for the ensuing two fiscal years. For the first fiscal year, the General Fund appropriation limit is equal to the "biennial base year appropriation" multiplied by one plus the Growth Limit Factor. For the second fiscal year, the General Fund appropriation limit is the General Fund appropriation limit of the first year multiplied by one plus the Growth Limit Factor. "Biennial base year appropriation" means the amount of the General Fund appropriation limit for the current year as of December 1 of even-numbered years.

The General Fund appropriation limit applies to all General Fund appropriations, except certain education costs described in the following paragraph. The General Fund appropriation limit is approximately $3.4 billion for fiscal year 2011, $3.5 billion for fiscal year 2012 and is approximately $3.5 billion for fiscal year 2013. The Growth Limit Factor for fiscal year 2011 is 2.76%. The Growth Limit Factor for the 2012-2013 biennium is 2.05%.

2005 Chapter 2 provides that the additional cost for certain essential educational programs and services ("Essential Programs and Services") for kindergarten to grade 12 education ("K-12 Education") over the fiscal year 2004-05 appropriation for general purpose aid for local schools is excluded from the General Fund appropriation limit until the State share of that cost reaches 55% of the total State and local cost (the "EPS Costs"). Current law provides that the State will pay 55% of the total State and local cost of K-12 Education for fiscal year 2014 and that the General Fund appropriation limit will include the State share of the cost of K-12 Education beginning with fiscal year 2015. See "Certain Expenditures and Obligations - Education Funding" herein.

The General Fund appropriation limit may be exceeded for certain extraordinary circumstances which must be outside the control of the Legislature, including (a) catastrophic events, such as natural disaster, terrorism, fire, war and riot, (b) unfunded or underfunded State or Federal mandates, (c) citizens' initiatives or other referendum, (d) court orders or decrees or (e) loss of Federal funding. Extraordinary circumstances do not include changes in economic conditions, revenue shortfalls, increases in salaries or benefits, new programs or program expansions that go beyond existing program criteria and operation. The General Fund appropriation limit may be temporarily increased for such other purposes only by a vote of both Houses of the Legislature in a separate measure that identifies the intent of the Legislature to exceed the General Fund appropriation limit. 2005 Chapter 2 is also subject to modification or repeal at any time by the Legislature.

"Baseline General Fund revenue" and other available budgeted General Fund resources that exceed the General Fund appropriation limit plus the EPS Costs must be transferred to the Maine Budget Stabilization Fund (the "Stabilization Fund"). If the Stabilization Fund is at its limit of 12% of General Fund revenue of the immediately preceding fiscal year, then amounts that would otherwise have been transferred to the Stabilization Fund must be transferred to the Tax Relief Fund for Maine residents. "Baseline General Fund revenue" means the recommended General Fund revenue forecast reported by the Revenue Forecasting Committee in its December 1 report in even-numbered years, increased by the estimated amount of net General Fund revenue decrease, if any, for all enacted changes reducing the state and local tax burden included in that forecast.

Public Laws of Maine 2005, chapter 519 ("2005 Chapter 519") changed the priority order of distributions from the unappropriated surplus of the General Fund. It directs transfers to the State Contingent Account as the first priority (until the balance therein equals a maximum amount of $350,000) and permits transfers to the Loan Insurance Reserve as the second priority in amounts up to $1,000,000 per year. After these transfers are made, the then available balance of unappropriated surplus is distributed as follows: 35% to the Stabilization Fund; 20% to the Retirement Allowance Fund; 20% to the Reserve for General Fund Operating Capital; 15% to the Retiree Health Insurance Internal Service Fund; and the final 10% to the Capital Construction and Improvements Reserve Fund.

Public Laws of Maine 2011, chapter 1 ("2011 Chapter 1") required the transfer of $3,188,702 from the fiscal year 2011 unappropriated surplus of the General Fund to the Stabilization Fund no later than June 30, 2011. Public Laws of Maine 2011, chapter 28 ("2011 Chapter 28") changed the priority order of distribution for fiscal year 2011 and directed the transfer of up to $25 million to the Stabilization Fund as the first priority following the transfers to the State Contingent Account and the Loan Insurance Reserve and before the 35% transfer to the Stabilization Fund. The State closed fiscal year 2011 with approximately $82 million available in General Fund unappropriated surplus before the year end transfers. The total transfer to the Stabilization Fund, including the $25 million authorized in 2011 Chapter 28, was $35.3 million and the Reserve for General Fund Operating Capital received $5.9 million. The remainder of the year end balance was distributed as follows: $5.9 million to the Retirement Allowance Fund, $4.4 million to the Retiree Health Fund, $2.9 million to the Capital Construction and Improvement Reserve Fund, $1 million to Loan Insurance Reserve Fund and $350 thousand to the State Contingent Account. Additionally, $5 million was transferred to the Department of Health and Human Services Bureau of Medical Services account and $2,500,488 was transferred to the Department of Administrative and Financial Services, Accident, Sickness and Health Insurance Internal Service Fund.

Public Laws of Maine 2011, chapter 380 ("2011 Chapter 380") further changed the priority order of distribution. Prior to the percentage distributions ordered in 2005 Chapter 15, 2011 Chapter 380 provides for two transfers from the unappropriated surplus, if any: a transfer of $15,000,000 to a retirement reserve account to provide a non-cumulative COLA payment to retirees for fiscal years 2012, 2013 and 2014 and a transfer of $25,000,000 for hospital settlements in fiscal year 2012 (this language was extended to fiscal year 2013 in Public Laws of Maine 2011, chapter 657). Both of these transfers would be met before the year end percentage distribution of the unappropriated surplus, if any, as of June 30, 2012.

Public Laws of Maine 2011, chapter 692 ("2011 Chapter 692"), "An Act to Provide Tax Relief for Maine's Citizens by Reducing Income Taxes," amends the Tax Relief Fund for Maine Residents, and provides that amounts, if any, credited to this fund in the future will be used to allow for potential future incremental reductions in the individual income tax rates to 4%. The bill provides for the State Tax Assessor to calculate annually the amount by which income tax rates may be reduced in subsequent years using the amount available from the Tax Relief Fund for Maine Residents to offset the lower tax revenue expected to be received in the following year. 2011 Chapter 692 provides for an initial minimum reduction of 0.2 percentage points. 2011 Chapter 692 only provides for reductions in tax rates and does not provide for any increases.

2011 Chapter 692 also changes the distribution of the unappropriated surplus of the General Fund to: 35% Stabilization Fund; 13% Retirement Allowance Fund; 13% Reserve for General Fund Operating Capital; 9% Retiree Health Insurance Internal Service Fund; 10% Capital Construction and Improvements Reserve Fund and 20% to the Tax Relief Fund for Maine Residents. If the General Fund has an unappropriated surplus and the Tax Relief Fund for Maine Residents is fully funded, this legislation further provides for an individual income tax rate reduction until the individual income tax rate reaches 4 percent. Maine Revenue Services estimates that a reduction of the individual income tax rate from its current top rate of 7.95% to 4% would decrease annual State revenues by approximately $600 million. Maine Revenue Services has also estimated that in order to provide the initial minimum reduction of 0.2 percentage points, the balance in the Tax Relief Fund for Maine Residents would need to be approximately $40 million and that aggregate unappropriated General Fund surpluses of over $200 million would be needed to generate such a balance in the fund.

Public Laws of Maine 2013, chapter 1 ("2013 Chapter 1") further changes the priority order of distribution after transfers to the State Contingent account, Loan Insurance Reserve account, and Reserve for Retirement benefits account to 48% to the Stabilization Fund, 13% to the Reserve for General Fund Operating Capital account, 9% to the Retiree Health Insurance Internal Service Fund and 10% to the Capital Construction and Improvements Reserve Fund. An exception to the transfers of the statutory year-end reserves was included in 2013 Chapter 1 that authorizes 80% of the year – end reserves to be transferred to the Budget Stabilization Fund, with the remaining 20%, allocated as follows: to the Reserve for General Fund Operating Capital, 25%, Retiree Health Insurance Internal Service Fund, 17.5%, Capital Construction and Improvements Reserve Fund, 19% and the Tax Relief Fund for Maine Residents, 38.5% for fiscal year 2013 only. This law further authorizes a transfer of $40 million from the Budget Stabilization Fund and $17.1 million from the Reserve for General Fund Operating Capital fund to unappropriated surplus in fiscal year 2013.

As of April 27, 2013, the projected fiscal year 2013 year-end balance in the Budget Stabilization Fund was $4.6 million. The reduction of the Stabilization Fund balance, as compared to the balance as of June 30, 2012, is primarily related to a transfer in 2013 Chapter 1 of $40 million to the General Fund unappropriated surplus. The Retirement Allowance Fund is used to make supplemental payments, if any, to reduce the State's unfunded pension liability and, therefore, does not carry a balance forward from year to year. As of April 27, 2013, the balances in the Retiree Health Insurance Internal Service Fund and the Capital Construction and Improvements Reserve Fund were $27.7 million and $1.7 million, respectively.

Citizen Initiative Petitions

Pursuant to the Constitution of the State an initiative petition of citizens of the State entitled, "An Act to Allow Marriage Licenses for Same-sex Couples and Protect Religious Freedom" was presented to the Legislature in 2012. The Legislature did not pass this initiative, and it was placed before the voters of the State at the statewide election on November 6, 2012 for a decision on whether to enact the initiated legislation. This initiative was voted into law on November 6, 2012, and became effective December 29, 2012. This initiative has no fiscal impact. Pursuant to the Constitution of the State the deadline to file a citizen initiative for consideration by the First Regular Session of the 126th Legislature was January 24, 2013. As no petitions were filed with the Secretary of State as of that date, no citizen initiative questions will appear on the November 5, 2013 ballot.

The Accounting System

The Department of Administrative and Financial Services, through the Office of the State Controller, is authorized to maintain an official system of general accounts (unless otherwise provided by law) embracing all the financial transactions of the State; to examine and approve all contracts, orders and other documents to ascertain that moneys have been duly appropriated and allotted to meet such obligations and will be available when such obligations will become due and payable; to audit and approve bills, invoices, accounts, payrolls and all other evidence of claims, demands or charges against the State government (State government is defined to include the Judiciary and the Executive Department of the Governor); to implement internal control standards applicable to State agencies and departments; and to exercise certain other rights, powers and duties as more fully prescribed by law.

The principal Funds established by the State for budgetary accounting purposes are the Governmental Funds (which include the General Fund, the Special Revenue Funds and the Capital Projects Funds), the Proprietary Funds (which include the Enterprise Funds and the Internal Service Funds) and the Fiduciary Funds (which include the Trust and Agency Funds). The Funds are used as follows:

The Governmental Funds account for the general governmental activities of the State. The **General Fund** is used to account for all governmental transactions that are not accounted for in another fund. Sales tax, individual and corporate income taxes and other business taxes provide most of the funds available for appropriation by the Legislature for general governmental operations, such as education, human services, corrections, the judiciary and the Legislature. The General Fund is the State's major operating fund.

The **Special Revenue Funds** account for specific revenue sources, other than expendable trusts or major capital projects that are legally restricted to expenditures for specified purposes. The Special Revenue Funds include the following:

> The **Highway Fund** is used to account for revenues derived from registration of motor vehicles, operators' licenses, gasoline tax and other dedicated revenues, except for Federal matching funds and bond proceeds used for capital projects. The Legislature allocates this Fund for the operation of various Department of Transportation programs, including construction and maintenance of highways and bridges, for a portion of the State Police administration and for other State programs.
>
> The **Other Special Revenue Funds** are used to account for various special purpose funds which have been established on a self-supporting basis. Revenues are generated by taxes, licenses, fees and Federal matching funds and grants.

Capital Projects Funds account for financial resources used to acquire or construct major capital assets other than those financed by proprietary funds. These resources are derived primarily from proceeds of general obligation bonds. The State also includes in this Fund the proceeds from bond issues for uses other than major capital facilities.

The Proprietary Funds account for the State's ongoing activities that are similar to those found in the private sector. The **Enterprise Funds** account for transactions related to resources received and used to finance self-supporting activities of the State. The costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

The **Internal Service Funds** account for the financing and sale of goods or services between agencies of the State or other governmental units on a user charge basis.

The Fiduciary Funds account for assets held by the State acting as either a trustee or an agent for individuals, private organizations and other governmental units or other Funds. The **Expendable Trust Funds** account for assets held in a trustee capacity where principal and income may be expended for the funds' designated operations. The **Nonexpendable Trust Funds** account for assets held in a trustee capacity where only income may be expended for the funds' designated operations. **Agency Funds** account for assets which the State, as custodian, holds for others.

In addition, the State has established the **General Long-Term Obligations Account Group** to establish control and accountability for long-term obligations of the State, including those related to general obligation bonds, capital leases, certificates of participation and compensated absences, not accounted for in Proprietary Funds or Nonexpendable Trust Funds. The State has also established the **General Fixed Assets Account Group** to establish control and accountability for all capital assets of the State not accounted for in Proprietary Funds. The State records its general long-term obligations and capital assets in the government-wide statement of net assets.

The accounting system is designed to assure that expenditures do not exceed amounts authorized by legislative appropriation and to conform, to the extent possible, to standards of the Governmental Accounting Standards Board ("GASB") and its predecessor, the National Council on Governmental Accounting. Financial transactions are recorded in the General Fund, the Highway Fund and certain other funds as described above and in Exhibit B hereof.

Accounting Reports and Practices

The State Controller prepares a Comprehensive Annual Financial Report ("CAFR") in accordance with standards established by GASB. This report is the official financial report of the State government.

The State Controller's annual financial report for the fiscal year ended June 30, 2012 is set forth in two separate publications. The first publication consists of the Basic Financial Statements of the State of Maine for the year ended June 30, 2012 which are set forth in Section I of Exhibit B. Certain information which is included in the second publication and certain information which has been derived from provisions of the State Controller's annual financial reports for certain prior fiscal years comparable to the second publication is included in Section II of Exhibit B. The information set forth in Section II of Exhibit B is based on budgetary and legal requirements.

The Basic Financial Statements of the State of Maine for the year ended June 30, 2012 which are set forth in Section I of Exhibit B have been prepared by the State Controller and have been audited by the Department of Audit in accordance with auditing standards generally accepted in the United States of America. The Department of Audit has issued an unqualified opinion on the Basic Financial Statements.

Because of the variety of activities and programs run by the State, the State Controller has established several specialized accounting conventions, which are consistently applied within the fund accounting system. For more information on the basis of accounting used by the State, see Exhibit B, Section I, "Notes to the Financial Statements, June 30, 2012."

Annual financial reports prepared by the State Controller for the fiscal year ending June 30, 2012 and for prior fiscal years are available upon request directed to Kristi L. Carlow, Acting Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333, telephone: 207-624-7477; facsimile: 207-287-2367. The CAFR for the fiscal year ended June 30, 2012 and for prior fiscal years are also available at http:// www.maine.gov/osc/finanrept/cafr.shtml.

Department of Audit

The Department of Audit is headed by the State Auditor, who is elected by the Legislature by a joint ballot of the Senators and Representatives in convention to hold office for a term of four years. A person may not serve more than two consecutive terms as State Auditor. The Department of Audit is authorized to audit all accounts and other financial records of State government, including the Judiciary and the Executive Department of the Governor, except the Governor's expense account, and to report annually on this audit, and at such other times as the Legislature may require; to review and study departmental budgets and capital programs for better and efficient management of State government; to serve as a staff agency to the Legislature or to the Governor in making investigations of any phase of the State's finances; and to perform audits of all accounts and financial records of any organization, institution or other entity receiving or requesting an appropriation or grant from the State; to issue reports on such audits and investigations; and to conduct financial and compliance audits of financial transactions and accounts kept by or for State agencies subject to federal single audit requirements.

Audit Reports

The State Auditor is required by law to audit the Basic Financial Statements included within the Comprehensive Annual Financial Report prepared by the State Controller for each fiscal year. The State Auditor's Independent Audit Opinion dated December 21, 2012 with respect to the fiscal year ending June 30, 2012 is set forth in Exhibit B hereto. Single audit reports prepared by the Department of Audit for the fiscal year ending June 30, 2012 and for certain prior fiscal years are available upon request directed to the Acting Deputy State Treasurer. See "Miscellaneous" herein.

All information in this Information Statement for any period ending after June 30, 2012 is unaudited and therefore is subject to change.

STATE BUDGETS

Laws authorizing General Fund and Highway Fund expenditures for fiscal years 2009 through 2013 have been enacted and provide for such expenditures in the amounts set forth in the table below.

Fiscal Year Ending June 30	General Fund Expenditures Authorized	Highway Fund Expenditures Authorized
2009	$ 3,017,952,419	$ 327,534,161
2010	2,849,227,923	316,706,397
2011	2,872,754,172	304,310,083
2012	3,130,209,894	318,920,211
2013*	3,081,929,497	317,272,450
2014*	3,143,482,468	310,151,280
2015*	3,112,771,395	307,448,530

*Subject to change upon enactment of final budget acts and upon reconciliation of budget acts and miscellaneous acts with fiscal impact

For information regarding fiscal years 2010 through 2013 expenditures, see "Certain Expenditures and Obligations – General Fund Expenditures" below.

On December 1, 2010, the Revenue Forecasting Committee issued a scheduled updated forecast. The December report reflected an upward adjustment of revenues of $111.6 million in fiscal year 2011, $170.5 million in fiscal year 2012 and $195.1 million in fiscal year 2013. The December report also projected revenues of $3.3 billion in fiscal year 2014 and $3.4 billion in fiscal year 2015.

On January 12, 2011, the Governor released his supplemental budget recommendations to provide $248 million in State and federal funds for hospital settlements dating back to fiscal year 2006. The budget recommendations also addressed projected growth in the MaineCare programs and a phased reduction in the Federal Medicaid Assistance Percentage from 6.2 to 1.2 percentage points by June 30, 2011.

A second supplemental budget was released by the Governor on March 28, 2011 to restore a deappropriation included in 2009 Chapter 571 related to the disallowance of federal financial participation for targeted case management claims in fiscal years 2002 and 2003. The funds were proposed to be restored to the Medical Care – Payments to Providers program to address shortfalls that resulted from the deappropriation with the expectation that the Federal government would be reimbursed in fiscal year 2012. The budget recommendations further addressed growth in the MaineCare program and provided funds for Child Development Services to address a projected shortfall for the program.

On February 8, 2011, the Legislature enacted the first supplemental budget based on the Governor's recommendations; the Governor signed that budget into law the same day. The law, 2011 Chapter 1, amended the 2010-2011 biennial budget enacted in the spring of 2009, 2009 Chapter 213 and the 2010-2011 supplemental budget enacted in the spring of 2010, 2009 Chapter 571. On April 14, 2011, the Legislature enacted the second supplemental budget for fiscal year 2011 based on the Governor's recommendations; the Governor signed that budget into law on the same day. The law, 2011 Chapter 28, further amended the budgets previously mentioned.

Prior to the December 2010 upward revenue projection, the Bureau of the Budget updated its four year revenue and expenditure forecast in September 2010 for the fiscal year ending June 30, 2013. As required by State law, the forecast assumed the continuation of current laws and included reasonable and predictable estimates of growth in revenues and expenditures based on national and local trends and program operations. At the time of the forecast the structural gap was projected to be $1.2 billion for the 2012-2013 biennium.

The gap assumed increases in General Purpose Aid for Local Schools (GPA) of $216.5 million in fiscal year 2012 and $238.4 million in fiscal year 2013 over fiscal year 2011 levels. The preliminary amounts would increase GPA $423.9 million over the previous 2010-2011 biennium and achieve the commitment made in 2005 Chapter 2, as amended, for a 55% State share of education costs. The structural gap also reflected significant increases in future State contributions to address the increased unfunded pension liability for state employees and teachers. See "Defined Benefit Retirement Programs" below.

In order to address the projected shortfall, the Governor's recommended budget for the 2012-2013 biennium included proposals to delay the attainment of 55% for GPA until the 2014-2015 biennium and to make several changes to pension benefits in order to reduce the unfunded pension liability for state employees and teachers. 2011 Chapter 380 was signed by the Governor on June 20, 2011. In addition to delaying the attainment of 55% for GPA until the 2014-2015 biennium, it amended the requirement to include the cost of teacher retirement, retired teachers' health insurance and retired teachers' life insurance in the calculation. See "Certain Expenditures and Obligations – Education Funding" below. It increased the retirement age of state employee and teacher members of the Retirement System having less than 5 years of service to 65 years of age, froze cost-of-living increases for retirees for 3 years and capped them at 3% for the first $20,000 beginning in fiscal year 2014. The pension changes resulted in savings to the General Fund of $123.1 million in fiscal year 2012 and $126.2 million in fiscal year 2013 and eliminated $1.7 billion, or 41%, of the then estimated unfunded pension liability.

The Governor's budget amended statutory provisions pertaining to retired teachers' health insurance to include 10 year vesting periods, require retirees to pay 100% of the cost of their health insurance if they retire before reaching their normal retirement age and cap the State's cost for premiums at fiscal year 2011 totals. These changes resulted in savings to the General Fund of $5.5 million in fiscal year 2012 and $9.2 million in fiscal year 2013. The State's cost of health insurance premiums for active employees for the 2012-2013 biennium was also capped at fiscal year 2011 totals resulting in savings to the General Fund of $4.6 million in fiscal year 2012 and $9.5 million in fiscal year 2013. In addition to freezing merit increases for State employees for the biennium and eliminating longevity payments for certain individuals not eligible on June 30, 2011, the approved budget offered a retirement incentive to employees who were eligible to retire. These three initiatives resulted in estimated savings to the General Fund of $7.7 million in fiscal year 2012 and $12.6 million in fiscal year 2013.

The December 2010 upward projection of revenue allowed the Governor to propose tax cuts intended to stimulate economic growth in his biennial budget for 2012-2013. 2011 Chapter 380 reformed the income tax provisions by flattening the rate structure and reducing the top rate from 8.50% to 7.95%. It conformed to the federal income tax code Section 179 expensing provisions for small business investment and to the federal standard deduction for joint filers (marriage penalty relief) and personal exemption amount. These changes resulted in the reduction of undedicated revenue to the General Fund of $17.3 million in fiscal year 2012 and $81.0 million in fiscal year 2013. The approved budget adopted the new Maine Capital Investment Credit to provide a credit equal to 10% of the federal bonus depreciation on certain qualified property place in service in Maine resulting in an estimated reduction of General Fund revenues of $24.7 million in fiscal year 2012 and $7.0 million in fiscal year 2013. It eliminated the requirement that out-of-state residents pay income taxes after 10 days and exempted meals provided at retirement facilities from the sales tax. These initiatives resulting in an estimated reduction of General Fund revenues of $4.5 million in fiscal year 2012 and $3.1 million in fiscal year 2013.

2011 Chapter 380 has amended the Maine Residents Property Tax and Rent Refund, or "Circuit Breaker" program to permanently fund the program at 80%. This increased General Fund revenues by $11 million in fiscal year 2012 and $11.3 million in fiscal year 2013. The budget authorized the transfer of the 5% local government fund share of certain taxes that increased from current levels as a result of revised revenue projects and other tax initiatives to the General Fund resulting in an increase of undedicated revenue of $42.4 million in fiscal year 2012 and $48.6 million in fiscal year 2013.

In December 2011, the Governor proposed a budget to address a projected shortfall in the MaineCare program of approximately $120.9 million in fiscal year 2012 and $101.0 million in fiscal year 2013. At that time the Legislature also received a budget that reflected the recommendations of the Streamline and Prioritize Core Government Services Task Force to reduce spending by approximately $25 million by fiscal year 2013. In its December 2011 report, the Revenue Forecasting Committee revised its May 2011 forecast for the General Fund and increased projections for fiscal year 2012 by $10.6 million and decreased projections for fiscal year 2013 by $9.6 million. The Legislature chose to address the fiscal year 2012 portion of the shortfall first and combined the proposals into the streamlining budget. The result was 2011 Chapter 477, which was approved by the Governor on February 23, 2012. In addition to implementing the recommendations of the Streamline and Prioritize Core Government Services Task Force, it provided General Fund appropriations totaling $107.3 million in fiscal year 2012 to address the MaineCare shortfall. It recognized savings in fiscal year 2013 intended to reduce the overall cost of the MaineCare program by reducing rates paid to agency per diem homes by 5% ($3.7 million), reducing funding for contracts ($2 million), limiting access to certain combination drugs ($0.6 million), and increasing compliance with statutes mandating the use of generic drugs ($5.8 million). It extended the freeze on new enrollment in the MaineCare childless adult waiver program, saving $11 million in fiscal year 2013 and provides one-time savings of $10 million from the Dirigo Health program to fund a portion of the fiscal year 2012 cost of the childless adult waiver program. 2011 Chapter 477 also authorized a one-time assessment on hospitals equal to 0.39% of hospital net operating revenue resulting in $14.2 million in revenue in fiscal year 2013 to the General Fund.

On May 16, 2012, the Governor signed into law 2011 Chapter 657, which addressed a net fiscal year 2013 shortfall in the MaineCare program of $78.6 million. In addition to resolving the revised fiscal year 2013 MaineCare shortfall, it provides $4.3 million for the municipal general assistance program to fund an increase in demand for services and $3.8 million for operation of the E-911 program. It transfers $13 million to the Budget Stabilization Fund in fiscal year 2013 and includes authority to transfer up to $7.4 million from the fund, if necessary, to add to $3.2 million appropriated for the State's psychiatric hospitals for the cost of forensic patients determined ineligible for federal reimbursement, and an additional transfer of $3.8 million, if necessary, to reimburse the federal government for funds drawn for ineligible MaineCare recipients. It generates savings from eliminating of some MaineCare optional coverage and services, resulting in fiscal year 2013 savings to the General Fund of $13.8 million. It reallocates Fund for a Healthy Maine resources to the MaineCare program, providing savings of $9.9 million, and directs the Department of Health and Human Services to develop a Medicaid stabilization plan to achieve savings of $5.3 million. It eliminates $2 million from the Head Start program and reduces funding by requiring hospital based primary care practices that also provide mental health services to participate in the Maine Health Access Foundation's integrated care initiative for outpatient mental health and primary care service, saving $1.5 million in fiscal year 2013. It raises the loan reserve cap for the Finance Authority of Maine from $35 million to $40 million and transfers $2 million to the General Fund, implements a use tax compliance and education program to generate $5.3 million in one-time revenue, and authorizes the use of overtime to enhance the collection of tax receivables, resulting in net savings of $1.7 million. In fiscal year 2013, it requires revenues in excess of $10.6 million from the Oxford casino that would otherwise go to the Department of Education for essential programs and services to be transferred to the Department of Health and Human Services to be used for hospital settlements.

2011 Chapter 657 amends the pension income tax subtraction modification for certain retirement benefits to raise the $6,000 limit to $10,000, it provides an income tax exemption to active duty military service men and women for pay received while in service outside of Maine and provides a sales tax exemption for commercial wood harvesting and commercial greenhouse and nursery products. These changes are expected to result in a revenue loss of $8.7 million in fiscal year 2014 and $23.5 million in fiscal year 2015.

Prior to the December 2012 downward revenue projection the Bureau of the Budget updated its four year revenue and expenditure forecast in September 2012 for the fiscal year ending June 30, 2015. As required by State law, the forecast assumed the continuation of current laws and included reasonable and predictable estimates of growth in revenues and expenditures based on national and local trends and program operations. At the time of the forecast the structural gap was projected to be $755.5 million for the 2014-2015 biennium.

The gap assumed increases in General Purpose Aid for Local Schools (GPA) of $119.4 million in fiscal year 2014 and $135.1 million in fiscal year 2015 over the fiscal year 2013 level. The preliminary amounts would increase GPA $274.1 million over the previous 2012-2013 biennium and achieve the commitment made in 2005 Chapter 2, as amended by 2007 Chapters 240 and 539, for a 55% State share of education costs. The structural gap assumed Health and Human Services increases totaling $298.6 million for the biennium, which reflects increases for program growth and utilization in Mainecare over the 2014-2015 biennium in the amount of $148.1 million.

On December 1, 2012, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The December report reflected a downward adjustment of General Fund revenues of $35.5 million in fiscal year 2013, $58.3 million in fiscal year 2014 and $66.9 million in fiscal year 2015. The December report also projected revenues of $3.1 billion in fiscal year 2016 and $3.2 billion in fiscal year 2017.

In order to address the projected shortfall, the Governor's recommended budget, LD 1509, for the 2014-2015 biennium included proposals to delay the attainment of 55% for GPA until the 2016-2017 biennium. In addition to delaying the attainment of 55% for GPA until the 2016-2017 biennium, the Governor's 2014-2015 Biennial Budget proposal shifts the responsibility for funding the normal cost component of teacher retirement from being 100% borne by the State to a 50/50 state and local funding responsibility. This proposal would reduce funding to the Teacher Retirement program by $28.9 million in fiscal year 2014 and by $29.9 million in fiscal year 2015 representing the total cost of the normal cost component for teacher retirement and appropriates $14.4 million and $14.96 million in fiscal year 2014 and 2015, respectively, to the General Purpose Aid for Local Schools program for the State's share of normal cost. The Governor's budget recommended increasing appropriations to MaineCare in the amount of $318 million over the 2014-2015 biennium, offset by deappropriations totaling $148.8 million over the 2014-2015 biennium.

The State's cost of health insurance premiums for active employees for the 2014-2015 biennium was also capped at fiscal year 2011 totals resulting in savings to the General Fund of $3.8 million in fiscal year 2014 and $8.0 million in fiscal year 2015. In addition, freezing merit increases for State employees for the biennium and eliminating longevity payments resulting in savings of $4.3 million in fiscal year 2014 and $6.5 million in fiscal year 2015. The approved budget adjusts funding for the State Police to 67% General Fund and 33% Highway Fund at a total cost to the General Fund of $7.5 million in fiscal year 2014 and $7.6 million in fiscal year 2015.

The Governor's recommended budget suspends revenue sharing transfers of 5% of the Sales, Income, Corporate and Service Provider taxes to municipalities in the amount of $281.5 million during the 2014-2015 biennium. The 2014-2015 biennial budget includes the repayment of a deferral of a portion of the June 2013 subsidy payment for General Purpose Aid to Local Schools in the amount of $18.5 million, limits benefits under the Maine Residents Property Tax program resulting in an estimated savings of $73.4 million over the biennium and reorganizes the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs for a savings of $11.7 million over the biennium. Finally, the Governor's recommended budget repeals the sales tax exemption for publications issued at average intervals, suspends the inflation adjustment for tax years beginning in 2014 and amends the inflation adjustment calculation for tax years beginning after 2015 based on the Chained Consumer Price Index (CPI) instead of the CPI. These tax and fee changes result in estimated savings to the General Fund of $4.5 million in fiscal year 2014 and $10.8 million in fiscal year 2015.

The Governor's budget proposal is under consideration in the Legislature and no final action has yet been taken.

On January 11, 2013, the Governor released his supplemental budget which addressed the revenue shortfall and funded a projected Medicaid shortfall; offsets for the revenue shortfall were initially implemented by the Governor's temporary curtailment of allotments. 2013 Chapter 1 was enacted into law, without the Governor's signature, on March 6, 2013. This supplemental budget for fiscal year 2013 provided $2 million to address unmet needs in the long standing consent decree for Bates vs. DHHS, $3.6 million for foster care/adoption assistance and $85.1 million for the State's Medicaid program. These appropriations were offset with savings initiatives originally included in the temporary curtailment, revenue enhancements, transfers from other funds, as well as targeted reductions in the Medicaid program. The Department of Health and Human Services was directed to reduce rates by 5% for services provided by licensed clinical professional counselors and licensed marriage and family therapists, limit hospital and therapeutic leave days from nursing facilities, and implement targeted care management for the top 20% of high-cost members in the Medicaid program.

On May 1, 2013, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The May report reflected an increase to revenues of $43.5 million in fiscal year 2013, and a downward adjustment of $33.8 million in fiscal year 2014 and $24.3 million in fiscal year 2015. The May report also projected revenues of $3.1 billion in fiscal year 2016 and $3.2 billion in fiscal year 2017.

On May 8, 2013, the Governor released the recommended changes to the fiscal year 2014-2015 budget proposal, LD 1509, which includes additional recommended changes for fiscal year 2013. This change package addresses the revenue shortfall forecasted on the May 1, 2013 report for the next biennium and utilized the additional revenue forecasted in fiscal year 2013 of $45.3 million to fund a projected Mainecare shortfall of $33.4 million, a $1.9 million initiative added by the legislature in PL 2013, Chapter 1 to delay Mainecare payments until 2014, $1.0 million for the Maine Commission on Indigent Legal Services and $3.0 million in assistance for Maine's dairy farmers. This change package provides additional savings in 2014-2015 through initiatives that adjust the savings for retired teacher and retired state employee health insurance, merit and debt service savings. This change package also provides savings from the transfer of available balances in Maine Revenue Services, and statewide initiatives for the installation of natural gas and reduction in rates for risk management. Finally, the Department of Health and Human Services was able to reduce their requests for the biennium by further refining savings proposals, recognizing a lesser reduction to federal funding than originally included and requesting additional staff to perform disability determinations in a timely manner thereby avoiding temporary Medicaid authorizations at a 100% state only cost.

CERTAIN EXPENDITURES AND OBLIGATIONS

General Fund Expenditures

The following table sets forth, by certain major categories, General Fund expenditures set forth in 2009 Chapter 213, the budget for fiscal years 2010 and 2011, as amended by the supplemental General Fund budget, 2009 Chapter 571, 2011 Chapter 1 and 2011 Chapter 28.

	2010	2011
Governmental Support and Operations	$251,862,046	$236,824,102
Economic Development & Workforce Training	35,707,478	34,588,383
Education	1,412,297,179	1,398,741,990
Arts, Heritage & Cultural Enrichment	7,461,189	7,189,756
Natural Resources Development & Protection	68,419,220	66,225,967
Health & Human Services	795,586,471	850,852,097
Justice & Protection	277,894,340	271,331,877
Transportation		7,000,000
Total	$2,849,227,923	$2,872,754,172

The following table sets forth, by certain major categories, General Fund expenditures set forth in 2011 Chapter 380, the budget for fiscal years 2012 and 2013, as amended by the supplemental General Fund budgets, 2011 Chapter 477, 2011 Chapter 655, 2011 Chapter 657, 2013 Chapter 1 and other miscellaneous laws enacted to date.

	2012	2013
Governmental Support and Operations	$255,174,711	$259,262,199
Economic Development & Workforce Training	33,738,745	32,351,279
Education	1,373,401,473	1,358,129,798
Arts, Heritage & Cultural Enrichment	7,422,644	7,036,620
Natural Resources Development & Protection	67,994,914	65,000,840
Health & Human Services	1,116,567,462	1,046,754,732
Justice & Protection	275,909,945	273,709,069
Business Licensing & Regulation		3,647,984
Total	$3,130,209,894	$3,045,892,521

The authorized budget for fiscal years 2012 and 2013 through the end of the Second Regular Session of the 125th Legislature in May 2012 was approximately $6.14 billion. Laws enacted during the current session in 2013 increased the budget to $6.18 billion. The increase is based on a net spending increase in fiscal year 2013 of $33.7 million. Of the $6.18 billion in the biennium, 44.23% is attributable to education, 35.02% to health and human services, and 20.75% to other purposes of State government.

For additional information regarding General Fund expenditures during fiscal years 2008 through 2012, and for information regarding Highway Fund expenditures during fiscal years 2008 through 2012, see Exhibits B and C hereto. See also "Certain Public Instrumentalities" herein.

Education Funding

At the initiative of certain citizens of the State, pursuant to the Constitution of the State, the voters of the State voted to enact legislation known as the School Finance Act of 2003 (the "Initiated School Finance Act") at a statewide election held June 8, 2004. The Initiated School Finance Act required that the Legislature each year provide at least 55% of the cost of the total allocation for K-12 Education from General Fund revenue sources, and 100% of the State and local cost of providing all special education services mandated under federal or State law. The Initiated School Finance Act was amended by 2005 Chapter 2 to provide that, beginning in fiscal year 2009, the Legislature each year will provide, as a target, (a) 55% of the statewide adjusted total cost of the components of Essential Programs and Services, and (b) 100% of a school administrative unit's special education costs calculated pursuant to applicable State law.

Public Laws of Maine 2007, Chapter 539 which took effect on March 31, 2008 ("2007 Chapter 539") provided that, as a target, (a) the State would provide 53.51% and 54.01%, respectively, of the statewide adjusted total cost of the components of Essential Programs and Services, and (b) the State would provide 100% of a school administrative unit's special education costs calculated pursuant to applicable State law for fiscal years 2008 and 2009. The budget for fiscal years 2008 and 2009, as amended by 2007 Chapter 539, included approximately $1,966,000,000 to fund the State's share of K-12 Education costs attributable to the Initiated School Finance Act. 2007 Chapter 539 also amended applicable law to provide that the State's payment of 55% of the total State and local cost of K-12 Education would be delayed until fiscal year 2010, and that inclusion of the State share of the cost of K-12 Education in the General Fund appropriation limit would be delayed until fiscal year 2011.

The Governor's Executive Order issued in November 2009 included curtailment of State spending for K-12 Education in the amount of approximately $38.1 million. The supplemental General Fund budget, 2009 Chapter 571, includes a reduction in baseline funding for GPA in fiscal year 2010 in an amount equal to this curtailment, and it also includes a reduction in GPA funding for fiscal year 2011 of approximately $9 million. These reductions do not violate the "maintenance of effort" requirements of the American Recovery and Reinvestment Act of 2009 ("ARRA").

With the enactment of the supplemental budget, 2009 Chapter 571, GPA is approximately 48.93% of the total State and local cost of K-12 education in fiscal year 2010 and 45.84% in fiscal year 2011 as amended by 2011 Chapter 1. The State General Fund contribution was approximately $909.2 million in fiscal year 2010 and approximately $872.6 million in fiscal year 2011, totaling approximately $1,781,800,000 for the 2010-2011 biennium. The balance of the government payments are derived from ARRA monies awarded to the State for K-12 Education and added approximately $116 million over the course of the 2010-2011 biennium. Total payments by the State to local school districts (including ARRA monies) comprised 49.78% of the total cost of Essential Program and Services in fiscal year 2010 and comprised of 47.83% in fiscal year 2011.

The biennial budget enacted in 2011 Chapter 380, as amended by 2011 Chapter 655 and 2013 Chapter 1 for fiscal years 2012 and 2013 includes a State General Fund commitment to the cost of K-12 education of $888,752,379 in fiscal year 2012 and $895,071,007 in fiscal year 2013. Those General Fund appropriations result in a 45.05% State share of the total cost of education in fiscal year 2012 and 44.91% in fiscal year 2013. Maine public schools also received Federal Jobs Funds of $36,214,417 for the 2012-13 biennium to help retain or hire critical staff. The enacted budget also includes the State share of teacher retirement, retired teacher's health insurance, and retired teacher's life insurance of $172,592,848 in 2012 and $174,932,892 in 2013 when considering the State's contribution for Essential Programs and Services. Including the State contribution to teacher retirement, retired teacher's health insurance, and retired teacher's life insurance the State's contribution towards the total cost of education is 49.47% in fiscal year 2012 and 49.35% in fiscal year 2013.

Health and Human Services Funding

After education, proposed spending for health and human services and programs comprise the second most significant area of expenditure, at approximately 35.02% of General Fund appropriations for the 2012-2013 biennium. Furthermore, General Fund expenditures for the State's Medicaid program, MaineCare, are the largest, comprising $1.45 billion or 70.1%, of all health and human services spending. The State continues to make significant efforts to hold down the rate of increase in the growth of MaineCare expenditures. While remaining committed to provide access to care for the State's most vulnerable residents, the State is employing even more aggressive care management techniques, continues to standardize provider reimbursement rates and has developed more capacity in the area of third party recovery. Regardless of these efforts, additional General Fund resources were needed in 2011 Chapter 1 and 2011 Chapter 28 for fiscal year 2011 totaling $46 million, in 2011 Chapter 380 funding amounting to approximately $118 million was provided for the 2012-2013 biennium. The first 2012-2013 supplemental budget, 2011 Chapter 477, proposed more changes to the MaineCare program in the areas of generic drug utilization, opioid prescribing policies, rate reform, service limitations and enhanced efforts in the area of collection of overpayments, legal settlements and through increased cost avoidance, yet provided funding to address an estimated shortfall of $108 million. A second 2012-2013 supplemental , 2011 Chapter 657, included structural changes to the MaineCare program by eliminating some Medicaid optional services and coverage options; despite these initiatives, additional 2012-2013 General Fund resources of approximately $66.8 million were required. Several of the changes proposed in 2011 Chapter 657 required the approval of the Centers for Medicare and Medicaid Services (CMS). The Department of Health and Human Services was notified that some of the proposals would violate the Maintenance of Effort provisions of the Affordable Care Act and therefore could not be implemented. The Department's budget was reduced in 2011 Chapter 657 and without approval from CMS the Department would require additional General Fund monies in fiscal year 2013. The Governor's supplemental budget addressed this issue, as well as an overall shortfall in the program. 2013 Chapter 1 was enacted on March 6, 2013 and provided $85 million for the Medicaid program to continue providing payments in fiscal year 2013.

During fiscal year 2008-09 and the 2010-2011 biennium, the ARRA provided a substantial infusion of federal funds into the MaineCare program which was primarily in the form of enhanced federal matching dollars. This funding assisted the State in meeting the increases in demand for MaineCare services occurring as a result of the economic downturn and in redeploying some General Fund resources to provide more timely payment of MaineCare settlements to Maine hospitals, helping to ensure those facilities are able to retain employees, avoid further job losses and maintain the spectrum of services required by residents, particularly in rural areas of the State. However, the extension passed by Congress phased down the federal match rate and required Maine to provide additional General Fund support of $33 million in fiscal year 2011. The 2012-2013 baseline appropriation for the Medicaid program provided approximately $360 million in General Fund resources necessary to replace reduced federal funds.

The 2012-2013 budget supported Maine's efforts to pay its obligations to hospitals on a timely basis. General Fund resources of approximately $63 million were designated to transition payments to Maine's noncritical access hospitals from a prospective interim payment system to methodologies based on diagnosis related groupings and ambulatory payment classifications in order to pay hospitals on a real-time basis and reduce the use of paying hospital settlements several years after hospitals have incurred costs. The budget also continued the effort to pay outstanding hospital settlements through an initiative which provided over $9 million General Fund resources from 2012 year end balances.

In recent years, the State has accrued a liability to hospitals for Medicaid services provided by such hospitals with the use of a Prospective Interim Payment methodology. In the 2012-2013 budget, Maine transitioned from the Prospective Interim Payment system to methodologies based on Diagnosed Related Groupings and Ambulatory Payment Classifications, which pays Maine's noncritical access hospitals on a real-time basis, based on claims. As of June 30, 2012, the aggregate liability totaled approximately $484.4 million, of which $186.3 million was the State share, with the balance expected to be paid on or after October 1, 2013 by the federal government as its federal match. In order to address this liability, the Governor has proposed that the Legislature authorize the Maine Municipal Bond Bank to issue up to $187.0 million of revenue bonds, the proceeds of which will be used, together with federal moneys, to satisfy this obligation to the hospitals. The bonds would be payable from moneys to be received in connection with an agreement for certain wholesale liquor activities. This legislation, LD 239, is pending before the Legislature and the State cannot now predict whether this legislation will be enacted or whether any other actions will be taken during the current legislative session to address the accrued hospital liabilities.

For additional information regarding the impact of these unpaid amounts on the State's General Fund Unassigned Balance and related matters, see Management's Discussion and Analysis in the State's financial statements on page B-15 and Note 4 in the State's financial statements in Exhibit B.

The 2012-2013 budgets have also continued funding for its patient-centered medical home initiative to encourage Maine health care providers to provide better access to primary care physician services to MaineCare members. Funding was also provided to address shortfalls in the municipal General Assistance program resulting from the economic downturn, to pay for the cost of forensic patients at the State's psychiatric hospitals, to provide sufficient resources for the foster care and adoption assistance programs, to service individuals with intellectual disabilities and autism who are current waiting for services, to increase funding available for mental health services to those not Medicaid eligible and for housing services for individuals with mental illness.

The 2014-2015 budget bill, LD 1509, continues with the priorities identified in previous budget documents. The Department requests additional resources in both 2014 and 2015 to address needs in the Medicaid program. In addition to the request for increases to the baseline budgets, the Department has requested the funding necessary to fill waiver slots on two of the State's largest Medicaid waivers serving those with developmental or intellectual disabilities. Funding requests were also included for the General Assistance program while coupled with structural changes to the program mitigated a larger request. The State continues to request funding to provide additional mental health services to those not Medicaid eligible and to adequately fund the foster care/adoption assistance programs based on the increasing number of children in care. In an effort to reduce expenditures and restructure the services offered by the Department of Health and Human Services, there are several proposals in the budget which would reduce programs or eligibility after January 1, 2014. A proposal to roll back the Medicare Savings Plan to the level required by the federal government and eliminate a state only pharmacy assistance program for the elderly are two of the options included. The Department also proposes to save funds based on the care management of high-cost users in the Medicaid program.

The Governor's Office is still evaluating its options on any Medicaid expansion relating to the enactment of the federal Affordable Care Act. The Department of Health and Human Services has had discussions with the Centers for Medicare and Medicaid Services regarding expansion and awaits responses to several questions. It is anticipated that the expansion will have some financial impact on residents in Maine who have been eligible for MaineCare but have chosen not to apply and who will forego private health insurance because they are MaineCare eligible. It is expected that 100% of the medical expenses for these residents would be covered by the federal government.

Debts of the State

As of April 30, 2013, there were outstanding general obligation bonds of the State in the principal amount of $442,260,000, including $318,745,000 to be paid from the General Fund and $123,515,000 to be paid from the Highway Fund. Debt service requirements to maturity for the outstanding general obligation bonds are set forth in Exhibit D herein.

As of the date hereof, there are no outstanding tax anticipation notes of the State. As of the date hereof, the State is using interfund borrowings from the State investment pool in the amount of $133,000,000 to satisfy its fiscal year 2013 cash flow needs. The State also plans to continue to use internal cash flow borrowing to meet cash flow needs in fiscal year 2014. Additional external borrowing may be needed in fiscal year 2014. The amount budgeted to be borrowed externally in fiscal year 2014 is not currently expected to exceed $150,000,000. If external borrowing is required, a combination of tax anticipation notes and a proposed line of credit could be used. The timing and amount of any such borrowings will depend upon the actual cash flow needs of the State.

As of the date hereof, there is indebtedness authorized by the voters of the State for certain purposes, but unissued as either bonds or notes, in the aggregate principal amount of $104,577,809. As of the date hereof, the aggregate principal amount of bonds of the State authorized by the Constitution and implementing legislation for certain purposes, but unissued, is $99,000,000. See "Fiscal Management – Constitutional Debt Limit" and "Certain Public Instrumentalities – Finance Authority of Maine" and "– Maine State Housing Authority" herein.

For additional information concerning long-term debts of the State, see Exhibit D hereto.

Lease Financing Agreements

From time to time, the State enters into lease agreements for the purpose of acquiring or financing capital equipment and buildings. A lease agreement is secured solely by the equipment or building which is the subject of such agreement and is not a pledge of the full faith and credit of the State. Lease payment obligations are subject to appropriation by the Legislature. In certain instances, the State has issued certificates of participation in the lease payments to be made pursuant to certain lease agreements. As of March 31, 2013, the aggregate principal amount of such lease obligations outstanding was $57,577,559. For additional information regarding such lease agreements, see Exhibit D hereto. For information regarding rental payments to be made by the State, subject to appropriation, to the Maine Governmental Facilities Authority, see "CERTAIN PUBLIC INSTRUMENTALITIES - Maine Governmental Facilities Authority."

Defined Benefit Retirement Programs

Overview. The Maine Public Employees Retirement System ("MainePERS" or "System") administers three defined benefit pension plans (often referred to as "Programs") on behalf of the State with approximately the following membership as of June 30, 2012: the State Employee and Teacher Retirement Program, with 39,360 active, 34,358 inactive, non-vested, 6,291 terminated, vested and 30,485 retired members and surviving beneficiaries; the Judicial Retirement Program, with 59 active, 0 inactive, non-vested, 0 terminated, vested and 63 retired members and surviving beneficiaries; and the Legislative Retirement Program, with 175 active, 112 inactive, non-vested, 87 terminated, vested and

141 retired members and surviving beneficiaries (collectively "State Plans"). In addition, MainePERS administers the Participating Local District Consolidated Plan on behalf of 293 participating state and local public entities ("PLDs"). In addition, the System also administers a group life insurance plan which provides or makes available life insurance benefits for active and retired System members and employees of certain PLDs. As of June 30, 2012, the System's group life insurance plan, for actuarial purposes, was comprised of approximately 31,104 active members and 17,030 retirees, which includes 5,573 PLD active members and 2,590 PLD retirees and surviving beneficiaries. The State has no retirement or group life insurance obligations to the PLDs or to their covered employees. The trust fund balances associated with each plan administered by MainePERS are segregated. The funds are commingled only for investment purposes. The administrative operating expenses of the System are charged against each trust fund balance as directed by statute and in accordance with generally accepted accounting standards. The budgeted administrative operating expenses of the System for fiscal year 2013 are $11,101,554.

The System's retirement programs provide defined retirement benefits based on members' three-year 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 state employees and teachers; separate legislation enacted the same reduced requirement for judges, legislators, and employees of PLDs). Vesting also occurs upon the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for "regular service retirement plan" State employees and teachers, judges and legislative members is age 60, 62 or 65[1]. The normal retirement age is determined based upon the amount of service to which a member is credited as of a specific date. For "regular service retirement plan" PLD members, normal retirement age is 60. 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 her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employees 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 5.0%. Employer contributions for terminated members are not refunded and remain assets of the applicable plan.

Other Available Information

The following documents related to the System and the Programs are incorporated herein by reference:

- Comprehensive Annual Financial Report of the System for the fiscal year ended June 30, 2012 available at http://mainepers.org/PDFs/other%20publications/CAFR12.pdf
- Actuarial Valuation Report for each of the retirement programs administered by the System as of June 30, 2012 available at www.mainepers.org/bonds.htm.

[1] Because of the nature of their jobs, certain employees, typically those in law enforcement positions, are members of a "special service retirement plan," rather than the "regular service retirement plan" which covers most employees. Special plans typically differ from regular plans in the areas of retirement eligibility requirements, benefit determination, and contribution rates. Special plans are typically more expensive than regular plans.

- Final Report of the State Employee and Teacher Retirement Program experience study, dated December 22, 2011 available at http://www.mainepers.org/PDFs/Bonds/Maine%20Assumption%20Changes_12222011_vf.pdf.
- "New Pension Plan Design and Implementation Plan" dated March 2012 prepared by the New Pension Plan Working Group available at http://www.mainepers.org/Pensions/NPP_Report_3-5-2012.pdf.
- New Pension Plan proposed legislation and plan document submitted to the Joint Standing Committee on Appropriations and Financial Affairs on January 15, 2013 available at http://mainepers.org/Pensions/NPPI%20Package%2001172013.pdf.

For additional information about the System contained in this Information Statement, see also Note 9 and Required Supplementary Information in the State's financial statements on pages B-60 – B-65 and B-101 – B-103 herein and "Exhibit E – Maine Public Employees Retirement System Actuarial Balance Sheet, June 30, 2012".

Funding Policy and Status

The costs of the State Plans, including those of the State Employee and Teacher Retirement Program, generally consist of two elements:

Normal Costs - the present value of future pension benefits earned by employees in the current year. Normal costs are based on each year's projected annual collective employee earnings. The State's share of the normal cost was 5.5% of such earnings from July 1, 2007 through June 30, 2011. As a result of an experience study as well as changes to the plan design, as described below in "Recent Legislative Changes Affecting Benefits Levels" effective July 1, 2011, the State's share of the normal cost was reduced to 2.94%, in effect for the fiscal years 2012 and 2013. The State's share of the normal cost for fiscal years 2014 and 2015 is 3.67%. Most State employees and teachers are required by statute to contribute 7.65% of their earnings. As previously noted, some State employees may pay a higher rate as a result of participation in a so-called "special plan", which typically permit a member to retire younger or with fewer years of service. Other State employees may pay a lesser rate as a result of a collective bargaining agreement or other arrangement with the State. The employee contribution rate did not change as a result of the recent experience study or plan design changes.

Unfunded Actuarial Accrued Liability (UAAL) - the amount by which the actuarial liability for current and former employees is greater than pension assets. The actuarial liability is the present value of prospective pensions owed to members when they retire based on service as of the calculation date.

State Employee and Teacher Retirement Program annual and/or biennial costs are defined as those normal and UAAL costs required by State law and the Maine Constitution to fund the plan. The State is currently required by the Maine Constitution to fully fund the State Employee and Teacher Retirement Program by June 30, 2028.

Maine is one of 14 states that do not participate in Social Security for State employees, judges, legislators or teachers while they are active members of the State Plans. Neither the State nor covered plan members contribute any amounts to Social Security. This means that covered members do not earn Social Security credits.

The State appropriates funding for pension costs associated with the State Plans, covering all State employees and teachers, legislators and judges. Retirement, disability and death benefits provided by the System are funded by employee contributions as set by statute and by employer contributions determined on an actuarial basis. An actuarial valuation is prepared annually and the valuation completed in the even year for each of the state's three defined benefit plans is used to determine the State's employer contribution requirements for the ensuing biennium. For example, the valuation as of June 30, 2010 was used to set contributions for the 2012-2013 biennium, and the valuation dated as of June 30, 2012 was used to establish the contributions to be made in the 2014-2015 biennium.

For State employees and teachers, the State's annual required contribution (the "ARC") is comprised of the normal cost contribution plus the payment required to amortize the State Employee and Teacher Retirement Program's UAAL. As of June 30, 2012, the actuarial value of assets of the State Employee and Teacher Retirement Program (which does not include members of the judicial and legislative programs) was $8,880,730,120 and the actuarial accrued liability was $11,553,306,281 resulting in a UAAL of $2,672,576,161 and a funded ratio of 76.9%. The State is obligated under an amendment to the Maine Constitution adopted in 1995 to amortize the UAAL of the State Employee and Teacher Retirement Program as of June 30, 1996 by no later than the end of fiscal year 2028. As of June 30, 2012, 16 years remained in the current, constitutionally mandated amortization period for the unfunded liability of the State Employee and Teacher Retirement Program. The Maine Constitution also prohibits the creation of new unfunded liabilities other than those arising from experience losses. Any such liabilities are required to be amortized within 10 years. The constitutional requirement does not apply to the Legislative Retirement Program or the Judicial Retirement Program. MainePERS monitors all relevant proposed bills to ensure continued compliance with the constitutional requirement.

The judicial retirement plan had an actuarial surplus of $3,394,326 at June 30, 2012. The legislative retirement plan had an actuarial surplus of $3,078,780 at June 30, 2012.

The State has generally funded its annual required contribution for State employees, teachers, judges and legislators as shown in the table below. Differences between the ARC and the actual contribution may be the result of the differences between projected and actual salary amounts for any given year. Differences may also be the result of additional contributions paid by the State, as required by statute, from general fund surplus money available at the close of a given fiscal year.

Valuation Date 6/30/YY	Annual Required Contribution	Actual Contribution	Percent Contributed
2012	$252,830,000	$252,830,000	100.0%
2011	328,075,000	333,944,000	101.8
2010	317,992,000	329,207,000	103.5
2009	320,112,000	320,112,000	100.0
2008	305,361,000	305,361,000	100.0
2007	303,076,000	303,075,774	100.0
2006	286,439,000	303,438,610	106.0
2005	261,698,000	274,697,901	105.0
2004	251,483,000	273,482,848	108.8
2003	252,709,000	263,209,148	104.2
2002	242,486,000	242,486,089	100.0

As of June 30, 2012, the State had a net pension obligation ("NPO") in connection with the State Plans of $2,010,781. The NPO is the cumulative difference between annual pension cost and the employer's contributions to a plan, including the pension liability or asset at transition, if any. Measured is the annual pension cost equal to (a) the ARC, (b) one year's interest on the NPO, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or over-contributions. "Transition" refers to the point in time when the employer implemented GASB Statement # 27 and measured its initial pension liability or asset at that point in time.

The amount paid by the State in fiscal year 2012 was $252,830,000. The amounts projected to be paid by the State in fiscal years 2013, 2014 and 2015 are $256,769,981, $295,529,000 and $305,439,822, respectively.

The ARC originally determined for the 2012-2013 biennial budget was based upon an estimate of the assets and liabilities as of June 30, 2010. The estimated assets included the June 30, 2010 assets (at market value), except that the private market values were based on the March 31, 2010 value, with a projection of total cash flows for the year. The liabilities included the June 30, 2009 liabilities, rolled forward based on projected actuarial assumptions for fiscal year 2010. This new process, as compared to the prior process of waiting for all values at June 30 to become available, was recommended by Cheiron, the System's actuary, and approved by the System's Board of Trustees, and was implemented in order to provide employer contribution rates to the State as early as possible in the biennial budget process. The completion of the actuarial valuation as of June 30, 2010 by the System's actuary, using all values as of June 30, 2010, demonstrated no material difference between the estimated results, used to establish the employer contribution, and the results of the actual valuation. This same methodology was used to determine the ARC for the 2014-2015 biennial budget.

Recent Actuarial Assumption Changes. State law provides that at least once in each six-year period, the System's actuary is to make an investigation into account program demographics and changes in program demographics, employment patterns and projections, relevant economic measures and expectations and other factors that the Board or actuary considers significant. The actuary must also make recommendations for certain modifications of the actuarial assumptions, as needed. As a result of the 2008 adverse market conditions and a specific request from the Legislature in September 2010, the System conducted an experience study for the State Employee and Teacher Retirement Program, which has resulted in the adoption of different assumptions, as described below. Changes to the economic assumptions implemented as a result of the experience study also apply to the Legislative Retirement Program and the Judicial Retirement Program. The final report of the experience study is available at http://www.mainepers.org/bonds.htm.

The results of the experience study led to the adoption by the System's Board of Trustees on April 14, 2011 of certain changes in economic and demographic actuarial assumptions used in the calculation of the liabilities of the State Employee and Teacher Retirement Program.

The key findings as it relates to the demographic assumptions were as follows:

Retirement	Generally more members than expected retire before age 60, and fewer than expected retire after age 60
Turnover	Very close to assumed levels up to 15 years of service; more than expected above 15 years of service
Disability	Very close to assumed levels up to age 50; less than expected above age 50
Mortality	Fewer male deaths and more female deaths occurred than were expected
Individual Salary (Merit)	Increases were generally less than previously assumed

The actuary recommended updating the demographic assumptions, moving partway towards the observed experience and keeping with sound actuarial practices. The MainePERS Board of Trustees adopted the demographic assumption changes recommended by the actuary. The aggregate impact of adoption of these demographic changes was estimated to increase the UAAL by approximately $200 million.

The MainePERS Board of Trustees also adopted the following changes to the economic assumptions, as recommended by the actuary:

	Old Assumption	New Assumption
Discount Rate	7.75%	7.25%
Inflation	4.75%	1.5% for two years and 3.5% thereafter

The impact of the reduction in the discount rate was estimated to increase the UAAL by approximately $700 million. The impact of the reduction in the inflation assumption was estimated to decrease the UAAL by approximately $1.1 billion. The net impact of all the changes to the actuarial assumptions was an estimated decrease in the UAAL by approximately $200 million.

The application of the newly adopted actuarial assumptions to the June 30, 2010 valuation resulted in a decrease in the ARC for the 2012-2013 biennium. The System directed its actuaries to perform the recalculation, which, in combination with the plan changes (see "Recent Legislative

Changes Affecting Benefits Levels" below), resulted in changes to the ARC for all State Plans for the 2012-2013 biennium.

Actuarial Valuation. By State law, the System's assets and liabilities are calculated annually by the System's actuaries. Each even year's valuation serves as the basis for the State's ARC in the biennium that begins two years from the date of the valuation. This report is delivered to the State in late October and contains an actuarial valuation of the plans administered by the System as of the end of the most recent fiscal year and sets out the ARC for the upcoming biennium. The report also includes, for each plan, a description of the actuarial assumptions and methods used, a brief summary of the principal plan provisions and a summary of member data. The actuarial reports for the fiscal year ending June 30, 2012 (the most recently completed actuarial report) are incorporated by reference herein and are available at www. mainepers.org/bonds.htm.

The actuarial valuation calculates the actuarial accrued liability for each of the defined benefit plans, which represents the present value of benefits the System will pay to its retired members and active members upon retirement, based on certain demographic and economic assumptions. Some examples of these assumptions include an expected rate of return on assets, age of retirement of active members, future salary increases for current employees and assumed mortality rates for retirees and beneficiaries. If the actual experience of a plan differs from these assumptions, the UAAL of the plan may increase or decrease to the extent of any such variance. This could have a resulting impact on the ARC, which may increase or decrease the amount of the State's contribution to the plans. As previously discussed, the actuarial assumptions of the State Employee and Teacher Retirement Program were recently changed to reflect the results of the latest experience study. See "Recent Actuarial Assumption Changes" above. See also "Recent Legislative Changes Affecting Benefits Levels" below for information regarding legislative changes and the resulting impact on the UAAL and required contributions.

The actuarial valuation also compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms the UAAL of the system. The actuarial valuation will express the percentage that a plan is funded through a "funded ratio," which represents the actuarial value of assets of the plan divided by the actuarial accrued liability of such plan. The actuarial valuation will also state an annual required contribution ("ARC"), which is a recommended amount that the State and other sponsoring employers contribute to the applicable plan. The ARC consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL.

With respect to the expected rate of return of assets, the actual rate of return on investments depends on the performance of its investment portfolio. The value of the securities and other investments in the investment portfolio changes from one fiscal year to the next, which, in turn, causes increases or decreases in the funded ratio of each plan and in the UAAL. Currently, the assumed rate of return is 7.25%. This is a reduction from the earlier assumed earnings rate of 7.75% and results from the Board's adoption of new actuarial assumptions at its April 14, 2011 meeting, as described above. For fiscal year 2012, the actuarial rate of return of the assets was 4.77% as compared to an actual market rate of return of .50%. Information about the System's Investment Program is available at www. mainepers.org/Investments/Investments.htm.

The following table sets out the actual rate of investment return as compared to the actuarial assumed rate of return (taking into account the three-year smoothing method described below) for the calendar years 2012 through 1990, inclusive.

Calendar Year	Actual Rate of Investment Return	Actuarial Assumed Rate of Return*
2012	12.86%	7.25%
2011	0.22	7.25
2010	12.20	7.75
2009	21.50	7.75
2008	-27.60	7.75
2007	9.10	7.75
2006	11.30	7.75
2005	7.70	8.00
2004	13.10	8.00
2003	25.60	8.00
2002	-10.30	8.00
2001	-5.00	8.00
2000	-3.80	8.00
1999	15.30	8.00
1998	15.30	8.00
1997	18.50	8.00
1996	13.50	8.00
1995	25.70	8.00
1994	-0.10	8.00
1993	13.90	8.00
1992	7.20	8.00
1991	23.90	8.50
1990	0.00	0.09

*Changes effective July 1 of stated year

In addition to the above-described assumptions, the actuarial valuations of the plans use the entry age normal ("EAN") method to calculate the actuarial value of assets and actuarial accrued liability. The System believes that the EAN method is a more accurate indicator of actuarial funding progress and it is now, in fact, the predominant method used by public retirement systems throughout the United States.

An additional actuarial method used in arriving at the actuarial valuation is so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over a period of three years to offset the effects of volatility of market values in any single year. The following chart presents, for each program, the actuarial accrued liability, the actuarial value of assets, the unfunded actuarial liability, the funded ratio of the plan based on the actuarial value of assets, the market value of assets, the funded ratio of the plan based on the market value of assets and the ratio of the actuarial value of assets over the market value of assets.

State & Teachers							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2012	$11,553,306,281	$8,880,730,120	$2,672,576,161	76.87%	$8,453,862,754	73.20%	105.10%
2011	11,281,665,186	8,736,885,121	2,544,780,065	77.44	8,677,947,874	76.90	100.70
2010	12,617,144,005	8,313,459,810	4,303,684,195	65.90	7,239,332,094	57.40	114.80
2009	12,321,219,332	8,325,951,236	3,995,268,096	67.60	6,620,849,642	53.70	125.80
2008	11,668,032,511	8,631,557,629	3,036,474,882	74.00	8,311,970,624	71.20	103.80
2007	11,157,770,138	8,245,520,019	2,912,250,119	73.90	8,668,381,195	77.70	95.10
2006	10,547,299,194	7,504,219,546	3,043,079,648	71.10	7,503,201,781	71.10	100.00
2005	9,999,250,038	6,964,597,457	3,034,652,581	69.70	6,997,802,832	70.00	99.50
2004	9,442,389,399	6,452,570,244	2,989,819,155	68.30	6,280,951,942	66.50	102.70
2003	9,442,389,399	6,452,570,244	2,989,819,155	68.30	6,280,951,942	66.50	102.70
2002	8,469,835,410	5,877,158,371	2,592,677,039	69.40	5,092,119,785	60.10	115.40

Judicial							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2012	$46,340,678	$49,735,004	-$3,394,326	107.32%	$47,344,407	102.2%	105.10%
2011	47,868,297	49,324,784	-1,456,487	103.0	$48,992,049	102.4	100.7
2010	53,149,699	47,677,635	5,472,064	89.70	41,517,520	78.10	114.80
2009	50,543,320	48,478,344	2,064,976	95.90	38,550,289	76.30	125.80
2008	47,634,452	50,418,942	-2,784,490	105.80	48,552,160	101.90	103.80
2007	46,842,351	48,225,053	-1,382,702	103.00	50,698,214	108.20	95.10
2006	43,102,409	44,350,649	-1,248,240	102.90	44,344,633	102.90	100.00
2005	41,804,673	41,842,216	-37,543	100.10	42,041,709	100.60	99.50
2004	36,388,731	39,210,995	-2,822,264	107.80	38,168,105	104.90	102.70
2003	41,931,130	41,842,216	88,914	99.80	42,041,709	100.30	99.50
2002	35,752,969	37,071,019	-1,318,050	103.70	32,119,276	89.80	115.40

Legislative							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2012	$6,243,939	$9,322,419	-$3,078,780	149.31%	$8,874,321	142.10%	105.10%
2011	5,725,193	9,040,180	-3,314,987	157.90	8,979,197	156.80	100.70
2010	6,073,364	8,634,635	-2,561,271	142.20	7,519,010	123.80	114.80
2009	5,499,809	8,717,885	-3,218,076	158.50	6,932,518	126.10	125.80
2008	5,605,005	9,099,133	-3,494,128	162.30	8,762,234	156.30	103.80
2007	5,095,638	8,721,571	-3,625,933	171.20	9,168,846	179.90	95.10
2006	7,944,468	7,944,468	0	100.00	7,943,390	100.00	100.00
2005	7,406,475	7,406,475	0	100.00	7,441,788	100.50	99.50
2004	6,827,478	6,827,478	0	100.00	6,645,888	97.30	102.70
2003	7,406,475	7,406,475	0	100.00	7,441,788	100.50	99.50
2002	6,246,247	6,246,247	0	100.00	5,411,908	86.60	115.40

ALL STATE PLANS							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2012	$11,605,890,598	$8,939,787,543	$2,666,103,055	77.00%	$8,510,081,482	73.30%	105.10%
2011	11,335,258,676	8,795,250,085	2,540,008,591	77.60	8,735,919,120	77.10	100.70
2010	12,676,367,069	8,369,772,080	4,306,594,989	66.00	7,288,368,624	57.50	114.80
2009	12,377,262,461	8,383,147,465	3,994,114,996	67.70	6,666,332,449	53.90	125.80
2008	11,721,271,967	8,691,075,704	3,030,196,263	74.10	8,369,285,018	71.40	103.80
2007	11,209,708,127	8,302,466,643	2,907,241,484	74.10	8,728,248,255	77.90	95.10
2006	10,598,346,071	7,556,514,663	3,041,831,408	71.30	7,555,489,804	71.30	100.00
2005	10,048,461,186	7,013,846,148	3,034,615,038	69.80	7,047,286,328	70.10	99.50
2004	9,485,605,608	6,498,608,717	2,986,996,891	68.50	6,325,765,935	66.70	102.70
2003	9,491,727,004	6,501,818,935	2,989,908,069	68.50	6,330,435,439	66.70	102.70
2002	8,511,834,626	5,920,475,637	2,591,358,989	69.60	5,129,650,969	60.30	115.40

For further information regarding the actuarial method and significant assumptions used to determine the ARC, see Note 6 to the System's Comprehensive Annual Financial Report for the year ended June 30, 2011, which is available at www.mainepers.org/Publications/Publications.htm, and also "Recent Actuarial Assumption Changes" above. The estimated market value of All State Plans as of March 31, 2013 was $9,207,277,243. More recent values are not yet available.

Recent Legislative Changes Affecting Benefits Levels. The Legislature has in the past adopted laws that have had the effect of both increasing and decreasing future retirement benefits payable under one or more of the State Plans. Any increases in retirement benefits have the effect of increasing the actuarial accrued liability of the plan, which also has the effect of increasing the ARC with respect to the State Plans. Any decreases in benefits have the effect of limiting the future growth of the actuarial accrued liability of the plan, which also has the effect of limiting the growth of the ARC for the State for the plan in future years.

By virtue of Article 9, Section 18-A of the Maine Constitution, unfunded liabilities cannot be created in the State Employee and Teacher Retirement Program, except those liabilities resulting from experience losses. Any unfunded liabilities arising from experience losses are further required to be amortized over a period of no more than 10 years.

In June 2011, the 125th Legislature passed 2011 Chapter 380, the biennial budget for fiscal years 2012 and 2013. Part U of the budget established a working group to develop an implementation plan designed to close the current State Employee and Teacher Retirement Program and replace it with a retirement benefit plan that is supplemental to Social Security. The new plan would apply to all state employees and teachers first hired after June 30, 2015. In March, 2012, the Working Group issued its report entitled "New Pension Plan Design and Implementation Plan" which is available at www.mainepers.org. The Legislature considered the report and enacted additional legislation that required MainePERS to submit, no later than January 15, 2013, proposed legislation to implement the new plan as described in the report. The proposed legislation and accompanying documents, submitted by MainePERS on January 15, 2013, can be found at http://mainepers.org/Pensions/NPPI%20Package%2001172013.pdf.

Pursuant to 2011 Chapter 380, several changes were made to the State Plans. The changes include: changes to the retiree cost-of-living provisions, including a three-year freeze on cost-of-living adjustments, a reduction in the cost-of-living cap from 4% to 3%, and the establishment of a $20,000 limit on the amount of benefit subject to the cost-of-living adjustment; an increase in the normal retirement age from age 62 to age 65 for non-vested members of the regular plan component of the State Employee and Teacher Retirement Program (the non-special plan tiers); and a change that ties eligibility for subsidized health insurance coverage (health insurance benefits are funded directly by the State) to normal retirement age.

The following table sets forth a projection of the contributions that were expected to be made by the State to pay both the normal cost and to amortize the UAAL of the State Employee and Teacher Retirement Program for the period from fiscal year 2012 through fiscal year 2028 **before** the legislative changes pursuant to 2011 Chapter 380 described above. The dollar amounts are shown both as future year dollars and current year (2011) dollars (discounted at a 3.5% rate). The amounts shown in the table below also reflect the recent experience study changes described above.

Projected Contributions - Pre-Legislative Changes

Fiscal Year	Normal Cost (future dollars)	Normal Cost (current dollars)	UAL Payment (future dollars)	UAL Payment (current dollars)	Total Payment (future dollars)	Total Payment (current dollars)
2012	$74,385,840	$ 74,385,840	$340,989,985	$ 340,989,985	$ 415,375,825	$ 415,375,825
2013	75,501,627	72,948,432	346,280,748	334,570,771	421,782,375	407,519,203
2014	78,910,322	73,663,630	443,406,392	413,924,612	522,316,714	487,588,241
2015	81,672,183	73,663,630	458,925,615	413,924,611	540,597,798	487,588,241
2016	84,530,710	73,663,630	533,409,081	464,835,198	617,939,791	538,498,828
2017	87,489,285	73,663,630	552,078,399	464,835,198	639,567,684	538,498,828
2018	90,551,409	73,663,630	603,441,533	490,900,076	693,992,942	564,563,705
2019	93,720,709	73,663,630	624,561,987	490,900,076	718,282,696	564,563,706
2020	97,000,934	73,663,630	663,117,371	503,578,995	760,118,305	577,242,625
2021	100,395,966	73,663,630	686,326,479	503,578,995	786,722,445	577,242,624
2022	103,909,825	73,663,630	670,616,161	475,412,413	774,525,986	549,076,043
2023	107,546,669	73,663,630	639,649,452	438,125,150	747,196,121	511,788,780
2024	111,310,802	73,663,630	618,439,186	409,272,724	729,749,988	482,936,354
2025	115,206,681	73,663,630	610,133,908	390,122,155	725,340,589	463,785,785
2026	119,238,914	73,663,630	606,647,320	374,775,667	725,886,234	448,439,297
2027	123,412,276	73,663,630	612,248,652	365,445,477	735,660,928	439,109,106
2028	127,731,706	73,663,630	620,606,971	357,907,709	748,338,677	431,571,339

The amounts shown above were calculated in 2011 prior to enactment of the legislative changes and do not reflect any changed circumstances since they were prepared. They are presented solely for purposes of showing the projected effects of 2011 Chapter 380 by comparison to the table below, which shows the projected contributions after the changes pursuant to 2011 Chapter 380 described above. The following table sets forth the estimated impacts of the recently enacted legislative changes pursuant to 2011 Chapter 380 on the State/Teacher plan for fiscal years 2012 and 2013.

MainePERS Budget/Costs with Legislative Changes	Before Legislative Changes*	After Legislative Changes*	Difference*
FY 2012			
Estimated Normal Cost	$75	$50	$25
Estimated UAL Amortization	341	200	141
Estimated Total Appropriation	416	250	166
FY 2013			
Estimated Normal Cost	76	51	25
Estimated UAL Amortization	346	203	143
Estimated Total Appropriation	422	254	168
FY 2012-13 Estimated Biennial Contribution	838	504	334

*All costs in millions

The changes in the cost-of-living provisions were the most significant contributor to the reduction in the required fiscal year 2012-2013 biennial contributions as detailed above. Specifically, more than 95% of the reduction can be attributed to those changes. The changes also resulted in a significant reduction in the UAAL of the State/Teacher Plan. The UAAL at the start of fiscal year 2012 was approximately $1.77 billion less than it otherwise would have been had the plan design changes not been implemented. Of that reduction in the UAAL, approximately 95% can be attributed to the changes made to the cost-of-living provisions. See "Litigation" below.

The following table sets forth a projection of the contributions expected to be made by the State to pay both the normal cost and to amortize the UAAL of the State Employee and Teacher Retirement Program for the period from fiscal year 2012 through fiscal year 2028. The dollar amounts (expressed as millions) are shown both as future year dollars and current year dollars (discounted at a 3.5% rate). The amounts shown in the table below are based on the plan as in effect **after** the changes pursuant to 2011 Chapter 380 and the recent experience study changes, and include the results of the most recent actuarial valuation, as of June 30, 2012.

Projected Contributions

Fiscal Year	Normal Cost future dollars*	Normal Cost current dollars*	UAL Cost future dollars*	UAL Cost current dollars*	Total Cost future dollars*	Total Cost current dollars*
2012	$50	$50	$200	$200	$250	$250
2013	64	64	203	203	267	267
2014	66	64	243	235	310	299
2015	69	64	252	235	320	299
2016	71	64	281	253	352	317
2017	74	64	290	253	364	317
2018	76	64	316	266	393	331
2019	79	64	328	266	406	331
2020	82	64	342	269	423	333
2021	85	64	354	269	438	333
2022	88	64	361	265	449	329
2023	91	64	364	258	454	322
2024	94	64	369	253	463	317
2025	97	64	363	240	460	304
2026	100	64	354	226	454	290
2027	104	64	359	222	463	286
2028	108	64	368	220	476	284

*All costs in millions.

The amounts in the preceding paragraph are based on projections derived from current actuarial assumptions and other information now known to the State and the System. The actual amounts required to be contributed by the State in the future will likely differ from these amounts and, depending upon actual circumstances, such differences may be substantial. The actual contributions to be made by the State for any future fiscal year, including the amount required to amortize the then UAAL, will be based upon actual investment results and other factors as they occur in the future and the applicable actuarial valuation used to certify the contribution rates for such year and will reflect all actuarial assumptions and circumstances then in effect. The State cannot predict what the actual dollar amount of required contributions to the System will be for fiscal years beyond fiscal year 2015.

Group Life Insurance Program. MainePERS also administers a group life insurance program which is available to eligible participants. As of June 30, 2012, the program had an unfunded actuarial accrued liability (UAAL) of $107.5 million. The annual required contribution for fiscal year 2012 was $10.9 million and the annual contribution paid was $7.0 million, representing 64.3% of the annual required contribution. As the result of a group life insurance premium study in 2012, the actuary recommended an increase in premiums to be more consistent with actual and projected program costs. The Board of Trustees adopted increased rates, which will be implemented in fiscal year 2014. Differences between the annual required contribution and the actual premium may also be the result of the differences between projected and actual coverage amounts for the year.

Litigation. On February 13, 2012, a lawsuit was brought by the Maine Association of Retirees and four of its active members against the Board of Trustees of MainePERS in the United States District Court for the District of Maine. The court subsequently granted a motion to intervene filed by the Maine State Employee Association, the Maine Education Association and the Maine State Troopers Association. *Maine Association of Retirees, et al. v. Board of Trustees of the Maine Public Employees Retirement System, Docket No. 1:12-CV-00059-GZS.* The Plantiffs ask the District Court to declare that the 2011 cost-of-living adjustment ("COLA") statutes discussed above violate either or both the Contract Clause of and the Fifth Amendment to the Federal Constitution. In the event the court determines that the 2011 COLA statutes violated either provision, the Plaintiffs request that the court order the MainePERS Board "to make cost-of-living adjustments retroactively beginning in September 2011, and continuing thereafter, pursuant to the provisions of 5 M.R.S.A. § 17806(1)(A) as it provided prior to the enactment of the 2011 COLA amendments for members of the MainePERS System who were retired as of June 20, 2011." The Plantiffs also seek an award of costs and attorneys' fees pursuant to 42 U.S.C. § 1988. The System has filed a Motion to Dismiss and for Summary Judgment, which is scheduled for oral argument before United States District Judge George Singal on May 14, 2013. The final outcome of the lawsuit is impossible to predict as is the expected time frame for resolution. If the Plaintiffs prevail and the legislative changes related to COLA as discussed in "Recent Legislative Changes Affecting Benefits Levels" above are completely reversed by the court, following finding the COLA provisions of 2011 Chapter 380 violated one or more constitutional provisions, it is likely that approximately 95% of the reduction in the State's fiscal year 2012-2013 biennial contributions and the reduction of $1.77 billion in the UAAL would also be reversed.

The System is also involved in a small number of administrative appeals brought by members whose requests have been denied by the System. Most often, those cases are appeals from adverse decisions in connection with applications for disability retirement benefits. Less often, there are administrative appeals involving or relating to group life insurance matters or retirement eligibility matters. In each case, the relief requested by appellants is to have the System's determination in their case reversed and the sought-after benefit granted.

Post-Employment Health Care Benefits

GASB has promulgated its Statement 45 ("GASB 45") which requires the State, for fiscal years beginning on and after July 1, 2007, to account for retiree health care benefits and other post-employment benefits in a manner similar to that required for pension benefits. GASB 45 does not require that such benefits be funded in advance. If the State continues to pay such benefits as they come due, however, it is expected that annual cost and liability accruals will increase due to GASB 45.

The State funds post-employment health care benefits for most retired State employees and legislators and a portion of the health insurance premiums for retired teachers. The State pays 100 percent of post-employment health insurance premiums for eligible retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for eligible retirees with less than five years participation to 100 percent for eligible retirees with ten or more years of participation, is paid for eligible retirees first employed after July 1, 1991. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. An eligible retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded companion plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization, supplemental major medical and prescription drugs, and costs for treatment of mental health, alcoholism, and substance abuse. The State contribution to the health insurance premiums for retired teachers is currently 45 percent. County and municipal law enforcement officers and municipal firefighters began coverage in fiscal year 2008 with the State contributing 45 percent of the cost of their respective plans.

Title 5 MRSA §286-B authorizes an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants in the State Employee Plan who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or less from July 1, 2007. Public Law 2007 Chapter 240 amended Title 5 MRSA Chapter 421 by establishing the Irrevocable Trust for Other Post-employment Benefits. The Maine Public Employees Retirement System holds and invests long-term funds in the irrevocable trust fund. Its fiduciary responsibilities include setting investment policy in order to fund the plan in accordance with a projected disbursement schedule that does not begin before the year 2027. Public Law 2011, Chapter 380, Pt. Y §2 established separate Irrevocable Trust Funds for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants in the Teachers Plan and the First Responders Plan who are the beneficiaries of their irrevocable trust funds. Annually, beginning with the fiscal year starting July 1, 2011 for eligible first responders and July 1, 2013 for eligible teachers, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability in 30 years or less from July 1, 2007.

Contribution requirements are set forth in State law. The annual other post-employment benefit ("OPEB") cost (expense) for each plan is calculated based on the employer's ARC, which is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for fiscal year 2012 and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	Teachers	First Responders
Annual required contribution	$ 126,000	$ 55,000	$ 1,350
Interest on net OPEB obligation	2,000	6,000	114
Adjustment to annual required contribution	(5,000)	(12,000)	(210)
Annual OPEB cost	123,000	49,000	1,254
Contributions made	73,000	22,000	434
Increase (decrease) in net healthcare obligation	50,000	27,000	820
Net healthcare obligation beginning of year	42,228	146,956	2,838
Net healthcare obligation end of year	$ 92,228	$ 173,956	$ 3,658

As of June 30, 2012, there were 9,587 retired eligible State employees, 9,520 retired teachers, and 80 retired first responders. In fiscal year 2012, the State made contributions for other post-employment healthcare benefits of $73 million for retired employees and $22 million for retired teachers. The actuarial determined budgeted amounts for fiscal years 2013 and 2014 are $67 million each year for the State employee plan and $23 million and $24 million, respectively, for the teacher plan.

The funded status of the plans as of June 30, 2012 was as follows:

(Expressed in millions)

		(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Plan	Actuarial Valuation Date	Actuarial Valne of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
State Employees	June 30, 2012	136	1,316	1,180	10.33%	502	235.06%
	June 30, 2011	112	1,544	1,432	7.25%	567	252.56%
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%

Teachers	June 30, 2012	0	665	665	0.00%	1,156	57.53%
	June 30, 2011	0	801	801	0.00%	1,098	72.95%
	June 30, 2010	0	994	994	0.00%	1,064	93.42%
First Responders	June 30, 2011	0	22	22	0.00%	42	51.89%
	June 30, 2010	0	19	19	0.00%	54	35.60%
	June 30, 2009	0	20	20	0.00%	52	38.67%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedules of funding progress presented as required supplementary information in the State's audited financial statements (see Exhibit B herein) present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Employee Relations

As of April 29, 2013, the State had approximately 11,883 Executive Branch employees.

The State Employees Labor Relations Act allows State employees in the Executive Branch to engage in collective bargaining. As of April 29, 2013, approximately 10,663 employees were covered by the law. There are seven bargaining units within the Executive Branch. The Maine State Employees Association (MSEA-SEIU) is the bargaining agent for four bargaining units which include approximately 9,105 employees. The American Federation of State, County, and Municipal Employees (AFSCME) represents the employees in State institutions; the Maine State Law Enforcement Association (MSLEA) represents those in law enforcement activities excluding State Police; and the Maine State Troopers Association (MSTA) represents the State Police. The Commissioner of Administrative and Financial Services, acting through the Office of Employee Relations within the Bureau of Human Resources, is the Governor's designee for collective bargaining and is responsible for the negotiations and all other employee relations functions. The State remains in negotiations with the MSEA-SEIU for a successor to the agreement that expired June 30, 2011. The State is also engaged in negotiations with AFSCME, MSLEA, and the MSTA for successor agreements to the contracts that will expire June 30, 2013.

Collective bargaining has also been extended to employees of the Judicial Department, Legislative Branch, the University of Maine System, the Maine Community College System, the Maine Maritime Academy, and to employees of counties, municipalities and special districts, including public school teachers.

Interfund Transactions

Due to Other Funds are amounts owed by one State fund to another for goods sold or services rendered. Due from Other Funds are amounts to be received from one State fund by another for goods sold or services rendered. The following is a summary of amounts due from other funds and due to other funds as of June 30, 2012:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	General	Highway	Federal	Other Special Revenue	Other Governmental
General	$ -	$ -	$ 1,348	$ -	$ -
Highway	1	1	7,171	-	-
Federal	16	1	106	1,292	-
Other Special Revenue	119,924	85	143	140	19
Other Governmental	214	-	-	-	-
Employment Security	-	-	24	-	-
Non-Major Enterprise	143	124	1	2	-
Internal Service	8,592	2,969	3,632	3,249	-
Fiduciary	30,195	-	-	-	-
Total	$ 159,085	$ 3,180	$ 12,425	$ 4,683	$ 19

Due from Other Funds	Employment Security	Non-Major Enterprise	Internal Service	Fiduciary	Total
General	$ -	$ 4,989	$ 5,479	$ 2,647	$ 14,463
Highway	-	-	-	-	7,173
Federal	-	-	-	-	1,415
Other Special Revenue	-	9	30	-	120,350
Other Governmental	-	-	-	-	214
Employment Security	-	-	-	-	24
Non-Major Enterprise	-	-	-	-	270
Internal Service	-	241	777	8	19,468
Fiduciary	-	-	-	-	30,195
Total	$ -	$ 5,239	$ 6,286	$ 2,655	$ 193,572

Advances to or from other funds are for long-term loans made by one fund to another. Advances from the General Fund are for inventory of the Postal, Printing and Supply Fund. The following is a summary of interfund advances as of June 30, 2012:

Schedule of Advances to or from Other Funds
June 30, 2012

(Dollars in Thousands)

Fund Type	Working Capital Receivable	Working Capital Payable
General	$ 111	$ -
Other Special Revenue	-	-
Internal Service	-	111
Total All Funds	$ 111	$ 111

REVENUES OF THE STATE

General

In order to fund its programs and services, the State collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, reimbursements, interest earnings and transfers from non-budgetary sources. For additional information concerning revenues of the State, see Exhibits B and C.

General Fund revenue collections for the month of April 2013 were over budget by $63.9 million or 17.5%. Revenues for the ten month period ending April 2013 totaled $ 2,349.0 million and were over budget by $58.8 million or 2.57%. Compared to the same period last fiscal year, General Fund revenues are up $ 57.2 million or 15.4%. Individual Income Tax was over budget for the month by $58.4 million or 27.7% and was over budget year-to-date through April 2013 by $96.5 million or 8.5%. Sales and Service Provider Taxes, combined, were under budget for the month by $4.2 million or (-5.16%), and $22.7 million or (-2.8%) under budget year-to-date. Corporate Tax revenues were over budget for the month by $814 thousand or 3.0%, and $12.4 million or (-8.6%) under budget year-to-date. Estate Taxes were over budget by $617 thousand or 17.2% for the month and $2.9 million or (-6.8%) under budget for the year-to-date. Cigarette and Tobacco Taxes were $75 thousand or (-.7%) under budget for the month, and under budget by $118 thousand or (-.1%) for the year-to-date. Insurance Companies Tax was over budget by $1.0 million or 8.7% for the month and under budget by $ 496 thousand or (-1.19%) for the year-to-date. Fines, Forfeits and Penalties were $213 thousand or 12.5% over budget for the month, and $157 thousand or (-.79%) under budget for the year. Lottery income was over budget by $261 thousand or 6.5% for the month, and over budget by $75.2 thousand or .17% for the year. Transfers for Tax Relief were over budget by $257 thousand or 28.4% for the month, and $546 thousand or (-.50%) under budget for the year-to-date. Other Taxes and Fees were over budget by $4.3 million or 45.2% for the month, and were under budget by $771 thousand or (-.67%) for the year-to-date. "Other Revenues" were over budget for the month by $1.4 million or 12.5%, and over budget by $1.9 million or 7.9% for the year-to-date.

As previously described in this Information Statement, the Revenue Forecasting Committee in December 2010 increased the budgeted revenue for fiscal year 2011 by $111.6 million or 4.7%. The Legislature in February 2011 enacted 2011 Chapter 1 which decreased General Fund budgeted revenues by $1.5 million for fiscal year 2011. The Committee in April 2011 increased General Fund budgeted revenues by $12.1 million or 5.1% for fiscal year 2011. The following tables for fiscal years 2011, 2012 and 2013 reflect the updated budgeted revenue re-projections after the December 2008, the December 2010, the April 2011, the April 2012, the December 2012 and the May 2013 Revenue Forecasting Committee meetings and to reflect the impact of initiatives authorized in 2011 Chapter 567 and in 2013 Chapter 1. See "State Budgets" above.

CATEGORY	Fiscal year 2011 baseline budget December 2008 RFC	Fiscal year 2011 budget through 124th 2nd regular Session, June 2010 incl. Dec 2010 RFC revisions	Fiscal year 2011 budget revised by RFC in April 2011
Sales and Use Tax	$1,046,074,023	$904,850,262	$916,746,307
Service Provider Tax	57,814,486	57,814,486	55,214,486
Individual Income Tax	1,523,843,260	1,370,120,000	1,392,702,302
Corporate Income Tax	179,553,010	200,490,112	193,182,264
Cigarette and Tobacco Tax	147,435,703	146,209,555	146,209,555
Insurance Companies Tax	71,990,000	76,765,000	76,765,000
Estate Tax	3,083,156	42,978,079	45,052,787
Fines, Forfeits and Penalties	43,592,953	31,133,161	28,799,339
Income from Investments	43,581	27,332	245,127
Transfer from Lottery Commission	52,534,250	52,034,250	49,034,250
Transfers for Tax Relief Programs	(138,409,003)	(112,087,945)	(113,986,593)
Transfer to Municipal Revenue Sharing	(140,080,816)	(93,088,096)	(91,930,345)
Other Taxes and Fees	137,990,415	149,003,882	149,672,089
Other Revenues	30,811,517	59,224,977	48,357,956
Total Undedicated Revenues	**$3,016,276,535**	**$2,885,475,055**	**$2,896,064,524**

CATEGORY	Fiscal year 2012 baseline budget December 2008 RFC	Fiscal year 2012 budget revised by RFC in April 2012	Fiscal year 2012 budget through 125th 2nd regular Session
Sales and Use Tax	$1,085,745,854	$ 958,785,125	$ 973,220,397
Service Provider Tax	59,555,680	51,750,707	50,366,313
Individual Income Tax	1,579,083,000	1,444,897,209	1,444,897,209
Corporate Income Tax	182,393,700	196,761,231	218,610,460
Cigarette and Tobacco Tax	145,397,809	142,123,350	142,123,350
Insurance Companies Tax	71,990,000	76,215,000	79,215,000
Estate Tax	0	38,260,185	38,260,185
Fines, Forfeits and Penalties	43,592,953	25,024,504	25,754,504
Income from Investments	43,581	106,808	106,808
Transfer from Lottery Commission	52,534,250	50,700,000	50,700,000
Transfers for Tax Relief Programs	(140,560,977)	(114,068,263)	(114,418,263)
Transfer to Municipal Revenue Sharing	(145,470,604)	(95,047,787)	(96,854,740)
Other Taxes and Fees	140,408,915	131,792,552	132,077,778
Other Revenues	32,350,266	44,054,972	51,390,200
Total Undedicated Revenues	**$3,107,064,427**	**$2,951,355,593**	**$2,995,449,201**

CATEGORY	Fiscal year 2013 baseline budget December 2008 RFC	Fiscal year 2013 budget through the 126th 1st Regular	Fiscal year 2013 revised by the May 2013
Sales and Use Tax	$1,127,405,489	$1,006,986,404	$ 984,910,746
Service Provider Tax	61,840,807	53,586,812	48,739,710
Individual Income Tax	1,621,165,000	1,413,890,000	1,495,000,000
Corporate Income Tax	183,670,455	186,021,732	171,021,732
Cigarette and Tobacco Tax	143,392,221	138,180,000	138,180,000
Insurance Companies Tax	71,990,000	80,715,000	80,715,000
Estate Tax		64,878,175	70,230,328
Fines, Forfeits and Penalties	43,592,953	24,452,139	24,552,639
Income from Investments	43,581	66,082	83,883
Transfer from Lottery Commission	52,534,250	52,550,000	52,550,000
Transfer for Tax Relief Programs	(139,734,150)	(112,086,562)	(112,086,562)
Transfer to Municipal Revenue Sharing	(150,191,517)	(93,076,067)	(95,086,810)
Other Taxes and Fees	142,602,960	151,399,353	150,894,327
Other Revenues	31,693,401	40,219,187	41,600,064
Total Undedicated Revenues	**$3,190,005,450**	**$3,007,782,255**	**$3,051,305,057**

Certain State Taxes

Individual Income Tax. The State assesses individual income taxes at progressive rates from 2% to 8.5%, based on classifications or brackets of taxable income, depending upon filing status and after specified deductions and exemptions. Taxable income of resident individuals is derived from federal adjusted gross income. The dollar amounts of the tax rate tables are indexed for inflation. For tax year 2012, the maximum rate applies to Maine taxable income of $40,700 or greater for married persons filing joint returns ($20,350 for single individuals and married persons filing separate returns and $30,500 for individuals filing as heads of households). A resident individual is allowed $2,850 for each exemption to which the individual is entitled for the tax year for federal income tax purposes. For resident taxpayers not itemizing deductions, the standard deduction is the same as the federal standard deduction of the taxpayer, which is also indexed at the federal level. Nonresident Maine taxpayers are taxed in a similar fashion, but they are allowed a credit for their non-Maine sourced income. Starting with tax year 2013 the top marginal tax rate is reduced to 7.95% and the 2% rate reduced to 0%. The infra-marginal tax rates of 4.5% and 7% are combined into a single rate of 6.5%. The personal exemption is now equal to the federal personal exemption amount; $3,900 for tax year 2013.

Sales and Use Taxes. A sales tax is imposed on the value of all tangible personal property and taxable services sold at retail in the State. The rate of tax is 7% on the value of liquor sold in licensed establishments, 7% on the value of rental of living quarters in any hotel, rooming house, tourist or trailer camp, 10% on the value of rental for a period of less than one year of an automobile, 7% on the value of prepared food, and 5% on the value of all other tangible personal property and taxable services.

A use tax is imposed at the rates provided for sales taxes, on the storage, use or other consumption in the State of tangible personal property or a service, the sale of which would be subject to sales tax.

No sales or use tax is imposed on sales, storage or use of certain tangible personal property. Some of the major exemptions are grocery staples (which do not include liquor, and prepared food); prescription medicines; certain products used in agricultural and aqua cultural production; certain motor fuels; coal, oil, wood and all other fuels, except electricity, when bought for cooking and heating in residential units; the first 750 kilowatt hours of residential electricity per month; fuel oil or coal, the by-products from the burning of which become an ingredient or component part of tangible personal property for later sale; packaging materials; certain periodicals; sales to incorporated hospitals, licensed and incorporated non-profit nursing homes, licensed and incorporated non-profit boarding care facilities, medical research facilities, schools, regularly organized churches and similar institutions; water pollution and air pollution control facilities certified by the State Commissioner of Environmental Protection; and ninety-five percent (95%) of the sale price of all fuel and electricity purchased for use at a manufacturing facility.

Corporate Income Tax. An income tax is imposed upon the Maine net income of taxable corporations at progressive rates from 3.5% on Maine net income not over $25,000 to 8.93% on Maine net income in excess of $250,000. The tax computed using Maine net income is then apportioned to Maine. Maine net income is derived from taxable income of the taxpayer under the laws of the United States, adjusted by certain modifications, including additions for certain tax deductions, certain net operating losses and certain depreciation deductions, and subtractions for income exempt by law from taxation by the State, certain apportionable dividend income and certain net operating losses.

Certain Motor Fuel Taxes. An excise tax is imposed at the rate of $0.300 per gallon on internal combustion engine fuel (gasoline) sold or used within the State. An excise tax is imposed on all suppliers of special fuel sold and on all users of special fuel used in the State at the rate of $0.312 per gallon of distillate. Low-energy fuel such as liquefied natural gas, propane, methane and butane is taxed at a rate based on the energy content of each fuel as compared to gasoline. Special fuels include all combustible gases and liquids used in an internal combustion engine, except fuel subject to the gasoline tax. Since 2003, motor fuel tax rates have been subject to indexing annually. Indexing of motor fuel excise tax rates was repealed effective July 1, 2013.

Estate Tax. 2011 Chapter 380 reformed the estate tax with respect to decedents dying after December 31, 2012. The exclusion amount increases from $1,000,000 to $2,000,000. Also beginning in 2013, a progressive rate structure applies: 8% on estate value of more than $2,000,000 but less than or equal to $5,000,000; 10% on estate value of more than $5,000,000 but less than or equal to $8,000,000; 12% on estate value of more than $8,000,000.

Pursuant to the Constitution of the State, all revenues derived from fees, excises and license taxes relating to registration, operation and use of vehicles on public highways, and to fuels used for propulsion of such vehicles shall be expended solely for the cost of administration, state enforcement of traffic laws, statutory refunds and adjustments, and the cost of construction, reconstruction, maintenance and repair of public highways and bridges and for the payment of interest and principal on bonds issued for, and the payment of obligations incurred in, the construction and reconstruction of highways and bridges. Such funds may not be diverted for any other purpose.

Tax Reform Proposal. A bipartisan group of legislators has proposed LD 1496, "An Act to Modernize and Simplify the Tax Code," a tax reform bill that proposes to increase consumption taxes by: (1) eliminating most sales tax exemptions and exclusions, (2) raising the general sales tax by 1 percentage point (more for lodging and auto rentals), and (3) increasing excise taxes on liquor, cigarette and tobacco products. The individual income tax rates and brackets would be eliminated and replaced with a flat 4% tax on Maine Adjusted Gross Income. Current deductions and exemptions would be eliminated and replaced with two refundable credits that offset the impact of the expanded consumption taxes on low and middle income households and property taxes on homestead property. The bill further proposes to eliminate the estate tax, increase the current $10,000 Homestead Exemption to $50,000, retain some municipal revenue-sharing, and lower the corporate income tax rate to 7.5%. A public hearing was held on May 10, 2013 to discuss the proposal, but the bill has not been acted upon by the Legislature.

Tobacco Master Settlement Agreement

The State entered into the tobacco master settlement agreement (the "Settlement Agreement") on November 23, 1998 with certain tobacco manufacturers to settle a suit the State brought against those tobacco manufacturers. The State is one of forty-six states and five U.S. territories (the "Settling States") that executed the Settlement Agreement with the manufacturers. The lawsuit included a variety of claims, including claims to recover smoking related Medicaid costs (the "Claims"). Pursuant to the Settlement Agreement, the manufacturers who have joined the Settlement Agreement ("Participating Manufacturers") have agreed to make certain annual payments that are allocated among all the Settling States.

Certain initial and annual payments by the Participating Manufacturers that were allocated to the State pursuant to the Settlement Agreement commenced December 1999. The initial payments ended in 2003 and the annual payments are expected to continue in perpetuity.

The State expects to expend the annual payments received from the Participating Manufacturers for smoking prevention, cessation and control activities, prenatal and young children's care, child care for children up to 15 years of age, health care for children and adults, prescription drugs for adults who are elderly or disabled, dental and oral health care to low-income persons who lack adequate dental coverage, substance abuse prevention and treatment and comprehensive school health programs, pursuant to 22 MRSA §1511(6).

In addition, certain payments (the "Strategic Contribution Payments") to be made by the Participating Manufacturers and allocated among certain Settling States in recognition of strategic contributions made by specific Settling States, including Maine, to the negotiation of the Settlement Agreement were established pursuant to the Settlement Agreement. The Strategic Contribution Payments began in 2008 and will be made annually ending in 2017.

Annual payments received by the State pursuant to the Settlement Agreement have ranged from approximately $63,000,000 in fiscal year 2000 to approximately $46,000,000 in fiscal year 2005. The State received $50,986,668 in fiscal year 2013 pursuant to the Settlement Agreement.

Pursuant to the Settlement Agreement, Participating Manufacturers may dispute annual payment amounts. Participating Manufacturers have disputed certain amounts of each year's payment since 2003. The predominant dispute, though not the only dispute, is that certain Participating Manufacturers have claimed that they are entitled to a downward adjustment in the amount they owe because of loss of market share to non-participating manufacturers. If the Participating Manufacturers prevail on this claim against the State, the amount the State is entitled to for each disputed year would decrease. The State is pursuing arbitration, pursuant to the Settlement Agreement, to obtain a determination that it diligently enforced its "qualifying statute," in keeping with the terms of the Settlement Agreement, and that accordingly Maine is entitled to the full amount of its annual payment without a reduction for the market share loss to non-participating manufacturers. Other Settling States are pursuing similar arbitration seeking a determination of the amount to which they are entitled for previous years' tobacco settlement payments to their states.

State Investment Pool

As described above under the heading "Governmental Organization – Executive Branch – Treasurer of State," when there is money in the State Treasury that is not needed to meet current obligations, the Treasurer of State may, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and with the consent of the Governor, invest those amounts in certain instruments authorized by State law. The Treasurer of State maintains the records of the investments of the State through the State investment pool. The average daily balance of the State investment pool was $529,048,977 in fiscal year 2012. The balance of the State investment pool as of April 30, 2013 was approximately $607,000,000.

Collateralized bank accounts, repurchase agreements and certificates of deposit collateralized by U.S. Treasuries and Agencies and direct holdings in U.S. Treasuries make up the cash pool portfolio. On April 30, 2013, the weighted average final maturity of the pool was 219 days.

CERTAIN PUBLIC INSTRUMENTALITIES

Maine Governmental Facilities Authority

The Maine Governmental Facilities Authority ("MGFA") is authorized to assist in financing the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, structures designed for use as court facilities or state offices and the acquisition, construction, improvement, reconstruction or repair of equipment or other personal property, all of which are rented to agencies of the State. MGFA was created in 1987 and was known as the Maine Court Facilities Authority until 1997 when its name was changed and its purposes were broadened. Under current statutory limits, the MGFA may not issue securities in excess of $325,485,000 outstanding at any one time except for the issuance of revenue refunding securities authorized by the Act and provided that no less than $136,000,000 shall be allocated to court facilities and provided further that no less than $85,000,000 shall be allocated to correctional facilities, no less than $33,000,000 shall be allocated to a psychiatric facility in Augusta, and no less than $33,485,000 shall be allocated to capital repairs and improvements at various state facilities. No securities may be issued without the prior approval of the Legislature. Neither the full faith and credit nor the taxing power of the State or of any political subdivision of the State is pledged to the payment of the principal of, redemption premium, if any, or interest on MGFA's bonds. MGFA has no taxing power. As of March 31, 2013, the aggregate principal amount of MGFA's bonds outstanding was $169,620,000. The State has agreed, subject to appropriation, to make rental payments to be applied to payment of MGFA's bonds. Debt service on MGFA's bonds for the State fiscal year ending June 30, 2013 is $25,966,775.

Finance Authority of Maine

The Finance Authority of Maine ("FAME") was created in 1983 to undertake various economic development finance programs and to assume the responsibilities of several smaller state authorities. FAME is currently authorized to insure repayment of commercial loans and to require the State to fund its insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations and bonds of the State issued to fund insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of $90,000,000 plus an additional $4,000,000 with respect to loans for eligible veterans. As of March 31, 2013, amounts outstanding pursuant to these authorizations were $66,558,000 and $730,000 respectively. See "Fiscal Management - Constitutional Debt Limit" herein. Since the creation of FAME in 1983, the Treasurer of State has not been asked to issue bonds of the State to pay off defaulted loans insured by FAME pursuant to these authorizations.

In 1990, FAME was authorized to provide certain student financial assistance services, including continuation of a student loan insurance program meeting certain federal requirements in order to secure loans to students attending institutions of higher education. Pursuant to this authorization, FAME has entered into agreements with the United States Secretary of Education relating to federal, state and private programs of low-interest insured loans to students in institutions of higher education. The Constitution allows the Legislature to authorize the issuance of bonds in the amount of up to $4,000,000 to secure funds for loans to Maine students attending institutions of higher education. As of March 31, 2013, the student loan insurance obligations of FAME were $629,494,000. See "Fiscal Management - Constitutional Debt Limit" herein. Since 1977, the Treasurer of State has not been asked to issue bonds of the State to pay off defaulted loans insured pursuant to the bond issuance authorization set forth in the Constitution.

In addition, FAME may issue bonds and other obligations which shall not be a debt or liability of any municipality, the State or any political subdivision thereof. The statutes governing FAME include Capital Reserve Provisions. As of March 31, 2013, the aggregate principal amount outstanding of FAME's obligations undertaken pursuant to its Capital Reserve Provisions was $12,405,000 for waste motor oil disposal site remediation projects and $23,873,000 for other projects. The State has not been asked to restore FAME's Capital Reserve since the inception of its Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

Maine State Housing Authority

The Maine State Housing Authority ("MSHA") was created in 1969 to undertake various programs related to housing. The bonds and other obligations of MSHA shall not be a debt of any municipality, the State or any political subdivision thereof and neither the State nor any municipality nor any political subdivision thereof shall be liable thereon. As of March 31, 2013, MSHA had $1,291,480,000 of housing bonds outstanding which require a capital reserve. The statutes governing MSHA include Capital Reserve Provisions. The State has not been asked to restore MSHA's Capital Reserves since the inception of its Capital Reserve Provisions. See "Governmental Organization - Independent Authorities and Agencies" herein. MSHA also has $46,890,000 of Maine Energy, Housing and Economic Recovery Bonds for a grand total of $1,338,370,000 outstanding.

MHSA is also authorized to insure repayment of mortgage loans on Indian housing and to require the State to fund these insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of $1,000,000. As of March 31, 2013, MSHA's Indian housing mortgage insurance obligations were approximately $396,000. See "Fiscal Management – Constitutional Debt Limit" herein.

Maine Municipal Bond Bank

The Maine Municipal Bond Bank ("MMBB") was created in 1972 to lend money to counties, cities, towns, school administrative districts, community school districts, and quasi-municipal corporations to finance certain capital expenditures (the "Original Program"). Bonds and notes issued by the MMBB shall not be in any way a debt or liability of the State and shall not create any debt or debts, liability or liabilities, on behalf of the State or be or constitute a pledge of the full faith and credit of the State. As of March 31, 2013, the aggregate principal amount of the MMBB's bonds outstanding was $1,437,856,142 of which (a) $31,785,000 is attributable to loans to certain municipalities to assist in financing certain wastewater and drinking water treatment facilities pursuant to a revolving loan fund program, (b) $94,825,000 is attributable to certain grant anticipation bonds payable solely from annual federal highway grants to the State, (c) $208,925,000 is attributable to certain transportation revenue bonds payable solely from certain State revenues, (d) $31,696,142 is for Qualified School Construction Bonds and (e) substantially all of the balance is attributable to the Original Program. The statutes governing the MMBB include Capital Reserve Provisions. The State has not been asked to restore the MMBB's Capital Reserves since the inception of its Capital Reserve Provisions. See "Governmental Organization – Independent Authorities and Agencies" herein.

Maine Health and Higher Educational Facilities Authority

The Maine Health and Higher Educational Facilities Authority ("MHHEFA") was created in 1971 to provide the means to expand, enlarge and establish health care, hospital, nursing home and other related facilities and to assist institutions of higher education in the State to provide facilities and structures. Bonds and notes issued by MHHEFA do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or any political subdivision thereof other than MHHEFA or a loan of credit of the State or a pledge of the faith and credit of the State or of any political subdivision other than MHHEFA. As of March 31, 2013, the aggregate principal amount of MHHEFA's bonds outstanding was $1,204,205,000. The statutes governing MHHEFA include a Capital Reserve Provision. The State has not been asked to restore MHHEFA's Capital Reserve since the inception of its Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

Maine Educational Loan Authority

The Maine Educational Loan Authority ("MELA") was established in 1988 to carry out programs making financial and other assistance available to students and their parents to finance costs of attendance at institutions of higher education. Bonds of MELA do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or of any political subdivision of the State, other than MELA, or a loan of the credit of the State or a pledge of the faith and credit of the State or of any political subdivision, other than MELA. As of March 31, 2013, the aggregate principal amount of MELA's bonds outstanding was $146,450,000. The statutes governing MELA include a Capital Reserve Provision. The State has not been asked to restore MELA's Capital Reserve since the inception of its Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

Loring Development Authority

Loring Development Authority ("LDA") was established in 1993 to acquire and manage the former Loring Air Force Base in northern Maine. Bonds of LDA are payable solely from the income, proceeds, revenues and funds of LDA and do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. As of March 31, 2013, LDA had not issued any bonds. The statutes governing LDA include a Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

University of Maine System

The University of Maine System (the "University System") includes the University of Maine, established in 1865, and all other public institutions of higher education in Maine, except the Maine Maritime Academy and the seven colleges of the Maine Community College System. Money borrowed by the University System and evidences of indebtedness issued by the University System do not constitute any debt or liability of the State or of any municipality or political subdivision of the State, but shall be payable solely from the revenues of the University System or any project for which they are issued. As of March 31, 2013, the aggregate principal amount of the University System's bonds outstanding was $176,010,000.

Maine Turnpike Authority

The Maine Turnpike Authority ("MTA") was created in 1941 and has constructed and operates and maintains a turnpike approximately 109 miles long between York and Augusta. Bonds issued by MTA shall not be deemed to be a debt of the State, but such bonds shall be payable exclusively from tolls. The bonds shall not directly or indirectly or contingently obligate the State to levy or pledge any form of taxation whatever therefor or to make any appropriation for the payment thereof. As of March 31, 2013, the aggregate principal amount of MTA's bonds outstanding was $438,695,000.

Maine Public Utility Financing Bank

The Maine Public Utility Financing Bank ("MPUFB") was created in 1981 to lend money to public utilities in the State. Bonds and notes issued by MPUFB do not constitute a debt or liability of the State or of any municipality therein or any political subdivision thereof, or a pledge of the faith and credit of the State or of any such municipality or political subdivision. As of March 31, 2013, the aggregate principal amount of MPUFB's bonds outstanding was $22,600,000.

Maine Port Authority

The Maine Port Authority ("MPA") was established in 1945 and is authorized to acquire, construct and operate any kind of port terminal facility within the State and to acquire and construct any railroad facility within the State. Bonds of MPA do not constitute a debt of the State, or of any agency or political subdivision thereof, but are payable solely from the revenues of MPA, and neither the faith nor credit nor taxing power of the State, or any political subdivision thereof, is pledged to the payment of MPA's bonds. As of March 31, 2013, there were no outstanding bonds of MPA.

LITIGATION

The State is a party to numerous lawsuits. Such lawsuits include actions to recover monetary damages from the State, disputes over individual or corporate income taxes, disputes over sales or use taxes, and actions to alter the regulations or administrative practices of the State in such manner as to cause additional costs to the State. The State is not aware of any pending or threatened litigation or claim against the State, the outcome of which will have a material adverse effect on the financial condition of the State. The matters set forth under the heading "Primary Government – Litigation" in Note 15 Commitments and Contingencies to the Financial Statements attached as Exhibit B hereto should be noted.

The Maine Association of Retirees, now joined by the Maine State Employees Association, the Maine Education Association and the Maine State Troopers Association, sued the Board of Trustees of the Maine Public Employees Retirement System in federal court challenging the constitutionality of legislation that changes the cost of living adjustments ("COLA") for retirees. The Plaintiffs seek to have that portion of the legislation that reduces the COLA, determined null and void. No damages are sought, but attorney fees and costs are requested. If the Plaintiffs prevail on all counts, the State will have to make provision to retroactively reinstate COLA payments to the prior level. Such provision may have an impact on the System's unfunded actuarial liability. To avoid an appearance of conflict, the Office of the Attorney General has contracted outside counsel to defend the Board. Current federal case law is such that predicting the outcome of this case cannot be done with any degree of accuracy. More details regarding the challenged legislation and the pending lawsuit can be found at in the section "Recent Legislative Changes Affecting Benefits Levels".

In fiscal year 2011, the Legislature enacted certain changes to the State's retirement plan and related benefits. One of the changes requires State employees who retire prior to their normal retirement age to pay 100% of their retiree health insurance premiums until they reach normal retirement age. A claimant has alleged that the requirement to pay 100% of the retiree health insurance premium discriminates on the basis of age. The claim is in the early stages of administrative process and limited facts are available. If a court were to conclude that the statute is discriminatory, the State may have to reestablish funding for early retiree health insurance premiums in its budget. It is uncertain whether this claim may affect other possible claimants or benefits. Accordingly, the probability and extent of the budgetary impact, if any, are unknown.

In IMS Health v. Schneider, plaintiffs have prevailed on the merits in a lawsuit that challenged the constitutionality of a Maine statute. Plaintiffs now seek $1.2 million in attorney fees. The probability is high that the federal court will award some attorney fees, but it is low that those fees will be over $1 million.

There is pending arbitration regarding the "diligent enforcement" of the 1998 Tobacco Settlement Agreement, by which 46 states and territories settled their claims against major tobacco companies in return for annual payments of funds in perpetuity. This matter does not contemplate a "liability" of the State, but it may result in substantial loss of revenue. The Agreement required the states to "diligently enforce" certain tobacco laws against tobacco companies that did not enter into the Agreement. If the states or some of them did not "diligently enforce" those laws, the settling tobacco companies could seek to decrease the amounts they paid through binding arbitration. The settling companies have filed such an arbitration for the year 2003, and they are contesting Maine's efforts. If Maine loses the arbitration, the future payments to Maine would be diminished by as much as $48.4 million (the amount Maine received in 2003). As this matter is extraordinarily novel and without precedent, it is not possible to gauge the probability of success. The earliest any decision would issue is June 2013. For more details regarding the Settlement Agreement and this dispute, see the section "Tobacco Master Settlement Agreement".

Another matter may result in reduction of future payments to Maine. The dispute involves whether Maine, as part of its Temporary Assistance for Needy Families Program (TANF), met its two-parent work participation rate for the federal fiscal year 2007. The U.S. Department of Health and Human Services has assessed a penalty against Maine of just over $1 million. That penalty is now in abeyance pending the State's execution of a corrective action plan, which may result in abatement of the penalty. It is unclear whether Maine will realize this loss, which will result in that amount being deducted from future federal payments for the TANF program in Maine.

The U. S. Department of Agriculture, Food and Nutrition Service ("FNS") is seeking to recoup overpayments by the Maine Department of Health and Human Services ("DHHS") to recipients of food supplement benefits in the amount of $2.8 million. FNS has asserted that DHHS may not recoup these overpayments from recipients. The matter is presently before an administrative hearing officer within the Department of Agriculture. The State will contest the recoupment and may appeal to U. S. District Court in the event of an adverse ruling by the hearing officer.

In John F. Murphy Homes, Inc. v. Office of Attorney General, a provider of Maine Care services is claiming that the State failed to pay it $7.5 million for services it provided between 2001 and 2011. It also claims that the State has improperly received $15.7 million in federal payments for these services. This litigation is at its earliest stages and, therefore, its outcome is uncertain at this time.

[THIS PAGE INTENTIONALLY LEFT BLANK]

STATE OF MAINE

EXHIBIT B

Selected Financial Information
Pertaining to the State of Maine
for Fiscal Years 2008 through 2012

INDEX TO FINANCIAL INFORMATION

Section I - General Purpose Financial Statements of the State of Maine for the Year Ended June 30, 2012 **Page**

INDEX TO FINANCIAL INFORMATION

Section II - Certain Information from the State Controller's Budgetary and Legal Requirements Reports for Fiscal Years 2008 through 2012 (Unaudited) **Page**

No representation is made hereby that the information set forth in Section II of Exhibit B has been prepared in full conformity with generally accepted accounting principles.

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR

MARY GINGROW-SHAW, CPA
SINGLE AUDIT COORDINATOR

MICHAEL J. POULIN, CIA
DIRECTOR OF AUDIT and ADMINISTRATION

INDEPENDENT AUDITOR'S REPORT

To the President of the Senate and the
Speaker of the House of Representatives

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, ConnectME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and University of Maine System. We also did not audit the financial statements of the NextGen College Investing Plan. These financial statements reflect the following percentages of total assets and net assets or fund balance of the indicated opinion unit:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Net Assets/Fund Balance
Aggregate Discretely Presented Component Units	100%	100%
Aggregate Remaining Fund Information	94%	96%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinions, insofar as they relate to the amounts included for these entities, are based on the reports of the other auditors.

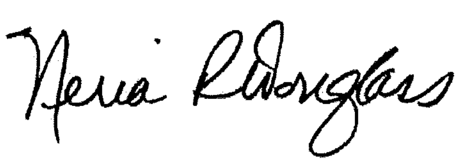
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards*. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2012, and the respective 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.

In accordance with *Government Auditing Standards*, a report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters will be issued under separate cover. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 15, and budgetary comparison schedules and related notes, State Retirement Plan and Other Post-Employment Benefits Plans, Information About Infrastructure Assets Reported Using the Modified Approach, included on pages 108 through 119 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine's basic financial statements. The introductory section, the supplementary information – combining statements and individual fund statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information - combining statements and individual fund statements and schedules on pages 122 through 175 has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section on pages ii through xiii and the statistical section on pages 179 through 211 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.



Neria R. Douglass, JD, CIA
State Auditor
December 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of Maine's annual financial report presents the State's discussion and analysis of financial performance during the year ended June 30, 2012. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net assets increased by 1.8 percent from the previous fiscal year. Net assets of Governmental Activities increased by $74.3 million, while net assets of Business-type Activities increased by $9.1 million. The State's assets exceeded its liabilities by $4.7 billion at the close of fiscal year 2012. Component units reported net assets of $2.7 billion, an increase of $254.6 million (10.3 percent) from the previous year.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $244.4 million, a decrease of $80.1 million from the previous year. The General Fund's total fund balance was a negative $349.9 million, a decline of $113.6 million from the previous year. The Highway Fund total fund balance was $36.1 million, an improvement of $4.3 million from the prior year.

- The proprietary funds reported net assets at year end of $632.3 million, a decrease of $2.3 million from the previous year. This decrease is due to several factors: an increase in the Alcoholic Beverages Fund of $12.5 million, an increase in the Statewide Radio & Network Systems Fund of $5.7 million, offset by a decrease in the Retiree Health Insurance Fund of $6.1 million and a decrease in the Transportation Facilities Fund of $7.4 million.

Long-term Debt:

- The State's liability for general obligation bonds decreased by $48.1 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $49.3 million in bonds and made principal payments of $97.4 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 7.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State of Maine's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Change in Accounting Principles

Governmental Accounting Standards Board (GASB) Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs became effective for the State for the year ended June 30, 2012 when the State acquired and became responsible for the closure and postclosure monitoring costs of the Dolby Landfills. This Statement established accounting and financial reporting for municipal solid waste landfill (MSWLF) closure and postclosure care costs. The fiscal year 2011 Condensed Statement of Net Assets has been restated to reflect related changes for comparison purposes.

Government-wide Statements

The government-wide statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets are an indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both government-wide statements report three activities:

Governmental activities - Most basic services, such as health & human services, education, governmental support & operations, justice & protection, and transportation are included in this category. The Legislature, Judiciary and the general operations of the Executive departments fall within the Governmental Activities. Income taxes, sales and use taxes, and State and federal grants finance most of these activities.

Business-type activities - The State charges fees to customers to help cover all or most of the costs of certain services it provides. Operating costs not covered by customer fees are subsidized by the General Fund. Lottery tickets, transportation services, and the State's unemployment compensation services are examples of business-type activities.

Component units - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" two component units, the Maine Governmental Facilities Authority (MGFA) and Child Development Services (CDS) with Governmental Activities as described above. Maine reports 18 other component units (7 major and 11 non-major) as discretely presented component units of the State, and one component unit is reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

Government-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting. The following summarizes the impact of the transition from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements but are included on government-wide statements

- Certain tax revenues that are earned, but not available, are reported as revenues in the Governmental Activities, but are reported as deferred revenue on the governmental fund statements

- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements

- Internal service funds are reported as Governmental Activities, but reported as proprietary funds in the fund financial statements

- Governmental fund long-term liabilities, such as certificates of participation, pension obligations, compensated absences, bonds and notes payable, and others appear as liabilities only in the government-wide statements

- Capital outlay spending results in capital assets on the government-wide statements, but is recorded as expenditures on the governmental fund statements

- Proceeds from bonds, notes and other long-term financing arrangements result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements

- Net asset balances are allocated as follows:

  Net Assets Invested in Capital Assets, Net of Related Debt; are capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction or improvement of those assets.

  Restricted Net Assets are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation; and

  Unrestricted Net Assets are net assets that do not meet any of the above restrictions.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds. Funds are fiscal and accounting entities with self-balancing sets of accounts that the State uses to keep track of specific revenue sources and spending for particular purposes. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different measurement focuses and bases of accounting.

Governmental funds: Most of the basic services are included in governmental funds, which generally focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the State. The governmental fund statements focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. These funds are reported using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Because this information does not encompass the additional long-term focus of the government-wide statements, a separate reconciliation provides additional information that explains the relationship (or differences) between them. The governmental funds consist of the General Fund, special revenue, capital projects, and permanent funds.

Proprietary funds: When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) apply the accrual basis of accounting utilized by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services to the State's other programs and activities – such as the State's Postal, Printing & Supply Fund. Internal service funds are reported as Governmental Activities on the government-wide statements.

Fiduciary funds: The State is the trustee or fiduciary for assets that belong to others. The State is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These funds include pension and other employee benefit trusts administered by the Maine Public Employees Retirement System, a component unit, private-purpose trusts, and agency funds. Fiduciary funds are reported using the accrual basis of accounting. The State excludes these activities from the government-wide financial statements because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the government-wide and fund financial statements.

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the General Fund and major special revenue funds. Also included are notes and a reconciliation of fund balance from the budgetary basis to fund balance determined according to generally accepted accounting principles. This section also includes schedules of funding progress for certain pension and other post-employment benefit trust funds and condition and maintenance data regarding certain portions of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements. Budgetary comparison schedules by agency are also included for the general fund, the highway fund, federal funds, and other special revenue fund.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by 1.8 percent to $4.7 billion at June 30, 2012, as detailed in Tables A-1 and A-2.

Table A- 1: Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other noncurrent assets	$ 1,911,603	$ 1,911,307	$ 350,609	$ 353,854	$ 2,262,212	$ 2,265,161
Capital assets	5,085,498	4,862,331	152,763	146,357	5,238,261	5,008,688
Total Assets	6,997,101	6,773,638	503,372	500,211	7,500,473	7,273,849
Current liabilities	1,424,285	1,307,641	37,185	32,967	1,461,470	1,340,608
Long-term liabilities	1,281,137	1,248,658	17,117	27,223	1,298,254	1,275,881
Total Liabilities	2,705,422	2,556,299	54,302	60,190	2,759,724	2,616,489
Net assets (deficit):						
Invested in capital assets, net of related debt	4,408,377	4,165,760 *	152,763	146,357	4,561,140	4,312,117 *
Restricted	534,806	496,261 *	295,632	300,287	830,438	796,548 *
Unrestricted (deficit)	(651,504)	(444,682) *	675	(6,623)	(650,829)	(451,305) *
Total Net Assets	$ 4,291,679	$4,217,339	$ 449,070	$ 440,021	$ 4,740,749	$4,657,360

* As Restated

Changes in Net Assets

The State's fiscal year 2012 revenues totaled $7.8 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 44.5 percent and 40.6 percent, respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $7.7 billion for the year 2012. (See Table A-2) These expenses are predominantly (69.5 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 5.9 percent of total costs. Total net assets increased by $83.4 million.

Table A-2 - Changes in Net Assets
(Expressed in Thousands)

	Governmental Activities 2012	Governmental Activities 2011		Business-type Activities 2012	Business-type Activities 2011	Total Primary Government 2012	Total Primary Government 2011	
Revenues								
Program Revenues:								
Charges for Services	$ 488,832	$ 490,069	*	$ 540,924	$ 535,349	$ 1,029,756	$ 1,025,418	*
Operating Grants/Contributions	3,160,241	3,389,193	*	7,823	11,253	3,168,064	3,400,446	*
General Revenues:								
Taxes	3,472,588	3,435,859		-	-	3,472,588	3,435,859	
Other	130,091	172,641	*	-	-	130,091	172,641	*
Total Revenues	7,251,752	7,487,762		548,747	546,602	7,800,499	8,034,364	
Expenses								
Governmental Activities:								
Governmental Support	456,622	448,917				456,622	448,917	
Education	1,610,095	1,741,685	*			1,610,095	1,741,685	*
Health & Human Services	3,750,402	3,522,341				3,750,402	3,522,341	
Justice & Protection	401,740	415,450				401,740	415,450	
Transportation Safety	376,689	371,374				376,689	371,374	
Other	591,281	659,947				591,281	659,947	
Interest	45,551	43,202				45,551	43,202	
Business-Type Activities:								
Employment Security				187,703	203,693	187,703	203,693	
Lottery				176,837	167,956	176,837	167,956	
Military Equip. Maint.				35,058	44,765	35,058	44,765	
Dirigo Health				56,702	47,980	56,702	47,980	
Other				28,430	31,390	28,430	31,390	
Total Expenses	7,232,380	7,202,916		484,730	495,784	7,717,110	7,698,700	
Excess (Deficiency) before Special Items and Transfers	19,372	284,846		64,017	50,818	83,389	335,664	
Special Items	-	(36,931)		-	(7,086)	-	(44,017)	
Transfers	54,968	(13,016)		(54,968)	13,016	-	-	
Increase (Decrease) in Net Assets	74,340	234,899		9,049	56,748	83,389	291,647	
Net Assets, beginning of year	4,217,339	3,982,440	*	440,021	383,273	4,657,360	4,365,713	*
Ending Net Assets	$ 4,291,679	$ 4,217,339		$ 449,070	$ 440,021	$ 4,740,749	$ 4,657,360	

*as restated

Governmental Activities

Revenues for the State's Governmental Activities totaled $7.3 billion while total expenses equaled $7.2 billion. The increase in net assets for Governmental Activities was $74.3 million in 2012, resulting mainly from transfers from the State's Business-type activities discussed below. Additionally, program revenues were insufficient to cover program expenses. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes. Tax revenue increased by $36.7 million from the prior year; however, net expenses supported by tax revenue increased by approximately $260.2 million. Furthermore, the State's Business-type Activities transferred $65.0 million (net) to the Governmental Activities, which included statutorily required profit transfers. However, offsetting these profit transfers were contributions totaling $10.0 million from the Governmental Activities to purchase capital assets that are recorded in the Business-type activities.

The users of the State's programs financed $488.8 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $3.2 billion. $3.6 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

Table A-3: Total Sources of Revenues for Governmental Activities for Fiscal Year 2012

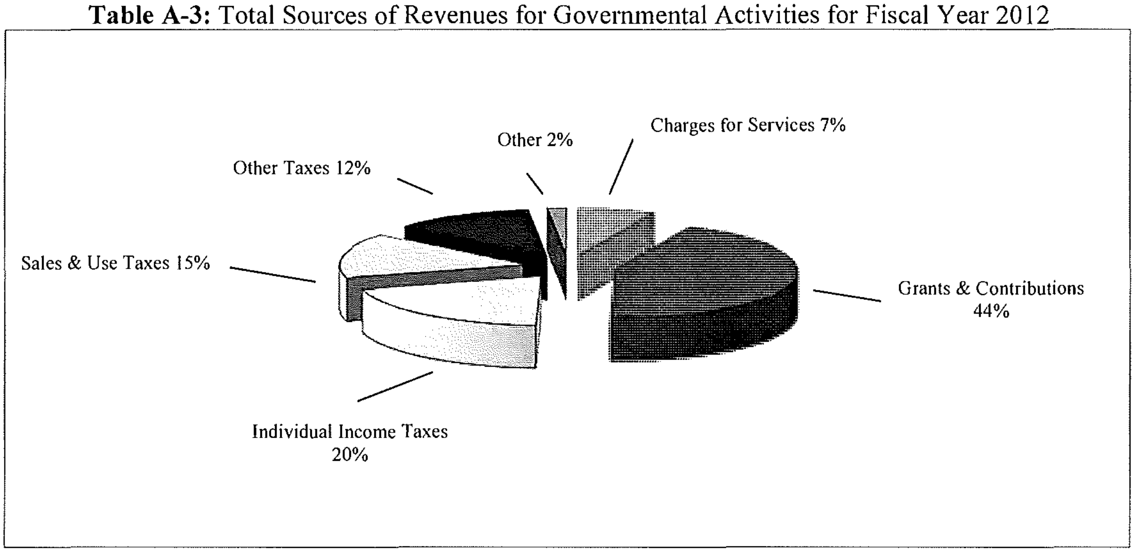
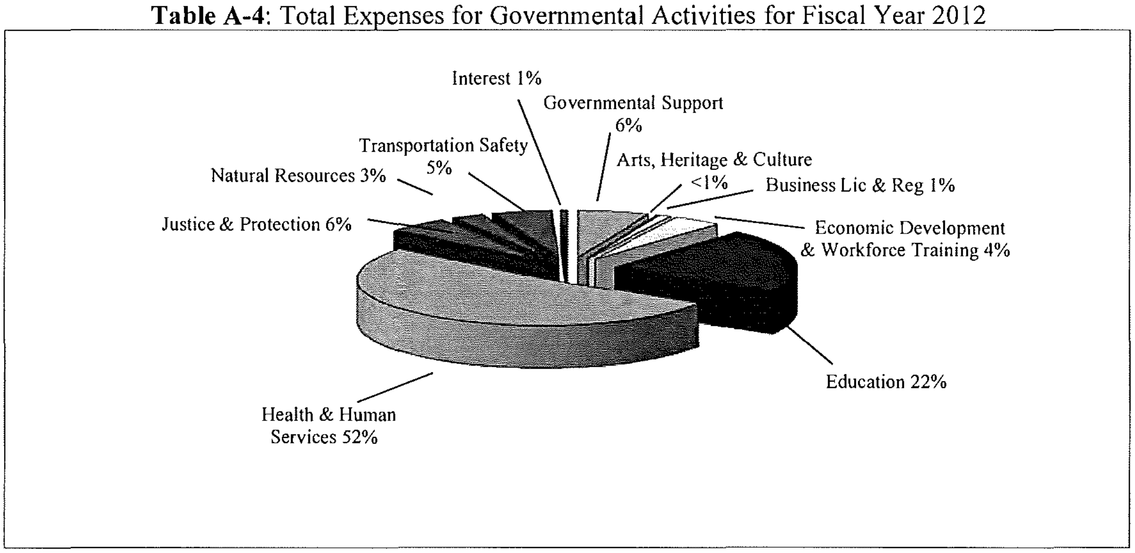


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2012



Business-type Activities

Revenues for the State's Business-type Activities totaled $548.7 million while expenses totaled $484.7 million. The increase in net assets for Business-type Activities was $9.1 million in 2012, due mainly to the deferred recognition of proceeds resulting from the sale of the State's liquor operations.

Table A-5 presents the cost of State Business-type Activities: employment security, alcoholic beverages, lottery, military equipment maintenance, Dirigo Health and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the State's taxpayers by each of these functions.

Table A-5: Net Cost of Business-Type Activities
(Expressed in Thousands)

Category	Total Cost 2012	Total Cost 2011	Net (Cost) Revenue 2012	Net (Cost) Revenue 2011
Employment Security	$ 187,703	$ 203,693	$ (3,235)	$ (19,024)
Alcoholic Beverages	-	-	12,532	12,533
Lottery	176,837	167,956	54,178	50,125
Military Equip. Maint.	35,058	44,765	46	(2,292)
Dirigo Health	56,702	47,980	13,594	23,416
Other	28,430	31,390	(13,098)	(13,940)
Total	$ 484,730	$ 495,784	$ 64,017	$ 50,818

The cost of all Business-type Activities this year was $484.7 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $64.0 million, with the Lottery making up $54.2 million of the total. The State's Business-type Activities transferred $65.0 million (net) to the Governmental Activities, which included statutorily required profit transfers. Additionally, the Governmental Activities contributed $10.0 million to purchase capital assets that are recorded in the Business-type activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

Table A-6: Governmental Fund Balances
(Expressed in Thousands)

Fund	2012	2011		Change
General	$ (349,935)	$ (236,369)		$ (113,566)
Highway	36,109	31,792		4,317
Federal	15,128	24,419		(9,291)
Other Special Revenue	443,250	399,792		43,458
Other Governmental	99,840	104,849	*	(5,009)
Total	$ 244,392	$ 324,483		$ (80,091)

* As restated

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $244.4 million, a decrease of $80.1 million in comparison with the prior year. Of this total amount, $20.9 million (8.5 percent) is classified as non-spendable, either due to its form or legal constraints, and $530.8 million (217.2 percent) is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. Unspent bond proceeds, revenue restricted for transportation, natural resources or other programs are included in restricted fund balance. An additional $38.4 million or 15.7 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional $12.5 million or 5.1 percent of total fund balance has been assigned to specific purposes, as expressed by government's intent. At the end of the current fiscal year, the unassigned fund balance of the General Fund was a deficit of $355.9 million, a decline of $112.3 million.

General Fund expenditures and other uses surpassed General Fund revenues and other sources resulting in a decrease in the fund balance by $113.6 million. While revenues and other sources of the General Fund increased by approximately $10.4 million (0.31 percent) which is mainly attributed to an increase in tax revenue ($63.4 million) offset by a decrease in transfers in from other funds ($45.1 million); General Fund expenditures increased by $146.3 million, led by an increase in expenditures for health and human service of $193.8 million.

The fund balance of the Highway Fund increased $4.3 million from fiscal year 2011, due mainly to the Highway Fund's reimbursement of approximately $15.8 million from the Federal Fund for prior period expenditures that were ultimately approved for federal funding.

Budgetary Highlights

For the 2012 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $3.2 billion, an increase of about $108.5 million from the original legally adopted budget of approximately $3.1 billion. Actual expenditures on a budgetary basis amounted to approximately $74.9 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2013, including the budgeted starting balance for Fiscal Year 2012, there were funds remaining of $26 million to distribute in Fiscal Year 2012. Actual revenues exceeded final budget forecasts by $2.1 million. As a part of the final budget adjustment for Fiscal Year 2012, the Legislature approved net transfers of $25.7 million from the State's Budget Stabilization Fund to unappropriated surplus. Interest earnings netted against the legislatively and statutorily approved transfers decreased the balance in the Fund to $44.8 million as of June 30, 2012. This item is further explained in Note 2 of Notes to the Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2012, the State had roughly $5.2 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2012, the State acquired or constructed more than $417.4 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

Table A-7 - Capital Assets
(Expressed in Thousands)

	Governmental Activities 2012	Governmental Activities 2011		Business-type Activities 2012	Business-type Activities 2011	Total Primary Government 2012	Total Primary Government 2011	
Land	$ 497,893	$ 488,197		$ 58,888	$ 58,888	$ 556,781	$ 547,085	
Buildings	626,202	592,943		9,449	9,449	635,651	602,392	
Equipment	272,567	255,915	*	80,892	67,037	353,459	322,952	*
Improvements	20,843	19,796	*	74,889	63,342	95,732	83,138	*
Software	41,789	9	*	-	-	41,789	9	*
Infrastructure	4,018,966	3,814,466		-	-	4,018,966	3,814,466	
Construction in Progress	48,473	119,419		18,555	32,024	67,028	151,443	
Total Capital Assets	5,526,733	5,290,745		242,673	230,740	5,769,406	5,521,485	
Accumulated Depreciation	441,235	428,414	*	89,910	84,383	531,145	512,797	*
Capital Assets, net	$ 5,085,498	$ 4,862,331		$ 152,763	$ 146,357	$ 5,238,261	$ 5,008,688	

* as restated

Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets – highways and bridges. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Utilization of this approach requires the State to: 1) maintain an asset management system that includes an up-to-date inventory of infrastructure assets; 2) perform condition assessments that use a measurement scale and document that the infrastructure assets are being preserved at or above the condition level established; and 3) estimate the annual amounts that must be expended to preserve and maintain the infrastructure at the condition level established by the State. As long as the State meets these requirements, any additions or improvements to infrastructure are capitalized and all other maintenance and preservation costs are expensed.

Highways and bridges are included in the State's infrastructure. There are 8,828 highway miles or 17,993 lane miles within the State. Bridges have a deck area of 11.8 million square feet among 2,963 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2012, the actual average condition was 75.4. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 79 at June 30, 2012. Preservation costs for fiscal year 2012 totaled $104.7 million compared to estimated preservation costs of $185 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 645, PL 2009, $13.7 million in General fund bonds was spent during FY2012.

Additional information on infrastructure assets can be found in Required Supplementary Information (RSI).

Long-Term Debt

The State Constitution authorizes general obligation long-term borrowing, with 2/3 approval of the Legislature and ratification by a majority of the voters, and general obligation short-term notes, of which the principal may not exceed an amount greater than 10 percent of all moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, or greater than 1 percent of the total valuation of the State of Maine, whichever is the lesser.

At year-end, the State had $1.5 billion in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

Table A-8 - Outstanding Long-Term Debt
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	$ 472,055	$ 520,230	$ -	$ -	$ 472,055	$ 520,230
Other Long-Term Obligations	1,001,843	917,588 *	4,726	2,283	1,006,569	919,871 *
Total	$ 1,473,898	$ 1,437,818	$ 4,726	$ 2,283	$ 1,478,624	$ 1,440,101

* as restated

During the year, the State reduced outstanding long-term obligations by $97.4 million for outstanding general obligation bonds and $643.4 million for other long-term debt. Also during fiscal year 2012, the State incurred $779.4 million of additional long-term obligations.

Credit Ratings

The State's credit was rated during fiscal year 2012 by Moody's Investors Service as Aa2 with a negative outlook and by Standard & Poor's as AA with a stable outlook.

FACTORS BEARING ON THE FUTURE OF STATE AND NEXT YEAR'S BUDGETS

National and state economic indicators suggest little improvement in economic conditions since the State's Consensus Economic Forecasting Committee (CEFC) met in February 2012. Maine's coincident economic activity index was unchanged in the three months ending in August and remains below pre-recession levels. About half the states saw growth over the three months ending in August. Nationwide, consumer sentiment and small business optimism are up over year-ago levels. Personal income in Maine grew 3.0% year-over-year in the first half of 2012, while wage and salary income grew 1.3% over the same period. The Consumer Price Index was 2.0% higher in September 2012 than it was in September 2011.

The price of crude oil (West Texas Intermediate) remained fairly steady in the third quarter of 2012 around $92 per barrel. Home sales in Maine increased in six of the seven months since January 2012. Month-over-month, housing permits in Maine grew 33% in August. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) increased by 3.1% year-over-year in the second quarter of 2012. Mortgage delinquency rates remain well above pre-recession levels but below peak crisis levels. The foreclosure rate in Maine increased in the second quarter of 2012 and remains well above pre-recession levels.

Uncertainty stemming from the "fiscal cliff" has continued to restrain economic growth in recent months. The "fiscal cliff" is a major fiscal tightening that includes the expiry of the Bush tax cuts, the payroll tax cut, emergency unemployment insurance benefits, and depreciation incentives as well as the sequester spending cuts, for a cliff estimated to be worth 3.0% of GDP nationally. Given the severe impact to the economy if a solution is not successfully reached, the CEFC will reevaluate their forecast in the first quarter of calendar year 2013 in response to actual policy decisions at the federal level.

Wage and salary employment growth was revised upwards slightly for 2012 and slightly downwards for 2013-2015 to reflect more robust current-year employment growth and longer-term structural workforce challenges, respectively. Personal income growth was revised upwards for 2012 in part to reflect the stronger employment growth and in 2013 to reflect increased dividends, interest and rent income, while 2014 and 2015 were revised downwards. Inflation, as measured by the Consumer Price Index (CPI), was revised upwards for 2012 and downwards for 2013-2015.

General Fund revenues slowed in FY12 because of the slow national economic recovery. Growth is projected to be flat or negative in FY13 and FY14 because of significant tax reductions enacted by the Legislature during the last two legislative sessions. Revenue growth is projected to return to a more moderate pace of 3.5% once the tax cuts are fully implemented.

At June 30, 2012, the deficit in the State of Maine's Unassigned Fund Balance Account in the General Fund has increased to $355.9 million (from a deficit unassigned balance of $243.6 for fiscal year 2011). This increase is primarily due the State using a one-day borrowing from the Other Special Revenue Fund to balance the budget which totaled $91 million in fiscal year 2012.

There are several factors that adversely affect our General Fund Balance Sheet that we should strive to improve over the next several years. The largest cause for the current condition is the Medicaid liabilities for amounts owed to hospitals and the incurred but not paid liability that accrues at the end of each fiscal year which currently total $720.4 million of which the General Fund portion is $263.7 and the budgetary one-day borrowing used to balance the budget. This combined with the lack of significant reserves weakens the General Fund equity position.

Other factors that have a significant impact on the State's Financial Statements compiled and issued in accordance with Generally Accepted Accounting Principles as applicable to governments include such factors as accruing tax revenues for budgetary purposes and for financial statement purposes without accruing the offsetting liabilities for budgetary purposes and the increase in the demand for appropriations whose balances carry from year to year which results in a lack funds accruing to the Unassigned Fund Balance of the General Fund.

These items together, conspire to cause the State of Maine's General Fund to be subjected to lack of liquidity each year and an inability to adequately manage its Balance Sheet within existing resources.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the finances of the State and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

State of Maine
Office of the State Controller
14 State House Station
Augusta, ME 04333-0014
(207)-626-8420
financialreporting@maine.gov


DIRIGO
MAINE

BASIC FINANCIAL STATEMENTS

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2012
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 250,306	$ 16,626	$ 266,932	$ 68,900
Cash and Cash Equivalents	2,473	1,901	4,374	111,009
Cash with Fiscal Agent	151,337	-	151,337	-
Investments	73,281	-	73,281	624,607
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	20,918	-	20,918	-
Restricted Deposits and Investments	3,694	269,597	273,291	44,573
Inventories	6,060	2,497	8,557	3,480
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	371,716	-	371,716	-
Loans Receivable	5,538	-	5,538	105,128
Notes Receivable	-	-	-	3,621
Other Receivables	222,501	56,696	279,197	95,986
Internal Balances	5,421	(5,421)	-	-
Due from Other Governments	530,978	-	530,978	165,703
Due from Primary Government	-	-	-	16,214
Loans receivable from primary government	-	-	-	24,086
Due from Component Units	48,663	-	48,663	-
Other Current Assets	4,385	1,875	6,260	42,989
Total Current Assets	1,697,271	343,771	2,041,042	1,306,296
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	103,103	6,838	109,941	28,340
Assets Held in Trust	-	-	-	2
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	8,456	-	8,456	-
Restricted Deposits and Investments	-	-	-	587,580
Investments	-	-	-	488,741
Receivables, Net of Current Portion:				
Taxes Receivable	92,659	-	92,659	-
Loans Receivable	-	-	-	2,589,794
Notes Receivable	-	-	-	69,781
Other Receivables	860	-	860	17,932
Due from Other Governments	7,494	-	7,494	1,416,602
Loans receivable from primary government	-	-	-	304,045
Due From Primary Government	-	-	-	1,487
Other Noncurrent Assets	-	-	-	63,916
Post-Employment Benefit Asset	1,760	-	1,760	9,783
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	4,565,332	77,443	4,642,775	552,623
Buildings, Equipment and Other Depreciable Assets	961,401	165,230	1,126,631	1,571,948
Less: Accumulated Depreciation	(441,235)	(89,910)	(531,145)	(580,336)
Capital Assets, Net of Accumulated Depreciation	5,085,498	152,763	5,238,261	1,544,235
Total Noncurrent Assets	5,299,830	159,601	5,459,431	7,122,238
Total Assets	$ 6,997,101	$ 503,372	$ 7,500,473	$ 8,428,534

The accompanying notes are an integral part of the financial statements.

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Liabilities				
Current Liabilities:				
Accounts Payable	$ 901,319	$ 8,673	$ 909,992	$ 105,688
Accrued Payroll	41,037	1,420	42,457	3,561
Tax Refunds Payable	167,260	-	167,260	-
Due to Component Units	16,342	-	16,342	-
Due to Primary Government	-	-	-	48,663
Undistributed Grants and Administrative Funds	-	-	-	10,693
Allowances for Losses on Insured Commercial Loans	-	-	-	12,235
Current Portion of Long-Term Obligations:				
Compensated Absences	4,430	109	4,539	2,184
Due to Other Governments	76,062	-	76,062	3,713
Amounts Held under State & Federal Loan Programs	-	-	-	48,423
Claims Payable	25,767	-	25,767	-
Bonds and Notes Payable	102,330	-	102,330	177,122
Notes Payable	-	-	-	1,469
Revenue Bonds Payable	18,245	-	18,245	55,603
Obligations under Capital Leases	5,324	-	5,324	350
Certificates of Participation and Other Financing Arrangements	26,323	-	26,323	-
Loans Payable to Component Unit	24,085	-	24,085	-
Accrued Interest Payable	6,866	-	6,866	45,899
Deferred Revenue	1,133	12,790	13,923	55,794
Other Current Liabilities	7,762	14,193	21,955	57,835
Total Current Liabilities	1,424,285	37,185	1,461,470	629,232
Long-Term Liabilities:				
Compensated Absences	37,624	1,480	39,104	-
Due to Component Units	1,359	-	1,359	-
Due to Other Governments	-	-	-	4,830
Amounts Held under State & Federal Loan Programs	-	-	-	44,017
Claims Payable	38,556	-	38,556	-
Bonds and Notes Payable	369,725	-	369,725	3,614,182
Notes Payable	-	-	-	25,162
Revenue Bonds Payable	169,620	-	169,620	1,209,783
Obligations under Capital Leases	24,454	-	24,454	5,948
Certificates of Participation and Other Financing Arrangements	25,774	-	25,774	-
Loans Payable to Component Unit	304,046	-	304,046	-
Deferred Revenue	12,384	12,500	24,884	31,315
Pension Obligation	2,010	-	2,010	-
Other Post-Employment Benefit Obligation	266,705	3,137	269,842	-
Pollution Remediation and Landfill Obligations	28,880	-	28,880	-
Other Noncurrent Liabilities	-	-	-	138,742
Total Long-Term Liabilities	1,281,137	17,117	1,298,254	5,073,979
Total Liabilities	2,705,422	54,302	2,759,724	5,703,211
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,408,377	152,763	4,561,140	948,600
Restricted:				
Transportation Purposes	190,642	-	190,642	-
Business Licensing & Regulation	67,374	-	67,374	-
Justice and Protection	5,966	-	5,966	-
Natural Resources	41,803	-	41,803	-
Health and Human Services	28,430	-	28,430	-
Capital Projects	26,735	-	26,735	-
Government Support & Operations	90,740	-	90,740	-
Unemployment Compensation	-	295,632	295,632	-
Other Purposes	7,816	-	7,816	1,158,825
Funds Held as Permanent Investments:				
Expendable	58,972	-	58,972	-
Nonexpendable	16,328	-	16,328	213,124
Unrestricted	(651,504)	675	(650,829)	404,774
Total Net Assets	$ 4,291,679	$ 449,070	$ 4,740,749	$ 2,725,323

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 456,622	$ 80,534	$ 43,617	$ -
Arts, Heritage & Cultural Enrichment	11,507	1,006	2,939	-
Business Licensing & Regulation	68,697	75,633	(1,116)	-
Economic Development & Workforce Training	302,614	7,175	215,720	-
Education	1,610,095	6,897	198,560	-
Health & Human Services	3,750,402	20,018	2,348,167	-
Justice & Protection	401,740	86,583	59,700	-
Natural Resources Development & Protection	208,463	93,991	53,043	-
Transportation Safety & Development	376,689	116,995	239,611	-
Interest Expense	45,551	-	-	-
Total Governmental Activities	7,232,380	488,832	3,160,241	-
Business-Type Activities:				
Employment Security	187,703	176,645	7,823	-
Alcoholic Beverages	-	12,532	-	-
Lottery	176,837	231,015	-	-
Transportation	9,310	4,692	-	-
Ferry Services	11,458	4,695	-	-
Military Equipment Maintenance	35,058	35,104	-	-
Dirigo Health	56,702	70,296	-	-
Other	7,662	5,945	-	-
Total Business-Type Activities	484,730	540,924	7,823	-
Total Primary Government	$ 7,717,110	$ 1,029,756	$ 3,168,064	$ -
Component Units:				
Finance Authority of Maine	37,575	12,644	22,352	-
Maine Community College System	127,768	16,672	63,942	31,098
Maine Health & Higher Educational Facilities Authority	53,443	49,411	8,944	-
Maine Municipal Bond Bank	81,049	65,370	17,905	27,393
Maine State Housing Authority	267,551	81,488	189,736	-
Maine Turnpike Authority	89,562	107,543	-	-
University of Maine System	684,277	298,670	177,297	19,695
All Other Non-Major Component Units	156,836	41,501	74,424	144,647
Total Component Units	$ 1,498,061	$ 673,299	$ 554,600	$ 222,833

General Revenues:
Taxes:
Corporate
Individual Income
Fuel
Property
Sales & Use
Other
Unrestricted Investment Earnings
Non-Program Specific Grants, Contributions & Appropriations
Miscellaneous Income
Loss on Assets Held for Sale
Tobacco Settlement
Transfers - Internal Activities
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning (As Restated)
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (332,471)	$ -	$ (332,471)	$ -
(7,562)	-	(7,562)	-
5,820	-	5,820	-
(79,719)	-	(79,719)	-
(1,404,638)	-	(1,404,638)	-
(1,382,217)	-	(1,382,217)	-
(255,457)	-	(255,457)	-
(61,429)	-	(61,429)	-
(20,083)	-	(20,083)	-
(45,551)	-	(45,551)	-
(3,583,307)	-	(3,583,307)	-
-	(3,235)	(3,235)	-
-	12,532	12,532	-
-	54,178	54,178	-
-	(4,618)	(4,618)	-
-	(6,763)	(6,763)	-
-	46	46	-
-	13,594	13,594	-
-	(1,717)	(1,717)	-
-	64,017	64,017	-
$ (3,583,307)	$ 64,017	$ (3,519,290)	$ -
-	-	-	(2,579)
-	-	-	(16,056)
-	-	-	4,912
-	-	-	29,619
-	-	-	3,673
-	-	-	17,981
-	-	-	(188,615)
-	-	-	103,736
$ -	$ -	$ -	$ (47,329)
334,818	-	334,818	-
1,459,039	-	1,459,039	-
245,815	-	245,815	-
45,902	-	45,902	-
1,113,952	-	1,113,952	-
273,062	-	273,062	-
2,543	-	2,543	6,632
-	-	-	291,765
76,360	-	76,360	3,572
-	-	-	(28)
51,188	-	51,188	-
54,968	(54,968)	-	-
3,657,647	(54,968)	3,602,679	301,941
74,340	9,049	83,389	254,612
4,217,339	440,021	4,657,360	2,470,711
$ 4,291,679	$ 449,070	$ 4,740,749	$ 2,725,323


DIRIGO
MAINE

GOVERNMENTAL FUND FINANCIAL STATEMENTS

MAJOR FUNDS

General Fund – This is the State's primary operating fund. Its purpose is to account for all financial resources obtained and used for general government operations, which are not required to be accounted for in another fund.

Highway Fund – This fund is used primarily to account for motor fuel tax revenues, motor vehicle license and registration fees, and special State appropriations that are legally restricted to the construction and maintenance of State highways and bridges.

Federal Fund – This fund is used to account for grants, block grants and other financial assistance received from the federal government, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

Other Special Revenue Fund – This fund is used to account for revenue sources that are legally restricted to expenditures for specified purposes, including some major capital projects that are not accounted for in the Highway and Federal Funds.

NON-MAJOR FUNDS

Other Governmental Funds are used to account for revenue sources that are legally restricted to expenditures for specified purposes, including some major capital projects and funds held in trust for public purposes.

Other governmental funds are presented, by fund type, beginning on page 121.

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2012
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ 8,895	$ 40,385	$ 8,670	$ 134,376	$ 2,019	$ 194,345
Cash and Short-Term Investments	120	116	1	43	2,190	2,470
Cash with Fiscal Agent	1,066	1,016	-	134,602	-	136,684
Investments	-	-	-	-	73,281	73,281
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	360	-	-	-	29,014	29,374
Inventories	1,413	-	483	-	-	1,896
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	426,523	27,167	-	10,685	-	464,375
Loans Receivable	1	27	-	5,510	-	5,538
Other Receivable	75,951	3,609	72,573	67,211	39	219,383
Due from Other Funds	14,463	7,173	1,415	120,350	214	143,615
Due from Other Governments	-	-	530,530	-	-	530,530
Due from Component Units	3,000	-	-	45,547	116	48,663
Other Assets	1,803	45	372	561	43	2,824
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 533,706	$ 79,538	$ 614,044	$ 518,885	$ 106,916	$ 1,853,089
Liabilities and Fund Balances						
Accounts Payable	$ 294,556	$ 24,938	$ 499,221	$ 25,543	$ 3,817	$ 848,075
Accrued Payroll	16,746	6,673	4,795	8,050	979	37,243
Tax Refunds Payable	167,252	8	-	-	-	167,260
Due to Other Governments	3,792	-	70,539	-	-	74,331
Due to Other Funds	159,085	3,180	12,425	4,683	19	179,392
Due to Component Units	1,864	7	8,174	2,346	1,585	13,976
Compensated Absences	-	-	-	-	350	350
Deferred Revenue	235,827	8,623	2,214	32,126	7	278,797
Other Accrued Liabilities	4,519	-	1,548	2,887	319	9,273
Total Liabilities	883,641	43,429	598,916	75,635	7,076	1,608,697
Fund Balances:						
Nonspendable:						
Permanent Fund Principal	-	-	-	-	16,328	16,328
Inventories and Prepaid Items	2,965	45	855	633	30	4,528
Restricted	2,989	36,064	14,273	391,692	85,782	530,800
Committed	-	-	-	38,436	-	38,436
Assigned	-	-	-	12,489	-	12,489
Unassigned	(355,889)	-	-	-	(2,300)	(358,189)
Total Fund Balances	(349,935)	36,109	15,128	443,250	99,840	244,392
Total Liabilities and Fund Balances	$ 533,706	$ 79,538	$ 614,044	$ 518,885	$ 106,916	$ 1,853,089

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2012
(Expressed in Thousands)

Total fund balances for governmental funds		$ 244,392
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	5,173,912	
Less: Accumulated depreciation	(244,193)	4,929,719
Other Post-Employment Benefit Assets are not financial resources		1,760
Pollution Remediation Receivable		4,371
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:		
Bonds Payable	(659,920)	
Interest Payable Related to Long-term Financing	(4,541)	
Certificates of Participation and Other Financing Arrangements	(13,144)	
Capital Leases	(68)	
Other accrued	(9)	
Loans Payable to Component Unit	(328,131)	
Compensated Absences	(37,695)	
Pension Obligation	(2,010)	
Other Post-Employment Benefit Obligation	(266,705)	
Pollution Remediation Obligation and Landfill Post Closure Liability	(28,880)	(1,341,103)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		269,290
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		183,250
Net assets of governmental activities		$ 4,291,679

The accompanying notes are an integral part of the financial statements.

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

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,990,353	$ 219,540	$ -	$ 260,032	$ -	$ 3,469,925
Assessments and Other Revenue	103,292	90,494	1	138,075	-	331,862
Federal Grants and Reimbursements	3,377	-	3,147,893	10,789	-	3,162,059
Service Charges	49,008	6,124	451	90,408	1,388	147,379
Investment Income (Loss)	1,413	141	18	423	(696)	1,299
Miscellaneous Revenue	17,047	693	393	108,852	342	127,327
Total Revenues	3,164,490	316,992	3,148,756	608,579	1,034	7,239,851
Expenditures						
Current:						
Governmental Support & Operations	255,191	2,726	14,027	136,662	124	408,730
Economic Development & Workforce Training	33,561	-	220,193	30,867	17,206	301,827
Education	1,335,736	-	227,257	12,563	41,431	1,616,987
Health and Human Services	1,126,805	-	2,345,952	298,077	265	3,771,099
Business Licensing & Regulation	-	-	390	65,486	-	65,876
Natural Resources Development & Protection	65,332	33	50,915	83,142	4,931	204,353
Justice and Protection	253,226	27,761	59,164	42,972	-	383,123
Arts, Heritage & Cultural Enrichment	7,117	-	2,880	901	83	10,981
Transportation Safety & Development	-	280,767	199,323	84,664	1,786	566,540
Debt Service:						
Principal Payments	98,340	16,385	10,770	9,370	21	134,886
Interest Payments	21,714	5,406	4,208	8,805	-	40,133
Capital Outlay	-	-	-	-	25,729	25,729
Total Expenditures	3,197,022	333,078	3,135,079	773,509	91,576	7,530,264
Revenue over (under) Expenditures	(32,532)	(16,086)	13,677	(164,930)	(90,542)	(290,413)
Other Financing Sources (Uses):						
Transfer from Other Funds	134,722	29,328	19,676	207,960	34,449	426,135
Transfer to Other Funds	(216,827)	(9,954)	(42,644)	(91,769)	(4,742)	(365,936)
COP's and Other	1,071	1,029	-	471	54	2,625
Loan Proceeds from Component Units	-	-	-	58,726	-	58,726
Bonds Issued	-	-	-	33,000	49,265	82,265
Premium on Bonds Issued	-	-	-	-	6,507	6,507
Net Other Finance Sources (Uses)	(81,034)	20,403	(22,968)	208,388	85,533	210,322
Net Change in Fund Balances	(113,566)	4,317	(9,291)	43,458	(5,009)	(80,091)
Fund Balances at Beginning of Year (As Restated)	(236,369)	31,792	24,419	399,792	104,849	324,483
Fund Balances at End of Year	$ (349,935)	$ 36,109	$ 15,128	$ 443,250	$ 99,840	$ 244,392

The accompanying notes are an integral part of the financial statements.

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

June 30, 2012
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (80,091)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:		
Capital outlay	244,809	
Depreciation expense	(21,583)	223,226
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(30)
Post-employment benefit asset funding, net		1,460
Pollution Remediation Receivable		(14,624)
The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Assets. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Assets. This is the amount that proceeds exceed repayments:		
Bond proceeds	(82,265)	
Proceeds from other financing arrangements	(2,571)	
Loan proceeds from component unit	(58,726)	
Repayment of bond principal	114,725	
Repayment of other financing debt	14,091	
Repayment of pledged revenue principal	21,514	
Accrued interest	505	7,273
Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from the Statement of Activities as follows:		
Pension obligation	18	
Other post-employment benefit obligation	(76,083)	
Pollution remediation obligation	18,157	
Claims payable	4	
Compensated absences	4,320	(53,584)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		1,990
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities.		(11,280)
Changes in net assets of governmental activities		$ 74,340

The accompanying notes are an integral part of the financial statements.


DIRIGO
MAINE

PROPRIETARY FUND FINANCIAL STATEMENTS

MAJOR FUND

Unemployment Compensation Fund - This fund accounts for unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants.

NON-MAJOR FUNDS

Other *Non-Major Enterprise Funds* are used to account for operations that are financed and operated in a manner similar to private business, where the State intends to finance or recover the costs of providing goods or services to the General Public on a continuing basis primarily through user charges. The State also uses these funds where periodic determination of net income is appropriate for accountability purposes.

Non-major enterprise funds are presented beginning on page 141.

Combining fund statements for the internal service funds, whose combined totals are presented on these statements, begin on page 149.

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2012
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ -	$ 16,626	$ 16,626	$ 112,706
Cash and Short-Term Investments	1,145	756	1,901	3
Cash with Fiscal Agent	-	-	-	14,653
Restricted Assets:				
Restricted Deposits and Investments	269,597	-	269,597	3,694
Inventories	-	2,497	2,497	4,164
Receivables, Net of Allowance for Uncollectibles:				
Other Receivable	31,466	25,230	56,696	463
Due from Other Funds	24	270	294	19,468
Other Current Assets	-	1,875	1,875	1,561
Total Current Assets	302,232	47,254	349,486	156,712
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	6,838	6,838	46,358
Capital Assets - Net of Depreciation	-	152,763	152,763	155,779
Total Noncurrent Assets	-	159,601	159,601	202,137
Total Assets	302,232	206,855	509,087	358,849
Liabilities				
Current Liabilities:				
Accounts Payable	5,935	2,738	8,673	23,049
Accrued Payroll	-	1,420	1,420	3,794
Due to Other Funds	-	5,239	5,239	6,286
Due to Component Units	-	-	-	3,725
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	14,906
Obligations Under Capital Leases	-	-	-	5,298
Claims Payable	-	-	-	25,767
Compensated Absences	-	109	109	271
Deferred Revenue	-	12,790	12,790	646
Other Accrued Liabilities	665	13,528	14,193	805
Total Current Liabilities	6,600	35,824	42,424	84,547
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Deferred Revenue	-	12,500	12,500	664
Certificates of Participation and Other Financing Arrangements	-	-	-	24,047
Obligations Under Capital Leases	-	-	-	24,412
Claims Payable	-	-	-	38,556
Compensated Absences	-	1,480	1,480	3,738
Other Post-Employment Benefit Obligation	-	3,137	3,137	-
Total Long-Term Liabilities	-	17,117	17,117	91,528
Total Liabilities	6,600	52,941	59,541	176,075
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	152,763	152,763	108,776
Restricted for:				
Unemployment Compensation	295,632	-	295,632	-
Other Purposes	-	-	-	39
Unrestricted	-	1,151	1,151	73,959
Total Net Assets	$ 295,632	$ 153,914	$ 449,546	$ 182,774
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-type activites			(476)	
			$ 449,070	

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Operating Revenues				
Charges for Services	$ -	$ 348,479	$ 348,479	$ 397,856
Assessments	176,645	1,717	178,362	-
Miscellaneous Revenues	-	547	547	553
Total Operating Revenues	176,645	350,743	527,388	398,409
Operating Expenses				
General Operations	-	288,587	288,587	370,464
Depreciation	-	8,290	8,290	20,079
Claims/Fees Expense	187,703	-	187,703	12,822
Other Operating Expenses	-	-	-	755
Total Operating Expenses	187,703	296,877	484,580	404,120
Operating Income (Loss)	(11,058)	53,866	42,808	(5,711)
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	7,823	-	7,823	1,244
Interest Expense	-	-	-	(7,283)
Other Nonoperating Revenues (Expenses) - net	-	13,536	13,536	(5,987)
Total Nonoperating Revenues (Expenses)	7,823	13,536	21,359	(12,026)
Income (Loss) Before Capital Contributions and Transfers	(3,235)	67,402	64,167	(17,737)
Capital Contributions and Transfers				
Capital Contributions from (to) Other Funds	-	10,003	10,003	1,417
Transfers from Other Funds	-	7,713	7,713	9,221
Transfers to Other Funds	(1,420)	(71,264)	(72,684)	(4,331)
Total Capital Contributions and Transfers In (Out)	(1,420)	(53,548)	(54,968)	6,307
Change in Net Assets	(4,655)	13,854	9,199	(11,430)
Total Net Assets - Beginning of Year	300,287	140,060	440,347	194,204
Total Net Assets - End of Year	$ 295,632	$ 153,914		$ 182,774
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			(150)	
Changes in Business-Types Net Assets			$ 9,049	

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2012
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 180,441	$ 351,146	$ 531,587	$ 399,569
Payments of Benefits	(182,866)	-	(182,866)	-
Payments to Prize Winners	-	(144,018)	(144,018)	-
Payments to Suppliers	-	(113,289)	(113,289)	(296,398)
Payments to Employees	-	(26,176)	(26,176)	(70,176)
Net Cash Provided (Used) by Operating Activities	(2,425)	67,663	65,238	32,995
Cash Flows from Noncapital Financing Activities				
Transfers from Other Funds	-	7,712	7,712	9,221
Transfers to Other Funds	(1,420)	(71,263)	(72,683)	(4,331)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,420)	(63,551)	(64,971)	4,890
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(4,694)	(4,694)	(23,853)
Proceeds from Financing Arrangements	-	-	-	4,600
Principal and Interest Paid on Financing Arrangements	-	-	-	(24,843)
Proceeds from Sale of Capital Assets	-	970	970	-
Net Cash Provided (Used) by Capital Financing Activities	-	(3,724)	(3,724)	(44,096)
Cash Flows from Investing Activities				
Interest Revenue	7,823	67	7,890	1,244
Net Cash Provided (Used) by Investing Activities	7,823	67	7,890	1,244
Net Increase (Decrease) in Cash/Cash Equivalents	3,978	455	4,433	(4,967)
Cash/Cash Equivalents - Beginning of Year	266,764	23,765	290,529	182,381
Cash/Cash Equivalents - End of Year	$ 270,742	$ 24,220	$ 294,962	$ 177,414
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (11,058)	$ 53,866	$ 42,808	$ (5,711)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	8,290	8,290	20,079
Decrease (Increase) in Assets:				
Accounts Receivable	3,807	403	4,210	64
Interfund Balances	(11)	3,113	3,102	1,548
Inventories	-	(110)	(110)	(709)
Other Assets	-	-	-	266
Increase (Decrease) in Liabilities:				
Accounts Payable	5,062	(26)	5,036	14,788
Accrued Payroll Expenses	-	336	336	1,026
Due to Other Governments	-	-	-	(3)
Change in Compensated Absences	-	707	707	(419)
Other Accruals	(225)	1,084	859	2,066
Total Adjustments	8,633	13,797	22,430	38,706
Net Cash Provided (Used) by Operating Activities	$ (2,425)	$ 67,663	$ 65,238	$ 32,995
Non Cash Investing, Capital and Financing Activities				
Property Leased, Accrued, or Acquired	-	-	-	1,401
Contributed Capital Assets	-	10,003	10,003	1,417
Decrease of Deferred Revenue from the Sale of Liquor Operations	-	12,500	12,500	-

The accompanying notes are an integral part of the financial statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trusts – accounts for funds held by the Maine Public Employees Retirement System (the System), a component unit included with Fiduciary Funds per GASB Statement No. 34. The System provides pension, death, and disability benefits to its members, including State employees, some public school employees, and employees of approximately 293 local municipalities and other public entities in Maine.

Other *Private-Purpose Trusts* and *Agency Funds* are used to account for private-purpose assets held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. *Private-Purpose Trusts* also include assets of NextGen College Investing Plan.

A listing of fiduciary funds and combining fund statements for private-purpose trusts and agency funds begins on page 161.

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2012
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 1,632	$ 13,574
Cash and Short-Term Investments	61,168	-	27
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	6,000	-	-
Interest and Dividends	4,818	4,176	-
Due from Brokers for Securities Sold	74,942	12,525	-
Other	28,075	-	-
Investments at Fair Value:			
Debt Securities	972	-	-
Equity Securities	3,637,612	-	-
Common/Collective Trusts	6,971,761	-	-
Foreign Governments and Agencies	-	-	11
Other	-	11,501	-
Securities Lending Collateral	812,174	-	-
Due from Other Funds	-	30,195	-
Investments Held on Behalf of Others	-	6,013,272	70,180
Capital Assets - Net of Depreciation	10,849	-	-
Other Assets	-	3,887	3,243
Total Assets	11,608,371	6,077,188	87,035
Liabilities			
Accounts Payable	5,715	3,847	1
Due to Other Funds	-	6	2,649
Due to Brokers for Securities Purchased	-	12,525	-
Agency Liabilities	-	-	84,341
Obligations Under Securities Lending	812,174	-	-
Other Accrued Liabilities	23,615	-	44
Total Liabilities	841,504	16,378	87,035
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	10,766,867	6,060,810	-
Total Net Assets	$ 10,766,867	$ 6,060,810	$ -

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 161,692	$1,726,338
State and Local Agencies	355,405	-
Investment Income (Loss):		
Net Increase (Decrease) in the Fair Value of Investments	(22,850)	(217,829)
Capital Gains Distributions from Investments	-	41,162
Interest and Dividends	100,784	114,018
Securities Lending Income	1,709	-
Less Investment Expense:		
Investment Activity Expense	24,338	-
Securities Lending Expense	(740)	-
Net Investment Income (Loss)	56,045	(62,649)
Miscellaneous Revenues	-	7,295
Transfers In	-	671
Total Additions	573,142	1,671,655
Deductions:		
Benefits Paid to Participants or Beneficiaries	802,018	1,587,162
Refunds and Withdrawals	45,201	-
Administrative Expenses	10,027	46,140
Claims Processing Expense	722	-
Transfers Out	-	784
Total Deductions	857,968	1,634,086
Net Increase (Decrease)	(284,826)	37,569
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	11,051,693	6,023,241
End of Year	$ 10,766,867	$6,060,810

The accompanying notes are an integral part of the financial statements.


DIRIGO
MAINE

COMPONENT UNIT FINANCIAL STATEMENTS

Finance Authority of Maine (FAME) – The Authority provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents; administers several revolving loan programs on behalf of the State; and administers the Maine College Savings Program Fund.

Maine Community College System – is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The financial statements of the system include the activity of seven colleges, the central administrative office, and the Maine Career Advantage.

Maine Health & Higher Educational Facilities Authority – MHHEFA assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, may finance student loan programs of institutions of higher education.

Maine Municipal Bond Bank – is authorized to issue bonds providing funds to counties, cities, towns, school districts, or other quasi-municipal corporations within the State.

Maine State Housing Authority – is authorized to issue bonds for the purchase of notes and mortgages on single- and multi-family residential units to provide housing for persons and families of low income in the State. The Authority also acts as agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs, and collecting and disbursing federal rent subsidies for low income housing.

The Maine Turnpike Authority – is authorized and empowered to construct, maintain and operate a turnpike at such a location as shall be approved by the State Highway Commission and to issue turnpike revenue bonds of the Authority, payable solely from revenues of the Authority.

University of Maine System – The State University consists of seven campuses and a central administrative office.

Non-Major Component Units combining fund statements begin on page 171.

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2012
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority	Maine Municipal Bond Bank
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 19,667	$ 14,880	$ 3,567	$ -
Cash and Cash Equivalents	5,500	4,214	4,414	64
Investments	47,184	36,240	34,531	19,103
Restricted Assets:				
Restricted Deposits and Investments	-	-	-	-
Inventories	-	1,321	-	-
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	55,390	-
Notes Receivable	-	-	-	-
Other Receivables	692	11,790	43	877
Due from Other Governments	275	-	-	142,457
Due from Primary Government	-	1,142	-	-
Loans Receivable from Primary Government	-	-	-	24,086
Other Current Assets	1,908	2,524	845	30,183
Total Current Assets	75,226	72,111	98,790	216,770
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	8,090	6,120	1,467	-
Assets Held in Trust	-	-	-	-
Restricted Assets:				
Restricted Deposits and Investments	-	1,614	154,952	362,393
Investments	-	12,548	-	-
Receivables, Net of Current Portion:				
Loans Receivable	-	-	1,089,721	-
Notes Receivable	25,127	-	-	-
Other Receivables	-	4,350	206	-
Due from Other Governments	-	-	-	1,416,602
Due from Primary Government	-	-	-	-
Loans Receivable from Primary Government	-	-	-	304,045
Post-Employment Benefit Asset	-	9,783	-	-
Capital Assets - Net of Depreciation	1,798	151,201	-	667
Other Noncurrent Assets	-	227	-	1,495
Total Noncurrent Assets	35,015	185,843	1,246,346	2,085,202
Total Assets	110,241	257,954	1,345,136	2,301,972
Liabilities				
Current Liabilities:				
Accounts Payable	1,311	4,290	84	516
Accrued Payroll	-	-	-	-
Compensated Absences	-	1,905	-	-
Due to Other Governments	-	-	-	2,627
Due to Primary Government	3,000	-	-	45,547
Amounts Held under State & Federal Loan Programs	-	-	-	48,423
Undistributed Grants and Administrative Funds	10,489	-	-	204
Allowances for Losses on Insured Commercial Loans	12,235	-	-	-
Bonds Payable	806	-	55,450	134,609
Notes Payable	-	600	-	-
Obligations under Capital Leases	-	-	-	-
Accrued Interest Payable	-	-	24,278	13,393
Deferred Revenue	1,311	1,208	2,621	82
Other Current Liabilities	3	8,722	-	-
Total Current Liabilities	29,155	16,725	82,433	245,401
Long-Term Liabilities:				
Due to Other Governments	-	-	319	838
Amounts Held under State & Federal Loan Programs	44,017	-	-	-
Bonds Payable	707	-	1,208,015	1,436,408
Notes Payable	-	23,973	-	-
Obligations under Capital Leases	-	2,180	-	-
Deferred Revenue	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-
Total Long-Term Liabilities	44,724	26,153	1,208,334	1,437,246
Total Liabilities	73,879	42,878	1,290,767	1,682,647
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,798	126,289	-	667
Restricted	16,576	45,500	33,637	539,552
Unrestricted	17,988	43,287	20,732	79,106
Total Net Assets	$ 36,362	$ 215,076	$ 54,369	$ 619,325

The accompanying notes are an integral part of the financial statements.

Maine State Housing Authority	Maine Turnpike Authority	University of Maine System	Non-Major Component Units	Totals
$ -	$ -	$ 29,782	$ 1,004	$ 68,900
1,128	6,068	1,365	88,256	111,009
276,221	-	205,945	5,383	624,607
-	27,367	-	17,206	44,573
-	1,462	-	697	3,480
31,089	-	-	18,849	105,128
2	-	63	3,556	3,621
25,932	3,554	43,363	9,735	95,986
7,797	-	11,895	3,279	165,703
-	-	9,713	5,359	16,214
-	-	-	-	24,086
-	1,174	5,106	1,249	42,989
342,169	39,625	307,232	154,373	1,306,296
-	-	12,250	413	28,340
-	-	-	2	2
-	42,332	10,191	16,098	587,580
145,326	-	312,863	18,004	488,741
1,376,149	-	-	123,924	2,589,794
335	-	40,140	4,179	69,781
2,214	1	8,114	3,047	17,932
-	-	-	-	1,416,602
-	-	1,359	128	1,487
-	-	-	-	304,045
-	-	-	-	9,783
2,810	472,125	683,862	231,772	1,544,235
35,713	22,309	2,052	2,120	63,916
1,562,547	536,767	1,070,831	399,687	7,122,238
1,904,716	576,392	1,378,063	554,060	8,428,534
56,254	8,308	18,052	16,873	105,688
-	3,274	-	287	3,561
-	-	-	279	2,184
256	-	-	830	3,713
-	-	-	118	48,663
-	-	-	-	48,423
-	-	-	-	10,693
-	-	-	-	12,235
9,905	13,855	10,331	7,769	232,725
-	-	-	869	1,469
-	-	339	11	350
7,537	-	-	691	45,899
4,216	6,030	12,300	28,026	55,794
-	9,970	38,469	671	57,835
78,168	41,437	79,491	56,422	629,232
1,963	-	-	1,710	4,830
-	-	-	-	44,017
1,444,805	383,201	180,286	170,543	4,823,965
-	-	-	1,189	25,162
-	-	3,754	14	5,948
27,918	-	-	3,397	31,315
29,649	10,889	98,099	105	138,742
1,504,335	394,090	282,139	176,958	5,073,979
1,582,503	435,527	361,630	233,380	5,703,211
2,810	100,640	500,595	215,801	948,600
305,877	31,945	329,367	69,495	1,371,949
13,526	8,280	186,471	35,384	404,774
$ 322,213	$ 140,865	$ 1,016,433	$ 320,680	$ 2,725,323

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority	Maine Municipal Bond Bank
Expenses	$ 37,575	$ 127,768	$ 53,443	$ 81,049
Program Revenues				
Charges for Services	12,644	16,672	49,411	65,370
Program Investment Income	308	791	8,944	17,411
Operating Grants and Contributions	22,044	63,151	-	494
Capital Grants and Contributions	-	31,098	-	27,393
Net Revenue (Expense)	(2,579)	(16,056)	4,912	29,619
General Revenues				
Unrestricted Investment Earnings	518	1,143	72	66
Non-program Specific Grants, Contributions and Appropriations	-	55,638	-	-
Miscellaneous Income	42	1,471	139	1,179
Gain (Loss) on Assets Held for Sale	-	-	-	-
Total General Revenues	560	58,252	211	1,245
Change in Net Assets	(2,019)	42,196	5,123	30,864
Net Assets, Beginning of the Year (as restated)	38,381	172,880	49,246	588,461
Net Assets, End of Year	$ 36,362	$ 215,076	$ 54,369	$ 619,325

The accompanying notes are an integral part of the financial statements.

Maine State Housing Authority	Maine Turnpike Authority	University of Maine System	Non-Major Component Units	Totals
$ 267,551	$ 89,562	$ 684,277	$ 156,836	$1,498,061
81,488	107,543	298,670	41,501	673,299
6,152	-	-	102	33,708
183,584	-	177,297	74,322	520,892
-	-	19,695	144,647	222,833
3,673	17,981	(188,615)	103,736	(47,329)
9	(201)	4,596	429	6,632
-	-	218,357	17,770	291,765
-	-	-	741	3,572
-	-	(34)	6	(28)
9	(201)	222,919	18,946	301,941
3,682	17,780	34,304	122,682	254,612
318,531	123,085	982,129	197,998	2,470,711
$ 322,213	$ 140,865	$1,016,433	$ 320,680	$2,725,323


DIRIGO
MAINE

NOTES TO THE FINANCIAL STATEMENTS


DIRIGO
MAINE

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine (the State) have been prepared under guidelines established by generally accepted accounting principles (GAAP) as mandated by the Governmental Accounting Standards Board (GASB).

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

A. REPORTING ENTITY

For financial reporting purposes, the State of Maine's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, organizations, agencies, boards, commissions and authorities. Component units are legally separate organizations for which the State is financially accountable. Component units can also be legally separate, tax exempt entities that raise and hold economic resources for the direct benefit of a governmental unit.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The State is financially accountable for those entities for which it appoints a voting majority of the governing board and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government or if the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement No. 14*, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, a few of the component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

Blended Component Units – Blended component units are entities that are legally separate from the State, but provide services entirely, or almost entirely to the State or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it. The State reports two blended component units.

The Maine Governmental Facilities Authority (MGFA) is a legally separate organization that has its board appointed by the primary government and provides services entirely, or almost entirely, to the State. Its purpose includes assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. In their separately issued financial statements, MGFA records a lease receivable from the State and a liability for bonds issued. However, in accordance with GASBS 14, capital leases that exist between the State and MGFA are not recorded as leases in this report. The assets associated with these leases are reported in the government-wide statements along with the related debt. The corresponding debt service activity is recorded in the Governmental Funds. MGFA financial activity associated with servicing the debt is reported in an internal service fund. Therefore, the State reports MGFA's balances and transactions as though they were part of the primary government, using the blending method.

Child Development Services (CDS) is a legally separate organization, which ensures the provision of child find activities, early intervention services and free, appropriate public education services to eligible children. Prior to fiscal year 2012, CDS had been reported as a non-major discrete component unit. Legislation enacted on April 13, 2012, Public Law Chapter 655, Part OO-4, altered the State's management and operational responsibility with this component unit. The State's Education Commissioner now appoints and supervises the CDS director. Therefore, the State reports CDS balances and transactions as though they were a non-major special revenue fund.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. Component units that are not material to the State's financial statements have been excluded. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government.

The State is able to impose its will upon these discretely presented component units:

The Maine Community College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the System include the activity of seven colleges, the central administrative office, the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

The Maine Turnpike Authority (MTA) constructs, maintains and operates a turnpike at such a location approved by the State Highway Commission and to issue turnpike revenue bonds payable solely from revenues of the Authority. The Governor appoints MTA's board of directors. As a result of substantive legislative changes made in 2011, the State's relationship to MTA changed. The former related organization is now reported as a discrete component unit. See Note 3. The Authority's fiscal year ends December 31.

The University of Maine System is the State University governed by a single Board of Trustees appointed by the Governor. The combined financial statements of the System include the activity of seven universities, eleven centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

There is a financial burden/benefit relationship between these entities and the State:

The Finance Authority of Maine provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, and the Occupational Safety Program Fund Board. Additionally, the Authority administers the Maine College Savings Program. Net assets of the program, NextGen College Investing Plan, are included in the State's fiduciary fund financial statements. The Governor appoints the fifteen voting members of the Authority.

Maine Health & Higher Educational Facilities Authority (MHHEFA) – MHHEFA assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction and equipping of their facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, may also finance student loan programs of institutions of higher education. MHHEFA consists of twelve members, four of whom serve *ex officio* and must be the Superintendent of Financial Institutions, the Commissioner of Health and Human Services, the Commissioner of Education, and the Treasurer of State. The remaining eight members must be residents of the State appointed by the Governor.

The Maine Municipal Bond Bank issues bonds on behalf of counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations or eligible borrowers as designated by the

Legislature (the "governmental units") within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners. The remaining two members include the Treasurer of State and Superintendent of Financial Institutions who serve as commissioners, *ex officio*.

Maine State Housing Authority issues bonds to purchase notes and mortgages on residential units, both single and multi-family, for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as an agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collecting and disbursing federal rent subsidies for low income housing. The Governor appoints five of the Authority's seven commissioners. The remaining two commissioners are the Treasurer of State and the Director of the Maine State Housing Authority, both of whom serve *ex officio*. The Authority's fiscal year ends on December 31.

The State's financial statements also include a fiduciary component unit:

Maine Public Employees Retirement System administers an agent-multiple employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 293 local municipalities and other public entities in Maine. The Governor appoints four of the Board's eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

Complete financial statements of the major component units can be obtained directly from their respective administrative offices by writing to:

Finance Authority of Maine
5 Community Dr.
PO Box 949
Augusta, ME 04332

Maine Health and Higher Ed. Facilities Authority
PO Box 2268
Augusta, ME 04338

Maine Public Employees Retirement System
46 State House Station
Augusta, ME 04333

Maine Turnpike Authority
2360 Congress Street
Portland, ME 04102

Maine Community College System
323 State Street
Augusta, ME 04330

Maine Municipal Bond Bank
PO Box 2268
Augusta, ME 04338

Maine State Housing Authority
89 State House Station
353 Water Street
Augusta, ME 04330

University of Maine System
16 Central Street
Bangor, ME 04401

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing board of the Maine Veteran's Home. The primary government has no material accountability for this organization beyond making board appointments.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements
The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $830.4 million of restricted net assets, of which $112.0 million is restricted by enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Measurement Focus and Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with a GASB pronouncement. The FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the governmental funds when they become susceptible to accrual, generally when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues available if they are collected within 60 days of the end of the fiscal year.

Significant revenues susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

The State Tax Assessor levies taxes on properties located in the unorganized territory of Maine by August 1 of each year, and on telecommunications personal properties statewide by May 30 of each year. Unorganized territory property taxes are due on October 1 and telecommunications personal property taxes are due on August 15. Formal collection procedures begin on November 1, and unpaid property taxes become a lien no later than March 15 of the fiscal year for which they are levied.

Expenditures are generally recorded when a liability is incurred. However, expenditures related to claims and judgments, debt service and compensated absences are recorded only when payment is due and payable.

Financial Statement Presentation
The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The *Highway Fund* accounts for the regulation, construction and maintenance of State highways and bridges and is funded by motor fuel taxes, motor vehicle license and registration fees, special State appropriations, and other charges.

The *Federal Fund* accounts for grants and other financial assistance received from the federal government, including federal block grants, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally restricted to expenditures for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal Funds. Examples of the most significant types of revenue sources include: Fund for a Healthy Maine (tobacco settlement revenue), State municipal revenue sharing, hospital and service provider taxes, and oil transfer fees.

The State reports the following major enterprise fund:

The *Maine Employment Security Fund* receives contributions from employers and provides unemployment compensation benefits to eligible unemployed workers.

Additionally, the State reports the following fund types:

Governmental Fund Types:
Special Revenue Funds include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. An example is funds for acquisition of public reserved lands.

Capital Projects Funds account for the acquisition or construction of major capital assets and other programs financed by bond proceeds.

Permanent Trust Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. An example is the Baxter State Park Fund.

Proprietary Fund Types:

Enterprise Funds report the activities for which fees are charged to external users for goods or services, such as the unemployment compensation program, lottery operations and transportation services.

Internal Service Funds provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include printing and mailing services, supplies warehousing, information technology, fleet management, risk management, health-related benefits, and financing for acquisition and construction of governmental facilities.

Fiduciary Fund Types:

Pension (and Other Employee Benefit) Trust Funds report resources that are required to be held in trust for members and beneficiaries of the State's pension, death and disability benefit plans. These resources are managed by the Maine Public Employees Retirement System (MPERS). The fund also reports resources that are required to be held in trust for members and beneficiaries of the State's retiree healthcare benefits. The investment trust, managed by the Maine Public Employees Retirement System, holds the long-term investments of the trust. The trustees of the Other Employee Benefit Trust Fund are the State Controller and State Treasurer.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include Abandoned Property, Public Reserved Lands, Permanent School funds and NextGen College Investing Plan.

Agency Funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples include amounts held for payroll withholdings, inmate and student guardianship accounts.

D. FISCAL YEAR-ENDS

All funds and discretely presented major component units are reported using fiscal years which end on June 30, except for the Maine Educational Loan Authority, Maine State Housing Authority and Maine Turnpike Authority, which utilize December 31 year-ends.

E. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCE

Equity in Treasurer's Cash Pool

The State pools cash and cash equivalents for a variety of State agencies and public sector entities. The pooled balances are reported at fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. The Treasurer's Cash Pool has the general characteristics of a demand deposit account and is comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations, certificates of deposit, and corporate bonds.

For component units that participate in the cash pool, equity is shown at fair value.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. On the Statement of Cash Flows, the amount reported as "Cash and Cash Equivalents" is equal to the total of the amounts reported on the Statement of Net Assets as "Equity in Treasurer's

Cash Pool," "Cash and Cash Equivalents," "Cash with Fiscal Agent," "Restricted Equity in Treasurer's Cash Pool," and "Restricted Deposits and Investments."

Cash with Fiscal Agent
Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds, the unspent proceeds of bonds and Certificates of Participation, as well as unspent funds of the Maine Biological Research Board being held by the State.

Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

Investments Held on Behalf of Others
These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. Generally, these investments are reported at fair value or at amortized cost which approximates fair value. The State also holds $116 million of Workers' Compensation, $51 million of Bureau of Insurance, and $26 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

Restricted Deposits and Investments
Restricted deposits and investments include: unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Governmental Facilities Authority, a blended component unit that has been independently audited; unspent bond proceeds, and funds invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine.

Inventories
The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Undistributed vaccines and food commodities are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when food stamps are used (EBT cards), and when vaccines and food commodities are issued. Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost.

Inventories included in the component unit column are stated at the lower of cost or market (using the first-in, first-out method).

Receivables
Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units' column arise in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

Interfund Transactions and Balances
Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that transactions between funds were not completed as of June 30, interfund receivables and

payables have been recorded in the fund financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Long-term loans made by one fund to another are classified as "Working Capital Advances Receivable" and "Working Capital Advances Payable." In the fund financial statements, advances receivable are offset by nonspendable fund balance designations indicating that the long-term loans do not constitute expendable financial resources.

Due from/to Primary Government/Component Units
Numerous transactions are made between the primary government and component units to finance operations, provide services, acquire or construct assets, or repay bonds. To the extent that transactions between funds were not completed as of June 30, "Due from Primary Government" and "Due to Component Unit" receivables and payables have been recorded. Two component units have December 31 year ends, therefore the "due to" and "due from" amounts may differ.

Due from/to Other Governments
Due from/to Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other health and human services programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units' column represents amounts receivable for grants, bond repayment and retirement benefits. Due to Other Governments primarily consist of amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers.

Capital Assets
Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $100 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and proprietary fund equipment is capitalized $5 thousand or more. Governmental and proprietary fund software is capitalized at $1 million or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

In the government-wide statements, most capital assets are depreciated on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for software, buildings and improvements, and 2-25 years for equipment. The State uses the modified approach for reporting its significant infrastructure assets. As long as the State maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Capital assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for non-road structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them. The Maine Turnpike Authority (MTA) uses the modified approach for reporting its significant infrastructure assets. As long as MTA maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported.

Accounts Payable
Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate recorded at June 30, 2012 is $227 million. The actuarial range of reasonable estimate is a low of $227 million to a high of $247 million.

Tax Refunds Payable
The amount of collected or accrued tax revenues that will be refunded is estimated and accrued as a General Fund liability.

Claims Payable
Claims payable represent workers' compensation, retiree health, employee health, and other claims payable, including actual claims submitted and actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

Compensated Employee Absences
In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as a long-term liability as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2012 but paid after the fiscal year end is also reported in the funds. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

Deferred Revenue
In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. Deferred revenue reported in the General Fund relates to sales and income taxes. Deferred revenue in the Federal Fund consists primarily of food commodities not yet issued. Deferred revenue in the Alcoholic Beverages Fund comprises the proceeds from the sale of the State's liquor operations.

Loans Payable to Component Unit
In the Statement of Net Assets, the amount of bond proceeds received by a component unit for unmatured GARVEE and TransCap bond proceeds is called "Loans Payable to Component Unit." The offsetting receivables are classified as "Loans Receivable from Primary Government."

Long-Term Obligations
In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term obligations are recorded as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Net Assets/Fund Balances
The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balances" on governmental fund statements.

Fund Balance Restrictions
Fund balances for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

The State reported the following fund balance restrictions:

Nonspendable Fund Balance - indicates items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless those proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted Fund Balances – include balances that are legally restricted for specific purposes due to constraints that are either externally imposed by creditors, grantors, contributors, or imposed by law through a constitutional provision or enabling legislation.

Committed Fund Balances – indicates assets can be used only for specific purposes pursuant to constraints imposed by a formal action of the Maine Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the legislature, creating, modifying, or rescinding an appropriation.

Assigned Fund Balances – include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. Legislative assignments include formal actions passed into law that lapse. Maine statute also set forth powers and duties of management. Assignments also include decisions made by management, including encumbrances. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

Unassigned Fund Balance – is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

F. REVENUES AND EXPENDITURES/EXPENSES

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., governmental support & operations, education, health & human services, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

The State's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, the State's policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

In the governmental fund financial statements, expenditures are reported by function. Capital outlay expenditures for real property or infrastructure (e.g. highways) are included with expenditures by function.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. general operations and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating, capital contributions, transfers or special items.

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Appropriation Limits

The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in Title 5 Maine Revised Statutes Annotated (MRSA) § 1665, subsection 1, plus the average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee.

This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits.

The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of, this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Budget Stabilization Fund

The Maine Budget Stabilization Fund, a fund designation established under Title 5 MRSA C. 142, is included in the negative $356 million unassigned General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. Per Public Law 2011, Chapter 380, Part RRR $4.0 million was transferred from General Fund unappropriated surplus to the Budget Stabilization Fund. Per Public Law 2011, Chapter 380, Part JJJJ, $29.7 million was transferred from the Budget Stabilization Fund to the General Fund unappropriated surplus. Additionally, $1.2 million was transferred to general purpose aid for local schools within the Department of Education in accordance with Title 5 MRSA C.142 Section 1532.

The statutory cap for the fund is 12 percent of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2012 actual General Fund revenue, the statutory cap at the close of fiscal year 2012 and during fiscal year 2012 was $361.9 million. At the close of fiscal year 2012, the balance of the Maine Budget Stabilization Fund was $44.8 million. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

Budget Stabilization Fund Activity
(Expressed in Thousands)

Balance, beginning of year	$	71,414
Decrease in fund balance		(26,605)
Balance, end of year	$	44,809

Budget and Budgetary Expenditures
The gross unified budget bills and budget document encompass resources from the General Fund, Highway Fund, Federal Expenditures Fund, Federal Block Grant Fund, Other Special Revenue Fund, internal service funds and enterprise funds. Separate gross unified budget bills must be submitted for the General Fund and the Highway Fund. All funds except trust and agency funds, bond funds and costs of goods sold expenditures in internal service funds and enterprise funds are subject to legislative allocation. The biennial budget sets forth proposed expenditures for the administration, operation and maintenance of the departments and agencies of the State Government; all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year. Within this structure, budgetary control by agency is maintained at the program and line category level. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers.

Except in specific instances, only the Legislature may transfer appropriations between departments. Changes in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budgets or separate pieces of legislation. For the year ended June 30, 2012, the Legislature increased appropriations to the General Fund by $86.6 million.

Actual expenditures did not exceed legislatively authorized appropriations at the Department level; therefore, the State complied with all related budget laws at the legal level.

Governmental Fund Balances – Restricted, Committed and Assigned

The State's fund balances represent: (1) restricted purposes, which include balances legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature; (3) assigned purposes, which includes balances that are constrained by government's intent to be used for specific purposes, but are neither restricted or committed. A summary of the nature and purpose of these fund balance types at June 30, 2012 are as follows:

Governmental Fund Balances
(Expressed in Thousands)

	Restricted	Committed	Assigned
General Fund:			
Natural Resources Development & Protection	$ 2,989	$ -	$ -
Total	$ 2,989	$ -	$ -
Highway Fund:			
Transportation Safety & Development	$ 31,943	$ -	$ -
Justice and Protection	3,743	-	-
Governmental Support & Operations	375	-	-
Natural Resources Development & Protection	3	-	-
Total	$ 36,064	$ -	$ -
Federal Fund:			
Governmental Support & Operations	$ 5,108	$ -	$ -
Health and Human Services	9,165	-	-
Justice and Protection	-	-	-
Natural Resources Development & Protection	-	-	-
Total	$ 14,273	$ -	$ -
Other Special Revenue Fund:			
Arts, Heritage & Cultural Enrichment	$ 160	$ 10	$ 4
Business Licensing & Regulation	68,388	991	371
Economic Development & Workforce Training	6,927	4,417	1,174
Education	903	20	7
Governmental Support & Operations	85,421	17,407	35
Health and Human Services	21,301	10,597	9,650
Justice and Protection	3,992	1,719	765
Natural Resources Development & Protection	40,112	3,133	430
Transportation Safety & Development	164,488	142	53
Total	$ 391,692	$ 38,436	$ 12,489
Other Governmental Funds:			
Capital Projects	$ 26,735	$ -	$ -
Natural Resources Development & Protection	58,814	-	-
Education	75	-	-
Other	158	-	-
Total	$ 85,782	$ -	$ -

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
Governmental Accounting Standards Board (GASB) Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs became effective for the State for the year ended June 30, 2012 when the State acquired and became responsible for the closure and postclosure monitoring costs of the Dolby Landfills. This Statement established accounting and financial reporting for municipal solid waste landfill (MSWLF) closure and postclosure care costs. As a result of applying this Statement, the State's beginning net assets have been restated. Beginning net assets for Governmental Activities were reduced by $7.4 million.

During fiscal year 2012, statute changes necessitated that an entity (CDS) that had once been reported as a discretely presented component unit to be reported as a blended component unit of the State. Accordingly, beginning fund balance for the non-major governmental funds decreased by $4.3 million and beginning net assets for the governmental activities decreased by $3.7 million.

Additional statute changes required that an entity (Maine Turnpike Authority) that had once been reported as a related party to be reported as a discretely presented component unit of the State. This required that beginning net assets for the component units to be increased by $123.1 million.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Three internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2012. The Workers' Compensation Fund reported a deficit of $14.5 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $3.8 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $1.9 million because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of $25 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The General Fund shows a deficit fund balance of $349.9 million at June 30, 2012. This deficit is primarily due to the full recognition of the State's share of Medicaid liabilities at fiscal year end, which are funded throughout the year with the aforementioned tax revenue. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under Governmental Accounting Standards Board (GASB) Statement No. 33. Per GASB 33, revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

The Child Development Services Special Revenue Fund shows a deficit of $2.2 million. This deficit has accumulated through operating losses dating back to the year ended June 30, 2008.

NOTE 5 - DEPOSITS AND INVESTMENTS

Title 5 MRSA § 135 governs the deposit and investment policies of the State of Maine Office of the Treasurer. The Treasurer may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State and any national bank or federal savings and loan association located in the State.

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. The Treasurer may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and the consent of the Governor.

Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 36 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 months; prime commercial paper; tax-exempt obligations; corporate bonds rated "AAA" that mature within 36 months from the date of investment; banker's acceptances; and "no-load" shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares maintain a constant share price. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by Title 5 MRSA § 138. The Treasurer, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions and the Attorney General, shall invest the funds in securities that are legal investments in accordance with Title 9-B MRSA. The investments need not be segregated to the separate trusts, but the identity of each trust must be maintained. The Treasurer may enter into custodial care and servicing contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

No amounts exceeding 25 percent of the capital, surplus, and undivided profits of any trust company or national bank or 25 percent of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any one institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

With assistance from the Finance Authority of Maine, the Treasurer participates in a restricted deposit program to encourage banks to provide loans at two percent below market rate. The Treasurer may invest up to $8 million in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. $4 million of this program are earmarked for loans to agricultural enterprises and the other $4 million are designated for commercial entities.

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2012:

Primary Government Deposits and Investments
(Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Private Purpose Trusts	Agency Funds	Total
Equity in Treasurer's Cash Pool	$ 353,409	$ 23,464	$ 1,632	$ 13,574	$ 392,079
Cash and Cash Equivalents	2,473	1,901	-	27	4,401
Cash with Fiscal Agent	151,337	-	-	-	151,337
Investments	73,281	-	11,501	-	84,782
Restricted Equity in Treasurer's Cash Pool	29,374	-	-	-	29,374
Restricted Deposits and Investments	3,694	269,597	-	11	273,302
Investments Held on Behalf of Others	-	-	6,013,272	70,180	6,083,452
Other Assets	-	-	-	-	-
Total Primary Government	$ 613,568	$ 294,962	$ 6,026,405	$ 83,792	$ 7,018,727

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In general, the State holds securities to maturity. All debt securities are reported at full-term.

The following table provides the segmented time distribution of the Primary Government's investments at June 30, 2012:

	Less than 1	1 - 5	6 - 10	11 - 20	More than 20	No Maturity	Fair Value
			Maturities in Years (Expressed in Thousands)				
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	$ 8,319	$ 140,310	$ -	$ -	$ -	$ -	$ 148,629
US Treasury Notes	-	7,673	-	-	-	-	7,673
Repurchase Agreements	45,742	-	-	-	-	-	45,742
Corporate Notes and Bonds	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	473	4,274	-	-	-	-	4,747
Money Market	-	-	-	-	-	-	-
Cash and Cash Equivalents	-	-	-	-	-	207,562	207,562
Unemployment Fund							
Deposits with US Treasury	-	-	-	-	-	269,597	269,597
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	255	5,879	130	232	971	-	7,467
US Treasury Notes	3,069	7,674	4,650	10,913	-	1,400	27,706
Repurchase Agreements	1,712	-	-	-	-	-	1,712
Corporate Notes and Bonds	3,239	3,515	865	197	1,258	5,978	15,052
Other Fixed Income							
Securities	9,514	89	5,643	-	-	-	15,246
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	10,808	14	-	-	-	-	10,822
Money Market	-	-	-	-	-	1,090	1,090
Cash and Cash Equivalents	-	-	-	-	-	23,951	23,951
Equities	-	-	-	-	-	41,511	41,511
Other	-	-	-	-	-	25,611	25,611
	$ 83,131	$ 169,428	$ 11,288	$ 11,342	$ 2,229	$ 576,700	$ 854,118
NextGen College Investing Plan							6,013,272
Other Assets							-
Cash with Fiscal Agent							151,337
Total Primary Government							$ 7,018,727

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. The State's investment policy limits its investments to those with high credit quality made by or with the advice and upon the due diligence of the State's independent investment advisor. The State limits credit risk in its trusts by ensuring that at least 85 percent of the debt securities are rated A or better.

The Primary Government's total investments by credit quality rating as of June 30, 2012 are presented below:

	Standard & Poor's Credit Rating (Expressed in Thousands)								
	A1	A	AA	AA+	AAA	BB	BBB	Not Rated	Total
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	$ -	$ -	$ 148,629	$ -	$ -	$ -	$ -	$ -	$ 148,629
US Treasury Notes	-	-	7,673	-	-	-	-	-	7,673
Corporate Notes and Bonds	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	-	5,528	-	-	-	-	1,939	7,467
US Treasury Notes	-	-	1,133	-	-	-	-	26,574	27,707
Corporate Notes and Bonds	-	852	188	-	39	20	611	13,648	15,358
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Other Fixed Income Securities	-	-	-	-	5,727	-	-	9,519	15,246
Total Primary Government	$ -	$852	$163,151	$ -	$ 5,766	$ 20	$ 611	$51,680	$ 222,080

Concentration of Credit Risk –Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than 10 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2012, there were no investments that exceeded five percent of the Treasurer's Cash Pool.

Custodial Credit Risk - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's $6.2 million invested in non-negotiable certificates of deposit, none exceeded the FDIC insured amounts for the institutions at which they were held. The

State does not have a policy regarding custodial credit risk for its trusts. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name.

The fair value of the trust's investments as of June 30, 2012 was $58.7 million and was comprised of the following:

U.S. Instrumentalities	$ 1,232
US Treasury Notes	846
Corporate Notes and Bonds	1,710
Other Fixed Income Securities	9,603
Equities	41,205
Cash and Equivalents	1,135
Other	3,005
Total	$ 58,736

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2012 these disbursements, on average, exceeded $134.1 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Maine Public Employees Retirement System (the System) makes investments in a combination of equities, fixed income securities, infrastructure, private equity, real estate, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy.

Derivative Securities – Derivative financial instruments are financial contracts whose value depends on the value of one or more underlying assets, reference rates or financial indices. They include futures, forwards, options, and swap contracts. The System's investments in derivative securities only have nominal exposure to custodial credit risk. Credit risk is managed, in the case of exchange-traded derivatives, by the execution of trades through a clearinghouse and, in the case of over-the-counter transactions, by managers' due diligence assessment and approval of counterparties. Market risk is managed by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and are monitored by the Chief Investment Officer.

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. The System's fixed income managers invest in CMOs and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. At June 30, 2012, no balances of the System's CMO and Asset-Backed Security holdings were outstanding. The System also invests in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities.

Securities Lending - The System has also entered into agreements for securities lending transactions, which are collateralized in an amount generally valued at 102 percent (105 percent for international securities) of the market value of the securities loaned. All securities and loans can be terminated on demand by either the lender or the borrower.

Cash open collateral is invested in a short-term investment pool, the Core Limited Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2012 all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB

Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2012 was $812.2 million and $792.2 million, respectively.

The following table details the System's derivative investments at June 30, 2012:

(Expressed in Thousands)

	2012 Changes in Fair Value	Fair Value at June 30, 2012		Notional
		Classification	Amount	
Futures:				
Equity Index Futures Contracts	$ 1,181	OSIC*	$ 1,455	$ 56,417

*OSIC = Obligations to settle investment contracts

NEXTGEN COLLEGE INVESTING PLAN

The Maine College Savings Program Fund (the Fund) doing business as NextGen College Investing Plan (the Program), was established in accordance with Title 20-A MRSA §11473, to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a Qualified State Tuition Program under Section 529 of the Internal Revenue Code.

The statute authorizes the Finance Authority of Maine ("FAME") to administer the Program and act as administrator of the Fund. The Fund is held by the Treasurer of the State who invests it under the direction of and with the advice of a seven member Advisory Committee on College Savings, which is chaired by the Treasurer. See Note 16 for additional information. FAME and the Treasurer have selected Merrill Lynch as the Program Manager. The Program is reported as a private purpose trust fund in the financial statements of the State.

NextGen's investments are comprised of 59 different investment portfolios which are reported at fair value and total $6.0 billion at June 30, 2012.

Custodial Credit Risk – NextGen, in accordance with its Program Description, primarily invests in open-end mutual funds, which, according to GASB Statement No. 40, do not bear custodial credit risk; hence, the Program's exposure to custodial credit risk arising from its investment in mutual funds is considered to be insignificant.

The Program makes some investments in entities which are not mutual funds including a Guaranteed Investment Contract (GIC) issued by Transamerica Life Insurance Company in the Principal Plus Portfolio. Because an investment in a GIC represents a contractual investment rather than a security, it is not deemed to be subject to custodial credit risk.

The Program also invests in the Cash Allocation Account (the Account), a separate account that was established by FAME. All of the Account investments are held in either the name of the Account or the Account Agent's name, thereby minimizing the custodial credit risk.

Credit Risk - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2012 was $262.7 million.

The assets of the Account are invested in a portfolio of high-quality, short-term money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, other short-term debt securities issued by U.S. and foreign entities, and repurchase agreements. In addition, the Account invests in certificates of deposit issued by Maine financial institutions in accordance with instructions from FAME and the Treasurer. All Maine Certificate of Deposit's are FDIC insured or fully collateralized. The value of the Account at June 30, 2012 was $271.7 million.

Concentration of Credit Risk – The Program has not established an investment policy that specifically limits its exposure to concentration of credit risk because the Program principally invests in mutual funds which have been excluded by GASB Statement No. 40 from its concentration of disclosure risk requirements.

Interest Rate Risk – The Program has not established an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account all invest in securities that are subject to interest rate risk.

Market values of the above-mentioned investments are presented below (in thousands):

	Fair Value
Principal Plus Portfolio	$ 262,698
Cash Allocation Account	271,747
Fixed Income Securities	1,826,891
Total Fair Value	$2,361,336

COMPONENT UNITS

Generally, component unit investment policies authorize investments in obligations of U.S. Treasury and Agency Securities, repurchase agreements, corporate bonds, certificates of deposit and money market funds. Some component units may invest in stocks, bonds, fixed income securities, mutual funds, commingled mutual funds and index funds, guaranteed investment contracts, real estate and other investment securities.

Certain component units also invest in the Treasurer's Cash Pool and comprise approximately 20 percent of pool assets. The component units reported their participation as either Cash and Cash Equivalents or Investments on their financial statements. The State reclassified $97.2 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes $4.7 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements as invested in the Treasurer's Cash Pool.

NOTE 6 - RECEIVABLES

Receivable balances are segregated by type, and presented in the fund financial statements net of allowance for uncollectibles. The following tables disaggregate amounts considered to be uncollectible by fund and type of receivable as of the close of the fiscal year:

Primary Government – Receivables
(Expressed in Thousands)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$554,720	$124,608	$1	($176,854)	$502,475
Highway	31,396	3,630	27	(4,250)	30,803
Federal	-	102,605	-	(30,032)	72,573
Other Special Revenue	11,278	77,401	5,510	(10,783)	83,406
Other Governmental Funds	-	39	-	-	39
Total Governmental Funds	597,394	308,283	5,538	(221,919)	689,296
Allowance for Uncollectibles	(133,019)	(88,900)	-		
Net Receivables	$464,375	$219,383	$5,538		$689,296
Proprietary Funds:					
Employment Security	$ -	$50,641	$ -	($19,175)	$31,466
Nonmajor Enterprise	-	26,304	-	(1,074)	25,230
Internal Service	-	463	-	-	463
Total Proprietary Funds	-	77,408	-	(20,249)	57,159
Allowance for Uncollectibles	-	(20,249)	-		
Net Receivables	$ -	$ 57,159	$ -		$57,159

Component Units – Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$692	$ -	$31,145	($6,018)	$25,819
Maine Community College System	17,326	-	-	(1,186)	16,140
Maine Health and Educational Facilities Authority	676	1,145,111	-	(427)	1,145,360
Maine Municipal Bond Bank	877	-	-	-	877
Maine State Housing Authority	28,146	1,418,484	364	(11,273)	1,435,721
Maine Turnpike Authority	3,555	-	-	-	3,555
University of Maine System	56,600	-	41,585	(6,505)	91,680

NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivables and payables represent amounts owed to one State fund by another, for goods sold or services received, or for borrowings to eliminate negative balances in the Treasurer's Cash Pool.

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2012 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 1,348	$ -	$ -
Highway	1	1	7,171	-	-
Federal	16	1	106	1,292	-
Other Special Revenue	119,924	85	143	140	19
Other Governmental	214	-	-	-	-
Employment Security	-	-	24	-	-
Non-Major Enterprise	143	124	1	2	-
Internal Service	8,592	2,969	3,632	3,249	-
Fiduciary	30,195	-	-	-	-
Total	$ 159,085	$ 3,180	$ 12,425	$ 4,683	$ 19

Due from Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 4,989	$ 5,479	$ 2,647	$ 14,463
Highway	-	-	-	-	7,173
Federal	-	-	-	-	1,415
Other Special Revenue	-	9	30	-	120,350
Other Governmental	-	-	-	-	214
Employment Security	-	-	-	-	24
Non-Major Enterprise	-	-	-	-	270
Internal Service	-	241	777	8	19,468
Fiduciary	-	-	-	-	30,195
Total	$ -	$ 5,239	$ 6,286	$ 2,655	$ 193,572

Not included in the table above are interfund loans/advances, which are not expected to be repaid within one year. Postal, Printing & Supply (an internal service fund) owes $111 thousand to the General Fund for operating capital.

Included in the Due to/Due from other funds is $15 million due to the Other Special Revenue Fund related to the General Fund's negative cash position in the Treasurer's Cash Pool. This type of temporary loan is typical; cash is frequently borrowed and returned depending on cash flow needs. Additionally, $91 million due to the Other Special Revenue Fund from the General Fund relates to the interfund borrowing authorized in Public Law 2011, Chapter 655, Part DDD-1.

Transfers are made in accordance with statutory authority. Significant transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the funds required to pay debt service as principal and interest payments come due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

During fiscal year 2012, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers.

The Dirigo Health Fund transferred $10.5 million to the Department of Health and Human Services, Other Special Revenue Fund.

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 4,810	$ 73,745	$ -
Highway	1,979	-	25,011	1,803	-
Federal	2,120	-	-	15,627	-
Other Special Revenue	171,895	5,300	9,984	-	2,549
Other Governmental Funds	32,927	-	-	-	1,522
Employment Security	-	-	-	-	-
Non-Major Enterprise	3,197	3,949	70	356	-
Internal Service	4,709	705	2,769	237	-
Fiduciary	-	-	-	1	671
Total	$ 216,827	$ 9,954	$ 42,644	$ 91,769	$ 4,742

	Transferred From				
Transferred To	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 53,817	$ 2,350	$ -	$ 134,722
Highway	-	-	535	-	29,328
Federal	1,420	-	509	-	19,676
Other Special Revenue	-	17,262	180	790	207,960
Other Governmental Funds	-	-	-	-	34,449
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	-	141	-	7,713
Internal Service	-	185	616	-	9,221
Fiduciary	-	-	-	-	672
Total	$ 1,420	$ 71,264	$ 4,331	$ 790	$ 443,741

NOTE 8 - CAPITAL ASSETS

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2012:

Primary Government – Capital Assets
(Expressed in Thousands)

	Beginning Balance (Restated)	Increases and Other Additions	Decreases and Other Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 488,197	$ 9,996	$ 300	$ 497,893
Construction in progress	119,419	36,198	107,144	48,473
Infrastructure	3,814,466	204,500	-	4,018,966
Total capital assets not being depreciated	4,422,082	250,694	107,444	4,565,332
Capital assets being depreciated:				
Buildings	592,943	49,745	16,487	626,201
Equipment	255,915	19,679	19,966	255,628
Improvements other than buildings	19,796	1,051	4	20,843
Software	9	58,720	-	58,729
Total capital assets being depreciated	868,663	129,195	36,457	961,401
Less accumulated depreciation for:				
Buildings	239,590	19,723	9,592	249,721
Equipment	175,869	16,206	19,248	172,827
Improvements other than buildings	12,951	1,108	1	14,058
Software	4	4,625	-	4,629
Total accumulated depreciation	428,414	41,662	28,841	441,235
Total capital assets being depreciated, net	440,249	87,533	7,616	520,166
Governmental Activities Capital Assets, net	$ 4,862,331	$ 338,227	$ 115,060	$ 5,085,498

	Beginning Balance	Net Additions	Net Deletions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 58,888	$ -	$ -	$ 58,888
Construction in progress	32,024	7,109	20,578	18,555
Total capital assets not being depreciated	90,912	7,109	20,578	77,443
Capital assets being depreciated:				
Buildings	9,449	-	-	9,449
Equipment	67,037	18,815	4,960	80,892
Improvements other than buildings	63,342	11,547	-	74,889
Total capital assets being depreciated	139,828	30,362	4,960	165,230
Less accumulated depreciation for:				
Buildings	5,920	251	-	6,171
Equipment	49,603	5,863	2,763	52,703
Improvements other than buildings	28,860	2,176	-	31,036
Total accumulated depreciation	84,383	8,290	2,763	89,910
Total capital assets being depreciated, net	55,445	22,072	2,197	75,320
Business-Type Activities Capital Assets, net	$ 146,357	$ 29,181	$ 22,775	$ 152,763

During the fiscal year, depreciation expense was charged to the following functions in the governmental activities column of the Statement of Activities for the primary government:

Governmental Activities – Depreciation Expense
(Expressed in Thousands)

		Amount
Governmental Activities:		
Arts, Heritage and Cultural Enrichment	$	16
Business Licensing and Regulation		429
Economic Development and Workforce Training		1,180
Education		621
Governmental Support and Operations		5,829
Health and Human Services		8,161
Justice and Protection		10,835
Natural Resources Development and Protection		3,156
Transportation Safety and Development		11,435
Total Depreciation Expense – Governmental Activities	$	41,662

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTIONS

The Maine Public Employees Retirement System, formerly named the Maine State Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423, and 425. The System provides pension, disability, and death benefits to its members, which includes employees of the State, public school employees (defined by Maine law as teachers and for whom the State is the employer for retirement contribution and benefit purposes, or SETP) and employees of 293 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2012 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Maine Public Employees Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering an agent, multiple-employer plan for financial reporting purposes. The statements include $2.1 billion of assets related to the PLD's. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

The total funds managed by the System are constitutionally restricted and held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan.

The System administers three defined contribution plans for employees of PLD's that elect to participate. At June 30, 2012, there were 57 employers participating in these plans. The 817 participants individually direct the $16.5 million in net assets covered by the plans.

The System also provides group life insurance under a plan administered by a third party insurance company and invests long-term assets for the Retiree Health Insurance Post-Employment Benefits Investment Trust Fund. Note 10 provides for further disclosure.

BASIS OF ACCOUNTING

The System's financial statements are prepared on the accrual basis of accounting. Pension contributions are recognized as additions in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized when earned. Contributions to defined contribution plans are recognized in the period they are contributed. Pension benefits and contributions and premium refunds are recognized as deductions when due and payable in accordance with Statutes. Benefits payable incurred but not reported are reflected as other liabilities. Distributions from defined contribution plans are recognized in the period the disbursement is made.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

CONTRIBUTION INFORMATION

Membership in each defined benefit plan consisted of the following at June 30, 2012:

	State Employees and Teachers Plan	Consolidated Plan for PLD
Active vested and nonvested members	39,594	10,800
Terminated vested participants	6,378	1,220
Retirees and benefit recipients	30,689	7,719
Total	76,661	19,739
Number of participating employers/sponsors	1	293

Contributions from members and employers and earnings from investments fund retirement benefits. Employer contributions and investment earnings fund disability and death benefits. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by biennial actuarial valuations.

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 terminated members' accounts is set by the System's Board of Trustees and is currently 5 percent.

STATE EMPLOYEES AND TEACHERS PENSION PLAN SPECIFICS

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

PARTICIPATING LOCAL DISTRICTS PLAN SPECIFICS

In the event that a PLD withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The PLD remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members; and for those active employees, whether or not vested, who remain contributing System members.

SPECIAL FUNDING SITUATION – TEACHERS DEFINED BENEFIT PENSION PLAN

The State is legally responsible for contributions to the Teacher Group that covers retirees of other governmental entities. The State is the sole "employer" contributor for the teachers; and, therefore, is acting as the employer.

FUNDED STATUS AND FUNDING PROGRESS – DEFINED BENEFIT PENSION PLANS

The funded status of each plan as of June 30, 2012, the most recent biennial actuarial valuation date, is as follows:

(Expressed in Thousands)

Plans	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
SETP	8,939,788	11,605,891	2,666,103	77.0%	1,727,667	154.3%
PLD's	2,136,653	2,405,708	269,055	88.8%	476,244	56.5%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. Additional information as of the latest actuarial valuation date follows:

	SETP	PLD's
Valuation date	June 30, 2012	June 30, 2012
Actuarial cost method	Entry age	Entry age
Version	Individual	Individual
Amortization method	Level percent closed	Level dollar open
Remaining amortization period	16 [1]	15
Asset valuation method	3 - Year smoothed market	3 - Year smoothed market
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	3.50%	3.50% - 9.50%
Includes inflation at	3.50%	3.50%
Cost of living adjustments	2.55%	3.12%
Most recent review of plan experience:	2011	2011
Former actuarial assumptions:		
Version of actuarial cost method	New entrant	New entrant
Retirement assumption	lowered to reflect the closing of the retirement window for early retiree health coverage	

[1] The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2010 was determined by the 2008 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 5 years remained at June 30, 2012.

CONTRIBUTION RATES – DEFINED BENEFIT PENSION PLANS

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, based upon certain assumptions, are expressed as percentages of annual covered payroll and are sufficient to accumulate adequate assets to pay benefits when due.

In order to reduce any unfunded pension liability for State employees and teachers under Title 5 MRSA § 1536, the State is required to remit 20 percent of its General Fund unappropriated surplus to the System at year-end. For fiscal 2012, no amount was owed.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 2012 for participating entities:

State	
Employees [1]	7.65 - 8.65%
Employer [1]	23.47 - 101.26%
Teachers	
Employees	7.65%
Employer	23.94%
Participating Local Entities	
Employees [1]	3.0 - 8.0%
Employer [1]	2.4 - 10.2%

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees and/or, in the case of participating local districts (PLDs), on benefit plan options selected by a particular participating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

ANNUAL PENSION COST AND NET PENSION OBLIGATION

The State is one of several employers whose employees are System members. The State's net pension obligation shown at the end of the year includes the pension liability related to its employees. It does not include the pension liability related to PLD's. The State's annual pension cost and net pension obligation to the System for the current year were:

Net Pension Obligation
(Expressed in Thousands)

Annual required contribution	$ 252,830
Interest on net pension obligation	147
Adjustment to annual required contribution	(165)
Annual pension cost	252,812
Contributions made	252,830
Increase (decrease) in net pension obligation	(18)
Net pension obligation beginning of year	2,028
Net pension obligation end of year	$ 2,010

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2012	$ 252,812	100.01%	$ 2,010
2011	328,127	101.77%	2,028
2010	318,171	103.47%	7,845

Employer contributions met actuarially determined contribution requirements.

COMPONENT UNIT PARTICIPANTS

The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine Public Employees Retirement System have defined benefit pension plans. All are participating local entity participants in plans administered by the Maine Public Employees Retirement System. For financial reporting purposes, employees of the Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, and the Northern New England Passenger Rail Authority are combined with State employees for retirement benefit purposes and are included in the pension disclosures of the State.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

POST RETIREMENT HEALTHCARE PLANS

The State sponsors and contributes to two defined benefit healthcare plans: a sole employer plan for its employees, and county and municipal law enforcement officers and firefighters (First Responders). Each plan provides medical benefits to eligible retired employees and beneficiaries. Statute prescribes what portion of health insurance costs are funded by the State. The State also agreed to fund a set percentage of retiree healthcare costs for teachers. Statute prescribes what portion of health insurance costs are funded by the State.

The State of Maine funds post retirement health care benefits for most retired State employees and legislators, as authorized by Title 5 MRSA § 285, and for a portion of the premiums for teachers, as authorized by Title 20-A MRSA § 13451. Pursuant to Title 5 MRSA § 285 most retired employees of the Maine Turnpike Authority, Maine Community College System, Maine Maritime Academy, Maine Public Employees Retirement System, and Maine Educational Center for the Deaf and Hard of Hearing are eligible to participate in the health plan but are not funded by the State. Specifically excluded (Title 5 MRSA § 285 1-B) are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities and their instrumentalities, except as provided in subsection 11-A. Title 5 MRSA § 286-M included retired county or municipal law enforcement officers and municipal firefighters, as defined in subsection 286-M, who participate in an employer-sponsored retirement plan and, prior to July 1, 2007 were enrolled in a self-insured health benefits plan offered by the employing county or municipality.

The State pays 100 percent of post retirement health insurance premiums for state employee retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Per Title 5 MRSA § 285 paragraphs 2 and 3, coverage depends upon terms and conditions contained in collective bargaining agreements with the State Health Commission. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. Retirees must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees ineligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse.

Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent of the retiree-only premium. The rate is based on a single rate for single and employee plus children coverage, or 50 percent of the two party rate for two party and family coverage.

For State employees and Teachers, other options exist. Part-time employees are eligible for prorated benefits with retirees who worked 50 percent or more of full-time hours receiving 100 percent of the benefit. Surviving spouses and dependents may continue in the plan and pay 100 percent of the premium. Retirees ineligible for a State contribution are allowed to participate and pay the retiree premium.

County and municipal law enforcement officers and municipal firefighters began coverage in Fiscal Year 2008 with the State contributing 45 percent of the retiree-only premium of their respective plans. The State's premium subsidy is based on the Title 5 MRSA § 285 paragraph 11-A C cost of the retiree's share of the individual premium for the standard plan identified and offered under the group health insurance plan in which the retiree enrolls. The State subsidy ends after the retiree is eligible for Medicare. First Responders are eligible if they retire after age 50 with 25 or more years of service and receive a retirement benefit from either the MPERS or a defined contribution plan. If retirees have fewer than 25 years of service, the normal retirement benefit must be at least 50 percent of final average compensation. Retirees must also participate in their employer's health insurance plan or other fully insured health plan for at least 5 years. Retirees can elect to participate in the plan at their retirement date. If participation is waived at that time, the retiree is ineligible to participate at a later date.

The State also administers a fourth defined benefit healthcare plan, (Ancillary Group Plan), which covers two non-major discretely presented component units. Under the Ancillary Group Plan, the State acts as the plan administrator only.

Beginning in the fiscal year ending June 30, 2008, each participating employer is required by GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

PLAN MEMBERSHIP

Membership in the four healthcare plans is as follows:

	State Employees	Teachers	First Responders	Ancillary Groups
Actives	12,419	28,375	741	63
Retirees	9,587	9,520	80	13
Total	22,006	37,895	821	76
Number of employers	1			2
Contributing entities		1	1	2

STATE EMPLOYEES PLAN FUNDING POLICY

Title 5 MRSA § 286-B authorized an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or less from July 1, 2007.

Public Law 2007, Chapter 240, amended Title 5 Chapter 421 by establishing the Irrevocable Trust for Other Post-employment Benefits. MPERS holds and invests long-term funds in the irrevocable trust fund. Its fiduciary responsibilities include setting investment policy in order to fund the plan in accordance with a projected disbursement schedule that does not begin before the year 2027.

TEACHERS PLAN AND FIRST RESPONDERS PLAN FUNDING

A special funding situation exists for these plans. The State is statutorily responsible for contributions to the Teachers Plan and the First Responders Plan that cover the retirees of other governmental entities. The State is the sole contributing entity for Teachers and the primary contributing entity for the First Responders, therefore, making the contribution on behalf of the employing jurisdictions at a 45 percent level for the current portion of the health plan costs and are not included in the Trust.

Public Law 2011, Chapter 380 Pt. Y § 2 established separate Irrevocable Trust Funds for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust funds. Annually, beginning with the fiscal year starting July 1, 2011, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability for eligible first responders in 30 years or less from July 1, 2007. Annually, beginning with the fiscal year starting July 1, 2013, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability at June 30, 2006 for eligible teachers in 30 years or less from July 1, 2007.

No implied subsidy is calculated for either plan. The State does not pay for any of the costs of active employees. The State limited its contribution to 45 percent of the retiree-only premium.

ANCILLARY GROUP PLAN

The following plan, administered by the State, is financially independent and is not included in the State Retiree Health Internal Service Fund. This multiple-employer agent postemployment benefit plan covers 11 retirees of two non-major component units: Maine Educational Center for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. All active employees participate in the State Employee Group Health Insurance Plan. All eligible retired employees who elect coverage are included in this plan. The State Employee Health Commission establishes premiums annually.

ANNUAL OPEB COST

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	Teachers	First Responders
Annual required contribution	$ 126,000	$ 55,000	$ 1,350
Interest on net OPEB obligation	2,000	6,000	114
Adjustment to annual required contribution	(5,000)	(12,000)	(210)
Annual OPEB cost	123,000	49,000	1,254
Contributions made	73,000	22,000	434
Increase (decrease) in net healthcare obligation	50,000	27,000	820
Net healthcare obligation beginning of year	42,228	146,956	2,838
Net healthcare obligation end of year	$ 92,228	$ 173,956	$ 3,658

The annual OPEB cost for the current year, the percentage of annual OPEB cost contributed to the plan, and the net OPEB (asset) obligation for each plan are as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
State Employees	6/30/2012	123,000	59.35%	92,228
	6/30/2011	119,000	71.43%	42,228
	6/30/2010	92,000	59.78%	8,228
Teachers	6/30/2012	49,000	44.90%	173,956
	6/30/2011	58,000	31.03%	146,956
	6/30/2010	56,000	33.93%	106,956
First Responders	6/30/2012	1,254	34.61%	3,658
	6/30/2011	845	61.89%	2,838
	6/30/2010	1,051	35.01%	2,516

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plans as of June 30, 2012 was as follows:

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
	June 30, 2012	136	1,316	1,180	10.33%	502	235.06%
State Employees (in millions)	June 30, 2011	112	1,544	1,432	7.25%	567	252.56%
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
Teachers (in millions)	June 30, 2012	0	665	665	0.00%	1,156	57.53%
	June 30, 2011	0	801	801	0.00%	1,098	72.95%
	June 30, 2010	0	994	994	0.00%	1,064	93.42%
	June 30, 2011	0	21,921	21,921	0.00%	42,242	51.89%
First Responders (in thousands)	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%
	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	State Employees	Teachers	First Responders
Valuation date	June 30, 2012	June 30, 2012	June 30, 2011
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period - UAAL	25	25	26
Plan changes	30-year fixed [1]	30-year fixed [1]	20-year fixed
Actuarial (gains) /losses	10-year fixed	15-year fixed	rolling 15 year period
Asset valuation method	investment gains and losses spread over a 5 - year period no less than 80% nor more than 120% of market value	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.00% 7.25% ultimate	4.00% 7.25% ultimate	4.00%
Projected salary increases	3.25%	3.25%	3.00%
Inflation rate	3.00%	3.00%	3.00%
Healthcare inflation rate	initial - actual premiums [2] ultimate 5.00%	initial - actual premiums [2] ultimate 5.00%	8.50% ultimate 5.00%
Former actuarial assumptions:			
Investment rate of return			4.50%
Projected salary increases			3.75%
Inflation rate			3.75%
Healthcare inflation rate			8.00% [2]

[1] Initial UAAL and plan changes are amortized over a 30 year period from 6/30/07.

[2] Healthcare cost assumptions for the first 2 fiscal years include no increase in non-Medicare costs.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State's fiduciary financial statements are prepared on the accrual basis of accounting. Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense. Investment income is recognized when earned.

CONTRIBUTIONS AND RESERVES
The State Employees Health Insurance Committee establishes contributions to the plan by member employers and employees annually. Both active and retired members pay the same premium rate. Claims liabilities of the plan are periodically computed using statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants.

INVESTMENTS
Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

POST RETIREMENT GROUP LIFE INSURANCE BENEFIT PLAN
The Maine Public Employees Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit Group Life Insurance Plan (GLIP) administered by a third party insurance company in accordance with Title 5 MRSA C. 423 and 425. Members include employees of the State, public school employees (defined by Maine law as teachers and for whom the State acts like the employer for retirement contribution and benefit purposes), members of the Judiciary and the Legislature, that are eligible for membership in the System. Group life insurance benefits are also provided to employees of 293 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine that elect to participate under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2012 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Plan provides Basic group life insurance benefits, during retirement, to retirees who participated in the group life insurance plan prior to retirement for a minimum of 10 years. The 10 year participation requirement does not apply to recipients of disability retirement benefits. The level of coverage in retirement is initially set to an amount equal to the retiree's average final compensation. The initial amount of Basic group life insurance benefit is then subsequently reduced at the rate of 15% per year to the greater of 40% of the initial amount or $2,500.

Group life insurance funds managed by the System are constitutionally restricted and held in trust for the payment of benefits to participants or their beneficiaries. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs a single actuarial valuation that provides separate data for each participating entity.

BASIS OF ACCOUNTING
The System's financial statements are prepared on the accrual basis of accounting. Premiums paid, by or on behalf of those covered, are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company for premiums collected plus additional payments representing administrative fees.

Group life insurance premiums are recognized as additions in the period when they become due. Investment income is recognized when earned. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Group life insurance benefits and premium refunds are recognized as deductions when due and payable in accordance with Statutes. In addition, an estimate is made for group life insurance death benefits incurred before year end but not reported to the System until after year end. Group life insurance death benefits incurred but not reported are reflected as other liabilities.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

FUNDING POLICY

Premium rates are those determined by the System's Board of Trustees to be actuarially sufficient to pay anticipated claims and cover administrative costs. For State employee, legislative and judicial classes, the premiums for retiree life insurance coverage are factored into the premiums paid for Basic coverage while participants are active members. The State remits premiums at a single rate that supports basic coverage for active and retired State employees. This rate is $.56 per month for every $1,000 of coverage. Premiums for retiree life insurance coverage for retired teachers are paid by the State based on a rate of $.33 per $1,000 of coverage per month during the post-employment retirement period.

ANNUAL OPEB COST

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	Teachers
Annual required contribution	$ 3,250	$ 2,959
Interest on net OPEB obligation	(111)	-
Adjustment to annual required contribution	85	-
Annual OPEB cost	3,224	2,959
Contributions made	4,684	2,959
Increase (decrease) in net healthcare obligation	(1,460)	-
Net healthcare (asset) obligation beginning of year	(300)	-
Net healthcare (asset) obligation end of year	$ (1,760)	$ -

The State's OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB (Asset)
State Employees	6/30/2012	3,224	145.29%	(1,760)
	6/30/2011	4,268	89.22%	(300)
	6/30/2010	4,383	89.98%	(761)
Teachers	6/30/2012	2,959	100.00%	-
	6/30/2011	2,532	100.00%	-
	6/30/2010	2,417	100.00%	-

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plan as of June 30, 2012 was as follows:

(Expressed in Thousands)

		(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
State Employees	June 30, 2012	24,700	80,900	56,200	30.53%	553,500	10.15%
	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
Teachers	June 30, 2012	30,100	71,000	40,900	42.39%	630,800	6.48%
	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%
	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Asset valuation method	market
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.25%
Inflation rate	3.50%
Cost of living increases in life benefits	N/A
Participation percent for future retirees	100.00%
Form of benefit payment	lump sum
Former actuarial assumptions:	
Projected salary increases	3.50% - 10.50%

NOTE 11 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT

The State records its liability for general obligation bonds in the Governmental Activities column on the Statement of Net Assets. Other long-term obligations recognized by the State include: revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit; obligations under Certificates of Participation and other financing arrangements; loans payable to component unit for repayment of bonds issued by the Maine Municipal Bond Bank on behalf of the Maine Department of Transportation; compensated employee absences; and the State's net pension obligation; other post-employment benefits; and obligations for pollution remediation and landfill closure and postclosure care costs.

GENERAL OBLIGATION BONDS

Programs for which the State issues general obligation bonds include: adaptive equipment loan programs; environmental cleanup and protection; highway and transportation related projects; agricultural and small business job creation; and acquisition, construction, and renovation of major capital facilities including State parks and historic sites. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues and are repaid in annual installments beginning not more than one year after issuance.

Changes in general obligation bonds of the primary government during fiscal year 2012 were:

Primary Government - Changes in General Obligation Bonds
(Expressed in Thousands)

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
General Obligation Debt:					
General Fund	$ 378,880	$ 49,265	$ 81,055	$ 347,090	$ 85,595
Special Revenue Fund	141,350	-	16,385	124,965	16,735
Total	$ 520,230	$ 49,265	$ 97,440	$ 472,055	$ 102,330

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2012 until maturity, are summarized in the following table:

Future Debt Service on General Obligation Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2013	$ 102,330	$ 18,076	$ 120,406
2014	83,480	14,704	98,184
2015	69,650	11,886	81,536
2016	54,340	9,411	63,751
2017	49,105	7,102	56,207
2018 - 2022	113,150	10,611	123,761
Total	$ 472,055	$ 71,790	$ 543,845

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2012 are as follows:

Primary Government – General Obligation Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2012	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
General Fund:					
Series 2003	$ 97,080	$ 9,705	2003	2013	1.50% - 5.00%
Series 2004	117,275	19,560	2005	2014	2.00% - 5.27%
Series 2005	137,525	45,925	2006	2015	2.00% - 5.27%
Series 2006	52,390	20,945	2007	2016	4.00% - 5.51%
Series 2007	33,975	16,975	2008	2017	4.00% - 5.50%
Series 2008	46,525	27,905	2009	2018	3.00% - 5.13%
Series 2009	96,035	60,960	2011	2019	2.50% - 5.00%
Series 2010	31,755	23,055	2011	2020	1.41% - 4.00%
Series 2011	86,010	72,795	2012	2021	1.625% - 5.00%
Series 2012	49,265	49,265	2013	2022	1.00% - 5.00%
Total General Fund		$ 347,090			
Special Revenue Fund:					
Series 2004	$ 13,000	$ 2,175	2005	2014	2.00% - 4.00%
Series 2007	27,000	13,500	2008	2017	4.00% - 5.50%
Series 2008	57,550	34,530	2009	2018	3.00% - 5.13%
Series 2009	37,310	32,375	2011	2019	2.50% - 5.00%
Series 2010	25,080	22,475	2011	2020	1.41% - 4.00%
Series 2011	22,125	19,910	2012	2021	1.625% - 5.00%
Total Special Revenue		$ 124,965			

AUTHORIZED UNISSUED BONDS

Any bonds not issued within five years of the date of ratification may not be issued after that date. Within two years after expiration of the five-year period, the Legislature may extend, by a majority vote, the five-year period for an additional five years or may deauthorize the bonds. If the Legislature fails to take action within those two years, the bond issue shall be considered to be deauthorized and no further bonds may be issued. At June 30, 2012, general obligations bonds authorized and unissued totaled $40.8 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included $187.9 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of $325.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2012, MGFA issued Series 2011A Bonds, which totaled $33.0 million at an interest rate between 3.00 percent and 4.25 percent. At June 30, 2012, there were approximately $3.2. million of MGFA in-substance defeased bonds outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance construction of certain State buildings, to purchase or generate software, and to purchase equipment and vehicles, including school buses. COP's are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State and school districts maintain custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid.

Neither COP's nor the other financing arrangements constitute a legal debt, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

SHORT TERM OBLIGATIONS

The State of Maine did not issue or retire Bond Anticipation Notes during fiscal year 2012. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2012 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

OTHER LONG-TERM OBLIGATIONS

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Assets, the State has recorded long-term obligations for its compensated employee absences, net pension obligation, other post-employment benefit obligations, pollution remediation landfill closure and postclosure care costs.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2012, are summarized as follows:

Primary Government - Changes in Other Long-Term Obligations
(Expressed in Thousands)

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 172,150	$ 33,000	$ 17,285	$ 187,865	$ 18,245
COP's and Other Financing	71,830	7,171	26,904	52,097	26,323
Compensated Absences	46,443	156	4,545	42,054	4,430
Claims Payable	62,869	202,872	201,418	64,323	25,767
Capital Leases	33,690	1,386	5,298	29,778	5,324
Loans Payable to Component Unit	290,919	58,726	21,514	328,131	24,085
Net Pension Obligation	2,028	252,812	252,830	2,010	-
Other Post-Employment Benefit Obligation	190,622	168,962	92,879	266,705	-
Pollution Remediation and Landfill	47,037 *		18,157	28,880	-
Total Governmental Activities	$ 917,588 *	$ 725,085	$ 640,830	$ 1,001,843	$ 104,174
* as restated					
Business-Type Activities:					
Compensated Absences	$ 883	$ 765	$ 59	$ 1,589	$ 109
Other Post-Employment Benefit Obligation	1,400	4,292	2,555	3,137	-
Total Business-Type Activities	$ 2,283	$ 5,057	$ 2,614	$ 4,726	$ 109

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2012 until maturity, are summarized as follows:

Future Debt Service on MGFA Revenue Bonds, COP's and Other Financing Arrangements
(Expressed in Thousands)

	Governmental Funds			Internal Service Funds		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2013	$ 11,417	$ 35	$ 11,452	$ 33,151	$ 8,605	$ 41,756
2014	1,157	18	1,175	29,337	7,452	36,789
2015	570	3	573	23,908	6,467	30,375
2016	-	-	-	21,876	5,571	27,447
2017	-	-	-	19,351	4,717	24,068
2018 - 2022	-	-	-	59,675	13,696	73,371
2023 - 2027	-	-	-	23,235	6,149	29,384
2028 - 2031	-	-	-	16,285	1,498	17,783
Total	$ 13,144	$ 56	$ 13,200	$ 226,818	$ 54,155	$ 280,973

CONDUIT DEBT OBLIGATIONS

Under a General Bond Resolution adopted on June 5, 1973, Maine Health and Higher Educational Facilities Authority (MHHEFA) issues tax exempt bonds to assist in financing health care institutions and institutions for higher education. Loans to institutions made with proceeds of general resolution bonds are written for the entire amount of the bonds, including debt service reserve funds. Security for these bonds is limited to debt service reserve funds of and the loans to the specific institution for which the bond was issued. Therefore, these bonds are considered conduit debt.

LOANS PAYABLE TO COMPONENT UNIT

The State of Maine has pledged various revenue streams, as security for Grant Anticipation Bonds (GARVEE) and Transportation Infrastructure Revenue Bonds (TransCap) issued by the Maine Municipal Bond Bank (MMBB) on behalf of the Maine Department of Transportation to provide financing for qualified transportation projects.

Changes in GARVEE and TransCap revenue bonds during fiscal year 2012 were:

Primary Government - Changes in GARVEE and TransCap Loans Payable
(Expressed in Thousands)

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
Loans Payable to Component Unit:					
Federal Funds	$ 119,346	$ -	$ 11,095	$ 108,251	$ 12,291
Special Revenue Fund	171,573	58,726	10,419	219,880	11,794
Total	$ 290,919	$ 58,726	$ 21,514	$ 328,131	$ 24,085

Payment of principal and interest on the GARVEE bonds shall be subject to appropriation each year by the Legislature in an amount sufficient to cover the principal and interest requirements of MMBB's debt for these bonds. The State's receipt of these funds is subject to continuing federal appropriations. MMBB insured payments of principal and interest with a financial guaranty insurance policy. The bonds do not constitute a debt or obligation of the State.

Principal and interest on TransCap bonds are payable solely from pledged revenues, pledged rights, and pledged TransCap funds and accounts. Pledged revenues include certain motor vehicle registration and other fees, a portion of excise tax on gasoline and other special fuel, and certain amounts required to be transferred from the Highway Fund. All pledged revenues are required to be transferred to the TransCap Fund. The bonds do not constitute a debt or liability of the State.

GARVEE and TransCap Revenue bonds issued and outstanding at June 30, 2012 are as follows:

GARVEE and TransCap Revenue Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2012	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
Federal Funds:					
Series 2004	$ 48,395	$ 20,005	2005	2015	2.50% - 5.00%
Series 2008	50,000	39,400	2009	2020	3.25% - 4.00%
Series 2010A	25,915	23,340	2011	2017	2.00% - 5.00%
Series 2010B	24,085	24,085	2018	2022	4.52% - 5.32%
Total Federal Funds		$ 106,830			
Special Revenue Fund:					
Series 2008	$ 50,000	$ 42,800	2009	2023	3.00% - 5.50%
Series 2009A	105,000	93,405	2010	2023	2.50% - 5.00%
Series 2009B	30,000	28,350	2010	2024	2.00% - 5.00%
Series 2011A	55,000	55,000	2012	2026	2.00% - 5.00%
Total Special Revenue		$ 219,555			

Total principal and interest requirements over the life of the 2004 GARVEE bonds are $60.2 million, with annual requirements of up to $5.6 million; for the 2008 GARVEE bonds total principal and interest requirements are $63.1 million, with annual requirements of up to $5.3 million; for 2010 GARVEE bonds total principal and interest requirements are $66.3 million, with annual requirements of up to $5.3 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the 2004 GARVEE bonds totaled $175 million. Total federal highway transportation funds received in federal fiscal year 2012 were $207 million. Current year payments to MMBB for GARVEE bonds were $15.1 million (7.3 percent of federal highway transportation funds received).

Total principal and interest requirements over the life of the 2008 TransCap Revenue Bond are $71.9 million, with annual requirements up to $4.8 million. Total principal and interest requirements over the life of the 2009A TransCap Revenue Bonds are $144.3 million, with annual requirements up to $10.1 million; for the 2009B TransCap Revenue Bonds total principal and interest requirements are $46.2 million, with annual requirements up to $16.9 million. Total principal and interest requirements over the life of the 2011A TransCap Revenue Bond are $84.2 million, with annual requirements up to $20.3 million. Total revenue received for revenue sources used as pledged revenues were $38.2 million in fiscal year 2012.

OBLIGATIONS UNDER CAPITAL LEASES

The State leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below.

At June 30, 2012 capital assets include $66.2 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $40.7 million.

OBLIGATIONS UNDER OPERATING LEASES

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements. Rental expense incurred under operating leases totaled $2.4 million during the year.

A summary of the operating and noncancelable capital lease commitments to maturity follows:

Future Minimum Lease Payments
Capital and Operating Leases
(Expressed in Thousands)

Fiscal Year	Capital Leases	Operating Leases
2013	$ 5,324	$ 5,811
2014	4,656	5,414
2015	4,248	5,032
2016	3,734	4,439
2017	3,370	3,943
2018 - 2022	11,052	13,387
2023 - 2027	3,130	5,887
2028 - 2032	2	775
2033 - 2037	-	764
2038 - 2042	-	852
2043- 2047	-	762
2048 - 2051	-	892
Total Minimum Payments	35,516	$ 47,958
Less: Amount Representing Interest	5,738	
Present Value of Future Minimum Payments	$ 29,778	

MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS

MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for loans payable to the component unit will be liquidated from the Federal Fund and Highway Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded; the General and Highway Funds will pay relatively small amounts.

CLAIMS PAYABLE

Claims payable that represent Medicaid claims will be paid from the General Fund and Federal Fund. Claims payable that represent workers' compensation and retiree/employee health will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. Other claims and judgments attributable to governmental activities will be liquidated by the General Fund and related special revenue funds.

COMPENSATED ABSENCES

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as long-term liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments made to terminated employees as of June 30, 2012 but paid after the fiscal year end is also reported in the funds.

COMPONENT UNITS

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State. The following table summarizes bonds outstanding for selected material balances of discretely presented component units, as reported in their separately issued financial statements, utilizing their respective fiscal year-ends:

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	1.00%	1,513	2012 – 2025
Maine Community College System	3.0 - 5.0%	24,653	2012 - 2037
Maine Health and Higher Educational Facilities Authority			
debt	1.25 - 6.2%	1,263,465	2012 - 2040
conduit debt	3.42 - 7.5%	483,872	2012 - 2043
Maine Municipal Bond Bank	.7 - 6.1%	1,571,017	2012 – 2040
Maine State Housing Authority	0.1 - 5.75%	1,454,710	2012 – 2042
Maine Turnpike Authority	3.0 - 6.0%	397,056	2012 – 2038
University of Maine System	2.0 - 5.75%	190,617	2012 – 2037

On January 31, 2012, MHHEFA issued $27.7 million general resolution tax-exempt bonds with an average interest rate of 3.56 percent. A portion of the proceeds was used to in-substance defease $13.0 million in outstanding various bond obligations in prior years. The net proceeds of approximately $13.7 million were used to purchase U.S. Government securities that will provide for future payment on the debt. The economic benefits associated with the refunding inure to the respective institutions. At June 30, 2012, there were approximately $13.3 million of in-substance defeased bonds remaining outstanding with respect to advance refunded conduit debt of bond issues of the general resolution.

In periods of declining interest rates, MHHEFA has refunded its bond obligations, reducing aggregate debt service. The proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. During the current year, MHHEFA issued $119.6 million of reserve resolution bonds with interest rates of 4.36 to 4.60 percent to in-substance defease $127.1 million of various outstanding bonds. The net proceeds of $129.8 million were used to purchase U.S. Government securities that will provide for future payment on the debt. The economic benefits associated with the refunding inure to the respective institutions. At June 30, 2012 the remaining balances of the conduit debt reserve resolution in-substance defeased bonds total approximately $141.2.

On February 23, 2012, UMS issued bonds to currently refund a $30.0 million balloon payment and to fund a new capital project. Refunding proceeds were temporarily placed into an escrow account and were used to retire the 2002 bonds on March 1, 2012.

In periods of declining interest rates, MMBB has refunded its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. During the current year, MMBB issued $26.1 million of General Tax-Exempt Bonds with an average interest rate of 3.90 percent; $61.1 million of General Tax Exempt Series 2012 B and C Series Bonds with average interest rates of 4.85 percent and 1.58 percent, respectively; and $17.8 million of Sewer and Water bonds with an average interest rate of 3.80 percent to in-substance defease $105.9 million of various outstanding bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $9.5 million, MMBB in effect reduced its aggregate debt service payments by approximately $10.3 million over the next 13 to 21 years and obtained an economic gain of approximately $6.5 million. Future debt service requirements were reduced $6.1 million. At June 30, 2012 the remaining balances of the General Tax-Exempt Fund Group and Clean Water Revolving Loan Fund in-substance defeased bonds total approximately $177.3 million and $17.8 million, respectively.

For the period ended December 31, 2011, MSHA redeemed $122.3 million of its Mortgage Purchase Fund Group bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds and $6.3 million of its Housing Finance Revenue Fund Group bonds from subsidy funds. Mortgage Purchase Fund losses of $.5 million and Housing Finance Revenue Fund Group losses of $42 thousand were attributable to recognition of the bond discount and debt issuance expenses associated with the redeemed bonds.

The following table summarizes debt service requirements for outstanding bonds of the discretely presented component units:

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	FAME	MMBB	MCCS	MSHA	MTA	UMS	MHHEFA
2013	$ 806	$ 130,516	$ 600	$ 9,905	$ 13,855	$ 9,743	$ 55,450
2014	57	123,199	622	45,860	15,560	10,167	56,845
2015	57	119,515	649	52,130	17,470	12,259	58,725
2016	57	112,832	671	54,035	18,275	8,697	53,840
2017	58	106,569	697	50,760	19,090	9,099	54,515
2018 - 2022	301	474,819	3,946	295,835	81,145	45,507	281,475
2023 - 2027	177	332,450	4,967	304,420	83,450	37,740	265,340
2028 - 2032	-	130,141	6,061	278,015	91,220	39,360	230,400
2033 - 2037	-	7,520	5,692	245,420	35,965	14,450	165,050
2038 - 2042	-	2,415	-	129,955	10,345	-	41,825
2043 - 2047	-	-	-	1,055	-	-	-
Net unamortized premium or (deferred amount)	-	31,041	668	(12,680)	10,681	3,595	-
Total Principal Payments	$ 1,513	$ 1,571,017	$ 24,573	$1,454,710	$ 397,056	$190,617	$1,263,465

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

The State maintains several types of insurance plans and accounts for them in two funds that are combined for financial statement purposes as the Risk Management Fund. The Risk Management Division provides insurance advice and services to State governmental agencies. The State-Administered Fund offers similar services to quasi-governmental entities. Statute requires the Self-Insurance Fund to be replenished by appropriation if the fund balance drops below $1 million. The State-Administered Fund balance has no similar provision; however, statutes prevent it from being used for any purpose other than providing insurance services.

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professionals, and a variety of other insurance products. All departments have elected to insure through the Risk Management Division. The Department of Transportation elected to purchase general liability insurance as of April 1, 2007; in prior fiscal years the Department of Transportation had elected not to purchase general liability insurance through the Risk Management Division.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $400 million per occurrence. The State retains $2 million of this risk per occurrence. A private insurance carrier covers the remaining risk (excess insurance). Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

Type of Insurance	Coverage Per Occurrence	Risk Retention Per Occurrence	Excess Insurance Per Occurrence
Property *	$400 million	$ 2 million	$400 million
Ocean Marine Boat Liability *, [1]	10 million	10 thousand	10 million
Boiler and Machinery*	150 million	2 million	150 million
General Liability Including Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none
Vehicular Liability [2]	400 thousand	400 thousand	600 thousand
Bonding	500 thousand	500 thousand	none
Foster Parents	300 thousand	300 thousand	none
Inland Marine (various policies)	500 thousand	500 thousand	none

* These lines of insurance have commercial excess insurance covering losses above the risk retention amount up to the per occurrence amount listed. All other insurance programs are wholly self-insured.
[1] $10 million is the maximum limit for per occurrence coverage. Some agencies have chosen $400 thousand.
[2] Excess insurance is only for out of state travel.

The plan funds the cost of providing claims servicing and claims payment by charging a premium to each agency based on a review of past losses and estimated losses for the current period.

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of March 31, 2012. This cost of claims includes case reserves, the development of known claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis. Biennial re-evaluation occurs to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

At March 31, 2012 and 2011, the present value of the claims payable for the State's self-insurance plan was estimated at $3.8 million and $3.9 million, respectively. The actuary calculated this based on the State's rate on investments.

Risk Management Fund
Changes in Claims Payable
(Expressed in Thousands)

	2012	2011
Liability at Beginning of Year	$ 3,872	$ 3,872
Current Year Claims and Changes in Estimates	1,253	86
Claims Payments	1,355	86
Liability at End of Year	$ 3,770	$ 3,872

As of June 30, 2012, fund assets of $24.4 million exceeded fund liabilities of $4.4 million by $20 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added $50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400 thousand. The effect of this change has been partially incorporated into the estimate used to determine claims payable as of June 30, 2012.

B. UNEMPLOYMENT INSURANCE

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $2.2 million for the fiscal year ended June 30, 2012.

C. WORKERS' COMPENSATION

Workers' Compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation.

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The balance of claims liabilities as of June 30, 2012:

Workers' Compensation Fund
Changes in Claims Payable
(Expressed in Thousands)

	2012	2011
Liability at Beginning of Year	$ 39,282	$ 38,673
Current Year Claims and Changes in Estimates	11,468	8,987
Claims Payments	8,637	8,378
Liability at End of Year	$ 42,113	$ 39,282

Based on the actuarial calculation as of June 30, 2012, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $50.3 million. The discounted amount is $42.1 million and was calculated based on a 3.0 percent interest rate on investments.

D. EMPLOYEE HEALTH INSURANCE

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self insured for employee and retiree health care coverage on July 1, 2003. A stop loss agreement with Anthem Blue Cross and Blue Shield provides catastrophic coverage for individual claims exceeding $500 thousand.

The State retained third-party administration (TPA) services for claims administration, utilization review, and case management services. Premium equivalents are paid to the TPA based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. Smart Value is a Medicare Advantage plan available to Medicare eligible retirees. Total enrollment averaged approximately 38,800 covered individuals. This total includes 27,000 active employees and dependents, 4,400 pre-Medicare retirees and dependents, and 7,400 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2012 the State recorded a payable of $10.8 million for an underpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $18.4 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2012 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 14,786	$ 4,929
Current Year Claims and Changes in Estimates	158,537	31,614
Claims Payments	159,493	31,933
Liability at End of Year	$ 13,830	$ 4,610

The table above reflects actual activity of the employee health and retiree health insurance programs. In accordance with GASB Statement No. 45, certain costs reported above were reclassified for financial statement purposes. $44.6 million in retiree healthcare costs were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $22.0 million of active employee healthcare costs was reclassified from the internal service fund to the OPEB Trust Fund to reflect age-adjusted claims.

NOTE 13 – JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The State of Maine participates in two separate joint venture arrangements: the Tri-State Lotto Commission (Commission) and the Multi-State Lottery Association (MUSL).

Tri-State Lotto Commission

The Commission was established in 1985 pursuant to passage into law of the Tri-State Lotto Compact by the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including ticket prices, prizes, and the licensing of agents under Title 8 MRSA C. 16.

The Commission is composed of one member from each of the participating states. Each member State's commission appoints one of its members to serve on the Commission and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members. The Commission designated that 50 percent of its sales revenue be reserved for prize awards and agent bonuses.

A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not claimed within one year from the date of the drawing be forfeited. All expired unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on ticket sales made by each State. Exceptions are the facility's management fee, which is based on a contracted percentage of operating revenue that varies from State to State, per diem charges, advertising, and certain printing, travel, and miscellaneous costs, which are allocated based on actual charges generated by each state.

The Tri-State Lotto Commission financial report for fiscal year 2012, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

Tri-State Lotto Commission
(Expressed in Thousands)

Current Assets	$	22,517
Noncurrent Assets		46,265
Total Assets	$	68,782
Current Liabilities	$	18,711
Long-term Liabilities		36,459
Total Liabilities		55,170
Designated Prize Reserves		4,346
Reserve for Unrealized Gains		9,266
Total Net Assets		13,612
Total Liabilities and Net Assets	$	68,782
Total Revenue	$	61,355
Total Expenses		41,134
Allocation to Member States		20,221
Change in Unrealized Gain on Investments Held for Resale		1,008
Change in Net Assets	$	1,008

Multi-State Lottery Association

The Maine State Lottery became a member of the Multi-State Lottery Association (MUSL) in July 2004. The MUSL currently has 32 member State lotteries, including the District of Columbia and the United States Virgin Islands. The MUSL is managed by a board of directors, which is comprised of the lottery directors or their designee from each of the party States, and authorized to initiate, promulgate, administer and carry out one or more lottery product offerings that will enhance the participating party lottery's revenue.

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the board are divided equally among all of the participating lotteries. Jackpot prizes payable in installments are satisfied through investments purchased by the MUSL. The MUSL purchases US government obligations which are held in irrevocable trusts established by the MUSL for the benefit of participating State lotteries. Each week the MUSL allocates 50 percent of sales to the prize pool. If no winning ticket is selected, the available jackpot is carried over to the following jackpot drawing.

The Multi-State Lottery Association's financial report for fiscal year 2012, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected information:

Multi-State Lottery Association
(Expressed in Thousands)

Cash and Cash Equivalents	$ 106,685
Investments in US Government Securities	142,712
US Government Securities Held for Prize Annuities	300,465
Due from Party Lotteries	32,358
Other Assets	945
Total Assets	$ 583,165
Amount Held for Future Prizes	$ 268,775
Grand Prize Annuities Payable	310,847
Other Liabilities	3,388
	583,010
Net Assets, Unrestricted	155
Total Liabilities and Net Assets	$ 583,165
Total Revenue	$ 4,783
Total Expenses	4,869
Excess of revenue over expenses	(86)
Net assets, beginning	241
Net assets, ending	$ 155

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

Title 20-A MRSA § 11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code.

By statute, program assets are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen had approximately $6.0 billion in net assets at June 30, 2012, which have been recorded in a Private Purpose Trust Fund on the financial statements of the State. Also see Note 16 for additional information.

The State of Maine entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Public Lands and the Bureau of Parks and Recreation. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated May 1991.

COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $237.6 million; Maine Community College System, $65.6 million; Maine Municipal Bond Bank, $39.1 million; Finance Authority of Maine, $12.0 million; and Maine State Housing Authority, $9.9 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $29.9 million at June 30, 2012, as a liability in Amounts Held Under State Revolving Loan Programs in their fiduciary financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2012, the State expended $2.8 million to FAME for State revolving loan funds. The State also transferred $1 million from its Loan Insurance Reserves to FAME. State statute required FAME to return $5 million of the Loan Insurance Reserves. As of June 30, 2012, $3 million was owed to the State.

Title 20-A MRSA Chapter 419-A established the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2007, the NextGen College Savings grant funds and the Maine State Grant funds were pooled into the new State of Maine Grant. FAME paid approximately $6.8 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

The Maine Turnpike Authority (MTA) pays the State for services rendered by the Maine State Police (MSP). MSP has a separate troop responsible for patrolling the Maine Turnpike. MTA pays all costs associated with that troop. For fiscal 2012, the amount billed totaled $4.8 million.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

PRIMARY GOVERNMENT

LITIGATION

The State of Maine, its units, and its employees are parties to numerous legal proceedings, many of which are the result of normal governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. Certain cases have the potential for liability in excess of $1 million. Even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, the State could incur a large judgment.

Temporary Assistance for Needy Families (TANF) Program – DHHS. This matter may result in a reduction of future payments to Maine. This dispute involves whether Maine met its two-parent work participation rate for the federal fiscal year 2007. The U.S. Department of Health and Human Services has assessed a penalty against Maine of just over $1 million. The federal agency has not required Maine to pay the penalty yet. Maine has submitted a Corrective Action Plan that has resulted in meeting the participation rate by the end of FY 2012, and the federal agency does have the ability to reduce the amount of the 2007 penalty. There is a high probability that Maine can experience this loss, but so far the federal agency has not reduced Maine's payments.

Food Supplement – DHHS. The State received from the federal Food and Nutrition Service a "Bill for Collection" in the amount of $2.8 million, representing an offset applying three performance bonus awards totaling $2.1 million to an over-issuance claim of $4.9 million. The State has administratively appealed this claim and should learn the result of our appeal within 30 days. There is a moderate probability that the State will experience this loss.

In various lawsuits, Plaintiffs seek damages in excess of $1 million against the State or against State officials, and various notices of claim also specify damages in excess of $1 million where no lawsuit has been filed. In none of these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed $1 million. Therefore, these suits have not been individually identified.

Numerous workers' compensation claims are now pending against various State agencies. Since most claims involve the possibility for significant long-term damages, and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

FEDERAL GRANTS

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

POLLUTION REMEDIATION

The Department of Environmental Protection (DEP) and Department of Transportation (DOT) have pollution remediation obligations as defined by Governmental Accounting Standards Board (GASB) Statement No. 49. The State's total amount of pollution remediation obligation as of June 30, 2012 is $21.4 million. Superfund sites account for approximately $12.2 million. Superfund is the federal government program to clean up hazardous waste sites.

The following are Superfund sites for which the State has recorded a liability for pollution remediation activities:

Eastland Woolen Mill – The State recorded a liability for pollution remediation activities of approximately $1.7 million. Currently the State shares the costs with Environmental Protection Agency (EPA) in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in September of 2018, the State will assume 100 percent of the operation and maintenance and long-term monitoring costs.

Eastern Surplus – The State recorded a liability for pollution remediation activities of approximately $5.2 million. Beginning in August of 2012, the State assumed 100 percent of the operation and maintenance and monitoring costs. As of June 30, 2012 the State has received $2.2 million in recoveries from the Department of Defense. The State expects to recover additional costs of $3.5 million.

Callahan Mine – The State recorded a liability for pollution remediation activities of approximately $5.3 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. The State will assume 100 percent of the cost for the operation and maintenance of the site. The State recorded a liability for pollution remediation activities of approximately $9.2 million (net of unrealized recoveries of $792 thousand) related to three of five uncontrolled hazardous substance sites. The State expects to recover $860 thousand in costs. The Uncontrolled Hazardous Substance Sites Program was created in response to the threats and potential threats to human health and the environment posed primarily by abandoned hazardous waste sites. The Uncontrolled Hazardous Substance Sites program is the State's equivalent to the Federal Superfund Program.

The State has the knowledge and expertise to estimate the remediation obligation based on prior experience in identifying and funding similar remediation activities. The standard requires the liability to be measured using the expected cash flow technique. The remediation obligation estimates are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statues or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

MUNICIPAL SOLID WASTE LANDFILLS

Dolby Landfills – On September 16, 2011 the State entered into an agreement with Katahdin Paper Company (KPC) to acquire the Dolby Landfills, a solid waste disposal facility, located in the Towns of Millinocket and East Millinocket. The State, as a holder of the permits, is responsible for closure and post closure monitoring and maintenance activities and costs.

The State will recognize a portion of the estimated total current cost of closure and postclosure care as an expense and a liability on the Statement of Activities and Statement of Net Assets, respectively, in each period that the landfill accepts solid waste. The $7.4 million reported as landfill closure and postclosure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of 94% of the estimated capacity of the landfill. The State will recognize the remaining estimated cost of closure and postclosure care of $465 thousand as the remaining estimated capacity is filled. Based on estimated annual disposal volumes of 5,000 cubic yard to 8,000 cubic yards per year, the estimated remaining landfill life would be 38 to 60 years. Actual costs may be higher due to inflation, changes in technology or changes in applicable laws or regulations.

Cost-Sharing Program– Title 38 MRSA §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for landfill remediation projects totaled $100 thousand for fiscal year 2012.

During the 2012 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills, except the Commissioner may make grants or payments up to 30 percent, if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. Recent changes to landfill legislation Title 38 MRSA §1310-F (1-B)(E) do obligate DEP to potential landfill closure expenses at a limited number of municipal landfills until 2015. No reimbursement applications for past closure costs are currently on file. No eligible municipalities have contacted DEP regarding potential closure cost sharing at this time. The DEP estimates that potential obligations related to municipal landfill closures could range from $1.14 million to $5.25 million by 2015.

During the 2012 fiscal year, the State expended $85 thousand of general obligation bond funds and $15 thousand in solid waste funds were expended for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue for 90 percent of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50 percent for structures constructed after that date. The DEP recognizes that, in the future, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs could be as much as $935 thousand, based on current site knowledge. The increasing frequency of residential development near closed municipal landfills, and the discovery of older abandoned dump sites now occupied by residential homes could add to these future costs. The DEP currently owes $2.6 million for recent remedial work related to issues involving gas migration from two municipal landfills in the state. The existing municipal landfill bond account has been spent. No bond funds are currently available to cover outstanding obligations. Additional bond funds will be necessary to cover current outstanding obligations as well as potential future remedial actions.

SAND AND SALT STORAGE PROGRAM

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the Sand and Salt Storage program to be $18.6 million. This consists of approximately $12.6 million for State-owned facilities and approximately $6 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 MRSA § 411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2012 fiscal year, $4.12 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2012, amounts encumbered for pollution abatement projects totaled $1.29 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $2.05 million. As of June 30, 2012, DEP estimated the total cost (federal, State, and local) of future projects to be $1 billion.

GROUND WATER OIL CLEAN-UP FUND

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA § 569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for cleanup of oil spills. The program is funded by a per barrel assessment on petroleum products imported into the State. Coverage is up to $1 million per occurrence for both aboveground and underground storage tanks. Third party injury coverage may not exceed $200 thousand per claimant.

A report to the legislature dated February 15, 2007, submitted by the Maine Department of Environmental Protection (DEP), identified 359 long-term remediation sites as of January 2007 that are covered by the insurance program. As of August 28, 2007 there were 377 sites on the long-term remediation priority list. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes 46.60 percent of the annual payments. As of June 30, 2012, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $1.1 billion.

At June 30, 2012, the Department of Transportation had contractual commitments of approximately $147.0 million for construction of various highway projects. The State's share of that amount is expected to be approximately $31.8 million. Of these amounts, $8.3 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and six civil jurisdictions (collectively known under the MSA as the "Settling States"), entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM's). The MSA is a settlement of lawsuits brought by many States against the four largest tobacco companies alleging multiple counts of misconduct and claiming punitive and compensatory damages, including a claim for all the State's Medicaid costs caused by or related to tobacco use. The MSA includes provisions to annually compensate the State for smoking-related Medicaid costs and to impose marketing and advertising restrictions on PM's to protect public health. In this settlement, the PM's agreed, among other things, to make annual payments to the states and jurisdictions based on their allocable share of the market. In return, the states agreed to relinquish claims to further damages resulting from, among other things, Medicaid costs. Annual payments fluctuate subject to various adjustments and are partially contingent on the passage and enforcement of a State statute imposing economic conditions related to the State's public health claims on the Nonparticipating manufacturers (NPM's) in the form of an annual escrow payment due from each NPM with in-state sales. The NPM Adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's claim an NPM Adjustment for a given year and prove that they lost market share to the NPM's and it is determined that the MSA was a significant factor contributing to that lost market share then an NPM Adjustment 'shall apply' unless a Settling State passed a qualifying statute and 'diligently enforced' that statute. In effect this means that the Allocated Payment to a Settling State that diligently enforced will not be reduced, but a Settling State that did not diligently enforce its qualifying statute will be subject to a reduction in its payment due to the NPM Adjustment. NPM Adjustment Due to the provisions of the MSA, a State that is found not to have diligently enforced its qualifying statute may lose up to its entire annual payment amount due to the NPM Adjustment for a given year.

The NPM Adjustment may be claimed each year and has been claimed for each completed calendar year since 2003. Frequently PM's claim entitlement to the NPM Adjustment and either withhold the amount from their annual payments, or place the amount in what is known as a 'disputed payment account'. Each year beginning in 2003 Maine's annual payments have been lower than calculated because many of the PMs have claimed entitlement to the NPM Adjustment and either withheld money or routed it to the disputed payments account. For the year 2003, the Adjustment claimed by the PM's, and calculated as set forth in the MSA, was approximately 18 percent of the total amount paid by the PM's and distributed among the Settling States. However, the total amount related to the NPM Adjustment to which the PMs are entitled is dependent on the number of non-diligent states.

In addition, in the MSA, the PM's agreed to pay $8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine's share of this total amount is approximately $114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2012, Maine received a total of $51 million including both the annual payment amount and the strategic contribution amount.

ESCHEAT PROPERTY

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds $500 thousand at fiscal year-end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2012, the Fund included $3.9 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2012 of approximately $178.4 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2012, the amount reported in the Fund for claimant liability is $34.6 million. The General Fund shows a $30.2 million payable to the Escheat Fund.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2012, loans outstanding pursuant to these authorizations are $60.9 million, less than $1 million, and less than $1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2012.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. At June 30, 2012, no bonds were outstanding. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2012.

MORAL OBLIGATIONS

The State of Maine, through statute, enables certain Authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the Authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the Authority to issue debt that is not secured by these funds.

On or before December first of each year, the Authority is required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The Governor shall certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then-current State fiscal year.

These moral obligations are not considered to be "full faith and credit" obligations of the State, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.

The following summarizes information regarding outstanding moral obligations:

Moral Obligation Bonds
(Expressed in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Maine Health and Higher Educational				
Facilities Authority - debt	$ 1,263,465	$ 105,711	no limit	22 MRSA § 2075
conduit debt	483,872		no limit	22 MRSA § 2075
Finance Authority of Maine	35,026	-	$ 642,000	10 MRSA §1032, 1053
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority *	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,201,387	142,437	no limit	30-A MRSA §6006
Maine Educational Loan Authority *	161,790	16,042	225,000	20-A MRSA §11424
Maine State Housing Authority	1,467,390	90,087	2,150,000	30-A MRSA §4906
University of Maine System	189,135	2,870	220,000	20-A MRSA §10952
Total	$ 4,802,065	$ 357,147		

* Reported in combining non-major component unit financial statements.

CONSTRUCTION CONTRACTS
At June 30, 2012, UMS had outstanding commitments on uncompleted construction contracts that totaled $14.6 million.

MORTGAGE COMMITMENTS
Mortgage commitments are agreements to lend provided there is no violation of any term or condition of the agreement. Generally, once exercised, the loans made under the terms of such commitments are secured by a lien on the related property and other collateral as deemed necessary. At December 31, 2011 Maine State Housing Authority (MSHA) had outstanding commitments to originate multi-family loans of approximately $52.2 million.

MSHA, under its single-family program, enters into purchase agreements to lenders to purchase mortgage loans. At December 31, 2011, single-family loans being processed by lenders totaled $7.4 million.

INSURED LOAN COMMITMENTS
The Finance Authority of Maine (FAME) insures loans made by financial institutions to qualifying businesses under various insurance programs. FAME is contingently liable for the insured portion of payments due on these loans. At June 30, 2012, FAME had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately $83.4 million. At June 30, 2012, FAME was insuring loans with an aggregate outstanding principle balance approximating $4.9 million which were 90 or more days delinquent. The aggregate insured balance of these loans was approximately $2.6 million at June 30, 2012. In addition, FAME has entered into commitments to insure loans at some future date. At June 30, 2012, these commitments under the Loan Insurance Program were approximately $13.0 million.

NOTE 16 - SUBSEQUENT EVENTS

COMPONENT UNITS
In January 2012, MHSA was awarded $.5 million as part of a settlement in connection with an investigation by the United States Securities and Exchange Commission (SEC) into the bidding practices involving investment bond proceeds by a banking and financial services company. Proceeds from this settlement are to be distributed within 60 days of the final order. MSHA received $1.4 million in 2011 as part of a similar SEC investigation and settlement with a different banking and financial services company.

On March 1, 2012 MSHA communicated to the Trustee its intention to redeem on April 10, 2012 at par $44.0 million of bonds in the General Mortgage Purchase Bond Resolution.

Until June 30, 2012, the NextGen College Investing Plan is reported as a private purpose trust for the State. Pursuant to a change in Maine law which became effective September 28, 2011, beginning July 1, 2012, the fund will be held by FAME, which shall invest it under the direction of and with the advice of the Advisory Committee on College Savings. Once the law becomes effective, FAME will report the $6.0 billion in assets in a private purpose trust fund.


DIRIGO
MAINE

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues								
Taxes	$ 2,829,762	$ 2,865,232	$ 2,900,672	$ 35,440	$ 220,061	$ 218,089	$ 219,474	$ 1,385
Assessments and Other	102,673	101,488	102,887	1,399	87,823	88,027	88,957	930
Federal Grants	3,351	3,337	3,377	40	-	-	-	-
Service Charges	49,680	51,537	49,008	(2,529)	6,162	4,301	6,126	1,825
Income from Investments	258	107	403	296	32	122	141	19
Miscellaneous Revenue	41,969	47,726	15,203	(32,523)	192	131	693	562
Total Revenues	3,027,693	3,069,427	3,071,550	2,123	314,270	310,670	315,391	4,721
Expenditures								
Governmental Support and Operations	266,302	264,583	259,280	5,303	36,430	36,851	33,545	3,306
Economic Development & Workforce Training	34,722	34,666	33,529	1,137	-	-	-	-
Education	1,379,042	1,385,470	1,365,933	19,537	-	-	-	-
Health and Human Services	1,030,347	1,130,724	1,103,849	26,875	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	68,727	68,528	65,763	2,765	33	33	33	-
Justice and Protection	276,970	280,632	261,702	18,930	31,106	30,845	28,634	2,211
Arts, Heritage & Cultural Enrichment	7,457	7,463	7,068	395	-	-	-	-
Transportation Safety & Development	-	-	-	-	253,379	300,621	274,829	25,792
Total Expenditures	3,063,567	3,172,066	3,097,124	74,942	320,948	368,350	337,041	31,309
Revenues Over (Under) Expenditures	(35,874)	(102,639)	(25,574)	77,065	(6,678)	(57,680)	(21,650)	36,030
Other Financing Sources (Uses)								
Operating Transfers Net	(82,189)	(79,407)	49,044	128,451	(3,204)	(998)	19,374	20,372
Proceeds from Pledged Future Revenues								
Net Other Financing Sources (Uses)	(82,189)	(79,407)	49,044	128,451	(3,204)	(998)	19,374	20,372
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (118,063)	$ (182,046)	$ 23,470	$ 205,516	$ (9,882)	$ (58,678)	$ (2,276)	$ 56,402
Fund Balances at Beginning of Year			196,146				63,377	
Fund Balances at End of Year			$ 219,616				$ 61,101	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 269,345	$ 266,245	$ 258,819	$ (7,426)
4	4	1	(3)	163,842	166,651	137,546	(29,105)
2,704,172	3,371,127	2,702,662	(668,465)	17,620	25,286	10,789	(14,497)
504	462	451	(11)	210,494	211,040	188,256	(22,784)
-	-	18	18	1,461	1,460	324	(1,136)
-	-	883	883	144,419	164,735	135,210	(29,525)
2,704,680	3,371,593	2,704,015	(667,578)	807,181	835,417	730,944	(104,473)
10,335	25,428	13,258	12,170	130,548	143,729	132,305	11,424
123,590	270,180	219,550	50,630	77,341	82,152	68,995	13,157
251,711	320,053	221,739	98,314	17,742	17,941	11,864	6,077
1,955,928	2,265,383	1,891,851	373,532	508,669	560,274	423,638	136,636
1,202	1,399	441	958	74,184	73,496	63,526	9,970
60,923	70,075	47,657	22,418	125,104	133,864	83,371	50,493
122,012	134,408	47,869	86,539	38,407	44,946	35,133	9,813
4,106	4,342	3,585	757	1,768	1,756	881	875
188,544	266,487	213,675	52,812	82,502	119,096	86,918	32,178
2,718,351	3,357,755	2,659,625	698,130	1,056,265	1,177,254	906,631	270,623
(13,671)	13,838	44,390	30,552	(249,084)	(341,837)	(175,687)	166,150
(42,711)	(49,129)	(28,374)	20,755	183,163	212,732	28,723	(184,009)
				69,198	103,198	78,148	(25,050)
(42,711)	(49,129)	(28,374)	20,755	252,361	315,930	106,871	(209,059)
$ (56,382)	$ (35,291)	$ 16,016	$ 51,307	$ 3,277	$ (25,907)	$ (68,816)	$ (42,909)
		(9,614)				220,454	
		$ 6,402				$ 151,638	


DIRIGO
MAINE

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 219,616	$ 61,101	$ 6,402	$ 151,638
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	240,065	5,917	-	9,825
Intergovernmental Receivables	-	-	530,316	-
Other Receivables	35,272	3,575	72,270	64,450
Inventories	1,411	-	483	-
Due from Component Units	3,000		-	45,547
Due from Other Funds	14,861	9,074	4,315	239,330
Other Assets	1,552	45	319	657
Deferred Revenues	(235,827)	(8,623)	(2,214)	(25,960)
Total Revenue Accruals/Adjustments	60,334	9,988	605,489	333,849
Expenditure Accruals/Adjustments:				
Accounts Payable	(296,601)	(25,120)	(502,735)	(25,100)
Due to Component Units	(1,409)	1	(4,749)	(2,134)
Accrued Liabilities	(16,746)	(6,673)	(6,315)	(8,050)
Taxes Payable	(167,252)	(8)	-	-
Intergovernmental Payables	(3,792)	-	(70,539)	-
Due to Other Funds	(144,085)	(3,180)	(12,425)	(6,953)
Total Expenditure Accruals/Adjustments	(629,885)	(34,980)	(596,763)	(42,237)
Fund Balances - GAAP Basis	$ (349,935)	$ 36,109	$ 15,128	$ 443,250

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING

Statutory/Budgetary Presentation

In accordance with statute, the Governor presents a biennial budget for the General Fund and special revenue funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

Once passed and signed, the budget becomes the financial plan for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. The State Budget Officer is required to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund budgets.

Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Detailed budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget or separate pieces of legislation. For the year ended June 30, 2012, the legislature increased appropriations to the General Fund by $86.6 million.

Governmental funds use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. In the State's accounting system, amounts carried forward are shown as reservations of fund balance. For financial statement purposes unless amounts would create deficits, encumbrances outstanding at June 30 are shown as restrictions, commitments or assignments of fund balance.

The State's budget is prepared primarily on a cash basis. Sales, income, corporate and fuel taxes include a modified accrual basis adjustment to recognize revenues that are expected to be collected within 60 days of the end of the fiscal year.

The Budgetary Comparison Schedule is presented as Required Supplementary Information (RSI) in this report. Actual amounts in this schedule are presented on a budgetary basis. Because this basis differs from accounting principles generally accepted in the United States of America (GAAP), a reconciliation between the budgetary and GAAP basis is presented in the RSI.

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most "operating" funds.

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2012-2013, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 20, 2011, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the "final budget" column. Therefore updated revenue estimates available for appropriations as of June 30, 2012 rather than the amounts shown in the original budget, are reported.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, approved transfers, and executive order reductions. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by policy area rather than being reported by character and function as shown in the GAAP statements. This policy area classification is used to better reflect organizational responsibility and to be more consistent with the budget process.

Compliance at the Legal Level of Budgetary Control

The Budgetary Comparison Schedules by Agency depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds. The schedules provide further detail at the agency level within departments for transparency.

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress
(Expressed in Thousands)

Actuarial Valuation June 30,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
2012	8,939,788	11,605,891	2,666,103	77.0%	1,727,667	154.3%
2011	8,795,250	11,335,259	2,540,009	77.6%	1,652,576	153.7%
2010	8,369,772	12,676,367	4,306,595	66.0%	1,681,593	256.1%
2009	8,383,148	12,377,262	3,994,114	67.7%	1,678,931	237.9%
2008	8,691,076	11,721,272	3,030,196	74.1%	1,628,421	186.1%
2007	8,302,467	11,209,708	2,907,241	74.1%	1,595,200	182.2%
2006	7,556,515	10,598,346	3,041,831	71.3%	1,546,316	196.7%

Major changes in actuarial assumptions include the following:

Valuation date	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2008
Former actuarial assumptions:				
Retirement assumption	Lowered to reflect the closing of the retirement window for early retiree health coverage			
Version of actuarial cost method	New entrant		No changes	
Investment rate of return		7.25%	were made	7.75%
Projected salary increases		3.50%	to 2008	4.75% - 10.00%
Includes inflation at		3.50%	plan	4.50%
Cost of living adjustments		2.25%	assumptions	3.75%

The June 30, 2011 valuation included changes to the plan and actuarial assumptions. For members with fewer than 5 years of creditable service on July 1, 2011, the normal retirement age increased to 65. Projected salary increases include a 3.5% across the board increase at each year of service. The first 2 fiscal years assume a flat 1.5% pay increase across the board. The cap on annual cost of living adjustments was lowered from 4% per year to 3% per year on the first $20,000 of annual benefit (indexed). No COLA will be made until September 2014.

The Maine Public Retirement System (the System), which is a component unit of the State, is the administrator of an agent, multiple-employer, defined benefit public employee retirement system. The June 30, 2012 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System amortizes the unfunded liability of the State and Teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2012 was determined by the 2010 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 5 years remained at June 30, 2012.

Note: Unless plan changes occur, actuarial valuations are performed biennially on even years. Rollforward valuations occur on odd numbered years. The latest actuarial valuation occurred June 30, 2012.

Required Supplementary Information – Other Post-employment Benefit Plans

Schedules of Funding Progress

Healthcare Plans

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrned Liability	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
	June 30, 2012	136	1,316	1,180	10.33%	502	235.06%
State Employees	June 30, 2011	112	1,544	1,432	7.25%	567	252.56%
(in millions)	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
Teachers	June 30, 2012	0	665	665	0.00%	1,156	57.53%
(in millions)	June 30, 2011	0	801	801	0.00%	1,098	72.95%
	June 30, 2010	0	994	994	0.00%	1,064	93.42%
	June 30, 2011	0	21,921	21,921	0.00%	42,242	51.89%
First Responders	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%
(in thousands)	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%

Group Life Insurance Plans

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Aunual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
	June 30, 2012	24,700	80,900	56,200	30.53%	553,500	10.15%
State Employees	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
	June 30, 2012	30,100	71,000	40,900	42.39%	630,800	6.48%
Teachers	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%
	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%

Required Supplementary Information – Other Post-employment Benefit Plans (continued)

Schedule of Employer Contributions

(Expressed in Thousands)

	Employer Contributions							
	State Employees			Teachers			First Responders	
Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed		Annual Required Contribution	Percentage Contributed		Annual Required Contribution	Percentage Contributed
Healthcare - 2012	$126,000	57.94%		$55,000	40.00%		$1,350	32.15%
Healthcare - 2011	120,000	70.84%		61,000	29.51%		916	57.10%
Healthcare - 2010	90,000	61.12%		58,000	32.76%		1,105	33.31%
Group Life - 2012	3,250	144.13%		2,959	100.00%		N/A	N/A
Group Life - 2011	4,268	89.20%		2,532	100.00%		N/A	N/A
Group Life - 2010	4,383	89.98%		2,417	100.00%		N/A	N/A

Required Supplementary Information –
Information about Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include 8,828 highway miles or 17,993 lane miles of roads and 2,963 bridges having a total deck area of 11.8 million square feet that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved at, or above, the established condition level.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Highways

Measurement Scale for Highways
The Maine Department of Transportation (MDOT) uses six indicators to determine the condition of highway adequacy. The six indicators and their relative point weighting are listed in the table below.

Data Element	Point Rating (%)	Description
Pavement Condition Rating (PCR)	45	PCR is defined as the composite condition of the pavement on a roadway only, and is compiled from the severity and extent of pavement distresses such as cracking, rutting and patching. It is the key indicator used to determine the optimum time to treat a particular section of road. Points decrease as PCR decreases.
Safety	20	Statewide crash rates are used to allocate points. Locations with high rates get fewer points.
Backlog (Built v Unbuilt roadway)	15	A "Built" road is one that has been constructed to a modern standard, usually post 1950. This includes adequate drainage, base, and pavement to carry the traffic load, and adequate sight distance and width to meet current safety standards. "Unbuilt" (backlog) is defined as a roadway section that has not been built to modern standards. Yes or No (15 or 0).
Annual Average Daily Traffic divided by the hourly highway capacity (AADT/C)	10	This ratio measures how intensely a highway is utilized. As a highway facility's AADT/C ratio increases, the average speed of vehicles on that facility tends to decrease. This decrease in average speed is evidence of reduced mobility. As congestion increases, points decrease (0-10).
Posted Speed	5	Lower speeds equal fewer points.
Paved Shoulder	5	In general, roadways with paved shoulders perform at a higher level and last longer than those without shoulders or with only gravel shoulders. Yes or No (5 or 0).
	100	

Bridges

MDOT uses four separate factors to obtain a numerical value used to indicate the ability of bridges to remain in service at the current level of usage. The numeric value is a percentage ranging from 0% to represent an entirely insufficient or deficient bridge, and 100% to represent an entirely sufficient bridge. The four indicators and their relative point weighting are listed in the table below. The composite numeric value is based on the sufficiency rating formula in the Recording and Coding Guide for Structure Inventory and Appraisal of the Nation's Bridges.

Data Element	Point Rating (%)	Description
Structural Adequacy and Safety	55	This category considers inventory rating, superstructure, substructure and culverts.
Serviceability and Functional Obsolescence	30	Serviceability and functional obsolescence that addresses the number of lanes, average daily traffic, roadway width, bridge width, deck condition, under clearances, waterway adequacy, alignment, and defense highway designation.
Essentiality for Public Use	15	This considers detour length, average daily traffic, and defense highway designation.
Special Reductions	(13)	The sufficiency rating also includes consideration of special reductions for detour length, safety features, and type of structure.

Assessed Conditions

The following table shows adequacy ratings for maintenance levels from Excellent to Poor.

Adequacy Rating	Total
Excellent	80-100
Good	70-80
Fair	60-70
Poor	0-60

MDOT intends to maintain highways and bridges at an adequacy rating of 60 or higher. The following table shows adequacy ratings achieved by MDOT.

Fiscal Year	Highways	Bridges
2012	75.4	79.0
2011	74.8	78.0
2010	76.2	79.0

Comparison of Estimated-to-Actual Preservation Costs

The following table presents the State's preservation costs for the past five fiscal years. It also shows the estimate of spending necessary to preserve and maintain the roads and bridges at, or above, a sufficiency rating of 60 for both highways and bridges (in millions).

Actual Preservation Costs
(Amounts in millions)

	2012	2011	2010	2009	2008
Highways	$ 91.5	$ 101.4	$ 68.6	$ 74.5	$ 80.0
Bridges	13.2	9.3	9.2	1.6	1.6
Total	**$ 104.7**	**$ 110.7**	**$ 77.8**	**$ 76.1**	**$ 81.6**

Estimated Preservation Costs
(Amounts in millions)

	2012	2011	2010	2009	2008
Highways	$ 155.0	$ 86.1	$ 48.5	$ 55.8	$ 97.7
Bridges	30.0	7.9	6.5	1.2	2.0
Total	**$ 185.0**	**$ 94.0**	**$ 55.0**	**$ 57.0**	**$ 99.7**

Transportation Bonds

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 645, PL 2009, $13.7 million in General fund bonds was spent during FY2012.

GOVERNMENTAL FUNDS
COMBINED STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY
For the Years Ended June 30
(thousands $000's)

	2008(1)	2009	2010	2011(1)	2012
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 1,157,608	$ 1,083,760	$ 1,073,443	$ 1,095,072	$ 1,154,480
Individual Income Tax	1,521,890	1,302,912	1,368,185	1,490,879	1,513,710
Corporate Income Tax	216,503	184,939	183,751	251,345	271,943
Cigarette and Tobacco Tax	150,499	144,425	149,067	145,229	139,729
Inheritance and Estate Tax	39,891	31,819	31,210	49,323	44,866
Gasoline, Use Fuel and Motor Carrier Tax	229,600	220,526	241,424	239,184	242,123
Insurance Tax	102,032	92,353	109,689	93,029	112,291
Public Utilities Tax	49,564	46,300	46,340	49,555	39,418
Other Industry or Occupation Taxes	182,327	194,516	226,940	216,974	217,902
Real Estate Transfer Tax	24,685	17,708	19,186	19,621	18,644
Unorganized Territories Property Tax	19,159	21,127	27,062	26,700	26,309
Other Taxes	15,003	14,963	35,679	11,740	11,027
Total Taxes	3,708,762	3,355,349	3,511,976	3,688,652	3,792,442
From Federal Government	2,211,181	2,861,697	3,139,053	3,064,954	2,705,040
From Cities, Towns and Counties	13,672	22,167	13,448	13,890	8,409
From Private Sources	189,838	197,675	184,425	207,509	231,132
Service Charge for Current Services	157,515	163,369	181,276	138,689	132,505
Fines, Forfeitures & Penalties	55,033	54,854	44,684	39,476	37,477
Vehicle Registration and Drivers Licenses	89,096	94,938	82,619	100,483	103,635
Hunting, Fishing and Related Licenses	17,917	17,587	18,124	17,934	18,235
Transferred from Bureau of Alcoholic Beverages	-	-	-	-	-
Transferred from Lottery Commission	49,491	49,839	52,202	49,548	53,786
Transferred from Other Funds	30,998	33,130	20,515	16,255	22,130
Transferred for Revenue Sharing	(135,820)	(102,134)	(122,809)	(131,302)	(137,228)
Transferred for Tax Relief (2)			(113,605)	(113,935)	(115,336)
Income from Investments	5,861	4,944	1,339	501	1,650
Other Revenues	30,266	15,695	24,149	483	21,611
	2,715,049	3,413,760	3,525,420	3,404,485	3,083,046
Other Financial Resources					
Proceeds of General Obligation Bonds	108,590	141,469	58,391	120,331	55,775
Other	29,219	69,619	103,736	121,312	94,433
Total Revenues and Resources	6,561,621	6,980,197	7,199,523	7,334,780	7,025,696
Expenditures					
Governmental Support & Operations	458,393	442,218	431,744	388,285	410,477
Arts, Heritage & Cultural Enrichment	12,710	13,185	11,772	10,848	11,620
Business Licensing & Regulation	65,603	64,887	76,125	65,781	63,967
Economic Development & Workforce Training	151,141	223,104	434,770	412,673	339,837
Education	1,668,137	1,705,111	1,731,496	1,713,750	1,609,206
Health & Human Services	3,055,914	3,462,723	3,440,041	3,351,536	3,419,603
Justice & Protection	396,502	411,042	401,711	393,314	373,338
Natural Resources Development & Protection	198,049	220,264	220,084	207,649	203,326
Transportation Safety & Development	522,473	547,269	567,864	672,108	630,384
Total Expenditures	6,528,922	7,089,802	7,315,607	7,215,944	7,061,758
Excess Resources Over (Under) Expenditures	32,699	(109,606)	(116,084)	118,836	(36,062)
Fund Equity July 1 of preceding calendar year	660,728	693,428	583,822	390,479	509,315
Fund Equity June 30	$ 693,427	$ 583,822	$ 467,738	$ 509,315	$ 473,253

(1)2008 - Fund Equity for General Fund as restated; 2011 - Fund Equity for Highway Fund as restated.

(2) Prior to 2010, transferred amounts for tax relief programs were reported as a net amount in the Individual Income Tax line. Prior year amounts were not restated. Therefore, comparisons between 2010 and prior years may not be possible in this instance.

GENERAL FUND

COMBINED STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY

For the Years Ended June 30

(thousands $000's)

	2008(5)	2009	2010	2011	2012
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 1,035,158	$ 974,636	$ 954,025	$ 976,359	$ 1,029,513
Individual Income Tax	1,443,468	1,242,506	1,298,036	1,415,284	1,434,217
Corporate Income Tax	207,093	178,961	175,292	241,225	260,452
Cigarette and Tobacco Tax	150,499	144,425	149,067	145,229	139,729
Inheritance and Estate Tax	39,891	31,819	31,210	49,323	44,866
Insurance Tax	72,293	79,770	80,019	76,930	82,986
Public Utilities Tax	16,858	19,536	17,524	17,668	10,870
Other Industry or Occupation Taxes	50,340	43,502	59,597	52,270	50,783
Real Estate Transfer Tax	17,465	17,185	12,181	13,816	8,935
Unorganized Territories Property Tax	12,217	12,634	13,218	13,382	10,727
Other Taxes	3,809	3,752	30,792	6,449	6,419
Total Taxes	3,049,092	2,748,726	2,820,961	3,007,935	3,079,497
From Federal Government	11,040	12,456	9,308	10,379	1,904
From Cities, Towns and Counties	163	143	187	219	282
From Private Sources	8,023	7,526	8,697	8,923	9,650
Service Charges for Current Services	26,157	24,653	33,329	30,557	35,957
Fines, Forfeitures & Penalties	44,466	44,024	32,787	28,513	25,121
Hunting, Fishing and Related Licenses	15,683	15,379	16,277	15,864	15,875
Transferred from Bureau of Alcoholic Beverages	-	-	-	-	-
Transferred from Lottery Commission	49,491	49,839	52,202	49,548	53,786
Transferred from Other Funds	18,823	9,605	17,868	37,396	45,725
Transferred for Revenue Sharing	(135,820)	(102,134)	(122,809)	(131,302)	(137,228)
Transferred for Tax Relief (6)			(113,605)	(113,935)	(115,336)
Income from Investments	1,074	1,100	265	278	156
Other Revenues	21,724	7,701	23,456	7,998	(4,932)
	60,324	70,292	(42,037)	(55,563)	(69,040)
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	31,074	141	76,823	(32,959)	110,144
Total Revenues and Resources	3,140,490	2,819,159	2,855,747	2,919,414	3,120,601
Expenditures					
Governmental Support & Operations (1)	245,992	239,485	251,522	234,222	259,280
Arts, Heritage & Cultural Enrichment	8,682	8,084	7,392	7,078	7,068
Business Licensing & Regulation	2	-	26	-	-
Economic Development & Workforce Training	38,253	37,030	35,788	34,495	33,529
Education (2)	1,471,239	1,455,087	1,419,788	1,387,720	1,365,933
Health & Human Services (3)	985,139	929,836	802,461	845,417	1,103,849
Justice & Protection	262,299	271,853	276,030	268,880	261,702
Natural Resources Development & Protection	72,957	68,114	67,360	64,864	65,763
Transportation Safety & Development (4)	-	-	-	7,000	-
Total Expenditures	3,084,563	3,009,489	2,860,367	2,849,676	3,097,124
Excess Resources Over (Under) Expenditures	55,927	(190,330)	(4,620)	69,738	23,477
Fund Equity July 1 of preceding calendar year	265,424	321,351	131,021	126,401	196,139
Fund Equity June 30	$ 321,351	$ 131,021	$ 126,401	$ 196,139	$ 219,616

(1) Governmental Support & Operations includes the Governor's Office, the State Treasurer's Office and the Attorney General, Audit, Finance and Administration, Judicial, Legislative and State Departments.

(2) Education includes the Education Department, the Maine Technical College System, the Maine Maritime Academy and the University of Maine System.

(3) Health & Human Services includes the Human Services, Mental Health and Retardation and Corrections Departments.

(4) Transportation Safety & Development includes the Transportation Department.

(5) Fund Equity as restated.

(6) Prior to 2010, transferred amounts for tax relief programs were reported as a net amount in the Individual Income Tax line. Prior year amounts were not restated. Therefore, comparisons between 2010 and prior years may not be possible in this instance.

HIGHWAY FUND
STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY
For the Years Ended June 30
(thousands $000's)

	2008	2009	2010	2011(3)	2012
Revenues					
Taxes					
Gasoline, Use Fuel and Motor Carrier Tax	$ 225,235	$ 216,216	$ 219,191	$ 217,034	$ 219,728
Other Taxes	1,748	1,785	952	1,291	1,030
Total Taxes	226,983	218,001	220,143	218,325	220,758
From Federal Government	465	3			
Service Charges for Current Services	5,038	5,201	4,796	4,304	4,270
Fines, Forfeitures & Penalties	1,183	1,014	1,440	1,145	1,044
Vehicle Registration and Drivers Licenses	89,096	94,938	80,965	83,886	86,628
Income from Investments	1,152	480	162	125	141
Other Revenues	4,188	1,785	3,684	3,458	4,120
	101,122	103,422	91,047	92,918	96,203
Other Finaucial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	6,185	(5,136)	16,558	2,173	17,804
Total Revenues and Resources	334,291	316,287	327,748	313,416	334,765
Expenditures					
Governmental Support & Operations (2)	37,646	36,626	35,452	3,227	3,639
Economic Development & Workforce Training	-	-	-	-	-
Justice & Protection	35,476	36,401	30,720	29,262	28,634
Natural Resources Development & Protection	28	38	38	33	33
Transportation Safety & Development (1)(2)	276,294	230,279	234,579	295,073	304,735
Total Expenditures	349,444	303,344	300,789	327,595	337,041
Excess Resources Over (Under) Expenditures	(15,153)	12,943	26,959	(14,179)	(2,276)
Fund Equity July 1 of preceding calendar year	130,067	114,914	127,857	77,556	63,377
Fund Equity June 30	$ 114,914	$ 127,857	$ 154,816	$ 63,377	$ 61,101

(1) Includes payment of debt service on bonds of the State previously issued for highway purposes.
(2) Beginning in fiscal year 2011, the State reported expenditures for the Bureau of Motor Vehicles ($30.7 million) within the Transportation Safety & Development function. Previously, these expenditures were classified as Governmental Support and Operations.
(3) Fund Equity as restated.

OTHER SPECIAL REVENUES FUND
STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY
For the Years Ended June 30
(thousands $000's)

	2008	2009	2010	2011	2012
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 122,450	$ 109,123	$ 119,417	$ 118,713	$ 124,967
Individual Income Tax	78,422	60,407	70,149	75,595	79,493
Corporate Income Tax	9,410	5,978	8,459	10,120	11,491
Gasoline, Use Fuel and Motor Carrier Tax	4,365	4,311	22,234	22,150	22,395
Insurance Tax	29,740	12,582	29,670	16,099	29,305
Public Utilities Tax	32,705	26,763	28,816	31,886	28,548
Other Industry or Occupation Taxes	131,986	151,015	167,343	164,704	166,162
Real Estate Transfer Tax	7,220	523	7,004	5,805	9,709
Unorganized Territories Property Tax	6,941	8,494	13,844	13,319	15,582
Other Taxes	9,446	9,423	3,936	3,999	4,535
Total Taxes	432,687	388,622	470,872	462,390	492,187
From Federal Government	2,199,675	2,849,238	3,129,745	3,054,575	2,703,136
From Cities, Towns and Counties	13,509	22,024	13,146	13,657	8,127
From Private Sources	181,815	190,148	175,728	198,586	221,482
Service Charges for Current Services	126,320	133,515	143,151	103,828	92,278
Fines, Forfeitures & Penalties	9,385	9,816	10,457	9,818	11,312
Vehicle Registration and Drivers Licenses			1,654	16,598	17,007
Hunting, Fishing and Related Licenses	2,234	2,208	1,847	2,070	2,360
Transfers from Other Funds	12,676	23,526	2,647	(21,142)	(23,595)
Income from Investments	2,514	1,860	625	481	343
Other Revenues	4,355	6,209	(2,535)	(11,216)	22,334
	2,552,483	3,238,543	3,476,464	3,367,256	3,054,784
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	(8,172)	75,540	10,355	152,098	(33,515)
Total Revenues and Resources	2,976,998	3,702,705	3,957,691	3,981,745	3,513,456
Expenditures					
Governmental Support & Operations	167,300	158,310	134,660	144,061	145,563
Arts, Heritage & Cultural Enrichment	3,751	4,052	3,606	3,546	4,466
Business Licensing & Regulation	65,601	64,887	76,099	65,781	63,967
Economic Development & Workforce Training	105,163	176,465	384,632	347,309	288,545
Education	184,633	230,633	298,371	321,605	233,603
Health & Human Services	2,068,054	2,530,487	2,637,580	2,502,719	2,315,489
Justice & Protection	98,281	102,158	94,459	94,928	83,002
Natural Resources Development & Protection	121,020	140,540	144,562	134,371	131,028
Transportation Safety & Development	173,491	259,005	299,105	302,170	300,593
Total Expenditures	2,987,294	3,666,537	4,073,074	3,916,490	3,566,256
Excess Resources Over (Under) Expenditures	(10,295)	36,168	(115,383)	65,255	(52,800)
Fund Equity July 1 of preceding calendar year	235,095	224,800	260,968	145,585	210,840
Fund Equity June 30	$ 224,800	$ 260,968	$ 145,585	$ 210,840	$ 158,040

GOVERNMENTAL FUNDS
COMBINED BALANCE SHEETS

JUNE 30, 2012
(thousands $000's)

	Total (Memorandum) (only)	General Fund	Highway Fund	Other Special Revenues	Capital Projects	Debt Service
ASSETS						
Equity in Treasurer's Cash Pool	$ 219,980	$ 3,709	$ 39,498	$ 142,290	$ 29,037	$ 5,446
Cash - Other	280	120	116	44	-	-
Accounts, Notes and Grants Receivable						
Net of Reserves for Uncollectible Accounts	257,859	227,138	21,311	9,410	-	-
Due from Other Funds	21,988	6,214	2	15,772	-	-
Working Capital Advances to Other Funds	111	111	-	-	-	-
Prepaid Expenses and Other Assets	437	253	-	171	13	-
TOTAL ASSETS	500,655	237,545	60,927	167,687	29,050	5,446
LIABILITIES AND EQUITY						
LIABILITIES:						
Accounts Payable	(1,198)	(1,590)	(174)	566	-	-
Other Liabilities	28,600	19,519	-	9,081	-	-
TOTAL LIABILITIES	27,402	17,929	(174)	9,647	-	-
EQUITY:						
Reserved for Encumbrances	154,245	23,786	1,671	122,704	6,084	-
Reserved for Authorized Expenditures	259,568	63,509	51,835	114,987	29,237	-
Reserved for Utility Loans	27	-	27	-	-	-
Working Capital Advances to Other Funds	111	111	-	-	-	-
Designated for Other Purposes	33,439	33,439	-	-	-	-
Budget Stabilization Fund	44,809	44,809	-	-	-	-
Unappropriated Surplus	(18,946)	53,962	7,568	(79,651)	(6,271)	5,446
TOTAL EQUITY	473,253	219,616	61,101	158,040	29,050	5,446
TOTAL LIABILITIES AND EQUITY	$ 500,655	$ 237,545	$ 60,927	$ 167,687	$ 29,050	$ 5,446

GENERAL FUND UNAPPROPRIATED SURPLUS
For the Years Ended June 30

	General Fund Unappropriated Surplus (Million)	General Fund Revenues (Million)	Surplus as Percentage of Revenues
2012	$ 54.00	$ 3,120.60	1.73%
2011	19.20	2,919.40	0.66%
2010	(13.00)	2,855.70	-0.46%
2009	12.90	2,819.00	0.46%
2008	26.50	3,109.40	0.85%
2007	17.60	3,022.60	0.58%
2006	14.50	2,931.80	0.50%
2005	33.70	2,790.80	1.21%
2004	14.90	2,683.50	0.55%
2003	28.90	2,394.70	1.21%
2002	-	2,331.70	0.00%
2001	38.80	2,390.60	1.62%
2000	300.90	2,500.90	12.03%
1999	229.20	2,336.10	9.81%
1998	98.30	2,111.90	4.65%
1997	21.10	1,863.10	1.13%
1996	25.80	1,766.40	1.46%
1995	4.40	1,671.70	0.26%
1994	3.80	1,623.80	0.23%
1993	4.10	1,561.40	0.26%
1992	13.30	1,512.40	0.88%

[THIS PAGE INTENTIONALLY LEFT BLANK]

STATE OF MAINE

EXHIBIT C

Certain Revenues of the State (Unaudited)

Page

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
Fiscal Years Ended June 30, 2009 and June 30, 2010

	2009				2010			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Sales and Use Tax	$ 921,823,720	$ 929,698,051	$ (7,874,331)	(0.8%)	$ 897,938,873	$ 883,839,994	$ 14,098,879	1.6%
Service Provider Tax	52,812,595	53,452,742	(640,147)	(1.2%)	56,086,391	55,590,852	495,539	0.9%
Individual Income Tax	1,242,505,909	1,281,982,990	(39,477,081)	(3.1%)	1,298,036,055	1,299,630,000	(1,593,945)	(0.1%)
Corporate Income Tax	143,085,966	148,940,000	(5,854,034)	(3.9%)	175,292,433	147,718,716	27,573,717	18.7%
Cigarette and Tobacco Tax	144,424,712	143,213,844	1,210,868	0.8%	149,066,678	140,139,902	8,926,776	6.4%
Public Utilities Tax (1)	19,536,483	18,405,029	1,131,454	6.1%	-	-	-	-
Insurance Companies Tax	79,770,431	71,978,985	7,791,446	10.8%	80,019,145	71,985,000	8,034,145	11.2%
Inheritance & Estate Tax	31,819,188	34,335,010	(2,515,822)	(7.3%)	31,209,840	29,593,253	1,616,587	5.5%
Property Tax - Unorganized Territory	12,633,755	12,969,540	(335,785)	(2.6%)	-	-	-	-
Fines, Forfeits and Penalties (2)	-	-	-	-	32,787,060	32,853,721	(66,661)	(0.2%)
Income from Investments	1,100,029	1,154,221	(54,192)	(4.7%)	265,091	103,246	161,845	156.8%
Transfer for Tax Relief Programs	-	-	-	-	(113,604,905)	(112,559,862)	(1,045,043)	(0.9%)
Transfer to Municipal Revenue Sharing	(102,160,745)	(103,412,337)	1,251,592	1.2%	(97,425,079)	(95,899,642)	(1,525,437)	(1.6%)
Transfer from Lottery Commission	49,839,434	49,549,250	290,184	0.6%	52,201,531	49,843,299	2,358,232	4.7%
Other Taxes and Fees (3)	-	-	-	-	149,588,680	148,808,830	779,850	0.5%
Other Revenues	214,176,818	212,495,823	1,680,995	0.8%	44,220,707	41,358,080	2,862,627	6.9%
Total Undedicated Revenue	**$ 2,811,368,295**	**$ 2,854,763,148**	**$ (43,394,853)**	**(1.5%)**	**$ 2,755,682,500**	**$ 2,693,005,389**	**$ 62,677,111**	**2.3%**

(1) Starting in FY 2010 this revenue source was included with "Other Taxes and Fees"
(2) Prior to FY 2010 this revenue source was included with "Other Revenues"
(3) Prior to FY 2010 revenue sources included in this category (unless otherwise mentioned above) were included in "Other Revenues"

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
Fiscal Years Ended June 30, 2011 and June 30, 2012

	2011				2012			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Sales and Use Tax	$ 923,686,973	$ 916,746,307	$ 6,940,666	0.8%	$ 981,257,805	$ 973,215,697	$ 8,042,108	0.8%
Service Provider Tax	52,672,306	55,214,486	(2,542,180)	(4.6%)	48,255,501	50,366,313	(2,110,812)	(4.2%)
Individual Income Tax	1,415,283,534	1,392,702,302	22,581,232	1.6%	1,434,217,189	1,444,897,209	(10,680,020)	(0.7%)
Corporate Income Tax	208,996,598	193,182,264	15,814,334	8.2%	232,117,995	218,610,460	13,507,535	6.2%
Cigarette and Tobacco Tax	145,229,303	146,209,555	(980,252)	(0.7%)	139,729,147	142,123,350	(2,394,203)	(1.7%)
Public Utilities Tax	-	-	-	-	-	-	-	-
Insurance Companies Tax	76,930,329	76,765,000	165,329	0.2%	82,985,771	79,215,000	3,770,771	4.8%
Inheritance & Estate Tax	49,323,494	45,052,787	4,270,707	9.5%	44,865,567	38,260,185	6,605,382	17.3%
Property Tax – Unorganized Territory	-	-	-	-	-	-	-	-
Fines, Forfeits and Penalties	28,513,040	28,799,339	(286,299)	(1.0%)	25,120,959	25,754,504	(633,545)	(2.5%)
Income from Investments	277,770	245,127	32,643	13.3%	155,531	106,808	48,723	45.6%
Transfer for Tax Relief Programs	(113,934,585)	(113,986,593)	52,008	0.0%	(115,336,149)	(114,418,263)	(917,886)	(0.8%)
Transfer to Municipal Revenue Sharing	(93,156,725)	(91,930,345)	(1,226,380)	(1.3%)	(96,876,964)	(96,854,505)	(22,459)	(0.0%)
Transfer from Lottery Commission	49,547,800	49,034,250	513,550	1.0%	53,785,567	50,700,000	3,085,567	6.1%
Other Taxes and Fees	151,676,495	149,672,089	2,004,406	1.3%	131,943,407	132,077,778	(134,371)	(0.1%)
Other Revenues	49,910,424	48,357,956	1,552,468	3.2%	53,316,896	51,390,200	1,926,696	3.7%
Total Undedicated Revenue	**$ 2,944,956,756**	**$ 2,896,064,524**	**$ 48,892,232**	**1.7%**	**$ 3,015,538,222**	**$ 2,995,444,736**	**$ 20,093,486**	**0.7%**

STATE OF MAINE
PRELIMINARY UNDEDICATED REVENUES
GENERAL FUND
Ten Months Ended April 30, 2013

	Month				Year to Date				Total Budgeted
	Actual	Budget	Variance Over/ (under)	Percent Over/ (under)	Actual	Budget	Variance Over/ (under)	Percent Over/ (under)	Fiscal Year Ending 6/30/13
Sales and Use Tax	$ 73,649,764	$ 77,971,102	$ (4,321,338)	5.5%	$ 730,342,048	$ 751,213,953	$(20,871,905)	(2.8%)	$ 1,006,986,404
Service Provider Tax	4,210,717	4,118,001	92,716	2.3%	37,012,524	38,803,812	(1,791,288)	(4.6%)	53,586,812
Individual Income Tax	269,366,548	210,945,000	58,421,548	27.7%	1,231,197,422	1,134,740,000	96,457,422	8.5%	1,413,890,000
Corporate Income Tax	27,953,143	27,138,800	814,343	3.0%	131,932,789	144,283,173	(12,350,384)	(8.6%)	186,021,732
Cigarette and Tobacco Tax	10,803,920	10,879,174	(75,254)	(0.7%)	113,113,784	113,231,479	(117,695)	(0.1%)	138,180,000
Insurance Companies Tax	12,890,195	11,851,328	1,038,867	8.8%	41,241,032	41,736,537	(495,505)	(1.2%)	80,715,000
Estate Tax	4,204,841	3,587,800	617,041	17.2%	40,535,061	43,490,633	(2,955,572)	(6.8%)	64,878,175
Fines, Forfeits & Penalties	1,918,485	1,705,706	212,779	12.5%	19,637,606	19,794,895	(157,289)	(0.8%)	24,452,139
Income from Investments	(20,165)	(30,540)	10,375	34.0%	74,131	17,485	56,646	324.0%	66,082
Transfer from Lottery Commission	4,302,955	4,042,304	260,651	6.4%	43,530,090	43,454,807	75,286	0.2%	52,550,000
Transfers for Tax Relief Programs	(1,165,186)	(907,799)	(257,387)	(28.4%)	(109,206,071)	(109,752,379)	546,308	0.5%	(112,086,562)
Transfer to Municipal Revenue Sharing	(4,630,896)	(5,998,881)	1,367,985	22.8%	(72,038,702)	(71,245,818)	(792,884)	(1.1%)	(93,076,067)
Other Taxes and Fees	13,821,796	9,519,732	4,302,064	45.2%	115,087,426	115,858,110	(770,684)	(0.7%)	151,399,353
Other Revenues	12,432,090	11,049,714	1,382,376	12.5%	26,544,873	24,590,877	1,953,996	7.9%	40,219,187
Total Undedicated Revenue	**$ 429,738,208**	**$ 365,871,441**	**$ 63,866,767**	**17.5%**	**$ 2,349,004,014**	**$2,290,217,564**	**$ 58,786,450**	**2.6%**	**$ 3,007,782,255**

NOTES: (1) Included in the above is $4,630,896 for the month and $72,038,702 year to date that was set aside for Revenue Sharing with cities and towns.

(2) The amounts set forth above under the headings "Month – Budget," "Year to Date – Budget " and "Total Budgeted" reflect estimated adjustments in projected revenue provided by the Maine State Revenue Forecasting Committee in its December 2012 report. For additional information concerning the revisions to the State's fiscal year 2013 budget, see "Revenues of the State – General," including the table therein, in Appendix A to this Information Statement.

(3) This report has been prepared from preliminary month end figures and is subject to change.

STATE OF MAINE
HIGHWAY FUND
REVENUES
Fiscal Years Ended June 30, 2009 and June 30, 2010

	2009				2010			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Fuel Taxes	$ 216,215,544	$ 217,243,255	$ (1,027,711)	(0.5%)	$ 219,190,706	$ 220,305,526	$ (1,114,820)	(0.5%)
Motor Vehicle Registration & Fees	91,886,824	92,254,651	(367,827)	(0.4%)	78,082,290	75,043,693	3,038,597	4.0%
Inspection Fees	4,057,978	3,996,421	61,557	1.5%	3,834,421	3,896,915	(62,494)	(1.6%)
Miscellaneous Taxes and Fees (1)	-	-	-	-	-	-	-	-
Fines, Forfeits & Penalties	1,785,197	1,795,049	(9,852)	(0.5%)	1,440,062	1,745,049	(304,987)	(17.5%)
Earnings on Investments	480,419	458,391	22,028	4.8%	162,488	113,330	49,158	43.4%
All Other Revenues	9,816,188	9,401,872	414,316	4.4%	8,480,405	8,387,253	93,152	1.1%
TOTAL	**$ 324,242,150**	**$ 325,149,639**	**$ (907,489)**	**(0.3%)**	**$ 311,190,374**	**$ 309,491,766**	**$ 1,698,608**	**0.5%**

Source: Revenue Highway General Accounting

(1) Prior to FY 2011 revenue sources included in this category were included in “All Other Revenues”.

STATE OF MAINE
HIGHWAY FUND
REVENUES
Fiscal Years Ended June 30, 2011 and June 30, 2012

	2011				2012			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Fuel Taxes	$ 217,033,892	$ 215,546,404	$ 1,487,488	0.7%	$ 219,463,118	$ 218,088,754	$ 1,374,364	0.6%
Motor Vehicle Registration & Fees	80,841,240	78,986,392	1,854,848	2.3%	83,563,402	82,738,186	825,216	1.0%
Inspection Fees	2,977,702	3,032,500	(54,799)	(1.8%)	2,997,951	2,982,500	15,451	0.5%
Miscellaneous Taxes & Fees	1,358,069	1,325,823	32,246	2.4%	1,361,888	1,313,165	48,723	3.7%
Fines, Forfeits & Penalties	1,145,044	1,205,049	(60,005)	(5.0%)	1,044,271	993,049	51,222	5.2%
Earnings on Investments	124,518	120,434	4,084	3.4%	141,082	121,761	19,321	15.9%
All Other Revenues	7,870,691	8,072,531	(201,840)	(2.5%)	8,630,697	8,734,112	(103,415)	(1.2%)
TOTAL	**$ 311,351,155**	**$ 308,289,133**	**$ 3,062,022**	**1.0%**	**$ 317,202,409**	**$ 314,971,527**	**$ 2,230,882**	**0.7%**

Source: Revenue Highway General Accounting

STATE OF MAINE
PRELIMINARY HIGHWAY FUND
REVENUES
Ten Months Ended April 30, 2013

	Month				Year to Date				
			Variance	Percent			Variance	Percent	Total Budgeted
	Actual	Budget	Over/ (under)	Over/ (under)	Actual	Budget	Over/ (under)	Over/ (under)	Fiscal Year Ending 6-30-2013
Fuel Taxes	$ 16,799,122	$16,304,408	$ 494,714	3.0%	$ 159,538,545	$ 161,617,747	$(2,079,202)	(1.3%)	$ 216,943,386
Motor Vehicle Registration & Fees	8,783,095	8,022,410	760,685	9.5%	74,369,959	72,561,609	1,808,350	2.5%	87,375,782
Inspection Fees	570,957	248,540	322,417	129.7%	2,846,604	2,485,400	361,204	14.5%	2,982,500
Miscellaneous Taxes & Fees	111,884	127,046	(15,162)	(11.9%)	975,276	1,017,467	(42,191)	(4.1%)	1,276,365
Fines, Forfeits & Penalties	79,087	93,226	(14,139)	(15.2%)	861,869	872,442	(10,573)	(1.2%)	1,039,868
Earnings on Investments	12,770	10,824	1,946	18.0%	72,274	103,313	(31,039)	(30.0%)	124,642
All Other	649,177	574,551	74,626	13.0%	7,734,959	8,009,932	(274,973)	(3.4%)	9,123,222
Total Revenue	**$ 27,006,092**	**$25,381,005**	**$ 1,625,087**	**6.4%**	**$ 246,399,486**	**$ 246,667,910**	**$ (286,424)**	**(0.1%)**	**$ 318,865,765**

Note: This report has been prepared from preliminary month end figures and is subject to change. The amounts set forth above under the headings "Month – Budget," "Year to Date – Budget " and "Total Budgeted" reflect estimated adjustments in projected revenue provided by the Maine State Revenue Forecasting Committee in its December 2012 report. For additional information concerning the revisions to the State's fiscal year 2013 budget, see "Revenues of the State – General," including the table therein, in Appendix A to this Information Statement.

[THIS PAGE INTENTIONALLY LEFT BLANK]

STATE OF MAINE

EXHIBIT D

Selected Information Regarding Authorized and Outstanding Debt of the State

AUTHORIZED EXPENDITURES

The purposes for which authorized expenditures may be made, the expending department or agency, the authorizing acts and the balances of authorized expenditures were as of the date hereof as follows:

Agency	Law	Description	Total Authorization Dec. 29, 2012
DAG	2009 PL Chapter 414	Agricultural water source development grant program.	$ 295,000
DECD	2009 PL, Chapter 414	Provides funds to make investments under the Communities for Maine's future program.	3,051,711
DECD	2009 PL, Chapter 414	Brunswick Naval Air Station Redevelopment	2,944,098
DEP	2009 PL, Chapter 414, C	Small Community Grant program: provides funding for grants to small towns to help replace malfunctioning septic systems that are polluting a water body or creating a public nuisance.	200,000
DEP	2009 PL, Chapter 414, C	Uncontrolled hazardous substance investigation and clean up	150,000
DEP	2009 PL, Chapter 414, C	Wastewater treatment facility construction grants	200,000
DEP	2009 PL, Chapter 414, C	Overboard discharge	100,000
DEP	2011 PL, c. 695	Revolving Loan for Wastewater treatment facilities	4,335,000
DHHS	2009 PL, c.414 as amended by PL 2009, c.645	Community-based Teaching Clinic	2,400,000
DHHS	2009 PL, c.414 as amended by PL 2009, c.645	Health and Dental Clinic Upgrades	1,500,000
DHHS	2012 PL, c. 695	Revolving Loan for Drinking Water Systems	3,590,000
DOC	2009 PL, c.414 as amended by PL 2009, c.645	State Parks and Land Management	110,000
DOT	2009 PL, Chapter 414, Part A	Ports (includes funds for port improvements in Eastport & Searsport)	900,000
DOT	2009 PL, Chapter 414, Part A	Ferry	650,000
DOT	2009 PL, Chapter 414, Part A	Aviation-FAA	1,700,000
DOT	2009 PL, Chapter 414, Part A	Island Airport Program	100,000
DOT	2009 PL, Chapter 414, Part A	Augusta Airport Upgrade	50,000
DOT	2009 PL, Chapter 645, A	Taxable Railroad	2,000,000
DOT	2009 PL, Chapter 645, A	Marine/SHIP	100,000
DOT	2011, PL c. 697	Highway and Bridge Construction	41,000,000
DOT	2011, PL c. 697	Life flight	300,000
DOT	2011, PL c. 697	Provides funds for dredging the established commercial channel at Searsport, which serves the existing port operation at Mack Point, and potential port development on Sears Island	3,000,000
DOT	2011, PL c. 697	Provides funds for material handling equipment for the port at Mack Point.	2,000,000
DOT	2011, PL c. 697	Provides funds for transit buses.	1,000,000
DOT	2011, PL c. 697	Industrial Rail Access Program	1,500,000
TOTAL			**$ 104,577,809**

Agency	Law	Description	Total Authorization Dec. 29, 2012
DOT	2011, PL c. 697	Warehousing facilities at the port at Eastport	1,500,000
DOT	2011, PL c. 697	Aviation facilities	1,200,000
MCCS	2009 PL, c 414	Provides funds for energy and infrastructure upgrades at all campuses of MCCS,	1,050,000
Maine Historic Preservation	2009 PL, Chapter 414 as amended by chapter 645	Historic Preservation Commission: Provides capital investment through a revolving loan fund to revitalize downtowns and village centers by preserving and rehabilitating historic properties.	1,200,000
MTI	2009 PL, Chapter 414	Provides funds for research, development and commercialization as prioritized by the Office of Innovation's current Science and Technology Action Plan for Maine. The funds must be allocated to environmental and renewable energy technology, biomedical and biotechnology, aquaculture and marine technology, composite materials technology, advanced technologies for forestry and agriculture, information technology, and precision manufacturing technology through a competitive process and must be awarded to a Maine-based public and probate institutions and must be awarded to leverage matching funds.	3,000,000
DOC	2009 PL, c.414 as amended by PL 2009, c.645	Provides for the use of bond proceeds to be used for the acquisition of land and interest in land for conservation, water access, outdoor recreation, wildlife and fish habitat, farmland preservation.	6,500,000
DOC	2009 PL, c.414 as amended by PL 2009, c.645	Provides funds to be used for working farmland preservation	500,000
DOC	2009 PL, c.414 as amended by PL 2009, c.645	Provides funds to be used for working waterfront preservation	425,000
DOC	2012 PL, c. 696	Land for Maine's Future Board.	5,000,000
UMS	2009 PL, chapter 414	Tax-exempt Provides funds for energy and infrastructure upgrades at all campuses of UMS	3,677,000
UMS	2009 PL, chapter 414 as amended by c. 645	Maine Marine Wind Energy Fund. Provides funds for research, development and product innovation associated with developing one or more ocean wind energy demonstration sites.	7,350,000
TOTAL			**$ 104,577,809**

GENERAL FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2012

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2013	$85,595,000	$12,924,559	$98,519,559
2014	67,445,000	10,159,578	77,604,578
2015	54,375,000	7,971,839	62,346,839
2016	39,040,000	6,146,326	45,186,326
2017	28,090,000	4,500,967	32,590,967
2018	24,710,000	3,187,587	27,897,587
2019	20,090,000	2,079,769	22,169,769
2020	11,650,000	1,204,332	12,854,332
2021	11,360,000	804,750	12,164,750
2022	4,735,000	236,750	4,971,750
	$347,090,000	**$49,216,457**	**$396,306,457**

HIGHWAY FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2012

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2013	$16,735,000	$5,151,841	$21,886,841
2014	16,035,000	4,544,279	20,579,279
2015	15,275,000	3,914,654	19,189,654
2016	15,300,000	3,265,079	18,565,079
2017	21,015,000	2,600,579	23,615,579
2018	18,285,000	1,691,210	19,976,210
2019	12,500,000	905,540	13,405,540
2020	7,610,000	389,668	7,999,668
2021	2,210,000	110,500	2,320,500
	$124,965,000	**$22,573,349**	**$147,538,349**
GF + HF	**$472,055,000**	**$71,789,805**	**$543,844,805**

INFORMATION REGARDING LEASE FINANCING AGREEMENTS

Agency	Date of Agreement	Original Principal Amount	Principal Amount Outstanding 3/31/2013	Principal & Interest Due 4/1/2013 - 6/30/2013
Administrative & Financial Services	February, 2007	14,000,000	1,204,401	-
Administrative & Financial Services	June, 2008	1,700,416	182,082	185,055
Administrative & Financial Services	April, 2009	4,200,000	551,909	559,935
Department of Education	August, 2009	38,045,561	2,279,599	2,279,599
Department of Education	September, 2009	349,086	2,272	2,272
Department of Education	September, 2009	98,768	6,173	6,173
Department of Education	December, 2009	689,000	49,214	49,214
Administrative & Financial Services	January, 2010	10,000,000	2,969,659	-
Department of Transportation	January, 2010	2,770,000	754,452	-
Administrative & Financial Services	May, 2010	4,700,000	2,374,080	1,205,411
Department of Education	June, 2010	588,602	42,768	42,768
Administrative & Financial Services	July, 2010	10,000,000	5,857,660	-
Administrative & Financial Services	October, 2010	5,000,000	3,274,283	387,655
Department of Education	January, 2011	569,250	56,925	56,925
Administrative & Financial Services	May, 2011	4,200,000	2,117,462	-
Administrative & Financial Services	May, 2011	5,000,000	3,562,319	-
Public Safety	May, 2011	1,800,000	605,886	-
Department of Education	July, 2011	470,919	58,865	58,865
Administrative & Financial Services	May, 2012	4,600,000	4,600,000	1,165,711
Public Safety	May, 2012	2,100,000	1,394,722	281,752
Administrative & Financial Services	January, 2013	15,000,000	13,882,828	1,117,172
Public Safety	March, 2013	2,100,000	2,100,000	360,000
Administrative & Financial Services	March, 2013	5,400,000	5,400,000	-
Administrative & Financial Services	March, 2013	4,250,000	4,250,000	-
TOTALS:		$ 137,631,602	$ 57,577,559	$ 7,758,507

Debt Ratios

The following table sets forth certain ratios relating to the State's general obligation debt and certain lease financing agreements as of June 30, 2012.

	Amount of Debt	Per Capita (1)	Debt to Estimated Full Valuation (2)	Debt to Personal Income (3)
General Fund	$472,055,000	$355.41	0.30%	0.90%
Highways & Bridges	71,789,805	54.05	0.04%	0.14%
Total	**$543,844,805**	**$409.46**	**0.34%**	**1.04%**

(1) Based on population estimate of 1,328,188 for 2011 by the U.S. Department of Commerce, Bureau of the Census.

(2) Based on assessed property valuation at full value by the Maine Revenue Services as of January 2012 of $160,011,900,000.

(3) Based on State of Maine total personal income reported by the U.S. Department of Commerce for 2012 of $52,477,565,000.

Debt Ratio Statistics

June 30, 2012

Debt to Full Value

2010	0.58%
2011	0.32%
2012	0.34%

Debt to Personal Income

2010	1.42%
2011	1.03%
2012	1.04%

Per Capita Debt

2010	$374.20
2011	$391.68
2012	$409.46

DEBT SERVICE PAID OVER PAST TEN FISCAL YEARS ENDING JUNE 30

Fiscal Year	General Fund Principal	General Fund Interest	Highway Fund Principal	Highway Fund Interest	Total Principal	Total Interest
2002	$64,225,000	$15,444,189	$23,300,000	$5,299,529	$87,525,000	$20,743,718
2003	63,880,000	12,941,300	21,215,000	4,003,828	85,095,000	16,945,128
2004	56,240,000	12,567,264	16,015,000	3,022,015	72,255,000	15,589,279
2005	53,440,000	12,525,813	13,280,000	2,477,535	66,720,000	15,003,348
2006	57,915,000	15,253,937	13,950,000	2,007,306	71,865,000	17,261,243
2007	69,280,000	17,364,513	10,415,000	1,387,084	79,695,000	18,751,597
2008	66,230,000	16,057,428	10,750,000	2,050,995	76,980,000	18,108,423
2009	65,685,000	15,179,120	13,505,000	3,848,227	79,190,000	19,027,347
2010	74,905,000	15,451,420	11,820,000	4,803,042	86,725,000	20,254,462
2011	81,055,000	14,015,648	16,385,000	5,698,368	97,440,000	19,714,016
2012	85,595,000	12,924,559	16,735,000	5,151,841	102,330,000	18,076,400

BONDS OUTSTANDING AT JUNE 30
of Certain Fiscal Years
Compared to Total Governmental Funds Revenue

Year Ended	General Fund	Highway Fund	Self-Liquidating	Total	Total Governmental Funds Revenue	Percent of State Revenues
1991	$277,710,000	$102,870,000	$14,840,000	$395,420,000	$2,533,777,000	15.6%
1992	308,890,000	107,395,000	13,395,000	429,680,000	2,995,325,000	14.0
1993	405,823,000	136,320,000	2,562,000	544,705,000	3,178,491,000	17.2
1994	383,618,000	143,355,000	2,312,000	529,285,000	3,311,809,213	16.0
1995	377,055,000	136,950,000	2,055,000	516,060,000	3,381,332,000	15.3
1996	369,457,945	144,440,000	1,792,055	515,690,000	3,598,717,000	14.3
1997	339,620,600	129,060,000	1,529,400	470,210,000	3,756,557,734	12.5
1998	337,575,000	139,180,000	1,290,000	478,045,000	4,168,141,000	11.5
1999	334,725,000	133,700,000	1,115,000	469,540,000	4,257,340,458	11.0
2000	341,205,000	111,230,000	940,000	453,375,000	4,604,954,195	9.8
2001	297,405,000	108,635,000	765,000	406,805,000	4,608,742,000	8.8
2002	260,790,000	85,335,000	600,000	346,725,000	4,808,788,859	7.2
2003	293,990,000	64,120,000	445,000	358,555,000	5,114,542,674	7.0
2004	355,025,000	61,105,000	290,000	416,420,000	5,902,866,220	7.1
2005	439,110,000	47,825,000	160,000	487,095,000	6,114,225,943	8.0
2006	433,585,000	33,875,000	90,000	467,550,000	6,336,819,316	7.4
2007	398,280,000	50,460,000	20,000	448,760,000	6,906,395,835	6.5
2008	378,575,000	97,260,000	0	475,835,000	6,406,301,524	7.4
2009	408,925,000	121,065,000	0	529,990,000	6,827,986,832	7.7
2010	365,775,000	134,325,000	0	500,100,000	7,157,520,886	7.0
2011	378,880,000	141,350,000	0	520,230,000	7,383,247,000	7.0
2012	347,090,000	124,965,000	0	472,055,000	7,239,851,000	6.5

[THIS PAGE INTENTIONALLY LEFT BLANK]

EXHIBIT E

The information contained in this Exhibit E is derived from information contained in the actuarial valuation reports for the year ended June 30, 2012 for the State Employee and Teacher Retirement Program, the Legislative Retirement Program, the Judicial Retirement Program, and the Group Life Insurance Program. These actuarial valuation reports are available at www.mainepers.org/bonds.htm.

Maine Public Employees Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet, June 30, 2012

ASSETS **(Present Value of expected income)**	**State Employees**	**MTRA Teachers**	**All Employees**
(1) Invested Assets			
(a) Members Contribution Fund	$ 802,292,748	$1,468,871,846	$2,271,164,594
(b) Retirement Allowance Fund	2,212,959,196	4,396,606,330	6,609,565,526
(c) Total Invested Assets (a + b)*	$3,015,251,944	$5,865,478,176	$8,880,730,120
(2) Future Contributions			
(a) Member Contributions	$ 326,688,088	$ 564,040,789	$ 890,728,877
(b) Actuarial Costs	1,160,735,684	1,867,273,649	3,028,009,333
(c) Total Contribution Income (a + b)	$1,487,423,772	$2,431,314,438	$3,918,738,210
(3) **Present Value of Total Income (1 + 2)**	$4,502,675,716	$8,296,792,614	$12,799,468,330
LIABILITIES **(Present Value of expected benefit payments)**			
(1) Active Employees			
(a) Current Accrued Benefits	$1,154,236,301	$2,727,928,783	$3,882,165,084
(b) Future Benefit Accruals	797,228,552	1,463,214,503	2,260,443,055
(c) Total Active Benefits (a + b)	$1,951,464,853	$4,191,143,286	$6,142,608,139
(2) Inactive Employees			
(a) Total Inactive Benefits	$2,551,210,863	$4,105,649,328	$6,656,860,191
(3) Present Value of Total Benefits (1 + 2)	$ 4,502,675,716	$8,296,792,614	$12,799,468,330

*Actuarial Value

Maine Public Employees Retirement System

Judicial Plan

Actuarial Balance Sheet, June 30, 2012

Assets
(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	$	9,379,428
(b) Retirement Allowance Fund		40,355,576
(c) Total Invested Assets (a+b)*	$	49,735,004

(2) Future Contributions

(a) Member Contributions	$	2,286,464
(b) Actuarial Costs		1,683,823
(c) Total Contribution Income (a+b)	$	3,970,287

(3) Present Value of Total Income (1+2)	$	53,705,291

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	$	20,082,565
(b) Future Benefit Accruals		8,890,916
(c) Total Active Benefits (a+b)	$	28,973,481

(2) Inactive Employees

(a) Total Inactive Benefits	$	24,731,810
(3) Present Value of Total Benefits (1+2)	$	53,705,291

*Actuarial Value

Maine Public Employees Retirement System

Legislative Plan

Actuarial Balance Sheet, June 30, 2012

Assets
(Present Value of expected income)

(1) Invested Assets		
(a) Members Contribution Fund	$	2,321,819
(b) Retirement Allowance Fund		7,000,600
(c) Total Invested Assets (a+b)*	$	9,322,419
(2) Future Contributions		
(a) Member Contributions	$	903,563
(b) Actuarial Costs		(2,150,074)
(c) Total Contribution Income (a+b)	$	(1,246,511)
(3) Present Value of Total Income (1+2)	$	8,075,908

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees		
(a) Current Accrued Benefits	$	2,285,461
(b) Future Benefit Accruals		1,894,471
(c) Total Active Benefits (a+b)	$	4,179,932
(2) Inactive Employees		
(a) Total Inactive Benefits	$	3,895,976
(3) Present Value of Total Benefits (1+2)	$	8,075,908

*Actuarial Value

Maine Public Employees Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet for Group Life Insurance, June 30, 2012

ASSETS **(Present Value of expected income)**	**State Employees**	**MTRA Teachers**	**All Employees**
(1) Invested Assets			
(a) Members Contribution Fund	$ 0	$ 0	$ 0
(b) Retirement Allowance Fund	24,228,164	30,106,492	54,334,656
(c) Total Invested Assets (a + b)*	$ 24,228,164	$ 30,106,492	$ 54,334,656
(2) Future Contributions			
(a) Member Contributions	$ 0	$ 0	$ 0
(b) Actuarial Costs	61,149,735	44,327,358	105,477,093
(c) Total Contribution Income (a + b)	$ 61,149,735	$ 44,327,358	$105,477,093
(3) Present Value of Total Income (1 + 2)	$ 85,377,899	$ 74,433,850	$159,811,749
LIABILITIES **(Present Value of expected benefit payments)**			
(1) Active Employees			
(a) Current Accrued Benefits	$ 19,552,687	$ 20,832,768	$ 40,385,455
(b) Future Benefit Accruals	13,487,491	12,054,801	25,542,292
(c) Total Active Benefits (a + b)	$ 33,040,178	$ 32,887,569	$ 65,927,747
(2) Inactive Employees			
(a) Total Inactive Benefits	$ 52,337,721	$ 41,546,281	$ 93,884,002
(3) Present Value of Total Benefits (1 + 2)	$ 85,377,899	$ 74,433,850	$159,811,749

*Actuarial Value

Maine Public Employees Retirement System

Judicial Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2012

Assets
(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	$	0
(b) Retirement Allowance Fund		428,362
(c) Total Invested Assets (a+b)*	$	428,362

(2) Future Contributions

(a) Member Contributions	$	0
(b) Actuarial Costs		1,087,411
(c) Total Contribution Income (a+b)	$	1,087,411

(3) Present Value of Total Income (1+2)	$	1,515,773

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	$	538,798
(b) Future Benefit Accruals		177,424
(c) Total Active Benefits (a+b)	$	716,222

(2) Inactive Employees

(a) Total Inactive Benefits	$	799,551
(3) Present Value of Total Benefits (1+2)	$	1,515,773

*Actuarial Value

Maine Public Employees Retirement System

Legislative Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2012

Assets
(Present Value of expected income)

(1) Invested Assets		
(a) Members Contribution Fund	$	0
(b) Retirement Allowance Fund		8,126
(c) Total Invested Assets (a+b)*	$	8,126
(2) Future Contributions		
(a) Member Contributions	$	0
(b) Actuarial Costs		18,518
(c) Total Contribution Income (a+b)	$	18,518
(3) Present Value of Total Income (1+2)	$	26,644

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees		
(a) Current Accrued Benefits	$	0
(b) Future Benefit Accruals		0
(c) Total Active Benefits (a+b)	$	0
(2) Inactive Employees		
(a) Total Inactive Benefits	$	26,644
(3) Present Value of Total Benefits (1+2)	$	26,644

*Actuarial Value

STATE OF MAINE

EXHIBIT F

Selected Economic Information
With Respect to the State

Maine Population

Year	Population	Rank U.S.	Percent Change	Per Square Mile
1920	768,000	35	-	24.9
1930	797,000	-	3.80%	25.8
1940	847,000	35	6.30	27.4
1950	914,000	35	7.90	29.6
1960	969,000	36	6.00	31.4
1970	992,000	38	2.40	32.1
1980	1,126,000	38	13.50	36.5
1990	1,227,928	38	9.10	39.8
2000	1,274,923	40	3.80	41.3
2001	1,284,470	40	0.70	41.6
2002	1,294,464	40	0.80	41.9
2003	1,305,728	40	0.90	42.3
2004	1,317,253	40	0.90	37.2
2005	1,321,505	40	0.30	41.3
2006	1,321,574	40	0.01	43.0
2007	1,317,207	40	-.30	42.7
2008	1,316,456	40	-.06	43.0
2009	1,318,301	40	.14	37.0
2010	1,328,361	41	.76	43.1
2011	1,328,188	42	-.01	43.1
2012	1,329,192	41	.01	43.1

Source: U.S. Census Bureau.

Personal Income and Earnings by Industry in Maine 2008-2012

	2008	2009	2010	2011	2012
Personal income (thousands of dollars)	48,469,425	47,989,505	48,798,729	50,435,496	50,435,496
Earnings by place of work	33,333,748	32,697,032	33,422,429	34,175,593	34,803,611
Farm earnings	179,061	154,037	198,733	189,680	208,976
Nonfarm earnings	33,154,687	32,542,995	33,223,696	33,985,913	34,594,635
Forestry, fishing, related activities, and other	confidential	confidential	422,803	439,068	480,035
Mining	confidential	confidential	13,615	15,364	14,689
Utilities	218,131	190,876	205,516	195,862	217,774
Construction	2,208,731	1,985,238	2,079,675	2,158,792	2,266,039
Manufacturing	3,749,339	3,542,842	3,474,625	3,555,015	3,568,855
Wholesale trade	1,384,651	1,315,872	1,311,001	1,363,058	1,417,864
Retail trade	2,776,263	2,752,269	2,783,411	2,843,868	2,930,448
Transportation and warehousing	901,953	880,746	885,118	889,061	893,022
Information	585,021	552,704	566,993	509,276	500,193
Finance and insurance	1,852,693	1,825,213	1,919,083	2,042,081	1,969,745
Real estate and rental and leasing	418,789	444,785	483,722	486,888	466,188
Professional and technical services	2,247,550	2,089,450	2,128,848	2,210,109	2,311,608
Management of companies and enterprises	618,238	553,887	562,928	595,893	661,244
Administrative and waste services	1,110,424	1,098,852	1,137,169	1,219,544	1,231,703
Educational services	545,972	575,988	586,562	626,897	660,656
Arts	358,573	351,544	330,644	337,285	359,892
Accommodation and food services	1,140,026	1,116,928	1,190,180	1,233,808	1,286,545
Other services, except public administration	1,102,455	1,108,958	1,161,777	1,206,942	1,218,349
Government and government enterprises	6,324,258	6,452,202	6,522,639	6,474,052	6,485,294

Source: U.S. Bureau of Economic Analysis

Per Capita Personal Income
Maine, New England, U.S.
2001-2012

	Per Capita Income*			Maine as a Percent of		Annual Percent Increase		
	US	NE	Maine	US	NE	US	NE	Maine
2001	31,157	37,996	28,181	90.4%	74.2%	2.8%	3.8%	5.6%
2002	31,481	38,131	28,846	91.6%	75.6%	1.0%	0.4%	2.4%
2003	32,295	38,798	29,851	92.4%	76.9%	2.6%	1.7%	3.5%
2004	33,909	40,837	31,335	92.4%	76.7%	5.0%	5.3%	5.0%
2005	35,452	42,376	31,834	89.8%	75.1%	4.6%	3.8%	1.6%
2006	37,725	45,627	33,474	88.7%	73.4%	6.4%	7.7%	5.2%
2007	39,506	48,223	34,930	88.4%	72.4%	4.7%	5.7%	4.3%
2008	40,947	49,726	36,429	89.0%	73.3%	3.6%	3.1%	4.3%
2009	38,637	47,344	36,093	93.4%	76.2%	-5.6%	-4.8%	-0.9%
2010	39,791	49,056	36,629	92.1%	74.7%	3.0%	3.6%	1.5%
2011	41,560	51,274	38,299	92.2%	74.7%	4.4%	4.5%	4.6%
2012	42,693	52,466	39,481	92.5%	75.3%	2.7%	2.3%	3.1%

Source: U.S. Bureau of Economic Analysis

State Valuation of Taxable Real and Personal Property

January 1991	$ 64,905,350,000
January 1992	68,471,100,000
January 1993	67,751,400,000
January 1994	66,565,550,000
January 1995	66,425,500,000
January 1996	67,102,925.900
January 1997	68,286,600,000
January 1998	69,691,900,000
January 1999	71,779,350,000
January 2000	74,260,000,000
January 2001	78,389,400,000
January 2002	84,874,550,000
January 2003	94,034,050,000
January 2004	104,219,950,000
January 2005	118,038,020,000
January 2006	133,628,600,000
January 2007	148,946,200,000
January 2008	162,744,550,000
January 2009	168,006,150,000
January 2010	170,336,350,000
January 2011	166,990,700,000
January 2012	163,424,200,000
January 2013	160,011,900,000

Source: State Revenue Services.

The State valuation of taxable property is equal to 100% of value.
The State valuation filed in January of each year is based on the value of property as of April 1, 21 months prior to the filing date.

Selected Labor Market Information for Maine

Annual Averages, 2008 through 2012, Not Seasonally Adjusted

	2008	2009	2010	2011	2012
Nonfarm Wage and Salary Employment	617,200	596,300	593,000	594,700	597,600
Manufacturing Employment	58,800	52,300	50,800	50,700	50,800
Nonmanufacturing Employment	558,400	544,000	542,200	544,000	546,800
Average Weekly Hours of Manufacturing Production	41.4	40.0	41.1	40.8	41.3
Average Hourly Earnings of Manufacturing Production	$19.71	$19.97	$20.18	$20.21	$20.50
Unemployment Rate	5.4%	8.1%	8.2%	7.7%	7.3%
Number Unemployed	38,200	57,000	57,300	54,400	51,600

Source: Maine Department of Labor, Center for Workforce Research and Information.

Civilian Labor Force
Employed and Unemployed by Labor Market Area, Not Seasonally Adjusted
March 1, 2013

Maine Labor Force Estmates for Labor Market Areas

	Civilian Labor Force			Employment			Unemployment			Unemployment Rate		
LABOR MARKET AREA	Mar-13	Feb-13	Mar-12	Mar-13	Feb-13	Mar-12	Mar-13	Feb-13	Mar-12	Mar-13	Feb-13	Mar-12
Augusta Micro	46,135	45,962	46,244	43,022	42,630	42,766	3,113	3,332	3,478	6.7%	7.2%	7.5%
Bangor MA	72,780	73,221	73,049	67,618	67,620	67,491	5,162	5,601	5,558	7.1	7.6	7.6
Belfast LMA	13,346	13,350	13,363	12,113	11,997	12,023	1,233	1,353	1,340	9.2	10.1	10.0
Boothbay Harbor LMA	3,650	3,672	3,574	3,273	3,249	3,170	377	423	404	10.3	11.5	11.3
Bridgton-Paris LMA	14,087	14,116	13,962	12,838	12,794	12,566	1,249	1,322	1,396	8.9	9.4	10.0
Brunswick Micro	33,831	33,845	34,190	31,546	31,307	31,740	2,285	2,538	2,450	6.8	7.5	7.2
Calais LMA	5,539	5,557	5,736	4,846	4,797	5,030	693	760	706	12.5	13.7	12.3
Camden LMA	7,162	7,087	7,338	6,578	6,453	6,676	584	634	662	8.2	8.9	9.0
Conway LMA	3,890	3,950	3,880	3,648	3,676	3,626	242	274	254	6.2	6.9	6.5
Dover-Foxcroft LMA	9,278	9,319	9,254	8,323	8,289	8,210	955	1,030	1,044	10.3	11.1	11.3
Ellsworth Micro	27,274	27,694	27,444	24,308	24,251	24,284	2,966	3,443	3,160	10.9	12.4	11.5
Farmington LMA	16,937	16,954	17,349	15,465	15,341	15,689	1,472	1,613	1,660	8.7	9.5	9.6
Houlton LMA	8,199	8,247	8,370	7,427	7,416	7,537	772	831	833	9.4	10.1	10.0
Lewiston-Auburn MA	57,848	57,903	58,211	53,671	53,419	53,482	4,177	4,484	4,729	7.2	7.7	8.1
Lincoln LMA	3,619	3,631	3,643	3,234	3,235	3,251	385	396	392	10.6	10.9	10.8
Machias LMA	7,643	7,738	7,707	6,824	6,804	6,800	819	934	907	10.7	12.1	11.8
Madawaska LMA	2,810	2,770	2,835	2,571	2,542	2,599	239	228	236	8.5	8.2	8.3
Millinocket LMA	3,585	3,612	3,618	3,085	3,074	3,012	500	538	606	13.9	14.9	16.7
Pittsfield LMA	7,418	7,450	7,538	6,619	6,561	6,668	799	889	870	10.8	11.9	11.5
Portland-S. Portland-Biddeford MA	208,335	207,229	208,226	195,446	193,364	194,354	12,889	13,865	13,872	6.2	6.7	6.7
Portsmouth MA	9,205	9,175	8,904	8,751	8,668	8,460	454	507	444	4.9	5.5	5.0
Presque Isle LMA	23,746	23,790	24,012	21,503	21,420	21,590	2,243	2,370	2,422	9.4	10.0	10.1
Rochester-Dover MA	11,548	11,560	11,342	10,853	10,758	10,605	695	802	737	6.0	6.9	6.5
Rockland Micro	13,125	13,012	13,555	12,122	11,938	12,391	1,003	1,074	1,164	7.6	8.3	8.6
Rumford LMA	10,147	10,329	10,250	9,147	9,271	9,108	1,000	1,058	1,142	9.9	10.2	11.1
Sanford Micro	12,322	12,323	12,395	11,048	10,947	11,092	1,274	1,376	1,303	10.3	11.2	10.5
Skowhegan LMA	14,534	14,645	14,635	13,022	12,981	13,022	1,512	1,664	1,613	10.4	11.4	11.0
Waldoboro LMA	9,210	9,230	9,365	8,521	8,493	8,623	689	737	742	7.5	8.0	7.9
Waterville Micro	22,173	22,223	22,379	20,424	20,298	20,504	1,749	1,925	1,875	7.9	8.7	8.4
York LMA	16,486	16,450	16,223	15,313	15,167	15,004	1,173	1,283	1,219	7.1	7.8	7.5
MAINE	695,862	696,044	698,592	643,160	638,760	641,372	52,702	57,284	57,220	7.6	8.2	8.2
UNITED STATES (000)	154,512	154,727	154,316	142,698	142,228	141,412	11,815	12,500	12,904	7.6	8.1	8.4

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

MAINE GOVERNMENTAL FACILITIES AUTHORITY • LEASE RENTAL REVENUE BONDS, SERIES 2013A

Printed by: ImageMaster
www.ImageMaster.com

MAINE GOVERNMENTAL FACILITIES AUTHORITY

JUDICIAL

Project Name	Project Location	Amt of Legislative Authorization	Issued pursuant to MSRA Title 4 chapter 33 sec 1606-2 CAP	Year(s) Financed
Cumberland County Courthouse	Portland	$6,600,000	Yes	1988
West Bath District Court	Bath		Yes	
Presque Isle District Court	Presque Isle		Yes	
York Superior & District Court	York		Yes	
Dover-Foxcroft District Court	Dover-Foxcroft	Total for all	Yes	All
Machias District Court	Machias	$8,500,000	Yes	1990
West Bath District Court	Bath	Total for all	Yes	All
York Superior & District Court	York	$1,065,000	Yes	1993
Biddeford District Court	Biddeford		Yes	
Skowhegan District Court	Skowhegan	Total for all	Yes	All
Various other locations	Various	$7,000,000	Yes	1996
Lewiston District Court	Lewiston		Yes	1999, 2001,2002
Springvale District Court	Springvale	Total for all	Yes	
Various other locations	Various	$5,500,000	Yes	
York Superior & District Court	York	$600,000	Yes	2000
Springvale District Court	Springvale	Total for all	Yes	All
Various other locations	Various	$2,500,000	Yes	2000
Springvale District Court	Springvale	$1,200,000	Yes	2001
Lewiston District Court	Lewiston	$2,000,000	Yes	2001
Lewiston District Court	Lewiston	$2,500,000	Yes	2002
Rockland District Court	Rockland	Total for all	Yes	All
Various other locations	Various	$1,000,000	Yes	2002
Rockland District Court	Rockland	Total for all	Yes	All
Various other locations	Various	$4,500,000	Yes	2003
Facilities Planning Project	Kennebec		Yes	
	Penobscot		Yes	
	Piscataquis	Total for all	Yes	All
	Washington	$750,000	Yes	2004
Technology Project	Statewide video conferencing & technology infrastructure	$1,000,000	Yes	2004
Bangor District Court	Bangor	$10,000,000	Yes	2007
	Bangor	$27,000,000	Yes	2008
		$37,000,000		
Americans w/Disabilities Act upgrades	Various	$1,000,000	No	2007
Houlton Courthouse	Houlton	$2,455,000	Yes	2008
Dover-Foxcroft	Dover-Foxcroft	$5,000,000	Yes	2009
Machias	Machias	$4,545,000	Yes	2013
		$12,000,000		
Augusta Courthouse	Augusta****See below	$33,000,000	Yes	2011
Augusta Courthouse	Augusta****See below	$22,365,000	Yes	2013
		$55,365,000		

Judicial projects authorized by the Legislature but not yet fully financed by the Authority

New Courthouse-Augusta, Renovations courthouse-Dover-Foxcroft Planning for court facilities upgrades-Machias	Augusta, Dover-Foxcroft & Machias	$67,500,000	Yes	****2011, 2013

******$67.5 million authorized-$33 million issued for Augusta in 2011, $22.365 million for Augusta & $3,380 million for Machias in 2013**

$8.755 million left to authorize as of July 2013

Individual projects may have had more than one legislative authorization and may have had bonds sold in multiple bond sales for the same project

LEGISLATIVE

Project Name	Project Location	Amt of Legislative Authorization	Issued pursuant to MSRA Title 4 chapter 33 sec 1606-2 CAP	Year(s) Financed
State Capitol Connector	Augusta	$4,000,000	Yes	1999 & 2000
State Capitol Building	Augusta	$19,283,830	Yes	1999 & 2000

EXECUTIVE

Project Name	Project Location	Amt of Legislative Authorization	Issued pursuant to MSRA Title 4 chapter 33 sec 1606-2 CAP	Year(s) Financed
State Office Building	Augusta	$29,216,170	Yes	1999
Department of Corrections	Warren & South Windham	$85,000,000	No	1999 & 2000
	Bangor Campus	$750,000	Yes	2008
Department of Corrections	Various	$1,000,000	No	2009
Psychiatric Treatment Center	Augusta	$33,000,000	No	2000 & 2001
AMHI	Augusta	$2,500,000	Yes	2002
DOT	Augusta	$2,500,000	Yes	2002
Baxter School	Falmouth	$2,360,000	Yes	2002
		$7,360,000		
Capital Construction/Repairs/Improvements	Various projects throughout the state	$7,485,000	No	2003
Capital Construction/Repairs/Improvements	Various projects throughout the state	$9,000,000	No	2005
Capital Construction/Repairs/Improvements	Various projects throughout the state	$11,000,000	Yes	2008
Capital Construction/Repairs/Improvements	Various projects throughout the state	$6,000,000	Yes	2009
		$17,000,000		

REFUNDING BONDS ISSUED

ISSUED REFUNDED	PAR AMOUNT OF REFUNDING	REFUNDING ISSUE	PV SAVINGS	DATE REFUNDED
1988 & 1990	$15,190,000	1993	$410,678	Sept. 29, 1993
1993	$6,780,000	2003	$546,309	Sept. 11, 2003
1996 and portions of 1999 & 2000	$27,750,000	2004C	$1,286,232	April 22, 2004
Portions of 1996, 2000 & 2000B	$54,210,000	2005A	$2,738,418	March 8, 2005
Portions of 1999, 2000, 2000B, 2001 & 2002	$25,600,000	2010A	$902,423	April 1, 2010
	$129,530,000		$5,884,060	

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SUMMARY OF BONDS ISSUED & OUTSTANDING
(as of 6/30/13)

SERIES	ORIGINAL ISSUE AMOUNT	OUTSTANDING AMOUNT	PROJECTS	INTEREST RATE
1988	$6,490,000	$0	CUMBERLAND COUNTY COURTHOUSE	7.07%
1990	$8,500,000	$0	W. BATH,PRESQUE ISLE, YORK, DOVER-FOXCROFT, & MACHIAS DISTRICT COURTS	6.97%
1993	$16,255,000	$0	W. BATH & YORK DISTRICT COURT	5.02%
1996	$5,990,000	$0	BIDDEFORD & SKOWHEGAN COURTHOUSES	5.73%
1999	$86,945,000	$0	DEPT. OF CORRECTIONS, LEWISTON, SPRINGVALE & YORK DISTRICT COURTS, STATE OFFICE BUILDING, STATE CAPITOL BUILDING & CONNECTOR	5.56%
2000A	$51,855,000	$0	DEPT. OF CORRECTIONS, STATE CAPITOL BUILDING & CONNECTOR	5.34%
2000B	$6,995,000	$0	PSYCHIATRIC TREATMENT CENTER, YORK & SPRINGVALE COURT FACILITIES	5.19%
2001	$36,485,000	$0	PSYCHIATRIC TREATMENT CENTER, LEWISTON & SPRINGVALE COURT FACILITIES	4.36%
2002	$10,860,000	$2,170,000	DEPT. OF TRANSPORTATION, AMHI, GOV. BAXTER SCHOOL, LEWISTON & ROCKLAND COURT FACILITIES	4.25%
2003	$18,425,000	$3,735,000	REFUNDING OF 1993 BOND ISSUE, & ISSUANCE OF NEW MONEY FOR ROCKLAND & STATE OWNED PROJECTS	3.57%
2004A	$750,000	$435,000	JUDICIAL FACILITY PLANNING PROJECT	3.38%
2004B	$1,000,000	$110,000	JUDICIAL TECHNOLOGY PROJECT	3.38%
2004C	$27,750,000	$20,655,000	PARTIAL REFUNDING OF 1999 & 2000A BOND SERIES	3.38%
2005A	$54,210,000	$39,145,000	PARTIAL REFUNDING OF 1999, 2000A & 2000B BOND SERIES	3.61%
2005B	$8,890,000	$2,660,000	VARIOUS STATE OWNED PROJECTS	3.78%
2007A	$10,985,000	$8,655,000	BANGOR COURTHOUSE & JUDICIAL ADA PROJECTS	4.05%
2008A	$40,565,000	$29,470,000	VARIOUS STATE OWNED PROJECTS, HOULTON COURTHOUSE,BANGOR COURTHOUSE, & DEPT. OF CORRECTIONS	3.98%
2009A	$11,960,000	$10,435,000	VARIOUS STATE OWNED PROJECTS, DOVER-FOXCROFT COURTHOUSE, & DEPT. OF CORRECTIONS	4.02%
2010A	$25,600,000	$20,235,000	PARTIAL REFUNDING OF 1999, 2000A, 2000B, 2001 & 2002 BOND SERIES	3.01%
2011A	$33,000,000	$31,915,000	AUGUSTA COURTHOUSE	3.90%
2013A	$30,290,000	$30,290,000	AUGUSTA COURTHOUSE & MACHIAS COURTHOUSE	3.90%
	TOTAL OUTSTANDING	$199,910,000		

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION
AND ANALYSIS AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2013

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements, consisting of the General Operating Account and General Bond Resolution, of Maine Governmental Facilities Authority (the Authority), which comprise the statements of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements. The Authority is a component unit of the State of Maine.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Commissioners
Maine Governmental Facilities Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as well as the individual fund groups referred to above, as of June 30, 2013, and the respective changes in net position and cash flows 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The additional information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2013 on our consideration of the Authority'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 Maine Governmental Facilities Authority's internal control over financial reporting and compliance.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
September 6, 2013

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

As financial management of the Maine Governmental Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2013. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in its financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $425,642 for fiscal year 2013, an increase of $6,061 or 1.4% from fiscal year 2012.
- Net position in the Authority's General Operating Account at June 30, 2013 was $2,644,659. This represents an increase of $210,051 or 8.6% over the net position at June 30, 2012.
- The Authority's gross bonds outstanding at June 30, 2013 were $199,910,000. Gross bonds outstanding at June 30, 2013 increased $12,045,000 from the balance at June 30, 2012. This is the net result of the issuance of 2013A bonds totaling $30,290,000, less principal payments of $18,245,000.
- The Authority's lease payments receivable from lessee at June 30, 2013 were $199,529,889. The lease payments are closely related to the bonds outstanding. Therefore, the increase of $12,232,659 is mainly attributed to the net effect of bonds activity as describe above. The difference between bond principal payments and principal payments received from lessee of $187,659 relates entirely to the 2010A Series bonds, whereby the Authority received principal payments on outstanding loans on a schedule that is slightly different than the related required principal repayments on outstanding bonds. These receivables represent lease payments due from the State of Maine and related entities for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

The Authority is considered a component unit of the State of Maine. However, the Authority does not receive any direct State appropriations for its operations. The Authority does receive loan servicing fees (included in administrative fees on the statement of revenues, expenses and changes in net position) from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority contracts with an arbitrage consultant to maintain and prepare all rebate calculations that will be filed with the Internal Revenue Service.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net position, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the fiscal year. All changes in net position are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Net position may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority's general operating account, net position totaled $2,644,659 at June 30, 2013. This represents an increase of $210,051 or 8.6% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2013.

The Authority's financial position for the past two years is summarized as follows:

GENERAL OPERATING ACCOUNT

Statements of Net Position
June 30, 2013 and 2012

	2013	2012	Percentage Change
Current assets:			
Cash and cash equivalents	$ 802,185	$1,558,544	(48.5)%
Investments	2,531,895	1,500,030	68.8
Accounts receivable	21,550	156,135	(86.2)
Deferred expenses	5,000	–	–
Accrued interest income receivable	5,375	163	3,197.5
Total current assets	3,366,005	3,214,872	4.7
Current liabilities:			
Deferred fees	118,662	105,726	12.2
Accounts payable	15,189	10,186	49.1
Total current liabilities	133,851	115,912	15.5
Noncurrent liabilities:			
Deferred fees	587,495	664,352	(11.6)
Total liabilities	721,346	780,264	(7.6)
Net position – unrestricted	$2,644,659	$2,434,608	8.6%

GENERAL BOND RESOLUTION

Statements of Net Position
June 30, 2013 and 2012

	2013	2012	Percentage Change
Current assets:			
Cash and cash equivalents	$ 414,137	$ 635,875	(34.9)%
Lease payments receivable from lessee	18,097,341	18,057,341	0.2
Interest and other amounts receivable from lessee	1,911,270	1,999,345	(4.4)
Total current assets	20,422,748	20,692,561	(1.3)
Noncurrent assets:			
Lease payments receivable from lessee	181,432,548	169,239,889	7.2
Total assets	201,855,296	189,932,450	6.3
Current liabilities:			
Bonds payable	18,290,000	18,245,000	0.2
Accrued interest payable	1,896,470	2,028,821	(6.5)
Accrued payable	47,980	–	–
Total current liabilities	20,234,450	20,273,821	0.2
Noncurrent liabilities:			
Bonds payable	181,620,000	169,620,000	7.1
Total noncurrent liabilities	181,620,000	169,620,000	7.1
Total liabilities	201,854,450	189,893,821	6.3
Net position – restricted	$ 846	$ 38,629	(97.8)%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	2013	2012	Percentage Change
Operating revenues:			
Administrative fees	$ 423,642	$ 414,724	2.2%
Interest income from investments	22,217	24,702	(10.1)
Net decrease in fair value of investments	(20,217)	(19,845)	1.9
Total operating revenue	425,642	419,581	1.4
Operating expenses:			
Salaries	58,210	59,525	(2.2)
Employee benefits	22,896	19,648	16.5
Professional and other fees	34,992	105,473	(66.8)
Insurance	40,421	46,761	(13.6)
Office	10,176	10,736	(5.2)
Accretion of interest on deferred fees	42,269	46,865	(9.8)
Other	6,627	7,916	(16.3)
Total operating expenses	215,591	296,924	(27.4)
Operating income	210,051	122,657	71.3
Net position, beginning of year	2,434,608	2,311,951	5.3
Net position, end of year	$2,644,659	$2,434,608	8.6%

GENERAL BOND RESOLUTION

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2013 and 2012

	2013	2012	Percentage Change
Operating revenues:			
Received and receivable from lessee	$7,565,814	$7,838,602	(3.5)%
Interest income from investments	154	5	2,980.0
Other income	453,182	577,655	(21.5)
Total operating revenue	8,019,150	8,416,262	(4.7)%
Operating expenses:			
Cost of issuance	453,182	577,655	(21.5)
Interest expense	7,445,763	7,686,853	(3.1)
Amortization of deferred bond issuance costs	157,988	177,727	(11.1)
Total operating expenses	8,056,933	8,442,235	(4.6)
Operating loss	(37,783)	(25,973)	45.5
Net position, beginning of year	38,629	64,602	(40.2)
Net position, end of year	$ 846	$ 38,629	(97.8)%

General Operating Account

Cash and cash equivalents held in the General Operating Account decreased $756,359 or 48.5% at June 30, 2013 compared to June 30, 2012. The decrease is the primarily result of transfer of cash to investments.

Account receivable decreased $134,585 or 86.2% in fiscal year 2013. No rebate arbitrage due from the State of Maine was issued in fiscal 2013.

Deferred fees decreased $63,921 or 8.3% from 2012 as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net position increased $210,051 or 8.6% in fiscal year 2013. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Professional and other fees decreased $70,481 or 66.8% in fiscal year 2013 as compared to fiscal year 2012. The decrease in 2013 is primarily attributed to final arbitrage calculations and related services provided in 2012 that were not required in 2013.

The Authority shares office space and staff with the Maine Municipal Bond Bank (Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Interest expense on the bonds decreased $241,090 or 3.1% in fiscal year 2013 from 2012 based on the scheduled payments. As a result, interest and other amounts received from lessee also decreased in fiscal 2013 by $272,788 or 3.5%.

The Authority's net lease payments receivable from lessee increased $12,232,659 or 6.5% in fiscal year 2013 compared to fiscal year 2012. The increase is the net effect of the Authority issuing the 2013A Series bonds totaling $30,290,000, and the scheduled principal repayment from borrowers of $18,057,341.

Other revenue and cost of issuance expense each decreased by $124,473 or 21.5%. The decrease relates entirely to issuance costs of the 2013A Series bonds that were reimbursed in fiscal 2013 compared to fiscal 2012.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF NET POSITION

June 30, 2013

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$ 802,185	$ 414,137	$ 1,216,322
Investments (note 3)	2,531,895	–	2,531,895
Lease payments receivable from lessee (note 4)	–	18,097,341	18,097,341
Interest and other amounts receivable from lessee	–	1,911,270	1,911,270
Accounts receivable	21,550	–	21,550
Deferred expenses	5,000	–	5,000
Accrued interest income receivable	5,375	–	5,375
Total current assets	3,366,005	20,422,748	23,788,753
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	181,432,548	181,432,548
Total assets	3,366,005	201,855,296	205,221,301
LIABILITIES			
Current liabilities:			
Bonds payable (note 4)	–	18,290,000	18,290,000
Accrued interest payable	–	1,896,470	1,896,470
Deferred fees (note 7)	118,662	–	118,662
Accounts payable (note 6)	15,189	47,980	63,169
Total current liabilities	133,851	20,234,450	20,368,301
Noncurrent liabilities:			
Bonds payable (note 4)	–	181,620,000	181,620,000
Deferred fees (note 7)	587,495	–	587,495
Total noncurrent liabilities	587,495	181,620,000	182,207,495
Total liabilities	721,346	201,854,450	202,575,796
NET POSITION			
Restricted	–	846	846
Unrestricted	2,644,659	–	2,644,659
Total net position	$2,644,659	$ 846	$ 2,645,505

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2013

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$7,565,814	$7,565,814
Administrative fees (note 7)	423,642	–	423,642
Interest income from investments	22,217	154	22,371
Net decrease in fair value of investments	(20,217)	–	(20,217)
Other income	–	453,182	453,182
Total operating revenue	425,642	8,019,150	8,444,792
Operating expenses (note 6):			
Costs of issuance	–	453,182	453,182
Interest expense	–	7,445,763	7,445,763
Salaries	58,210	–	58,210
Employee benefits	22,896	–	22,896
Professional and other fees	34,992	–	34,992
Insurance	40,421	–	40,421
Office	10,176	–	10,176
Accretion of interest on deferred fees (note 7)	42,269	–	42,269
Amortization of deferred bond issuance costs	–	157,988	157,988
Other	6,627	–	6,627
Total operating expenses	215,591	8,056,933	8,272,524
Operating income (loss)	210,051	(37,783)	172,268
Net position, beginning of year	2,434,608	38,629	2,473,237
Net position, end of year	$2,644,659	$ 846	$2,645,505

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2013

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 447,037	$ 27,921,230	$ 28,368,267
Cash received from other income	–	453,182	453,182
Cash deposited to construction funds	–	(32,500,000)	(32,500,000)
Cash paid for operating expenses	(168,319)	–	(168,319)
Cash paid for bond issuance costs	–	(405,202)	(405,202)
Net cash (used by) provided by operating activities	278,718	(4,530,790)	(4,252,072)
Noncapital financing activities:			
Proceeds on bonds payable	–	30,290,000	30,290,000
Principal paid on bonds payable	–	(18,245,000)	(18,245,000)
Interest paid on bonds payable	–	(7,736,102)	(7,736,102)
Net cash provided by noncapital financing activities	–	4,308,898	4,308,898
Investing activities:			
Purchases of investment securities	(2,561,178)	–	(2,561,178)
Proceeds from sales and maturities of investment securities	1,509,096	–	1,509,096
Cash received from interest income	17,005	154	17,159
Net cash (used by) provided by investing activities	(1,035,077)	154	(1,034,923)
Decrease in cash and cash equivalents	(756,359)	(221,738)	(978,097)
Cash and cash equivalents at beginning of year	1,558,544	635,875	2,194,419
Cash and cash equivalents at end of year	$ 802,185	$ 414,137	$ 1,216,322
Reconciliation of operating income (loss) to net cash (used by) provided by operating activities:			
Operating income (loss)	$ 210,051	$ (37,783)	$ 172,268
Adjustments to reconcile operating income (loss) to net cash (used by) provided by operating activities:			
Accretion of interest on deferred fees	42,269	–	42,269
Amortization of deferred fees and costs	(114,215)	157,988	43,773
Interest expense	–	7,445,763	7,445,763
Interest income	(22,217)	(154)	(22,371)
Decrease in fair value of investments	20,217	–	20,217
Changes in operating assets and liabilities:			
Lease payments receivable from lessee	–	(12,232,659)	(12,232,659)
Interest and other amounts receivable from lessee	–	88,075	88,075
Accounts receivable	134,585	–	134,585
Deferred expenses	(5,000)	–	(5,000)
Accounts payable	5,003	47,980	52,983
Other deferred revenue	8,025	–	8,025
Net cash (used by) provided by operating activities	$ 278,718	$ (4,530,790)	$ (4,252,072)

See accompanying notes.

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $325,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and state income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority. The lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The Authority's General Operating Account Fund Group records the revenues and expenses generated from its daily operations in administration of the General Bond Resolution. The Authority has an arrangement with the Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

As discussed below, the Authority complies with Governmental Accounting Standards Board (GASB) statements codified under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidelines Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62).

2. Significant Accounting Policies (Continued)

The financial statements are prepared in accordance with GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34*, and No. 38, *Certain Financial Statement Note Disclosures*.

Accounting Method

The Authority uses the accrual basis of accounting, and accordingly recognizes revenues as earned and expenses as incurred.

Federal Income Taxes

It is the opinion of management that the Authority is exempt from federal income taxes under Internal Revenue Code (IRC) Section 115, and that the Authority has maintained its tax-exempt status and has no uncertain tax positions that require adjustment or disclosure in these financial statements. However, the Authority is subject to the arbitrage rebate requirements of Section 148 of the IRC. Section 148 requires that any arbitrage profit earned on the proceeds of tax-exempt bonds issued after 1985 must be rebated to the federal government at least once every five years, with the balance rebated no later than 60 days after the retirement of the bonds.

Arbitrage rebate expense was not significant for the year ended June 30, 2013.

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net position.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America. Instead, the Authority records the present value of lease payments receivable as an asset. Interest revenue is accreted over the life of the lease using a method approximating the effective interest method.

2. Significant Accounting Policies (Continued)

Bond Discounts, Premiums and Issuance Costs

Costs associated with issuing debt, which are generally paid by means of fees collected from lessee, are expensed in the year incurred. To the extent they are used to pay bond issuance costs, premiums remitted to the Authority are recorded as other income. Other premiums and discounts are passed on to the borrowers, and are, therefore, not recorded.

Use of Estimates

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

Total Columns

The “total” columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience and presentation purposes only.

Implementation of New Accounting Standards

The Authority adopted the following new accounting standards in 2013:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). This Statement incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. This Statement improves financial reporting by contributing to the GASB’s efforts to codify all sources of generally accepted accounting principles for state and local government so that they derive from a single source. There was no impact on the Authority’s financial statements as a result of the adoption of GASB 62.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). This Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial net position. Deferred outflows of resources and deferred inflows of resources are now required to be reported separately from assets and liabilities.

The adoption of GASB 63 resulted in a change in the presentation of the Balance Sheet to what is now referred to as the Statement of Net Position and the term “net assets” is changed to “net position” throughout the financial statements.

2. Significant Accounting Policies (Continued)

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53* (GASB 64). This Statement clarifies the termination provisions in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* when a counterparty of an interest rate or commodity swap is replaced. There was no impact on the Authority's financial statements as a result of the adoption of GASB 64.

Other GASB standards that are under evaluation include:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It requires the reclassification of certain amounts previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources or to expenses or revenues.

GASB 65 is effective for the year ending June 30, 2014 and the Authority has not yet adopted this standard. The Authority is currently evaluating what impact this statement may have on its financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* are effective for the year ending June 30, 2014, GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* are effective for the year ending June 30, 2015, and GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* is effective for the year ending June 30, 2016. The Authority has not yet adopted these standards and is evaluating the impact they may have on its financial statements.

3. Investments and Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolutions and Tax Regulatory Agreements.

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

3. Investments and Cash and Cash Equivalents (Continued)

At June 30, 2013, investments and cash and cash equivalents are as follows (at fair value):

General Operating Account:	
U.S. Government-sponsored enterprise bonds	$2,531,895
Cash and cash equivalents	802,185
	$3,334,080
General Bond Resolution:	
Cash and cash equivalents	$ 414,317

The following table provides information on future maturities of the Authority's investments in U.S. Government-sponsored enterprises as of June 30, 2013:

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
General Operating Account					
U.S. Government-Sponsored enterprises	$2,531,895	$1,009,870	$1,522,025	$ –	$ –

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's cash equivalents are primarily held by Camden National Bank and Bangor Savings Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2013.

The cash of the general operating account at June 30, 2013 consists of $314,862 insured deposits with a bank. Cash equivalents consist of $487,323 in money market funds secured by short-term U.S. Treasury obligations.

Cash and cash equivalents of the General Bond Resolution at June 30, 2013, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at Bank of New York.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2013, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2013
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	$ 10,860,000	$ 2,170,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	3,735,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	21,200,000

4. Bonds Payable and Lease Payments Receivable (Continued)

	Original Maturity	Original Amount Issued	Amount Outstanding June 30, 2013
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	$ 54,210,000	$ 39,145,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	2,660,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	8,655,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	29,470,000
Series 2009 A, 3.25% – 5.00% dated October 29, 2009	2010 – 2029	11,960,000	10,435,000
Series 2010A, 2.50% – 5.00%, dated April 1, 2010	2010 – 2023	25,600,000	20,235,000
Series 2011A, 3.00% – 4.50%, dated October 26, 2011	2012 – 2031	33,000,000	31,915,000
Series 2013A, 2.00% – 5.00% dated June 13, 2013	2014 – 2033	30,290,000	30,290,000
		$ 274,285,000	$ 199,910,000

Such amounts are reflected on the statement of net position of the general bond resolution as follows:

Total principal outstanding	$ 199,910,000
Less current portion	(18,290,000)
Long-term portion	$ 181,620,000

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessee) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2013	$ 18,290,000	$ 4,061,765	$ 22,351,765
2014	19,140,000	7,890,160	27,030,160
2015	18,490,000	7,070,697	25,560,697
2016	17,600,000	6,274,655	23,874,655
2017	17,130,000	5,482,551	22,612,551
2018 – 2022	54,975,000	17,584,629	72,559,629
2023 – 2027	30,790,000	9,104,158	39,894,158
2028 – 2032	21,300,000	2,857,781	24,157,781
2033	2,195,000	87,800	2,282,800
	$ 199,910,000	$60,414,196	$ 260,324,196

4. Bonds Payable and Lease Payments Receivable (Continued)

The following summarizes bond payable activity for the Authority for the year ended June 30, 2013:

Balance, beginning of year	$ 187,865,000
Issuances	30,290,000
Redemptions	(18,245,000)
Balance, end of year	$ 199,910,000

The Authority's bonds payables are to be repaid through collection of outstanding lease payments receivable from lessee. Lease payments from lessee are scheduled to closely match required bond principal and interest payments.

5. Refunding Issues

In periods of declining interest rates, the Authority has refunded certain bond obligations. The proceeds of any advance refunding bonds are primarily used to purchase U.S. Treasury obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the defeased bonds. Neither the U.S. Treasury obligations nor the defeased bonds are reflected on the accompanying financial statements. The U.S. Treasury obligations are placed in irrevocable trust accounts with the trustees of the defeased bonds. The gains, losses and economic benefits of these transactions inure to the lessee and not the Authority, although the Authority may receive an administrative fee.

At June 30, 2013, there are no in-substance defeased bonds outstanding.

6. Operating Expenses

The Authority has an arrangement with the Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The arrangement is approved annually by the Board through the budgetary approval process. The Authority recognized approximately $141,000 of expense under this arrangement in 2013 and owed the Bond Bank approximately $14,600 at June 30, 2013.

7. Deferred Fees

Included in the deferred fees total of $706,157 at June 30, 2013, is $664,352 representing the advance payment of the present value of all future required annual fees on certain bond issues by the executive branch of the State of Maine. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2013, $114,215 of previously deferred fees was included in administrative fee revenue.

SCHEDULE 1

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2013

		Program Revenues				Net Revenue (Expense) and Changes in Net Position
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Governmental Facilities Authority	$(8,272,524)	$8,442,638	$ 154	$ –	$ –	$ 170,268
Total	$(8,272,524)	$8,442,638	$ 154	$ –	$ –	170,268
General revenues:						
Unrestricted interest and investment earnings						2,000
Total general revenues and extraordinary items						2,000
Changes in net position						172,268
Net position, beginning of year						2,473,237
Net position, end of year						$2,645,505

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION AND ANALYSIS AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2012

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying financial statements, consisting of the General Operating Account and General Bond Resolution, which collectively comprise the basic financial statements of Maine Governmental Facilities Authority, a component unit of the State of Maine, as of and for the year ended June 30, 2012, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Maine Governmental Facilities Authority's internal control over financial reporting. 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 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority, as well as the individual fund groups referred to above, as of June 30, 2012, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2012 on our consideration of Maine Governmental Facilities Authority's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Commissioners
Maine Governmental Facilities Authority

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Bond Bank's basic financial statements. The additional information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Baker Newman + Noyes
Limited Liability Company

Portland, Maine
October 4, 2012

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

As financial management of the Maine Governmental Facilities Authority (the Authority), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2012. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in its financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $419,581 for fiscal year 2012, an increase of $151,804 or 56.7% from fiscal year 2011. This increase was primarily due to an increase in new fees, representing reimbursement of legal fees and other costs incurred related to bonds issued in the General Resolution in fiscal year 2012.
- Net assets in the Authority's Operating Account at June 30, 2012 were $2,434,608. This represents an increase of $122,657 or 5.3% over the net assets at June 30, 2011.
- The Authority's gross bonds outstanding at June 30, 2012 were $187,865,000. Gross bonds outstanding at June 30, 2012 increased $15,715,000 from the balance at June 30, 2011. This is the net result of the issuance of 2011A bonds totaling $33,000,000, less principal payments of $17,285,000.
- The Authority's lease payments receivable from lessee at June 30, 2012 were $187,297,230. The lease payments are closely related to the bonds outstanding. Therefore, the increase of $15,964,641 is mainly attributed to the net effect of bonds activity as describe above. The difference between bond principal payments and principal payments received from lessee of $249,641 relates entirely to the 2010A Series bonds, whereby the Authority receives principal payments on outstanding loans on a schedule that is slightly different than the related required principal repayments on outstanding bonds. These receivables represent lease payments due from the State of Maine and related entities for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

The Authority is considered a component unit of the State of Maine. However, the Authority does not receive any direct State appropriations for its operations. The Authority does receive loan servicing fees (included in administrative fees on the statement of revenues, expenses and changes in net assets) from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability. In fiscal 2012, the Authority has contracted with an arbitrage consultant to prepare all rebate calculations that will be filed with the Internal Revenue Service.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority's General Operating Account, assets exceeded liabilities by $2,434,608 at June 30, 2012. This represents an increase of $122,657 or 5.3% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2012.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

The Authority's financial position for the past two years is summarized as follows:

GENERAL OPERATING ACCOUNT

	2012	2011	Percentage Change
Current assets:			
Cash and cash equivalents	$1,558,544	$1,542,078	1.1%
Investments, at market rate	1,500,030	1,519,115	(1.3)
Accounts receivable	156,135	88,331	76.8
Accrued interest income receivable	163	7,945	(97.9)
Total assets	$3,214,872	$3,157,469	1.8%
Current liabilities:			
Deferred fees	$ 105,726	$ 101,518	4.1%
Accounts payable-Maine Municipal Bond Bank	10,186	7,702	32.3
Total current liabilities	115,912	109,220	6.1
Noncurrent liabilities:			
Deferred fees	664,352	736,298	(9.8)
Total liabilities	780,264	845,518	(7.7)
Unrestricted net assets	2,434,608	2,311,951	5.3
Total liabilities and net assets	$3,214,872	$3,157,469	1.8%

GENERAL BOND RESOLUTION

	2012	2011	Percentage Change
Current assets:			
Cash and cash equivalents	$ 635,875	$ 909,967	(30.1)%
Lease payments receivable from lessee	18,057,341	17,035,359	6.0
Interest and other amounts receivable from lessee	1,999,345	1,840,484	8.6
Total current assets	20,692,561	19,785,810	4.6
Noncurrent assets:			
Lease payments receivable from lessee	169,239,889	154,297,230	9.7
Total assets	$ 189,932,450	$ 174,083,040	9.1%
Current liabilities:			
Bonds payable, net	$ 18,245,000	$ 17,285,000	5.6%
Accrued interest payable	2,028,821	1,865,913	8.7
Total current liabilities	20,273,821	19,150,913	5.9
Noncurrent liabilities:			
Bonds payable, net	169,620,000	154,865,000	9.5
Rebate payable to Internal Revenue Service	–	2,525	(100.0)
Total noncurrent liabilities	169,620,000	154,867,525	9.5
Total liabilities	189,893,821	174,018,438	9.1
Restricted net assets	38,629	64,602	(40.2)
Total liabilities and net assets	$ 189,932,450	$ 174,083,040	9.1%

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2012

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2012	2011	Percentage Change
Operating revenues:			
Administrative fees	$ 414,724	$ 261,796	58.4%
Interest income from investments	24,702	7,300	238.4
Net decrease in fair value of investments	(19,845)	(1,319)	1,404.5
Total operating revenue	419,581	267,777	56.7
Operating expenses:			
Salaries	59,525	60,553	(1.7)
Employee benefits	19,648	18,279	7.5
Professional and other fees	105,473	15,300	589.4
Insurance	46,761	46,334	0.9
Office	10,736	11,057	(2.9)
Accretion of interest on deferred fees	46,865	51,167	(8.4)
Other	7,916	7,406	6.9
Total operating expenses	296,924	210,096	41.3
Operating income	122,657	57,681	112.6
Net assets, beginning of year	2,311,951	2,254,270	2.6
Net assets, end of year	$2,434,608	$2,311,951	5.3%

GENERAL BOND RESOLUTION

	2012	2011	Percentage Change
Operating revenues:			
Received and receivable from lessee	$7,838,602	$7,694,279	1.9%
Interest income from investments	5	–	–
Other revenue	577,655	–	–
Total operating revenues	8,416,262	7,694,279	9.4%
Operating expenses:			
Cost of issuance expense	577,655	–	–
Interest expense	7,686,853	7,449,528	3.2
Amortization of deferred bond issuance costs	177,727	189,468	(6.2)
Other	–	4,676	(100.0)
Total operating expenses	8,442,235	7,643,672	10.4
Operating (loss) gain	(25,973)	50,607	(151.3)
Net assets, beginning of year	64,602	13,995	361.6
Net assets, end of year	$ 38,629	$ 64,602	(40.2)%

General Operating Account

Cash and cash equivalents held in the General Operating Account increased $16,466 or 1.1% at June 30, 2012 compared to June 30, 2011. The increase is the result of additional fees collected related to the General Bond Resolution 2011A bond issuance.

Account receivable from lessee has increased $67,804 or 76.8% in fiscal 2012 as compared to fiscal 2011. This amount is primarily due to rebate arbitrage paid by the Authority that is to be reimbursed by the State of Maine.

Deferred fees decreased $67,738 or 8.1% from 2011 as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net assets increased $122,657 or 5.3% in fiscal year 2012. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Investment income increased $17,402 or 238.4% compared to fiscal 2011. Fixed government securities purchased in FY 2011 paid a higher rate of interest than the money market funds that they replaced.

Total administrative fees increased $152,928 or 58.4% in fiscal 2012 as compared to fiscal 2011. Additional fees collected in fiscal 2012 represents reimbursement of issuance costs and related legal fees for the 2011A bond issue.

Professional and other fees increased $90,173 in fiscal year 2012 as compared to fiscal year 2011. The increase was due to legal fees, rebate arbitrage fees and custody fees for fiscal year 2012.

The Authority shares office space and staff with the Maine Municipal Bond Bank (Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Interest expense on the bonds increased $237,325 or 3.2% in fiscal year 2012 from 2011 based on the scheduled payments. As a result, interest and other amounts received from Lessee also increased in fiscal 2012 by $144,323 or 1.9%.

The Authority's net lease payments receivable from lessee increased $15,964,641 or 9.3% in fiscal year 2012 compared to fiscal year 2011. The increase is the net effect of the Authority issuing the 2011 series A bonds totaling $33,000,000, and the scheduled principal repayments from borrowers of $17,035,359.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2012

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$1,558,544	$ 635,875	$ 2,194,419
Investments (note 3)	1,500,030	–	1,500,030
Accounts receivable	156,135	–	156,135
Lease payments receivable from lessee (note 4)	–	18,057,341	18,057,341
Interest and other amounts receivable from lessee	–	1,999,345	1,999,345
Accrued interest income receivable	163	–	163
Total current assets	3,214,872	20,692,561	23,907,433
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	169,239,889	169,239,889
	$3,214,872	$ 189,932,450	$ 193,147,322

LIABILITIES AND NET ASSETS	General Operating Account	General Bond Resolution	Total
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 18,245,000	$ 18,245,000
Accrued interest payable	–	2,028,821	2,028,821
Deferred fees (note 7)	105,726	–	105,726
Accounts payable – Maine Municipal Bond Bank (note 6)	10,186	–	10,186
Total current liabilities	115,912	20,273,821	20,389,733
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	169,620,000	169,620,000
Deferred fees (note 7)	664,352	–	664,352
Total noncurrent liabilities	664,352	169,620,000	170,284,352
Total liabilities	780,264	189,893,821	190,674,085
Net assets:			
Restricted	–	38,629	38,629
Unrestricted	2,434,608	–	2,434,608
Total net assets	2,434,608	38,629	2,473,237
	$3,214,872	$ 189,932,450	$ 193,147,322

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2012

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$7,838,602	$7,838,602
Administrative fees (note 7)	414,724	–	414,724
Interest income from investments	24,702	5	24,707
Net decrease in fair value of investments	(19,845)	–	(19,845)
Other income	–	577,655	577,655
Total operating revenue	419,581	8,416,262	8,835,843
Operating expenses (note 6):			
Costs of issuance	–	577,655	577,655
Interest expense	–	7,686,853	7,686,853
Salaries	59,525	–	59,525
Employee benefits	19,648	–	19,648
Professional and other fees	105,473	–	105,473
Insurance	46,761	–	46,761
Office	10,736	–	10,736
Accretion of interest on deferred fees (note 7)	46,865	–	46,865
Amortization of deferred bond issuance costs	–	177,727	177,727
Other	7,916	–	7,916
Total operating expenses	296,924	8,442,235	8,739,159
Operating income (loss)	122,657	(25,973)	96,684
Net assets, beginning of year	2,311,951	64,602	2,376,553
Net assets, end of year	$2,434,608	$ 38,629	$2,473,237

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 232,317	$ 24,407,966	$ 24,640,283
Cash received from other income	–	577,655	577,655
Cash deposited to construction funds	–	(32,695,391)	(32,695,391)
Cash paid for operating expenses	(247,575)	–	(247,575)
Cash paid for bond issuance costs	–	(577,655)	(577,655)
Net cash used by operating activities	(15,258)	(8,287,425)	(8,302,683)
Noncapital financing activities:			
Proceeds on bonds payable	–	33,000,000	33,000,000
Principal paid on bonds payable	–	(17,285,000)	(17,285,000)
Interest paid on bonds payable	–	(7,701,672)	(7,701,672)
Net cash provided by noncapital financing activities	–	8,013,328	8,013,328
Investing activities:			
Purchases of investment securities	(2,502,238)	–	(2,502,238)
Proceeds from sales and maturities of investment securities	2,501,478	–	2,501,478
Cash received from interest income	32,484	5	32,489
Net cash provided by investing activities	31,724	5	31,729
Increase (decrease) in cash and cash equivalents	16,466	(274,092)	(257,626)
Cash and cash equivalents at beginning of year	1,542,078	909,967	2,452,045
Cash and cash equivalents at end of year	$ 1,558,544	$ 635,875	$ 2,194,419
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	$ 122,657	$ (25,973)	$ 96,684
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Accretion of interest on deferred fees	46,865	–	46,865
Amortization of deferred fees and costs	(114,215)	177,727	63,512
Interest expense	–	7,686,853	7,686,853
Interest income	(24,702)	(5)	(24,707)
Decrease in fair value of investments	19,845	–	19,845
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	–	(158,861)	(158,861)
Accounts receivable	(67,804)	–	(67,804)
Accounts payable	2,484	–	2,484
Interest rebate payable to Internal Revenue Service	–	(2,525)	(2,525)
Other deferred revenue	(388)	–	(388)
Lease payments receivable from lessee	–	(15,964,641)	(15,964,641)
Net cash used by operating activities	$ (15,258)	$ (8,287,425)	$ (8,302,683)

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $325,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and state income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority. The lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The Authority's General Operating Account Fund Group records the revenues and expenses generated from its daily operations in administration of the General Bond Resolution. The Authority has an arrangement with the Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

2. Significant Accounting Policies (Continued)

The Authority complies with GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34*, and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Accounting Method

The Authority uses the accrual basis of accounting, and accordingly recognizes revenues as earned and expenses as incurred.

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net assets.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds, or the life of the new bonds, whichever is shorter, using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

2. Significant Accounting Policies (Continued)

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds, or the life of the new bonds, whichever is shorter, using a method which approximates the effective interest method. Original issue premiums for other issues, to the extent they are used to pay bond issuance costs, are recorded as premium revenue on the statement of revenues, expenses and changes in net assets.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America. Instead, the Authority records the present value of lease receivable as an asset. Interest revenue is accreted over the life of the lease receivable using a method approximating the effective interest method.

Use of Estimates

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

Total Columns

The "total" columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience and presentation purposes only.

New Accounting Pronouncements

In June 2011 GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2011. The Authority is currently evaluating the impact, if any, this guidance will have on its financial statements.

2. Significant Accounting Policies (Continued)

In December 2010 GASB issued Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for years beginning after December 15, 2011. The Authority is currently evaluating the impact, if any, this guidance will have on its financial statements.

In November 2010 GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity,* and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

2. Significant Accounting Policies (Continued)

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for years beginning after June 15, 2012. The Authority is currently evaluating the impact, if any, this guidance will have on its financial statements.

3. Investments and Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

At June 30, 2012, investments and cash and cash equivalents are as follows (at fair value):

General Operating Account:	
U.S. Government-sponsored enterprise bonds	$1,500,030
Cash and cash equivalents	1,558,544
	$3,058,574
General bond resolution:	
Cash and cash equivalents	$ 635,875

3. Investments and Cash and Cash Equivalents (Continued)

The following table provides information on future maturities of the Authority's investments in U.S. Government-sponsored enterprises as of June 30, 2012:

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
General Operating Account					
U.S. Government- Sponsored enterprises	$1,500,030	$1,500,030	$ –	$ –	$ –

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's cash equivalents are primarily held by Bank of New York, Bank of America and Bangor Savings Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2012.

The cash of the general operating account at June 30, 2012 consists of $67,114 insured deposits with a bank. Cash equivalents consist of $1,491,430 in money market funds secured by short-term U.S. Treasury obligations.

Cash and cash equivalents of the General Bond Resolution at June 30, 2012, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at Bank of New York.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2012, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2012
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	$10,860,000	$ 2,715,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	4,620,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	24,775,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	44,605,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	3,550,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	9,235,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	31,985,000

4. Bonds Payable and Lease Payments Receivable (Continued)

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2012
Series 2009 A, 3.25% – 5.00% dated October 29, 2009	2010 – 2029	11,960,000	$ 10,965,000
Series 2010A, 2.50% – 5.00%, dated April 1, 2010	2010 – 2023	25,600,000	22,415,000
Series 2011A, 3.00% – 4.50%, dated October 26, 2011	2012 – 2031	33,000,000	33,000,000
			$ 187,865,000

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$ 187,865,000
Deferred amounts on refunding	(1,808,599)
Unamortized original issue premium	2,495,951
Unamortized bond issue costs	(687,352)
	187,865,000
Less current portion	(18,245,000)
Long-term portion	$ 169,620,000

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2012	$ 18,245,000	$ 7,483,164	$ 25,728,164
2013	18,290,000	7,356,921	25,646,921
2014	18,130,000	6,612,478	24,742,478
2015	17,460,000	5,813,216	23,273,216
2016	16,545,000	5,048,076	21,593,076
2017– 2021	59,675,000	14,969,848	74,644,848
2022 – 2026	23,235,000	6,658,402	29,893,402
2027 – 2031	16,285,000	1,858,344	18,143,344
	$ 187,865,000	$55,800,449	$ 243,665,449

4. Bonds Payable and Lease Payments Receivable (Continued)

The following summarizes bond payable activity for the Authority for the year ended June 30, 2012:

Balance, beginning of year	$ 172,150,000
Issuances	33,000,000
Redemptions	(17,285,000)
Balance, end of year	$ 187,865,000

The Authority's bonds payables are to be repaid through collection of outstanding lease payments receivable from lessee. Lease payments from lessee are scheduled to closely match required bond principal and interest payments.

5. Refunding Issues

In periods of declining interest rates, the Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, the Authority retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Treasury Obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. The Authority accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

At June 30, 2012, the remaining balances of the in-substance defeased bonds total approximately $3,240,000.

6. Operating Expenses

The Authority has an arrangement with the Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The arrangement is approved annually by the Board through the budgetary approval process. The Authority recognized approximately $140,600 of expense under this arrangement in 2012 and owed the Bond Bank $10,186 at June 30, 2012.

7. Deferred Fees

Included in the deferred fees total of $770,078 at June 30, 2012, is $736,298 representing the advance payment of the present value of all future required annual fees on certain bond issues by the executive branch of the State of Maine. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2012, $114,215 of previously deferred fees was included in administrative fee revenue.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2012

		Program Revenues				Net Revenue (Expense) and Changes in net assets
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Governmental Facilities Authority	$(8,739,159)	$8,830,981	$ 5	$ –	$ –	$ 91,827
Total	$(8,739,159)	$8,830,981	$ 5	$ –	$ –	91,827
General revenues:						
Unrestricted interest and investment earnings						4,857
Total general revenues and extraordinary items						4,857
Changes in net assets						96,684
Net assets, beginning of year						2,376,553
Net assets, end of year						$2,473,237

MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

Robert O. Lenna, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2011 Maine Governmental Facilities Authority Annual Report**

This is the annual report for the Maine Governmental Facilities Authority for the 2011 fiscal year, running from July 1, 2010 to June 30, 2011. Created originally in 1987 as the Maine Court Facilities Authority, the Maine Governmental Facilities amendments to the original legislation were enacted into law in 1997 authorizing the Authority to undertake capital financing activities for structures designated for use as governmental facilities. Each project funded by the Authority requires project specific approval by the Legislature prior to the issuance of bonds for project activities.

In FY 2011, the Authority did not issue any bonds.

If there is further information you might like or questions you may have concerning the Authority, please feel free to give us a call at (207) 622-9386. Additional information about the Authority is available at out website: www.mgfa.com

BAKER | NEWMAN | NOYES
Certified Public Accountants

Maine Governmental Facilities Authority

Basic Financial Statements,
Management's Discussion and Analysis
and Additional Information

Year Ended June 30, 2011
With Independent Auditors' Report

INTEGRITY • SERVICE • SOLUTIONS

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION AND ANALYSIS AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2011

TABLE OF CONTENTS

BAKER NEWMAN NOYES

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying financial statements, consisting of the General Operating Account and General Bond Resolution, which collectively comprise the basic financial statements of Maine Governmental Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2011, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. 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 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 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority, as well as the individual fund groups referred to above, as of June 30, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011 on our consideration of Maine Governmental Facilities Authority's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Maine Governmental Facilities Authority

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Authority's basic financial statements. The additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman Noyes

Limited Liability Company

Portland, Maine
October 17, 2011

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

As financial management of the Maine Governmental Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in its financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $267,777 for fiscal year 2011, a decrease of $246,790 or 48.0% from fiscal year 2010. This decrease was primarily attributed to the Authority not issuing any new bonds in fiscal 2011.
- Net assets in the Authority's Operating Account at June 30, 2011 were $2,311,951. This represents an increase of $57,681 or 2.6% over the net assets at June 30, 2010.
- The Authority's gross bonds outstanding at June 30, 2011 were $172,150,000. Gross bonds outstanding at June 30, 2011 decreased $16,930,000 from the balance at June 30, 2010 which is entirely attributed to 2011 principal repayments.
- The Authority's lease payments receivable from lessee at June 30, 2011 were $171,332,589. The lease payments are closely related to the bonds outstanding. Therefore, the decrease of $17,747,411 is mainly attributed to lease payments used to redeem bonds during fiscal year 2011. The difference between bond principal payments and principal payments received from lessee of $817,411 relates entirely to the 2010 A Series bonds, whereby the Authority received principal payments on outstanding loans in advance of the related required principal repayments on outstanding bonds. These receivables represent lease payments due from the State of Maine and related entities for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any direct State appropriations for its operations. The Authority does receive loan servicing fees (included in administrative fees on the statement of revenues, expenses and changes in net assets) from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority's General Operating Account, assets exceeded liabilities by $2,311,951 at June 30, 2011. This represents an increase of $57,681 or 2.6% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2011.

The Authority's financial position and results of operations for the past two years are summarized as follows:

GENERAL OPERATING ACCOUNT

	2011	2010	Percentage Change
Current assets:			
Cash and cash equivalents	$1,542,078	$1,098,756	40.3%
Investments	1,519,115	2,053,646	(26.0)
Accounts receivable	88,331	20,000	341.7
Accrued interest income receivable	7,945	39	20,271.8
Total assets	$3,157,469	$3,172,441	(0.5)%
Current liabilities:			
Deferred fees	$ 101,518	$ 108,126	(6.1)%
Accounts payable – Maine Municipal Bond Bank	7,702	6,398	20.4
Total current liabilities	109,220	114,524	(4.6)
Noncurrent liabilities:			
Deferred fees	736,298	803,647	(8.4)
Total liabilities	845,518	918,171	(7.9)
Unrestricted net assets	2,311,951	2,254,270	2.6
Total liabilities and net assets	$3,157,469	$3,172,441	(0.5)%

GENERAL BOND RESOLUTION

	2011	2010	Percentage Change
Current assets:			
Cash and cash equivalents	$ 909,967	$ 172,647	427.1%
Lease payments receivable from lessee	17,035,359	17,747,410	(4.0)
Interest and other amounts receivable from lessee	1,840,484	2,098,941	(12.3)
Total current assets	19,785,810	20,018,998	(1.2)
Noncurrent assets:			
Lease payments receivable from lessee	154,297,230	171,332,590	(9.9)
Total assets	$ 174,083,040	$ 191,351,588	(9.0)%
Current liabilities:			
Bonds payable, net	$ 17,285,000	$ 16,930,000	2.1%
Accrued interest payable	1,865,913	2,044,167	(8.7)
Total current liabilities	19,150,913	18,974,167	0.9
Noncurrent liabilities:			
Bonds payable, net	154,865,000	172,150,000	(10.0)
Rebate payable to Internal Revenue Service	2,525	213,426	(98.8)
Total noncurrent liabilities	154,867,525	172,363,426	(10.2)
Total liabilities	174,018,438	191,337,593	(9.1)
Restricted net assets	64,602	13,995	361.6
Total liabilities and net assets	$ 174,083,040	$ 191,351,588	(9.0)%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2011	2010	Percentage Change
Operating revenues:			
Administrative fees	$ 261,796	$ 482,144	(45.7)%
Interest income from investments	7,300	32,423	(77.5)
Net decrease in fair market value of investments	(1,319)	–	–
Total operating revenue	267,777	514,567	(48.0)
Operating expenses:			
Salaries	60,553	65,870	(8.1)
Employee benefits	18,279	17,118	6.8
Office	11,057	11,341	(2.5)
Accretion of interest on deferred fees	51,167	55,195	(7.3)
Other	69,040	69,518	(0.7)
Total operating expenses	210,096	219,042	(4.1)
Operating income	57,681	295,525	(80.5)
Net assets, beginning of year	2,254,270	1,958,745	15.1
Net assets, end of year	$2,311,951	$2,254,270	2.6%

GENERAL BOND RESOLUTION

	2011	2010	Percentage Change
Operating revenues:			
Received and receivable from lessee	$7,694,279	$8,478,718	(9.3)%
Other revenue	–	243,861	(100.0)
Total operating revenues	7,694,279	8,722,579	(11.8)
Operating expenses:			
Cost of issuance expense	–	187,770	(100.0)
Interest expense	7,449,528	8,340,447	(10.7)
Amortization of deferred bond issuance costs	189,468	153,696	23.3
Other	4,676	30,924	(84.9)
Total operating expenses	7,643,672	8,712,837	(12.3)
Operating income	50,607	9,742	419.5
Net assets, beginning of year	13,995	4,253	229.1
Net assets, end of year	$ 64,602	$ 13,995	361.6%

General Operating Account

Cash and cash equivalents held in the General Operating Account increased $443,322 or 40.3% at June 30, 2011 compared to June 30, 2010. The increase is the result of investments being reallocated to cash equivalents during fiscal 2011.

Deferred fees decreased $73,957 or 8.1% from 2010 primarily as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net assets increased $57,681 or 2.6% in fiscal year 2011. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Total administrative fees decreased $220,348 or 45.7% in fiscal 2011 as compared to fiscal 2010. Fees collected in fiscal 2010 representing reimbursement of issuance costs were not reported in 2011 as there were no bond issuances in the General Bond Resolution in 2011.

The Authority shares office space and staff with the Maine Municipal Bond Bank (Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Interest expense on the bonds decreased $890,919 or 10.7% in fiscal year 2011 from 2010 based on the scheduled payments. As a result, interest and other amounts received from Lessee also decreased in fiscal 2011 by $784,439 or 9.3%.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2011

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$1,542,078	$ 909,967	$ 2,452,045
Investments (note 3)	1,519,115	–	1,519,115
Accounts receivable	88,331	–	88,331
Lease payments receivable from lessee (note 4)	–	17,035,359	17,035,359
Interest and other amounts receivable from lessee	–	1,840,484	1,840,484
Accrued interest income receivable	7,945	–	7,945
Total current assets	3,157,469	19,785,810	22,943,279
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	154,297,230	154,297,230
	$3,157,469	$ 174,083,040	$ 177,240,509
LIABILITIES AND NET ASSETS			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 17,285,000	$ 17,285,000
Accrued interest payable	–	1,865,913	1,865,913
Deferred fees (note 7)	101,518	–	101,518
Accounts payable – Maine Municipal Bond Bank (note 6)	7,702	–	7,702
Total current liabilities	109,220	19,150,913	19,260,133
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	154,865,000	154,865,000
Deferred fees (note 7)	736,298	–	736,298
Rebate payable to Internal Revenue Service	–	2,525	2,525
Total noncurrent liabilities	736,298	154,867,525	155,603,823
Total liabilities	845,518	174,018,438	174,863,956
Net assets:			
Restricted	–	64,602	64,602
Unrestricted	2,311,951	–	2,311,951
Total net assets	2,311,951	64,602	2,376,553
	$3,157,469	$ 174,083,040	$ 177,240,509

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Year Ended June 30, 2011

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$7,694,279	$7,694,279
Administrative fees (note 7)	261,796	–	261,796
Interest income from investments	7,300	–	7,300
Net decrease in fair value of investments	(1,319)	–	(1,319)
Total operating revenue	267,777	7,694,279	7,962,056
Operating expenses (note 6):			
Interest expense	–	7,449,528	7,449,528
Salaries	60,553	–	60,553
Employee benefits	18,279	–	18,279
Office	11,057	–	11,057
Accretion of interest on deferred fees (note 7)	51,167	–	51,167
Amortization of deferred bond issuance costs	–	189,468	189,468
Other	69,040	4,676	73,716
Total operating expenses	210,096	7,643,672	7,853,768
Operating income	57,681	50,607	108,288
Net assets, beginning of year	2,254,270	13,995	2,268,265
Net assets, end of year	$2,311,951	$ 64,602	$2,376,553

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2011

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 68,341	$ 25,682,502	$ 25,750,843
Cash paid for operating expenses	(157,625)	(4,676)	(162,301)
Interest rebate paid to U.S. Government	–	(193,256)	(193,256)
Net cash (used) provided by operating activities	(89,284)	25,484,570	25,395,286
Noncapital financing activities:			
Principal paid on bonds payable	–	(16,930,000)	(16,930,000)
Interest paid on bonds payable	–	(7,817,250)	(7,817,250)
Net cash used by noncapital financing activities	–	(24,747,250)	(24,747,250)
Investing activities:			
Purchases of investment securities	(1,527,139)	–	(1,527,139)
Proceeds from sales and maturities of investment securities	2,053,646	–	2,053,646
Cash received from interest income	6,099	–	6,099
Net cash provided by investing activities	532,606	–	532,606
Increase in cash and cash equivalents	443,322	737,320	1,180,642
Cash and cash equivalents at beginning of year	1,098,756	172,647	1,271,403
Cash and cash equivalents at end of year	$ 1,542,078	$ 909,967	$ 2,452,045
Reconciliation of operating income to net cash (used) provided by operating activities:			
Operating income	$ 57,681	$ 50,607	$ 108,288
Adjustments to reconcile operating income to net cash (used) provided by operating activities:			
Accretion of interest on deferred fees	51,167	–	51,167
Amortization of deferred fees and costs	(114,215)	189,468	75,253
Interest expense	–	7,449,528	7,449,528
Interest income	(7,300)	–	(7,300)
Decrease in fair value of investments	1,319	–	1,319
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	–	258,457	258,457
Accounts receivable	(68,331)	–	(68,331)
Accounts payable	1,304	–	1,304
Interest rebate payable to Internal Revenue Service	–	(210,901)	(210,901)
Other deferred revenue	(10,909)	–	(10,909)
Lease payments receivable from lessee	–	17,747,411	17,747,411
Net cash (used) provided by operating activities	$ (89,284)	$ 25,484,570	$ 25,395,286

See accompanying notes.

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $325,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and state income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority. The lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The Authority's General Operating Account Fund Group records the revenues and expenses generated from its daily operations in administration of the General Bond Resolution. The Authority has an arrangement with the Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

2. Significant Accounting Policies (Continued)

The Authority complies with GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34,* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Accounting Method

The Authority uses the accrual basis of accounting, and accordingly recognizes revenues as earned and expenses as incurred.

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net assets.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds, or the life of the new bonds, whichever is shorter, using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

2. Significant Accounting Policies (Continued)

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds, or the life of the new bonds, whichever is shorter, using a method which approximates the effective interest method. Original issue premiums for other issues, to the extent they are used to pay bond issuance costs, are recorded as premium revenue on the statement of revenues, expenses and changes in net assets.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America. Instead, the Authority records the present value of lease receivable as an asset. Interest revenue is accreted over the life of the lease receivable using a method approximating the effective interest method.

Use of Estimates

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

Total Columns

The "total" columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience and presentation purposes only.

3. Investments and Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

3. Investments and Cash and Cash Equivalents (Continued)

At June 30, 2011, investments and cash and cash equivalents are as follows (at fair value):

General Operating Account:	
U.S. Government-sponsored enterprise bonds	$1,519,115
Cash and cash equivalents	1,542,078
	$3,061,193
General bond resolution:	
Cash and cash equivalents	$ 909,967

The following table provides information on future maturities of the Authority's investments in U.S. Government-sponsored enterprises as of June 30, 2011:

	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than Ten Years
General Operating Account					
U.S. Government-Sponsored enterprises	$1,519,115	$1,013,310	$ 505,805	$ –	$ –

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's cash equivalents are primarily held by Bank of New York, Bank of America and Bangor Savings Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2011.

The cash of the general operating account at June 30, 2011, consists of $250,000 insured and $57,342 uninsured deposits with a bank. Cash equivalents consist of $1,234,736 in money market funds secured by short-term U.S. Treasury obligations.

Cash and cash equivalents of the General Bond Resolution at June 30, 2011, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at Bank of New York.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2011, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2011
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	$36,485,000	$ 1,890,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	3,260,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	5,530,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	25,460,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	52,115,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	4,440,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	9,815,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	34,510,000
Series 2009 A, 3.25% – 5.00% dated October 29, 2009	2010 – 2029	11,960,000	11,485,000
Series 2010A, 2.50% – 5.00%, dated April 1, 2010	2010 – 2023	25,600,000	23,645,000
			$172,150,000

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$ 172,150,000
Deferred amounts on refunding	(2,348,847)
Unamortized original issue premium	3,213,925
Unamortized bond issue costs	(865,078)
	172,150,000
Less current portion	(17,285,000)
Long-term portion	$ 154,865,000

4. Bonds Payable and Lease Payments Receivable (Continued)

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2012	$ 17,285,000	$ 7,463,651	$ 24,748,651
2013	17,160,000	6,851,045	24,011,045
2014	17,090,000	6,125,233	23,215,233
2015	16,895,000	5,416,790	22,311,790
2016	16,175,000	4,666,928	20,841,928
2017 – 2021	63,605,000	13,019,180	76,624,180
2022 – 2026	15,680,000	3,986,963	19,666,963
2027 – 2030	8,260,000	825,406	9,085,406
	$ 172,150,000	$48,355,196	$ 220,505,196

The following summarizes bond payable activity for the Authority for the year ended June 30, 2011:

Balance, beginning of year	$ 189,080,000
Redemptions	(16,930,000)
Balance, end of year	$ 172,150,000

5. Refunding Issues

In periods of declining interest rates, the Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, the Authority retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Treasury Obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. The Authority accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

At June 30, 2011, the remaining balances of the in-substance defeased bonds total approximately $20,725,000.

6. Operating Expenses

The Authority has an arrangement with the Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead. The arrangement is approved annually by the Board through the budgetary approval process. The Authority recognized approximately $140,000 of expense under this arrangement in 2011.

7. Deferred Fees

Included in the deferred fees total of $837,816 at June 30, 2011, is $803,648 representing the advance payment of the present value of all future required annual fees on certain bond issues by the executive branch of the State of Maine. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2011, $114,215 of previously deferred fees was included in administrative fee revenue.

SCHEDULE 1

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2011

		Program Revenues				Net Revenue (Expense) and Changes in net assets
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Governmental Facilities Authority	$(7,853,768)	$7,956,075	$ –	$ –	$ –	$ 102,307
Total	$(7,853,768)	$7,956,075	$ –	$ –	$ –	102,307
General revenues:						
Unrestricted interest and investment earnings						5,981
Total general revenues and extraordinary items						5,981
Changes in net assets						108,288
Net assets, beginning of year						2,268,265
Net assets, end of year						$2,376,553

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION
AND ANALYSIS AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2010

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying financial statements, consisting of the General Operating Account and General Bond Resolution, which collectively comprise the basic financial statements of Maine Governmental Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2010, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. 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 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 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority, as well as the individual fund groups referred to above, as of June 30, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2010 on our consideration of Maine Governmental Facilities Authority's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Maine Governmental Facilities Authority

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Authority's basic financial statements. The additional information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman & Noyes

Portland, Maine
October 4, 2010

Limited Liability Company

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

As financial management of the Maine Governmental Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2010. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in its financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $514,567 for fiscal year 2010, an increase of $163,125 or 46.4% from fiscal year 2009. This increase was primarily due to an increase in new fees representing reimbursement of issuance costs in fiscal year 2010.
- Net assets in the Authority's Operating Account at June 30, 2010 were $2,254,270. This represents an increase of $295,525 or 15.1% over the net assets at June 30, 2009.
- The Authority's gross bonds outstanding at June 30, 2010 were $189,080,000. Gross bonds outstanding at June 30, 2010 decreased $3,855,000 from the balance at June 30, 2009. This decrease is the net result of the issuance of 2009A and 2010A bonds totaling $37,560,000, less principal payments of $17,130,000 and bonds refunded totaling $24,285,000.
- The Authority's lease payments receivable from lessee at June 30, 2010 were $189,080,000. The lease payments are directly related to the bonds outstanding. Therefore, the decrease of $3,855,000 is attributed to the net effect of bonds activity as described above. These receivables represent lease payments due from the State of Maine and related entities for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations. The Authority does receive loan servicing fees from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority's General Operating Account, assets exceeded liabilities by $2,254,270 at June 30, 2010. This represents an increase of $295,525 or 15.1% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2010.

The Authority's financial position and results of operations for the past two years are summarized as follows:

GENERAL OPERATING ACCOUNT

	2010	2009	Percentage Change
Current assets:			
Cash and cash equivalents	$1,098,756	$ 908,403	21.0%
Investments	2,053,646	2,022,300	1.6
Accounts receivable	20,000	–	–
Accrued interest income receivable	39	1,931	(98.0)
Deferred expense	–	5,000	(100.0)
Total assets	$3,172,441	$2,937,634	8.0%
Current liabilities:			
Deferred fees	$ 108,126	$ 104,015	4.0%
Accounts payable – Maine Municipal Bond Bank	6,398	8,278	(22.7)
Total current liabilities	114,524	112,293	2.0
Noncurrent liabilities:			
Deferred fees	803,647	866,596	(7.3)
Total liabilities	918,171	978,889	(6.2)
Unrestricted net assets	2,254,270	1,958,745	15.1
Total liabilities and net assets	$3,172,441	$2,937,634	8.0%

GENERAL BOND RESOLUTION

	2010	2009	Percentage Change
Current assets:			
Cash and cash equivalents	$ 172,647	$ 123,037	40.3%
Lease payments receivable from lessee	17,747,410	17,130,000	3.6
Interest and other amounts receivable from lessee	2,098,941	2,265,735	(7.4)
Total current assets	20,018,998	19,518,772	2.6
Noncurrent assets:			
Lease payments receivable from lessee	171,332,590	175,805,000	(2.5)
Total assets	$191,351,588	$195,323,772	(2.0)%
Current liabilities:			
Bonds payable, net	$ 16,930,000	$ 17,130,000	(1.2)%
Accrued interest payable	2,044,167	2,202,017	(7.2)
Total current liabilities	18,974,167	19,332,017	(1.9)
Noncurrent liabilities:			
Bonds payable, net	172,150,000	175,805,000	(2.1)
Rebate payable to Internal Revenue Service	213,426	182,502	16.9
Total noncurrent liabilities	172,363,426	175,987,502	(2.1)
Total liabilities	191,337,593	195,319,519	(2.0)
Restricted net assets	13,995	4,253	229.1
Total liabilities and net assets	$191,351,588	$195,323,772	(2.0)%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2010	2009	Percentage Change
Operating revenues:			
Administrative fees	$ 482,144	$ 295,103	63.4%
Interest income from investments	32,423	56,339	(42.5)
Total operating revenue	514,567	351,442	46.4
Operating expenses:			
Salaries	65,870	67,804	(2.9)
Employee benefits	17,118	17,197	(0.5)
Office	11,341	12,904	(12.1)
Accretion of interest on deferred fees	55,195	58,966	(6.4)
Other	69,518	49,009	41.8
Total operating expenses	219,042	205,880	6.4
Operating income	295,525	145,562	103.0
Net assets, beginning of year	1,958,745	1,813,183	8.0
Net assets, end of year	$2,254,270	$1,958,745	15.1%

GENERAL BOND RESOLUTION

	2010	2009	Percentage Change
Operating revenues:			
Received and receivable from lessee	$8,478,718	$8,920,826	(5.0)%
Interest income from investments	–	7,236	(100.0)
Other revenue	243,861	70,411	246.3
Total operating revenues	8,722,579	8,998,473	(3.1)
Operating expenses:			
Cost of issuance expense	187,770	–	–
Interest expense	8,340,447	8,863,497	(5.9)
Amortization of deferred bond issuance costs	153,696	138,138	11.3
Other	30,924	–	–
Total operating expenses	8,712,837	9,001,635	(3.2)
Operating income (loss)	9,742	(3,162)	408.1
Net assets, beginning of year	4,253	7,415	(42.6)
Net assets, end of year	$ 13,995	$ 4,253	229.1%

General Operating Account

Cash and cash equivalents held in the General Operating Account increased $190,353 or 21% at June 30, 2010 compared to June 30, 2009. The increase is the result of additional fees collected related to the General Bond Resolution 2009A and 2010A bond issuances.

Deferred fees decreased $58,838 or 6.1% from 2009 primarily as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net assets increased $295,525 or 15.1% in fiscal year 2010. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Other operating expenses increased $20,509 or 41.8% in fiscal year 2010 as compared to fiscal year 2009. The increase was due to higher legal fees (associated with 2009A and 2010A bond issuances) for fiscal year 2010.

The Authority shares office space and staff with the Maine Municipal Bond Bank (Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Lease payments receivable from lessee are directly related to the bonds outstanding. Both decreased $3,855,000 or 2.0% at June 30, 2010 as compared to balances at June 30, 2009 due to activity as described in the "Financial Highlights" section of this Management's Discussion and Analysis.

Interest expense on the bonds decreased $523,050 or 5.9% in fiscal year 2010 from 2009 based on the scheduled payments and bond refundings in 2010.

Other operating expenses increased $30,924 as compared to fiscal year 2009. The majority of this change is the result of increased rebate liability to the Internal Revenue Service recorded in fiscal year 2010 as compared with fiscal year 2009.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2010

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$1,098,756	$ 172,647	$ 1,271,403
Investments (note 3)	2,053,646	–	2,053,646
Accounts receivable	20,000	–	20,000
Lease payments receivable from lessee (note 4)	–	17,747,410	17,747,410
Interest and other amounts receivable from lessee	–	2,098,941	2,098,941
Accrued interest income receivable	39	–	39
Total current assets	3,172,441	20,018,998	23,191,439
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	171,332,590	171,332,590
	$3,172,441	$191,351,588	$194,524,029
LIABILITIES AND NET ASSETS			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 16,930,000	$ 16,930,000
Accrued interest payable	–	2,044,167	2,044,167
Deferred fees (note 7)	108,126	–	108,126
Accounts payable – Maine Municipal Bond Bank (note 6)	6,398	–	6,398
Total current liabilities	114,524	18,974,167	19,088,691
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	172,150,000	172,150,000
Deferred fees (note 7)	803,647	–	803,647
Rebate payable to Internal Revenue Service	–	213,426	213,426
Total noncurrent liabilities	803,647	172,363,426	173,167,073
Total liabilities	918,171	191,337,593	192,255,764
Net assets:			
Restricted	–	13,995	13,995
Unrestricted	2,254,270	–	2,254,270
Total net assets	2,254,270	13,995	2,268,265
	$3,172,441	$191,351,588	$194,524,029

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Year Ended June 30, 2010

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$8,478,718	$8,478,718
Administrative fees (note 7)	482,144	–	482,144
Interest income from investments	32,423	–	32,423
Other revenue	–	243,861	243,861
Total operating revenue	514,567	8,722,579	9,237,146
Operating expenses (note 6):			
Cost of issuance expense	–	187,770	187,770
Interest expense	–	8,340,447	8,340,447
Salaries	65,870	–	65,870
Employee benefits	17,118	–	17,118
Office	11,341	–	11,341
Accretion of interest on deferred fees (note 7)	55,195	–	55,195
Amortization of deferred bond issuance costs	–	153,696	153,696
Other	69,518	30,924	100,442
Total operating expenses	219,042	8,712,837	8,931,879
Operating income	295,525	9,742	305,267
Net assets, beginning of year	1,958,745	4,253	1,962,998
Net assets, end of year	$2,254,270	$ 13,995	$2,268,265

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2010

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 353,111	$ 25,775,512	$ 26,128,623
Cash paid for operating expenses	(165,727)	–	(165,727)
Cash received from premium on sale of bonds	–	243,861	243,861
Cash deposited to construction funds	–	(11,960,000)	(11,960,000)
Cash paid for bond issuance costs	–	(187,770)	(187,770)
Net cash provided by operating activities	187,384	13,871,603	14,058,987
Noncapital financing activities:			
Proceeds from bonds payable	–	38,160,121	38,160,121
Principal paid on bonds payable	–	(17,130,000)	(17,130,000)
Deposit to refunding escrow	–	(25,821,954)	(25,821,954)
Issuance costs paid with refunding	–	(378,167)	(378,167)
Interest paid on bonds payable	–	(8,651,993)	(8,651,993)
Net cash used by noncapital financing activities	–	(13,821,993)	(13,821,993)
Investing activities:			
Purchase of investment securities	(31,346)	–	(31,346)
Cash received from interest income	34,315	–	34,315
Net cash provided by investing activities	2,969	–	2,969
Increase in cash and cash equivalents	190,353	49,610	239,963
Cash and cash equivalents at beginning of year	908,403	123,037	1,031,440
Cash and cash equivalents at end of year	$1,098,756	$ 172,647	$ 1,271,403
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 295,525	$ 9,742	$ 305,267
Adjustments to reconcile operating income to net cash provided by operating activities:			
Accretion of interest on deferred fees	55,195	–	55,195
Amortization of deferred fees and costs	(114,215)	153,696	39,481
Interest expense	–	8,340,447	8,340,447
Interest income	(32,423)	–	(32,423)
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	–	166,794	166,794
Accounts receivable	(20,000)	–	(20,000)
Deferred expenses	5,000	–	5,000
Accounts payable	(1,880)	–	(1,880)
Interest rebate payable to Internal Revenue Service	–	30,924	30,924
Other deferred revenue	182	–	182
Lease payments receivable from lessee	–	5,170,000	5,170,000
Net cash provided by operating activities	$ 187,384	$ 13,871,603	$ 14,058,987

See accompanying notes.

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $325,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and state income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority. The lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The Authority's General Operating Account Fund Group records the revenues and expenses generated from its daily operations in administration of the General Bond Resolution. The Authority has a management agreement with the Maine Municipal Bond Bank (the Bond Bank) resulting in an allocation of general overhead expenses from the operations of the Bond Bank to the Authority and payment of direct operating expenses by the Authority.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

2. Significant Accounting Policies (Continued)

The Authority complies with GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34,* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Accounting Method

The Authority uses the accrual basis of accounting, and accordingly recognizes revenues as earned and expenses as incurred.

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net assets.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds, or the life of the new bonds, whichever is shorter, using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

2. Significant Accounting Policies (Continued)

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds, or the life of the new bonds, whichever is shorter, using a method which approximates the effective interest method. Original issue premiums for other issues, to the extent they are used to pay bond issuance costs, are recorded as premium revenue on the statement of revenues, expenses and changes in net assets.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America. Instead, the Authority records the present value of lease receivable as an asset. Interest revenue is accreted over the life of the lease receivable using a method approximating the effective interest method.

Use of Estimates

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

Total Columns

The “total” columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience and presentation purposes only.

3. Investments and Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority’s policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

3. Investments and Cash and Cash Equivalents (Continued)

At June 30, 2010, investments and cash and cash equivalents are as follows (at fair value):

General operating account:	
Certificate of deposit	$2,053,646
Cash and cash equivalents	1,098,756
	$3,152,402
General bond resolution:	
Cash and cash equivalents	$ 172,647

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's cash equivalents are primarily held by Bank of New York, Bank of America and Bangor Savings Bank. The Authority's certificate of deposit is held by Citizen's Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2010.

The cash of the general operating account at June 30, 2010, consists of $250,000 insured and $145,934 uninsured deposits with a bank. Cash equivalents consist of $702,822 in money market funds secured by short-term U.S. Treasury obligations. The certificate of deposit balance of $2,053,646 at June 30, 2010 is fully collateralized by securities pledged by the issuing bank and matures on May 31, 2011. The fair value of the certificate of deposit approximates cost at June 30, 2010.

Cash and cash equivalents of the General Bond Resolution at June 30, 2010, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at Bank of New York.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2010, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2010
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	$86,945,000	$ 2,120,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	2,970,000
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	6,995,000	350,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	3,785,000

4. Bonds Payable and Lease Payments Receivable (Continued)

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2010
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	$10,860,000	$ 3,805,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	7,030,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	26,135,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	52,560,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	5,330,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	10,400,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	37,035,000
Series 2009 A, 3.25% – 5.00%, dated October 29, 2009	2010 – 2029	11,960,000	11,960,000
Series 2010A, 2.50% – 5.00%, dated April 1, 2010	2010 – 2023	25,600,000	25,600,000
			$189,080,000

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$189,080,000
Deferred amounts on refunding	(2,927,761)
Unamortized original issue premium	3,982,307
Unamortized bond issue costs	(1,054,546)
	189,080,000
Less current portion	(16,930,000)
Long-term portion	$172,150,000

4. Bonds Payable and Lease Payments Receivable (Continued)

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2010	$ 16,930,000	$ 7,443,494	$ 24,373,494
2011	17,285,000	7,627,651	24,912,651
2012	17,160,000	7,013,045	24,173,045
2013	17,090,000	6,287,233	23,377,233
2014	16,895,000	5,578,790	22,473,790
2015 – 2019	74,080,000	17,086,821	91,166,821
2020 – 2024	18,695,000	4,952,100	23,647,100
2025 – 2029	10,945,000	1,350,556	12,295,556
	$189,080,000	$57,339,690	$246,419,690

The following summarizes bond payable activity for the Authority for the year ended June 30, 2010:

Balance, beginning of year	$192,935,000
Issuances – face value	37,560,000
Redemptions	(17,130,000)
Refunded bonds	(24,285,000)
Deferred issuance costs	(378,167)
Capitalized premiums	600,121
Deferred amounts on refunding	(221,954)
Balance, end of year	$189,080,000

5. Refunding Issues

In periods of declining interest rates, the Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, the Authority retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Treasury Obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. The Authority accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

5. Refunding Issues (Continued)

The 2010A Refunding Bonds, which totaled $25,600,000 at an average interest rate of 3.130%, were used to in-substance defease $24,285,000 in certain maturities of outstanding 1999, 2000A, 2000B, 2001 and 2002 bonds with an average interest rate of 5.75%. The net proceeds of approximately $25,822,000, including a bond premium of approximately $600,100 and after payment of approximately $378,200 in underwriting fees, insurance and other issuance costs, were used to purchase U.S. government securities which will provided for all future debt service payments on the defeased bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $222,000 in the year ended June 30, 2010, the Authority in effect reduced its aggregate debt service payments (and payments due from the lessee) by approximately $906,000 over the next twelve years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $900,000.

At June 30, 2010, the remaining balances of the in-substance defeased bonds total approximately $51,015,000.

6. Operating Expenses

The Authority has a management agreement with the Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority’s estimated portion of general overhead.

7. Deferred Fees

Included in the deferred fees total of $911,773 at June 30, 2010, is $866,696 representing the advance payment of the present value of all future required annual fees on the 1999 and 2000 A bond issues by the executive branch of the State of Maine in 2002. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2010, $114,215 of previously deferred fees was included in administrative fee revenue.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2010

		Program Revenues				Net Revenue (Expense) and Changes in net assets
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Governmental Facilities Authority	$8,931,879	$8,960,862	$ –	$ –	$ –	$ 28,983
Total	$8,931,879	$8,960,862	$ –	$ –	$ –	28,983
General revenues:						
Unrestricted interest and investment earnings						32,423
Miscellaneous income						243,861
Total general revenues and extraordinary items						276,284
Changes in net assets						305,267
Net assets, beginning of year						1,962,998
Net assets, end of year						$2,268,265

MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

Robert O. Lenna, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2009 Maine Governmental Facilities Authority Annual Report**

This is the annual report for the Maine Governmental Facilities Authority for the 2009 fiscal year, running from July 1, 2008 to June 30, 2009. Created originally in 1987 as the Maine Court Facilities Authority, the Maine Governmental Facilities amendments to the original legislation were enacted into law in 1997 authorizing the Authority to undertake capital financing activities for structures designated for use as governmental facilities. Each project funded by the Authority requires project specific approval by the Legislature prior to the issuance of bonds for project activities.

In FY 2009, the Authority did not issue any bonds.

If there is further information you might like or questions you may have concerning the Authority, please feel free to give us a call at (207) 622-9386. Additional information about the Authority is available at out website: www.mgfa.com

[THIS PAGE INTENTIONALLY LEFT BLANK]

Maine Governmental Facilities Authority

Basic Financial Statements,
Management's Discussion and Analysis
and Additional Information

Year Ended June 30, 2009
With Independent Auditors' Report

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION AND ANALYSIS AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2009

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying financial statements, consisting of the General Operating Account and General Bond Resolution, which collectively comprise the basic financial statements of Maine Governmental Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2009, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. 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 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 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority, as well as the individual fund groups referred to above as of June 30, 2009, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2009 on our consideration of Maine Governmental Facilities Authority's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Maine Governmental Facilities Authority

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Authority's basic financial statements. The supplementary information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information included in Schedule 1 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
August 31, 2009

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

As financial management of the Maine Governmental Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2009. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in its financial position. Readers should consider the information presented here only in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $351,442 for fiscal year 2009, a decrease of $217,862 or 38.3% from fiscal year 2008. This decrease was primarily attributed to no new bond issuances in the General Bond Resolution, therefore, no initial issuance fees recorded in the Authority's General Operating Account in fiscal year 2009.
- Net assets in the Authority's Operating Account at June 30, 2009 were $1,958,745. This represents an increase of $145,562 or 8.0% over the net assets at June 30, 2008.
- The Authority's gross bonds outstanding at June 30, 2009 were $192,935,000. Gross bonds outstanding at June 30, 2009 decreased $15,625,000 from the balance at June 30, 2008. This decrease consists entirely of principal payments in fiscal year 2009.
- The Authority's lease payments receivable from lessee at June 30, 2009 were $192,935,000. The lease payments are directly related to the bonds outstanding. Therefore, the decrease is entirely attributed to the bonds redeemed during fiscal year 2009. These receivables represent lease payments due from the State of Maine and related entities for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations. The Authority does receive loan servicing fees from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority's General Operating Account, assets exceeded liabilities by $1,958,745 at June 30, 2009. This represents an increase of $145,562 or 8.0% over the previous fiscal year. This increase is related to operating revenues exceeding operating expenses in fiscal year 2009.

The Authority's financial position and results of operations for the past two years are summarized as follows:

GENERAL OPERATING ACCOUNT

	2009	2008	Percentage Change
Current assets:			
Cash and cash equivalents	$ 908,403	$ 1,146,327	(20.8)%
Investments	2,022,300	1,689,482	19.7
Interest and other amounts receivable from lessee	–	500	(100.0)
Accrued interest income receivable	1,931	2,441	(20.9)
Deferred expenses	5,000	–	–
Total assets	$2,937,634	$2,838,750	3.5%
Current liabilities:			
Deferred fees	$ 104,015	$ 89,878	15.7%
Accounts payable – Maine Municipal Bond Bank	8,278	9,848	(15.9)
Total current liabilities	112,293	99,726	12.6
Noncurrent liabilities:			
Deferred fees	866,596	925,841	(6.4)
Total noncurrent liabilities	866,596	925,841	(6.4)
Total liabilities	978,889	1,025,567	(4.6)
Unrestricted net assets	1,958,745	1,813,183	8.0
Total liabilities and net assets	$2,937,634	$2,838,750	3.5%

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2009

GENERAL BOND RESOLUTION

	2009	2008	Percentage Change
Current assets:			
Cash and cash equivalents	$ 123,037	$ 126,258	(2.6)%
Lease payments receivable from lessee	17,130,000	15,625,000	9.6
Interest and other amounts receivable from lessee	2,265,735	2,086,741	8.6
Accrued interest income receivable	–	204	(100.0)
Total current assets	19,518,772	17,838,203	9.4
Noncurrent assets:			
Lease payments receivable from lessee	175,805,000	192,935,000	(8.9)
Total noncurrent assets	175,805,000	192,935,000	(8.9)
Total assets	$195,323,772	$210,773,203	(7.3)%
Current liabilities:			
Bonds payable, net	$ 17,130,000	$ 15,625,000	9.6%
Accrued interest payable	2,202,017	1,952,875	12.8
Total current liabilities	19,332,017	17,577,875	10.0
Noncurrent liabilities:			
Bonds payable, net	175,805,000	192,935,000	(8.9)
Rebate payable to Internal Revenue Service	182,502	252,913	(27.8)
Total noncurrent liabilities	175,987,502	193,187,913	(8.9)
Total liabilities	195,319,519	210,765,788	(7.3)
Restricted net assets	4,253	7,415	(42.6)
Total liabilities and net assets	$195,323,772	$210,773,203	(7.3)%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2009	2008	Percentage Change
Operating revenues:			
Administrative fees	$ 295,103	$ 453,311	(34.9)%
Interest income from investments	56,339	115,993	(51.4)
Total operating revenue	351,442	569,304	(38.3)
Operating expenses:			
Salaries	67,804	74,527	(9.0)
Employee benefits	17,197	18,783	(8.4)
Office	12,904	12,558	2.8
Accretion of interest on deferred fees	58,966	62,496	(5.6)
Other	49,009	57,739	(15.1)
Total operating expenses	205,880	226,103	(8.9)
Operating income	145,562	343,201	(57.6)
Net assets, beginning of year	1,813,183	1,469,982	23.3
Net assets, end of year	$1,958,745	$1,813,183	8.0%

GENERAL BOND RESOLUTION

	2009	2008	Percentage Change
Operating revenues:			
Received and receivable from lessee	$8,920,826	$7,856,450	13.5%
Interest income from investments	7,236	21,171	(65.8)
Other revenue	70,411	550,677	(87.2)
Total operating revenues	8,998,473	8,428,298	6.8
Operating expenses:			
Cost of issuance expense	–	550,677	(100.0)
Interest expense	8,863,497	7,704,447	15.0
Amortization of deferred bond issuance costs	138,138	139,794	(1.2)
Other	–	28,069	(100.0)
Total operating expenses	9,001,635	8,422,987	6.9
Operating (loss) income	(3,162)	5,311	(159.5)
Net assets, beginning of year	7,415	2,104	252.4
Net assets, end of year	$ 4,253	$ 7,415	(42.6)%

General Operating Account

Cash and cash equivalents held in the General Operating Account decreased $237,924 or 20.8% at June 30, 2009 compared to June 30, 2008. The decrease is primarily the result of investing additional funds into investments in fiscal year 2009.

Deferred fees decreased $45,108 or 4.4% from 2008 as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net assets increased $145,562 or 8.0% in fiscal year 2009. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Other operating expenses decreased $8,730 or 15.1% in fiscal year 2009 as compared to fiscal year 2008. The decrease was due to lower legal fees for fiscal year 2009 (no bond issuances in 2009).

The Authority shares office space and staff with the Maine Municipal Bond Bank (Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Lease payments receivable from lessee are directly related to the bonds outstanding. Both decreased $15,625,000 or 7.5% at June 30, 2009 as compared to balances at June 30, 2008. The decrease is due to the scheduled principal payments in fiscal year 2009.

Interest expense on the bonds increased $1,159,050 or 15.0% in fiscal year 2009 from 2008 based on an increase in average bonds outstanding and the scheduled interest payments.

Other revenues (consisting entirely of premium revenues in 2008) and costs of issuance expense are down by $480,266 and $550,677 in 2009 from 2008, respectively, due to there being no bonds issued in fiscal 2009.

Other operating expenses decreased $28,069 as compared to fiscal year 2008. The majority of this decrease is the result of decreased rebate liability to the Internal Revenue Service recorded in fiscal year 2009 as compared with fiscal year 2008.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2009

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$ 908,403	$ 123,037	$ 1,031,440
Investments (note 3)	2,022,300	–	2,022,300
Lease payments receivable from lessee (note 4)	–	17,130,000	17,130,000
Interest and other amounts receivable from lessee	–	2,265,735	2,265,735
Accrued interest income receivable	1,931	–	1,931
Deferred expenses	5,000	–	5,000
Total current assets	2,937,634	19,518,772	22,456,406
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	175,805,000	175,805,000
	$2,937,634	$195,323,772	$198,261,406
LIABILITIES AND NET ASSETS			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 17,130,000	$ 17,130,000
Accrued interest payable	–	2,202,017	2,202,017
Deferred fees (note 7)	104,015	–	104,015
Accounts payable – Maine Municipal Bond Bank (note 6)	8,278	–	8,278
Total current liabilities	112,293	19,332,017	19,444,310
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	175,805,000	175,805,000
Deferred fees (note 7)	866,596	–	866,596
Rebate payable to Internal Revenue Service	–	182,502	182,502
Total noncurrent liabilities	866,596	175,987,502	176,854,098
Total liabilities	978,889	195,319,519	196,298,408
Net assets:			
Restricted	–	4,253	4,253
Unrestricted	1,958,745	–	1,958,745
Total net assets	1,958,745	4,253	1,962,998
	$2,937,634	$195,323,772	$198,261,406

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Year Ended June 30, 2009

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$8,920,826	$8,920,826
Administrative fees (note 7)	295,103	–	295,103
Interest income from investments	56,339	7,236	63,575
Other revenue	–	70,411	70,411
Total operating revenue	351,442	8,998,473	9,349,915
Operating expenses (note 6):			
Interest expense	–	8,863,497	8,863,497
Salaries	67,804	–	67,804
Employee benefits	17,197	–	17,197
Office	12,904	–	12,904
Accretion of interest on deferred fees (note 7)	58,966	–	58,966
Amortization of deferred bond issuance costs	–	138,138	138,138
Other	49,009	–	49,009
Total operating expenses	205,880	9,001,635	9,207,515
Operating income (loss)	145,562	(3,162)	142,400
Net assets, beginning of year	1,813,183	7,415	1,820,598
Net assets, end of year	$1,958,745	$ 4,253	$1,962,998

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 191,529	$ 24,366,832	$ 24,558,361
Cash paid for operating expenses	(153,484)	–	(153,484)
Net cash provided by operating activities	38,045	24,366,832	24,404,877
Noncapital financing activities:			
Principal paid on bonds payable	–	(15,625,000)	(15,625,000)
Interest paid on bonds payable	–	(8,752,493)	(8,752,493)
Net cash used by noncapital financing activities	–	(24,377,493)	(24,377,493)
Investing activities:			
Purchase of investment securities	(332,818)	–	(332,818)
Cash received from interest income	56,849	7,440	64,289
Net cash (used) provided by investing activities	(275,969)	7,440	(268,529)
Decrease in cash and cash equivalents	(237,924)	(3,221)	(241,145)
Cash and cash equivalents at beginning of year	1,146,327	126,258	1,272,585
Cash and cash equivalents at end of year	$ 908,403	$ 123,037	$ 1,031,440
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	$ 145,562	$ (3,162)	$ 142,400
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Accretion of interest on deferred fees	58,966	–	58,966
Amortization of deferred fees and costs	(114,215)	138,138	23,923
Interest expense	–	8,863,497	8,863,497
Interest income	(56,339)	(7,236)	(63,575)
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	500	(178,994)	(178,494)
Accounts payable	(1,570)	–	(1,570)
Interest rebate payable to Internal Revenue Service	–	(70,411)	(70,411)
Deferred expenses	(5,000)	–	(5,000)
Other deferred revenue	10,141	–	10,141
Lease payments receivable from lessee	–	15,625,000	15,625,000
Net cash provided by operating activities	$ 38,045	$ 24,366,832	$ 24,404,877

See accompanying notes.

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $325,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and state income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority. The lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

The Authority complies with GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

2. Significant Accounting Policies (Continued)

The financial statements are prepared in accordance with GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34,* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net assets.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred as part of deferred amounts on refunding and are being amortized over the life of the refunded bonds, or the life of the new bonds, whichever is shorter, using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds, or the life of the new bonds, whichever is shorter, using a method which approximates the effective interest method. Original issue premiums for other issues, to the extent they are used to pay bond issuance costs, are recorded as premium revenue on the statement of revenues, expenses and changes in net assets.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America. Instead, the Authority records the lease receivable as an asset.

2. Significant Accounting Policies (Continued)

Use of Estimates

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

Total Columns

The "total" columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience and presentation purposes only.

3. Investments and Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

At June 30, 2009, investments and cash and cash equivalents are as follows (at fair value):

General operating account:	
Certificate of deposit	$2,022,300
Cash and cash equivalents	908,403
	$2,930,703
General bond resolution:	
Cash and cash equivalents	$ 123,037

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's cash equivalents are primarily held by Bank of New York, Bank of America and Bangor Savings Bank. The Authority's certificate of deposit is held by Citizen's Bank. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2009.

3. Investments and Cash and Cash Equivalents (Continued)

The cash of the general operating account at June 30, 2009, consists entirely of $208,065 insured deposits with a bank. Cash equivalents consist of $700,338 in money market funds secured by short-term U.S. Treasury obligations. The certificate of deposit balance of $2,022,300 at June 30, 2009 is fully collateralized by securities pledged by the issuing bank and matures on December 10, 2009. The fair value of the certificate of deposit approximates cost at June 30, 2009.

Cash and cash equivalents of the General Bond Resolution at June 30, 2009, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at Bank of New York.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2009, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2009
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	$86,945,000	$ 9,500,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	6,530,000
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	6,995,000	1,050,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	23,170,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	7,590,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	8,545,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	26,795,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	52,990,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	6,220,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	10,985,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	39,560,000
			$192,935,000

4. Bonds Payable and Lease Payments Receivable (Continued)

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$192,935,000
Deferred amount on refunding	(3,270,482)
Unamortized original issue premium	4,100,557
Unamortized bond issue costs	(830,075)
	192,935,000
Less current portion	(17,130,000)
Long-term portion	$175,805,000

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2009	$ 17,130,000	$ 8,808,787	$ 25,938,787
2010	17,130,000	8,069,953	25,199,953
2011	16,465,000	7,275,843	23,740,843
2012	16,340,000	6,671,986	23,011,986
2013	16,260,000	5,979,549	22,239,549
2014 – 2018	73,740,000	18,948,984	92,688,984
2019 – 2023	26,300,000	4,956,143	31,256,143
2024 – 2028	9,570,000	1,377,500	10,947,500
	$192,935,000	$62,088,745	$255,023,745

The following summarizes bond payable activity for the Authority for the year ended June 30, 2009:

Balance, beginning of year	$208,560,000
Redemptions	(15,625,000)
Balance, end of year	$192,935,000

5. Refunding Issues

In periods of declining interest rates, the Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, the Authority retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Treasury Obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. The Authority accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

There were no advance refundings during the year ended June 30, 2009. At June 30, 2009, the remaining balances of the in-substance defeased bonds total approximately $71,935,000.

6. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead.

7. Deferred Fees

Included in deferred fees at June 30, 2009, is $925,716 representing the advance payment of the present value of all future required annual fees on the 1999 and 2000 A bond issues by the executive branch of the State of Maine in 2002. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2009, $114,215 of previously deferred fees was included in revenue.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2009

		Program Revenues				Net Revenue (Expense) and Changes in net assets
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Governmental Facilities Authority	$(9,207,515)	$9,215,929	$7,236	$ –	$ –	$ 15,650
Total	$(9,207,515)	$9,215,929	$7,236	$ –	$ –	15,650
General revenues:						
Unrestricted interest and investment earnings						56,339
Non program specific grants, contributions and appropriations						–
Miscellaneous income						70,411
Loss on assets held for sale						–
Extraordinary item						–
Total general revenues and extraordinary items						126,750
Changes in net assets						142,400
Net assets, beginning of year						1,820,598
Net assets, end of year						$1,962,998

MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

Robert O. Lenna, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2008 Maine Governmental Facilities Authority Annual Report**

This is the annual report for the Maine Governmental Facilities Authority for the 2008 fiscal year, running from July 1, 2007 to June 30, 2008. Created originally in 1987 as the Maine Court Facilities Authority, the Maine Governmental Facilities amendments to the original legislation were enacted into law in 1997 authorizing the Authority to undertake capital financing activities for structures designated for use as governmental facilities. Each project funded by the Authority requires project specific approval by the Legislature prior to the issuance of bonds for project activities.

In FY 2008, the Authority issued $40,565,000 of bonds in one series. Funds made available by this bond sale were used for renovations to a courthouse in Houlton, planning and construction of a new courthouse in Bangor, and various capital repairs and improvements to state owned facilities throughout the state including the women's re-entry center in Bangor.

If there is further information you might like or questions you may have concerning the Authority, please feel free to give us a call at (207) 622-9386. Additional information about the Authority is available at out website: www.mgfa.com

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION
AND ANALYSIS AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2008

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying basic financial statements, consisting of the General Operating Account and General Bond Resolution, of Maine Governmental Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. 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 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 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 opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority and the individual fund groups referred to above as of June 30, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2008 on our consideration of Maine Governmental Facilities Authority's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 8 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Maine Governmental Facilities Authority

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Authority's basic financial statements. The supplementary information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information included in Schedule 1 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
September 25, 2008

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

As financial management of the Maine Governmental Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2008. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in its financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $569,304 for fiscal year 2008, an increase of $177,284 or 45.2% from fiscal year 2007. This increase was primarily related to increased initial issuance fees received on bonds issued in 2008 over 2007. Initial issuance fees are based on a percentage on the total par of bonds issued, which was an additional $29,580,000 in fiscal 2008 over fiscal 2007.
- Net assets in the Authority's Operating Account at June 30, 2008 were $1,813,183. This represents an increase of $343,201 or 23.3% over the net assets at June 30, 2007 mainly due to an increase in administrative fees and initial issuance fees in 2008.
- The Authority's gross bonds outstanding at June 30, 2008 were $208,560,000. Gross bonds outstanding at June 30, 2008 increased $25,955,000 from the balance at June 30, 2007. This increase consists of the sale of the Series 2008A bonds totaling $40,565,000 less scheduled principal payments of $14,610,000 in fiscal year 2008.
- The Authority's lease payments receivable from lessee at June 30, 2008 were $208,560,000. The lease payments are directly related to the bonds outstanding. Therefore, the increase of $25,955,000 is mainly attributed to the net effect of bonds issued and redeemed during fiscal year 2008. These receivables represent lease payments due from the State of Maine and related entities for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations. The Authority does receive loan servicing fees from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net assets increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $1,813,183 at June 30, 2008. This represents an increase of $343,201 or 23.3% over the previous fiscal year. Most of this increase is related to additional initial issuance fees for a new bond issue in fiscal year 2008.

The Authority's financial position and results of operations for the past two years are summarized as follows:

GENERAL OPERATING ACCOUNT

	2008	2007	Percentage Change
Current assets:			
Cash and cash equivalents	$1,146,327	$ 666,699	71.9%
Investments, at market value	1,689,482	1,605,971	5.2
Interest and other amounts receivable from lessee	500	266,268	(99.8)
Accrued interest income receivable	2,441	3,302	(26.1)
Total assets	$2,838,750	$2,542,240	11.7%
Current liabilities:			
Deferred fees	$ 48,567	$ 80,423	(39.6)%
Accounts payable	9,848	7,566	30.2
Total current liabilities	58,415	87,989	(33.6)
Noncurrent liabilities:			
Deferred fees	967,152	984,269	(1.7)
Total noncurrent liabilities	967,152	984,269	(1.7)
Total liabilities	1,025,567	1,072,258	(4.4)
Unrestricted net assets	1,813,183	1,469,982	23.3
Total liabilities and net assets	$2,838,750	$2,542,240	11.7%

GENERAL BOND RESOLUTION

	2008	2007	Percentage Change
Current assets:			
Cash and cash equivalents	$ 126,258	$ 130,429	(3.2)%
Lease payments receivable from lessee	15,625,000	14,610,000	6.9
Interest and other amounts receivable from lessee	2,086,741	2,146,922	(2.8)
Accrued interest income receivable	204	498	(59.0)
Total current assets	17,838,203	16,887,849	(5.6)
Noncurrent assets:			
Lease payments receivable from lessee	192,935,000	167,995,000	14.8
Total noncurrent assets	192,935,000	167,995,000	14.8
Total assets	$ 210,773,203	$ 184,882,849	14.0%
Current liabilities:			
Bonds payable, net	$ 15,625,000	$ 14,610,000	6.9%
Accounts payable	–	3	(100.0)
Accrued interest payable	1,952,875	2,046,539	(4.6)
Other deferred revenue	–	4,000	(100.0)
Total current liabilities	17,577,875	16,660,542	5.5
Noncurrent liabilities:			
Bonds payable, net	192,935,000	167,995,000	14.8
Rebate payable to Internal Revenue Service	252,913	225,203	12.3
Total noncurrent liabilities	193,187,913	168,220,203	14.8
Total liabilities	210,765,788	184,880,745	14.0
Restricted net assets	7,415	2,104	252.4
Total liabilities and net assets	$ 210,773,203	$ 184,882,849	14.0%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2008	2007	Percentage Change
Operating revenues:			
Administrative fees	$ 453,311	$ 272,918	66.1%
Interest income from investments	115,993	119,102	(2.6)
Total operating revenue	569,304	392,020	45.2
Operating expenses:			
Salaries	74,527	66,815	11.5
Employee benefits	18,783	16,613	13.1
Office	12,558	12,116	3.6
Accretion of interest on deferred fees	62,496	65,800	(5.0)
Other	57,739	66,131	(12.7)
Total operating expenses	226,103	227,475	(0.6)
Operating income	343,201	164,545	108.6
Net assets, beginning of year	1,469,982	1,305,437	12.6
Net assets, end of year	$1,813,183	$1,469,982	23.3%

GENERAL BOND RESOLUTION

	2008	2007	Percentage Change
Operating revenues:			
Received and receivable from lessee	$7,856,450	$8,091,892	(2.9)%
Interest income from investments	21,171	15,350	37.9
Other revenue	550,677	250,716	119.6
Total operating revenues	8,428,298	8,357,958	0.8
Operating expenses:			
Cost of issuance expense	550,677	214,065	157.2
Interest expense	7,704,447	7,956,087	(3.2)
Amortization of deferred bond issuance costs	139,794	141,407	(1.1)
Other	28,069	89,270	(68.6)
Total operating expenses	8,422,987	8,400,829	0.3
Operating income (loss)	5,311	(42,871)	(112.4)
Net assets, beginning of year	2,104	44,975	(95.3)
Net assets, end of year	$ 7,415	$ 2,104	252.4%

General Operating Account

Cash and cash equivalents held in the General Operating Account increased $479,628 or 71.9% at June 30, 2008 compared to June 30, 2007. The increase was primarily the result of reimbursement from bond proceeds for the cash advance that the Operating Account provided to purchase land for the Bangor Courthouse in June 2007 and also original issuance fees from the 2008A bonds issued in June 2008. Total assets within the General Operating Account increased $296,510 compared to June 30, 2007, which was due mainly to the original issuance fees from the 2008A bond issue.

Accounts receivable from lessee decreased $265,768 or 99.8% from 2007. The decrease was primarily due to reimbursement from the 2007A bond series, in July 2007, for the cash advance that the Operating Account provided to purchase land for the Bangor courthouse project as described above.

Deferred fees decreased $48,973 or 4.6% from 2007 primarily as a result of amortization of fees collected in advance in prior years (see note 7 in financial statements).

Net assets increased $343,201 or 23.3% in fiscal year 2008. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Other operating expenses decreased $8,392 or 12.7% in fiscal year 2008 as compared to fiscal year 2007. The decrease was due to lower legal fees for fiscal year 2008.

The Authority shares office space and staff with the Maine Municipal Bond Bank (Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Lease payments receivable from lessee are directly related to the bonds outstanding. Both increased $25,955,000 or 14.2% at June 30, 2008 as compared to balances at June 30, 2007. The increase is due to the net effect of the issuance of the Series 2008A bonds and scheduled principal payments in fiscal year 2008.

Interest expense on the bonds decreased $251,640 or 3.2% in fiscal year 2008 from 2007 based on the scheduled payments.

Other operating expenses decreased $61,201 or 68.6% in fiscal year 2008 as compared to fiscal year 2007. The majority of this decrease is the result of decreased rebate liability to the Internal Revenue Service recorded in fiscal year 2008 as compared with fiscal year 2007.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2008

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$1,146,327	$ 126,258	$ 1,272,585
Investments, at market value (note 3)	1,689,482	–	1,689,482
Lease payments receivable from lessee (note 4)	–	15,625,000	15,625,000
Interest and other amounts receivable from lessee	500	2,086,741	2,087,241
Accrued interest income receivable	2,441	204	2,645
Total current assets	2,838,750	17,838,203	20,676,953
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	192,935,000	192,935,000
Total assets	$2,838,750	$ 210,773,203	$ 213,611,953
LIABILITIES AND NET ASSETS			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 15,625,000	$ 15,625,000
Accrued interest payable	–	1,952,875	1,952,875
Deferred fees (note 7)	48,567	–	48,567
Accounts payable – Maine Municipal Bond Bank (note 6)	9,848	–	9,848
Total current liabilities	58,415	17,577,875	17,636,290
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	192,935,000	192,935,000
Deferred fees (note 7)	967,152	–	967,152
Rebate payable to Internal Revenue Service	–	252,913	252,913
Total noncurrent liabilities	967,152	193,187,913	194,155,065
Total liabilities	1,025,567	210,765,788	211,791,355
Net assets:			
Restricted	–	7,415	7,415
Unrestricted	1,813,183	–	1,813,183
Total net assets	1,813,183	7,415	1,820,598
	$2,838,750	$ 210,773,203	$ 213,611,953

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Year Ended June 30, 2008

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$7,856,450	$7,856,450
Administrative fees (note 7)	453,311	–	453,311
Interest income from investments	115,993	21,171	137,164
Premium revenue	–	550,677	550,677
Total operating revenue	569,304	8,428,298	8,997,602
Operating expenses (note 6):			
Cost of issuance expense	–	550,677	550,677
Interest expense	–	7,704,447	7,704,447
Salaries	74,527	–	74,527
Employee benefits	18,783	–	18,783
Office	12,558	–	12,558
Accretion of interest on deferred fees (note 7)	62,496	–	62,496
Amortization of deferred bond issuance costs	–	139,794	139,794
Other	57,739	28,069	85,808
Total operating expenses	226,103	8,422,987	8,649,090
Operating income	343,201	5,311	348,512
Net assets, beginning of year	1,469,982	2,104	1,472,086
Net assets, end of year	$1,813,183	$ 7,415	$1,820,598

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 607,610	$ 22,522,631	$ 23,130,241
Cash paid for operating expenses	(132,194)	–	(132,194)
Cash received from premium on sale of bonds	–	550,677	550,677
Cash paid for expenses	(29,131)	(362)	(29,493)
Cash deposited to construction funds	–	(40,565,000)	(40,565,000)
Cash paid for bond issuance costs	–	(550,677)	(550,677)
Net cash provided (used) by operating activities	446,285	(18,042,731)	(17,596,446)
Noncapital financing activities:			
Proceeds from bonds payable	–	40,565,000	40,565,000
Principal paid on bonds payable	–	(14,610,000)	(14,610,000)
Interest paid on bonds payable	–	(7,937,905)	(7,937,905)
Net cash provided by noncapital financing activities	–	18,017,095	18,017,095
Investing activities:			
Purchase of investment securities	(83,511)	–	(83,511)
Cash received from interest income	116,854	21,465	138,319
Net cash provided by investing activities	33,343	21,465	54,808
Increase (decrease) in cash and cash equivalents	479,628	(4,171)	475,457
Cash and cash equivalents at beginning of year	666,699	130,429	797,128
Cash and cash equivalents at end of year	$ 1,146,327	$ 126,258	$ 1,272,585
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	$ 343,201	$ 5,311	$ 348,512
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Accretion of interest on deferred fees	62,496	–	62,496
Amortization of deferred fees and costs	(114,215)	139,794	25,579
Interest expense	–	7,704,447	7,704,447
Interest income	(115,993)	(21,171)	(137,164)
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	265,768	60,181	325,949
Accounts payable	2,282	(3)	2,279
Interest rebate payable to Internal Revenue Service	–	27,710	27,710
Other deferred revenue	2,746	(4,000)	(1,254)
Lease payments receivable from lessee	–	(25,955,000)	(25,955,000)
Net cash provided (used) by operating activities	$ 446,285	$ (18,042,731)	$ (17,596,446)

See accompanying notes.

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $263,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and state income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority. The lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

2. Significant Accounting Policies (Continued)

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in net assets.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred as part of deferred amounts on refunding and are being amortized over the life of the refunded bonds using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

2. Significant Accounting Policies (Continued)

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds using a method which approximates the effective interest method. Original issue premiums for other issues, to the extent they are used to pay bond issuance costs, are recorded as premium revenue on the statement of revenues, expenses and changes in net assets.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America. Instead, the Authority records the lease receivable as an asset.

Use of Estimates

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

Total Columns

The "total" columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience and presentation purposes only.

New Accounting Pronouncements

GASB issued Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits Other Than Pensions*, in June 2004. This statement establishes standards for the measurement, recognition and display of other post-employment benefits (including post-employment healthcare benefits). This statement is expected to be applicable to the Authority beginning in fiscal 2009.

3. Investments and Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

3. Investments and Cash and Cash Equivalents (Continued)

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

At June 30, 2008, investments and cash and cash equivalents are as follows (at fair value):

General operating account:	
Certificate of deposit	$1,689,482
Cash and cash equivalents	1,146,327
	$2,835,809
General bond resolution:	
Cash and cash equivalents	$ 126,258

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's cash equivalents are primarily held by Bank of New York, Bank of America and MBIA. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2008.

The cash of the general operating account at June 30, 2008, consists of $100,000 insured and $374,644 uninsured deposits with a bank. Cash equivalents consist of $671,683 in money market funds invested primarily in U.S. Government-sponsored enterprise securities and commercial paper, held at MBIA. The certificate of deposit balance of $1,689,482 at June 30, 2008 is fully collateralized by securities pledged by the issuing bank and matures on December 10, 2008. The fair value of the certificate of deposit approximates cost at June 30, 2008.

Cash and cash equivalents of the General Bond Resolution at June 30, 2008, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at Bank of New York.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2008, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2008
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	$ 86,945,000	$ 14,250,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	9,510,000

4. Bonds Payable and Lease Payments Receivable (Continued)

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2008
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	$ 6,995,000	$ 1,400,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	25,070,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	8,135,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	10,685,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	27,440,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	53,410,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	7,110,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	10,985,000
Series 2008 A, 4.00% – 5.00%, dated June 19, 2008	2008 – 2028	40,565,000	40,565,000
			$ 208,560,000

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$ 208,560,000
Deferred amount on refunding	(3,832,593)
Unamortized original issue premium	4,800,805
Unamortized bond issue costs	(968,212)
	208,560,000
Less current portion	15,625,000
Long-term portion	$ 192,935,000

4. Bonds Payable and Lease Payments Receivable (Continued)

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2008	$ 15,625,000	$ 4,348,100	$ 19,973,100
2009	17,130,000	8,808,787	25,938,787
2010	17,130,000	8,069,953	25,199,953
2011	16,465,000	7,275,843	23,740,843
2012	16,340,000	6,671,986	23,011,986
2013 – 2017	76,140,000	22,557,423	98,697,423
2018 – 2022	37,870,000	6,739,459	44,609,459
2023 – 2027	10,410,000	1,892,794	12,302,794
2028	1,450,000	72,500	1,522,500
	$ 208,560,000	$ 66,436,845	$ 274,996,845

The following summarizes bond payable activity for Authority for the year ended June 30, 2008:

Balance, beginning of year	$ 182,605,000
Issuances – face value	40,565,000
Redemptions	(14,610,000)
Balance, end of year	$ 208,560,000

5. Refunding Issues

In periods of declining interest rates, Maine Governmental Facilities Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, Maine Governmental Facilities Authority retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Treasury Obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. Maine Governmental Facilities Authority accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

There were no advance refundings during the year ended June 30, 2008. At June 30, 2008, the remaining balances of the in-substance defeased bonds total approximately $71,935,000.

6. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead.

7. Deferred Fees

Included in deferred fees at June 30, 2008, is $980,965 representing the advance payment of the present value of all future required annual fees on the 1999 and 2000 A bond issues by the executive branch of the State of Maine in 2002. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2008, $114,215 of previously deferred fees was included in revenue.

SCHEDULE 1

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2008

	Expenses	Program Revenues: Charges for Services	Program Revenues: Program Investment Income	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants/ Contributions	Net Revenue (Expense) and Changes in net assets: Total
Functions/Programs:						
Maine Governmental Facilities Authority	$ (8,649,090)	$ 8,309,761	$21,171	$ –	$ –	$ (318,158)
Total	$ (8,649,090)	$ 8,309,761	$21,171	$ –	$ –	
General revenues:						
Unrestricted interest and investment earnings						115,993
Non program specific grants, contributions and appropriations						–
Miscellaneous income						550,677
Loss on assets held for sale						–
Extraordinary item						–
Total general revenues and extraordinary items						666,670
Changes in net assets						348,512
Net assets, beginning of year						1,472,086
Net assets, end of year						$ 1,820,598

MGFA

MAINE GOVERNMENTAL FACILITIES AUTHORITY

Robert O. Lenna, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2007 Maine Governmental Facilities Authority Annual Report**

This is the annual report for the Maine Governmental Facilities Authority for the 2007 fiscal year, running from July 1, 2006 to June 30, 2007. Created originally in 1987 as the Maine Court Facilities Authority, the Maine Governmental Facilities amendments to the original legislation were enacted into law in 1997 authorizing the Authority to undertake capital financing activities for structures designated for use as governmental facilities and changing the Authority name to the Maine Governmental Facilities Authority. Each project funded by the Authority requires project specific approval by the Legislature prior to the issuance of bonds for project activities.

In FY 2007, the Authority issued $10,985,000 of bonds in one series. Funds made available by this bond sale were used for upgrades and renovations to various courthouses to meet ADA requirements and construction of a new courthouse in Bangor.

If there is further information you might like or questions you may have concerning the Authority, please feel free to give us a call at (207) 622-9386. Additional information about the Authority is available at our website: www.mgfa.com

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION AND ANALYSIS AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2007

TABLE OF CONTENTS

BAKER NEWMAN NOYES LLC

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying basic financial statements, consisting of the General Operating Account and General Bond Resolution, of Maine Governmental Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2007, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority'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 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 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 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority and the individual fund groups referred to above as of June 30, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2007 on our consideration of Maine Governmental Facilities Authority's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 9 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Maine Governmental Facilities Authority

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The supplementary information included in Schedule I is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information included in Schedule I has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
October 5, 2007

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

As financial management of the Maine Governmental Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in its financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $392,020 for fiscal year 2007, an increase of $24,689 or 6.7% from fiscal year 2006. This increase is attributed to increased interest income earned in 2007.
- Fund equity in the Authority's Operating Account at June 30, 2007 was $1,469,982. This represents an increase of $164,545 or 12.6% over the fund equity at June 30, 2006 mainly due to an increase in short-term interest rates in 2007 and related increase in interest income from investments, and fee income earned in fiscal year 2007.
- The Authority's gross bonds outstanding at June 30, 2007 were $182,605,000. Gross bonds outstanding at June 30, 2007 decreased $3,610,000 from the balance at June 30, 2006. This decrease consists of the sale of the Series 2007A bonds totaling $10,985,000 less principal payments of $14,595,000 in fiscal year 2007.
- The Authority's lease payments receivable from lessee at June 30, 2007 were $182,605,000. The lease payments are directly related to the bonds outstanding. Therefore, the decrease of $3,610,000 is attributed to the net effect of bonds issued and redeemed during fiscal year 2007. These receivables represent lease payments due from the State of Maine and related entities for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations. The Authority does receive loan servicing fees from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in fund equity may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Fund equity increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased fund equity, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in fund equity presents information showing how the Authority's fund equity changed during the fiscal year. All changes in fund equity are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Fund equity may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $1,469,982 in the general operating account at June 30, 2007. This represents an increase of $164,545 or 12.6% over the previous fiscal year. Most of this increase is related to an additional initial issuance fee for a new bond issue in fiscal 2007, annual administrative fees received and an increase in short-term interest rates and related interest income from investments during fiscal year 2007.

The Authority's financial position and results of operations for the past two years are summarized as follows:

GENERAL OPERATING ACCOUNT

	2007	2006	Percentage Change
Current assets:			
Cash and cash equivalents	$ 666,699	$ 859,029	(22.4)%
Investments, at market rate	1,605,971	1,500,000	7.1
Interest and other amounts receivable from lessee	266,268	6,237	4169.2
Accrued interest income receivable	3,302	30,329	(89.1)
Total assets	$2,542,240	$2,395,595	6.1%
Current liabilities:			
Deferred fees	$ 80,423	$ 48,415	66.1%
Accounts payable	7,566	9,059	(16.5)
Total current liabilities	87,989	57,474	53.1
Noncurrent liabilities:			
Deferred fees	984,269	1,032,684	(4.7)
Total noncurrent liabilities	984,269	1,032,684	(4.7)
Total liabilities	1,072,258	1,090,158	(1.6)
Unrestricted fund equity	1,469,982	1,305,437	12.6
Total liabilities and fund equity	$2,542,240	$2,395,595	6.1%

GENERAL BOND RESOLUTION

	2007	2006	Percentage Change
Current assets:			
Cash and cash equivalents	$ 130,429	$ 250,655	(48.0)%
Lease payments receivable from lessee	14,610,000	14,595,000	0.1
Interest and other amounts receivable from lessee	2,146,922	2,048,872	4.8
Accrued interest income receivable	498	–	–
Total current assets	16,887,849	16,894,527	(0.0)
Noncurrent assets:			
Lease payments receivable from lessee	167,995,000	171,620,000	(2.1)
Total noncurrent assets	167,995,000	171,620,000	(2.1)
Total assets	$ 184,882,849	$ 188,514,527	(1.9)%
Current liabilities:			
Bonds payable, net	$ 14,610,000	$ 14,595,000	0.1%
Accounts payable	3	30	(90.0)
Accrued interest payable	2,046,539	2,115,780	(3.3)
Other deferred revenue	4,000	2,560	56.3
Total current liabilities	16,660,542	16,713,370	(0.3)
Noncurrent liabilities:			
Bonds payable, net	167,995,000	171,620,000	(2.1)
Rebate payable to Internal Revenue Service	225,203	136,182	65.4
Total noncurrent liabilities	168,220,203	171,756,182	(2.1)
Total liabilities	184,880,745	188,469,552	(1.9)
Restricted fund equity	2,104	44,975	(95.3)
Total liabilities and fund equity	$ 184,882,849	$ 188,514,527	(1.9)%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2007	2006	Percentage Change
Operating revenues:			
Administrative fees	$ 272,918	$ 282,808	(3.5)%
Interest income from investments	119,102	84,523	40.9
Total operating revenue	392,020	367,331	6.7
Operating expenses:			
Salaries	66,815	67,794	(1.4)
Employee benefits	16,613	14,826	12.1
Office	12,116	12,191	(0.6)
Accretion of interest on deferred fees	65,800	68,893	(4.5)
Other	66,131	35,900	84.2
Total operating expenses	227,475	199,604	14.0
Operating income	164,545	167,727	(1.9)
Fund equity, beginning of year	1,305,437	1,137,710	14.7
Fund equity, end of year	$1,469,982	$1,305,437	12.6%

GENERAL BOND RESOLUTION

	2007	2006	Percentage Change
Operating revenues:			
Received and receivable from lessee	$8,223,424	$8,551,552	(3.8)%
Interest income from investments	15,350	30,995	(50.5)
Other revenue	36,652	11,484	219.2
Total operating revenues	8,275,426	8,594,031	(3.7)
Operating expenses:			
Interest expense	7,956,087	8,301,343	(4.2)
Amortization of deferred bond issuance costs	141,407	142,825	(1.0)
Other	220,803	176,741	24.9
Total operating expenses	8,318,297	8,620,909	(3.5)
Operating loss	(42,871)	(26,878)	59.5
Fund equity, beginning of year	44,975	71,853	(37.4)
Fund equity, end of year	$ 2,104	$ 44,975	(95.3)%

General Operating Account

Cash and cash equivalents held in the General Operating Account decreased $192,330 or 22.4% at June 30, 2007 compared to June 30, 2006. The decrease was primarily the result of an advance to purchase land for a courthouse project that was included in the 2007 Series A bond issue (offset by increase in amounts receivable from lessee). Total assets within the General Operating Account increased $146,645 compared to June 30, 2006, which was due mainly to administrative fee income and to an increase in short-term interest rates during fiscal 2007.

Amounts receivable from lessee increased $260,031 or 4169.2% over 2006. The increase was primarily due to an advance to purchase land for a courthouse project that was not repaid to the general operating account until after June 30, 2007.

Deferred fees increased $32,008 or 66.1% over 2006 as the result of the timing of the Authority fees that were collected in fiscal year 2007.

Fund equity increased $164,545 or 12.6% in fiscal year 2007. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Other operating expenses increased $30,231 or 84.2% in fiscal year 2007 as compared to fiscal year 2006. The increase was due to an increase in the property insurance for the several courthouses and additional legal fees related to the 2007 A bond issuance incurred during the year.

Interest income from investments increased $34,579 or 40.9% in fiscal year 2007 as compared to fiscal year 2006 as a result of an improved short-term interest rate environment.

The Authority shares office space and staff with the Maine Municipal Bond Bank (Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Cash and cash equivalents in the General Bond Resolution decreased $120,226 or 48.0% from balances at June 30, 2006. The decrease is the result of cash and cash equivalents being used to pay expenses of the General Bond Resolution.

Lease payments receivable from lessee are directly related to the bonds outstanding. Both decreased $3,610,000 or 1.9% at June 30, 2007 as compared to balances at June 30, 2006. The decrease is due to the net effect of the issuance of the Series 2007A bonds and scheduled principal payments in fiscal year 2007.

Interest income in the General Bond Resolution for fiscal year 2007 decreased 50.5% from 2006 due to decreases in average cash and cash equivalents balances during fiscal 2007.

Interest expense on the bonds decreased $345,256 or 4.2% in fiscal year 2007 from 2006 reflecting decrease in scheduled payments.

Other operating expenses increased $44,062 or 24.9% in fiscal year 2007 as compared to fiscal year 2006. The majority of this increase is the result of additional rebate liability to the Internal Revenue Service that was recorded in fiscal year 2007.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2007

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$ 666,699	$ 130,429	$ 797,128
Investments, at market value (note 3)	1,605,971	–	1,605,971
Lease payments receivable from lessee (note 4)	–	14,610,000	14,610,000
Interest and other amounts receivable from lessee	266,268	2,146,922	2,413,190
Accrued interest income receivable	3,302	498	3,800
Total current assets	2,542,240	16,887,849	19,430,089
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	167,995,000	167,995,000
Total assets	$2,542,240	$ 184,882,849	$ 187,425,089
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 14,610,000	$ 14,610,000
Accrued interest payable	–	2,046,539	2,046,539
Deferred fees (note 7)	80,423	4,000	84,423
Accounts payable – Maine Municipal Bond Bank (note 6)	7,566	3	7,569
Total current liabilities	87,989	16,660,542	16,748,531
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	167,995,000	167,995,000
Deferred fees (note 7)	984,269	–	984,269
Rebate payable to Internal Revenue Service	–	225,203	225,203
Total noncurrent liabilities	984,269	168,220,203	169,204,472
Total liabilities	1,072,258	184,880,745	185,953,003
Fund equity:			
Restricted	–	2,104	2,104
Unrestricted	1,469,982	–	1,469,982
Total fund equity	1,469,982	2,104	1,472,086
	$2,542,240	$ 184,882,849	$ 187,425,089

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY

Year Ended June 30, 2007

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$8,223,424	$8,223,424
Administrative fees (note 7)	272,918	–	272,918
Interest income from investments	119,102	15,350	134,452
Other revenue	–	36,652	36,652
Total operating revenue	392,020	8,275,426	8,667,446
Operating expenses (note 6):			
Interest expense	–	7,956,087	7,956,087
Salaries	66,815	–	66,815
Employee benefits	16,613	–	16,613
Office	12,116	–	12,116
Accretion of interest on deferred fees (note 7)	65,800	–	65,800
Amortization of deferred bond issuance costs	–	141,407	141,407
Other	66,131	220,803	286,934
Total operating expenses	227,475	8,318,297	8,545,772
Operating income (loss)	164,545	(42,871)	121,674
Fund equity, beginning of year	1,305,437	44,975	1,350,412
Fund equity, end of year	$1,469,982	$ 2,104	$1,472,086

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 196,948	$ 22,721,814	$ 22,918,762
Cash paid for operating expenses	(124,422)	–	(124,422)
Cash received from premium on sale of bonds	–	250,717	250,717
Cash paid for expenses	(38,746)	(131,809)	(170,555)
Cash deposited to construction funds	–	(10,985,000)	(10,985,000)
Cash paid for bond issuance costs	–	(214,065)	(214,065)
Cash advanced to lessee	(266,268)	–	(266,268)
Net cash provided (used) by operating activities	(232,488)	11,641,657	11,409,169
Noncapital financing activities:			
Proceeds from bonds payable	–	10,985,000	10,985,000
Principal paid on bonds payable	–	(14,595,000)	(14,595,000)
Interest paid on bonds payable	–	(8,166,735)	(8,166,735)
Net cash used by noncapital financing activities	–	(11,776,735)	(11,776,735)
Investing activities:			
Purchase of investment securities	(105,971)	–	(105,971)
Cash received from interest income	146,129	14,852	160,981
Net cash provided by investing activities	40,158	14,852	55,010
Decrease in cash and cash equivalents	(192,330)	(120,226)	(312,556)
Cash and cash equivalents at beginning of year	859,029	250,655	1,109,684
Cash and cash equivalents at end of year	$ 666,699	$ 130,429	$ 797,128
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	$ 164,545	$ (42,871)	$ 121,674
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Accretion of interest on deferred fees	65,800	–	65,800
Amortization of deferred fees and costs	(114,215)	141,407	27,192
Interest expense	–	7,956,087	7,956,087
Interest income	(119,102)	(15,350)	(134,452)
Changes in operating assets and liabilities:			
Interest and other amounts receivable from lessee	(260,031)	(98,050)	(358,081)
Accounts payable	(1,493)	(27)	(1,520)
Interest rebate payable to Internal Revenue Service	–	89,021	89,021
Other deferred revenue	32,008	1,440	33,448
Lease payments receivable from lessee	–	3,610,000	3,610,000
Net cash provided (used) by operating activities	$ (232,488)	$ 11,641,657	$ 11,409,169

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $263,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and state income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority. The lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the Sate Legislature for such purposes.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

2. Significant Accounting Policies (Continued)

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Investments

Investments are carried at fair value. Changes in fair value are recorded as net increase or decrease in the fair value of investments on the statements of revenues, expenses and changes in fund equity.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred as part of deferred amounts on refunding and are being amortized over the life of the refunded bonds using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred or offset against original issue premiums.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds using a method which approximates the effective interest method. Original issue premiums for other issues are offset against bond issuance costs.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies (Continued)

Use of Estimates

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

Total Columns

The "total" columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience and presentation purposes only.

New Accounting Pronouncements

GASB issued Statement No. 45, *Accounting and Financial Reporting for Employers for Post-Employment Benefits Other Than Pensions*, in June 2004. This statement establishes standards for the measurement, recognition and display of other post-employment benefits (including post-employment healthcare benefits). This statement is expected to be applicable to the Authority beginning in fiscal 2009.

3. Investments and Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

At June 30, 2007, investments and cash and cash equivalents are as follows (at fair value):

General operating account:	
Certificate of deposit	$1,605,971
Cash and cash equivalents	666,699
	$2,272,670
General bond resolution:	
Cash and cash equivalents	$ 130,429

3. Investments and Cash and Cash Equivalents (Continued)

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's cash equivalents are primarily held by Bank of New York, Bank of America and MBIA. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2007.

The cash of the general operating account at June 30, 2007, consists of $100,000 insured and $118,260 uninsured deposits with a bank. Cash equivalents consist of $393,514 in money market funds, primarily held at MBIA. The certificate of deposit balance of $1,605,971 at June 30, 2007 is fully collateralized by securities pledged by the issuing bank and matures on June 19, 2008. The fair value of the certificate of deposit approximates cost at June 30, 2007.

Cash and cash equivalents of the General Bond Resolution at June 30, 2007, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at Bank of New York.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2007, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Amount Issued	Outstanding June 30, 2007
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	$ 86,945,000	$ 19,000,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	12,490,000
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	6,995,000	1,750,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	26,970,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	8,680,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	12,835,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	28,080,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	53,815,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	8,000,000
Series 2007 A, 4.00% – 5.00%, dated May 31, 2007	2009 – 2027	10,985,000	10,985,000
			$ 182,605,000

4. Bonds Payable and Lease Payments Receivable (Continued)

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$ 182,605,000
Deferred amount on refunding	(4,402,100)
Unamortized original issue premium	5,510,107
Unamortized bond issue costs	(1,108,007)
	182,605,000
Less current portion	14,610,000
Long-term portion	$ 167,995,000

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2007	$ 14,610,000	$ 4,092,978	$ 18,702,978
2008	14,620,000	7,689,853	22,309,853
2009	14,605,000	7,073,080	21,678,080
2010	14,605,000	6,435,246	21,040,246
2011 – 2015	68,015,000	23,067,585	91,082,585
2016 – 2020	49,780,000	8,016,110	57,796,110
2021 – 2025	5,220,000	870,103	6,090,103
2026 – 2027	1,150,000	86,250	1,236,250
	$ 182,605,000	$ 57,331,205	$ 239,936,205

The following summarizes bond payable activity for Authority for the year ended June 30, 2007:

Balance, beginning of year	$ 186,215,000
Issuances – face value	10,985,000
Redemptions	(14,595,000)
Balance, end of year	$ 182,605,000

5. Refunding Issues

In periods of declining interest rates, Maine Governmental Facilities Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, Maine Governmental Facilities Authority retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Treasury Obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. Maine Governmental Facilities Authority accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

At June 30, 2007, the remaining balances of the in-substance defeased bonds total approximately $71,935,000.

6. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead.

7. Deferred Fees

Included in deferred fees at June 30, 2007, is $1,032,684 representing the advance payment of the present value of all future required annual fees on the 1999 and 2000 A bond issues by the executive branch of the State of Maine in 2002. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2007, $114,215 of previously deferred fees was included in revenue.

SCHEDULE 1

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2007

		Program Revenues				Net Revenue (Expense) and Changes in net assets
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Governmental Facilities Authority	$ (8,545,772)	$ 8,496,342	$15,350	$ –	$ –	$ (34,080)
Total	$ (8,545,772)	$ 8,496,342	$15,350	$ –	$ –	(34,080)
General revenues:						
Unrestricted interest and investment earnings						119,102
Non program specific grants, contributions and appropriations						–
Miscellaneous income						36,652
Loss on assets held for sale						–
Extraordinary item						–
Total general revenues and extraordinary items						155,754
Changes in net assets						121,674
Net assets, beginning of year						1,350,412
Net assets, end of year						$ 1,472,086

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BASIC FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION AND ANALYSIS AND ADDITIONAL INFORMATION

For the Year Ended June 30, 2006

TABLE OF CONTENTS

BAKER NEWMAN NOYES LLC

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying basic financial statements, consisting of the General Operating Account and General Bond Resolution, of Maine Governmental Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority'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 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 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 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority and the individual fund groups referred to above as of June 30, 2006, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 on our consideration of Maine Governmental Facilities Authority's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 8 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners
Maine Governmental Facilities Authority

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The supplementary information included in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information included in Schedule 1 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Newman Noyes

Limited Liability Company

Portland, Maine
September 8, 2006

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

As financial management of the Maine Governmental Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in their financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $367,331 for fiscal year 2006, a decrease of $173,921 or 32.1% from fiscal year 2005. This decrease was caused by a decrease in annual loan servicing fees, primarily related to initial issuance fees for a small bond issue in fiscal 2006 as compared to fiscal 2005.
- Fund equity in the Authority's Operating Account at June 30, 2006 was $1,305,437. This represents an increase of $167,727 or 14.7% over the fund equity at June 30, 2005, mainly due to administrative fees collected over operating expenses incurred in 2006, and an increase in short-term interest rates in 2006 and related interest income from investments.
- The Authority's gross bonds outstanding at June 30, 2006 were $186,215,000. Gross bonds outstanding at June 30, 2006 decreased $3,355,000 from the balance at June 30, 2005. This decrease consists of the sale of the Series 2005B bonds totaling $8,890,000 less principal payments of $12,245,000 in fiscal year 2006.
- The Authority's lease payments receivable from lessee at June 30, 2006 were $186,215,000. The lease payments are directly related to the bonds outstanding. Therefore, the decrease of $3,355,000 is mainly attributed to the net effect of bonds issued and redeemed during fiscal year 2006. These receivables represent lease payments due from the State of Maine and related entities for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations. The Authority does receive loan servicing fees from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in fund equity may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Fund equity increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased fund equity, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in fund equity presents information showing how the Authority's fund equity changed during the fiscal year. All changes in fund equity are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Fund equity may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $1,305,437 at June 30, 2006. This represents an increase of $167,727 or 14.7% over the previous fiscal year. Most of this increase is related to an additional initial issuance fee for a new bond issue in fiscal 2006 and an increase in short-term interest rates and related interest income from investments during fiscal year 2006.

The Authority's financial position and results of operations for the past two years are summarized as follows:

GENERAL OPERATING ACCOUNT

	2006	2005	Percentage Change
Current assets:			
Cash and cash equivalents	$ 859,029	$ 2,265,718	(62.1)%
Investments, at market rate	1,500,000	–	–
Interest and other amounts receivable from lessee	6,237	6,239	(0.0)
Accrued interest income receivable	30,329	–	–
Total assets	$ 2,395,595	$ 2,271,957	5.4%
Current liabilities:			
Deferred fees	$ 48,415	$ 45,322	6.8%
Accounts payable	9,059	7,826	15.8
Total current liabilities	57,474	53,148	8.1
Noncurrent liabilities:			
Deferred fees	1,032,684	1,081,099	(4.5)
Total noncurrent liabilities	1,032,684	1,081,099	(4.5)
Total liabilities	1,090,158	1,134,247	(3.9)
Unrestricted fund equity	1,305,437	1,137,710	14.7
Total liabilities and fund equity	$ 2,395,595	$ 2,271,957	5.4%

GENERAL BOND RESOLUTION

	2006	2005	Percentage Change
Current assets:			
Cash and cash equivalents	$ 250,655	$ 937,746	(73.3)%
Lease payments receivable from lessee	14,595,000	12,245,000	19.2
Interest and other amounts receivable from lessee	2,048,872	2,192,324	(6.5)
Total current assets	16,894,527	15,375,070	9.9
Noncurrent assets:			
Lease payments receivable from lessee	171,620,000	177,325,000	(3.2)
Total noncurrent assets	171,620,000	177,325,000	(3.2)
Total assets	$ 188,514,527	$ 192,700,070	(2.2)%
Current liabilities:			
Bonds payable, net	$ 14,595,000	$ 12,245,000	19.2%
Accounts payable	30	6,243	(99.5)
Accrued interest payable	2,115,780	2,303,328	(8.1)
Other deferred revenue	2,560	–	–
Rebate payable to Internal Revenue Service	–	743,321	(100.0)
Total current liabilities	16,713,370	15,297,892	9.3
Noncurrent liabilities:			
Bonds payable, net	171,620,000	177,325,000	(3.2)
Rebate payable to Internal Revenue Service	136,182	5,325	2457.4
Total noncurrent liabilities	171,756,182	177,330,325	(3.1)
Total liabilities	188,469,552	192,628,217	(2.2)
Restricted fund equity	44,975	71,853	(37.4)
Total liabilities and fund equity	$ 188,514,527	$ 192,700,070	(2.2)%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2006	2005	Percentage Change
Operating revenues:			
Administrative fees	$ 282,808	$ 501,804	(43.6)%
Interest income from investments	84,523	39,448	114.3
Total operating revenue	367,331	541,252	(32.1)
Operating expenses:			
Salaries	67,794	63,769	6.3
Employee benefits	14,826	13,970	6.1
Office	12,191	10,808	12.8
Accretion of interest on deferred fees	68,893	71,788	(4.0)
Other	35,900	29,660	21.0
Total operating expenses	199,604	189,995	5.1
Operating income	167,727	351,257	(52.2)
Fund equity, beginning of year	1,137,710	786,453	44.7
Fund equity, end of year	$1,305,437	$1,137,710	14.7%

GENERAL BOND RESOLUTION

	2006	2005	Percentage Change
Operating revenues:			
Received and receivable from lessee	$8,551,552	$7,657,033	11.7%
Interest income from investments	30,995	19,119	62.1
Other revenue	11,484	–	–
Total operating revenues	8,594,031	7,676,152	12.0
Operating expenses:			
Interest expense	8,301,343	7,633,604	8.7
Amortization of deferred bond issuance costs	142,825	83,587	70.9
Other	176,741	162,283	8.9
Total operating expenses	8,620,909	7,879,474	9.4
Operating loss	(26,878)	(203,322)	(86.8)
Fund equity, beginning of year	71,853	275,175	(73.9)
Fund equity, end of year	$ 44,975	$ 71,853	(37.4)%

General Operating Account

Cash and cash equivalents held in the General Operating Account decreased $1,406,689 or 62.1% at June 30, 2006 compared to June 30, 2005. The decrease was mainly the result of the purchase of a $1,500,000 investment security. Total assets within the General Operating Account increased $123,638 compared to June 30, 2005, which was mainly due to accrued interest income receivable and an increase in short-term interest rates during fiscal 2006.

Fund equity increased $167,727 or 14.7% in fiscal year 2006. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Operating revenues are generated principally from fees charged to lessees. Administrative fees decreased $218,996 or 43.6% in fiscal year 2006 from 2005. This decrease was primarily the result of administrative initial issuance fees earned from a smaller bond issue in 2006 as compared to initial issuance fees earned in 2005. Bonds issued in fiscal year 2006 totaled $8,890,000 versus $54,210,000 issued in 2005.

Interest income from investments increased $45,075 or 114.3% in fiscal year 2006 as compared to fiscal 2005 as a result of an improved short-term interest rate environment.

The Authority shares office space and staff with the Maine Municipal Bond Bank (Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Cash and cash equivalents in the General Bond Resolution decreased $687,091 or 73.3% from balances at June 30, 2005. The decrease is the result of cash and cash equivalents being used to pay expenses of the General Bond Resolution (rebate payment of $669,227 made during fiscal 2006).

Lease payments receivable from lessee are directly related to the bonds outstanding. Both decreased $3,355,000 or 1.8% at June 30, 2006 as compared to balances at June 30, 2005. The decrease is due to the net effect of the issuance of the Series 2005B bonds and scheduled principal payments in fiscal year 2006.

As the result of the Authority issuing tax-exempt debt, the Authority is required to prepare arbitrage rebate calculations for each series of bonds outstanding and remit payment to the Internal Revenue Service every five years. Rebate payable to Internal Revenue Service decreased 81.8% in fiscal year 2006 as the net result of the increase of the annual rebate liability calculation at June 30, 2006 and a rebate payment in fiscal year 2006 totaling $669,227.

Interest income in the General Bond Resolution for fiscal year 2006 increased 62.1% from 2005 as a result of an increase in short-term interest rates during fiscal year 2006.

Interest expense on the bonds increased $667,739 or 8.7% in fiscal year 2006 from 2005 as the result of a full year of interest payments due on the 2005A refunding bonds issued in fiscal 2005, and the interest related to the 2005B bond issues in fiscal 2006. Also, the effect of the timing of the 2005A refunding bonds during fiscal 2005 eliminated scheduled debt service interest payments on the respective refunded bonds in the prior year.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2006

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$ 859,029	$ 250,655	$ 1,109,684
Investments, at market value (note 3)	1,500,000	–	1,500,000
Lease payments receivable from lessee (note 4)	–	14,595,000	14,595,000
Interest and other amounts receivable from lessee	6,237	2,048,872	2,055,109
Accrued interest income receivable	30,329	–	30,329
Total current assets	2,395,595	16,894,527	19,290,122
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	171,620,000	171,620,000
Total assets	$2,395,595	$ 188,514,527	$ 190,910,122
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 14,595,000	$ 14,595,000
Accounts payable	–	30	30
Accrued interest payable	–	2,115,780	2,115,780
Deferred fees (note 7)	48,415	2,560	50,975
Accounts payable – Maine Municipal Bond Bank (note 6)	9,059	–	9,059
Total current liabilities	57,474	16,713,370	16,770,844
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	171,620,000	171,620,000
Deferred fees (note 7)	1,032,684	–	1,032,684
Rebate payable to Internal Revenue Service	–	136,182	136,182
Total noncurrent liabilities	1,032,684	171,756,182	172,788,866
Total liabilities	1,090,158	188,469,552	189,559,710
Fund equity:			
Restricted	–	44,975	44,975
Unrestricted	1,305,437	–	1,305,437
Total fund equity	1,305,437	44,975	1,350,412
	$2,395,595	$ 188,514,527	$ 190,910,122

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY

Year Ended June 30, 2006

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$ 8,551,552	$ 8,551,552
Administrative fees (note 7)	282,808	–	282,808
Interest income from investments	84,523	30,995	115,518
Other revenue	–	11,484	11,484
Total operating revenue	367,331	8,594,031	8,961,362
Operating expenses (note 6):			
Interest expense	–	8,301,343	8,301,343
Salaries	67,794	–	67,794
Employee benefits	14,826	–	14,826
Office	12,191	–	12,191
Accretion of interest on deferred fees (note 7)	68,893	–	68,893
Amortization of deferred bond issuance costs	–	142,825	142,825
Other	35,900	176,741	212,641
Total operating expenses	199,604	8,620,909	8,820,513
Operating income (loss)	167,727	(26,878)	140,849
Fund equity, beginning of year	1,137,710	71,853	1,209,563
Fund equity, end of year	$1,305,437	$ 44,975	$ 1,350,412

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 168,595	$ 12,052,564	$ 12,221,159
Cash paid for operating expenses	(93,578)	–	(93,578)
Cash received from premium on sale of bonds	–	196,437	196,437
Cash paid for other expenses	(35,900)	(126,191)	(162,091)
Cash paid for bond issuance costs	–	(184,953)	(184,953)
Net cash provided by operating activities	39,117	11,937,857	11,976,974
Noncapital financing activities:			
Proceeds from bonds payable	–	8,890,000	8,890,000
Principal paid on bonds payable	–	(12,245,000)	(12,245,000)
Interest paid on bonds payable	–	(8,631,716)	(8,631,716)
Net cash used by noncapital financing activities	–	(11,986,716)	(11,986,716)
Investing activities:			
Purchase of investment securities	(1,500,000)	–	(1,500,000)
Cash received from interest income	54,194	30,995	85,189
Interest rebate paid to Internal Revenue Service	–	(669,227)	(669,227)
Net cash used by investing activities	(1,445,806)	(638,232)	(2,084,038)
Decrease in cash and cash equivalents	(1,406,689)	(687,091)	(2,093,780)
Cash and cash equivalents at beginning of year	2,265,718	937,746	3,203,464
Cash and cash equivalents at end of year	$ 859,029	$ 250,655	$ 1,109,684
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 167,727	$ (26,878)	$ 140,849
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Accretion of interest on deferred fees	68,893	–	68,893
Amortization of deferred fees and costs	(114,215)	142,825	28,610
Interest expense	–	8,301,343	8,301,343
Interest income	(84,523)	(30,995)	(115,518)
Interest rebate expense	–	56,763	56,763
Changes in operating assets and liabilities:			
Amounts receivable from lessee	2	143,452	143,454
Accounts payable	1,233	(6,213)	(4,980)
Other deferred revenue	–	2,560	2,560
Lease payments receivable from lessee	–	3,355,000	3,355,000
Net cash provided by operating activities	$ 39,117	$ 11,937,857	$ 11,976,974

See accompanying notes.

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $263,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and state income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority. The lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the Sate Legislature for such purposes.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

2. **Significant Accounting Policies (Continued)**

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred as part of deferred amounts on refunding and are being amortized over the life of the refunded bonds using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred or offset against original issue premiums.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds using a method which approximates the effective interest method. Original issue premiums for other issues are offset against bond issuance costs.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies (Continued)

Use of Estimates

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

Total Columns

The "total" columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience and presentation purposes only.

3. Investments and Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

At June 30, 2006, investments and cash and cash equivalents are as follows (at fair value):

General operating account:	
Repurchase agreement	$1,500,000
Cash and cash equivalents	859,029
	$2,359,029
General bond resolution:	
Cash and cash equivalents	$ 250,655

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's cash equivalents are primarily held by JPMorgan Chase Bank, N.A., Bank of America and MBIA. Management of the Authority is not aware of any issues with respect to custodial credit risk at any of the banks at June 30, 2006.

3. Investments and Cash and Cash Equivalents (Continued)

All repurchase agreements are continuously and fully secured by permitted investments. It is the Authority's policy to require that collateral be held by the Authority's trustee in the Authority's name or held by the broker, dealer or bank's trustee in the Authority's name. The Authority generally invests in repurchase agreements for short-term investments. On June 30, 2006, $1,500,000 was invested in a short-term repurchase agreement with an interest rate of 4.5% and a maturity date of less than one year. The repurchase agreement is collateralized by U.S. Government-sponsored enterprise securities.

The cash of the general operating account at June 30, 2006, consists of $100,000 insured and $140,341 uninsured deposits with a bank. Cash equivalents consist of $618,688 in money market funds, primarily held at MBIA.

Cash and cash equivalents of the General Bond Resolution at June 30, 2006, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at JPMorgan Chase Bank, N.A.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2006, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2006
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	$ 86,945,000	$ 23,750,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	15,470,000
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	6,995,000	2,105,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	28,870,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	9,225,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	14,980,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	28,715,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	54,210,000
Series 2005 B, 4.00% – 5.00%, dated November 17, 2005	2006 – 2015	8,890,000	8,890,000
			$ 186,215,000

4. Bonds Payable and Lease Payments Receivable (Continued)

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$ 186,215,000
Deferred amount on refunding	(4,978,825)
Unamortized original issue premium	6,228,239
Unamortized bond issue costs	(1,249,414)
	186,215,000
Less current portion	14,595,000
Long-term portion	$ 171,620,000

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2006	$ 14,595,000	$ 4,231,560	$ 18,826,560
2007	14,610,000	7,870,352	22,480,352
2008	14,620,000	7,220,359	21,840,359
2009	14,020,000	6,603,587	20,623,587
2010	14,020,000	5,989,153	20,009,153
2011 – 2015	65,115,000	21,186,116	86,301,116
2016 – 2020	46,890,000	6,726,043	53,616,043
2021 – 2025	2,345,000	182,548	2,527,548
	$ 186,215,000	$ 60,009,718	$ 246,224,718

The following summarizes bond payable activity for Authority for the year ended June 30, 2006:

Balance, beginning of year	$ 189,570,000
Issuances – face value	8,890,000
Redemptions	(12,245,000)
Balance, end of year	$ 186,215,000

5. Refunding Issues

In periods of declining interest rates, Maine Governmental Facilities Authority has refunded its bond obligations, reducing aggregate debt service. Where allowed, Maine Governmental Facilities Authority retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Treasury Obligations, the principal and interest on which will be sufficient to pay the principal and interest, when due, of the in-substance defeased bonds. The U.S. Treasury obligations were deposited with the trustees of the in-substance defeased bonds. Maine Governmental Facilities Authority accounted for these transactions by removing the U.S. Treasury obligations and liabilities for the in-substance defeased bonds from its records, and recorded a deferred amount on refunding.

At June 30, 2006, the remaining balances of the in-substance defeased bonds total approximately $79,925,000.

6. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead.

7. Deferred Fees

Deferred fees in the amount of $1,081,099 at June 30, 2006 represents the advance payment of the present value of all future required annual fees on the 1999 and 2000 A bond issues by the executive branch of the State of Maine in 2002. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2006, $114,215 of previously deferred fees was included in revenue.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

SCHEDULE OF ACTIVITIES

Year Ended June 30, 2006

		Program Revenues				Net Revenue (Expense) and Changes in net assets
	Expenses	Charges for Services	Program Investment Income	Operating Grants and Contributions	Capital Grants/ Contributions	Total
Functions/Programs:						
Maine Governmental Facilities Authority	$ (8,820,513)	$ 8,834,360	$30,995	$ –	$ –	$ 44,842
Total	$ (8,820,513)	$ 8,834,360	$30,995	$ –	$ –	44,842
General revenues:						
Unrestricted net assets						84,523
Non program specific grants, contributions and appropriations						–
Miscellaneous income						11,484
Loss on assets held for sale						–
Extraordinary item						–
Total general revenues and extraordinary items						96,007
Changes in net assets						140,849
Net assets, beginning of year						1,209,563
Net assets, end of year						$ 1,350,412

MGFA
MAINE GOVERNMENTAL FACILITIES AUTHORITY

Robert O. Lenna, *Executive Director*
Tel 207-622-9386
Fax 207-623-5359

TO: INTERESTED PARTIES

FROM: Robert O. Lenna, Executive Director

RE: **2005 Maine Governmental Facilities Authority Annual Report**

This is the annual report for the Maine Governmental Facilities Authority for the 2005 fiscal year, running from July 1, 2004 to June 30, 2005. Created originally in 1987 as the Maine Court Facilities Authority, the Maine Governmental Facilities amendments to the original legislation were enacted into law in 1997 authorizing the Authority to undertake capital financing activities for structures designated for use as governmental facilities. Each project funded by the Authority requires project specific approval by the Legislature prior to the issuance of bonds for project activities.

In FY 2005, the Authority issued $54,210,000 of bonds in one series. Funds made available by these bond sales were used to refinance a portion of the Authority's outstanding bonds.

If there is further information you might like or questions you may have concerning the Authority, please feel free to give us a call at (207) 622-9386. Additional information about the Authority is available at out website: www.mgfa.com

3 University Drive • P.O. Box 2268 • Augusta, Maine • 04338-2268 • www.mgfa.com

MAINE GOVERNMENTAL FACILITIES AUTHORITY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying basic financial statements, consisting of the General Operating Account and General Bond Resolution, of Maine Governmental Facilities Authority, which is an instrumentality of the State of Maine and is required by Governmental Accounting Standards Board Statements No. 14 and 39 to be shown as a component unit of the State of Maine (for accounting purposes only), as of and for the year ended June 30, 2005, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority'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 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 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 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority and the individual fund groups referred to above at June 30, 2005, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2005 on our consideration of Maine Governmental Facilities Authority'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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2 – 6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
October 14, 2005

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

As financial management of the Maine Governmental Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in their financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $541,252 for fiscal year 2005, an increase of $83,358 or 18.2% from fiscal year 2004. This increase was caused by an increase in annual loan servicing fees, primarily related to initial issuance fees for a new bond issue in 2005, and an increase in interest income attributed to increases in short-term interest rates during fiscal year 2005.
- Fund equity in the Authority's Operating Account at June 30, 2005 was $1,137,710. This represents an increase of $351,257 or 44.7% over the fund equity at June 30, 2004, mainly due to excess administrative fees collected over operating expenses incurred in 2005, as indicated above.
- The Authority's gross bonds outstanding at June 30, 2005 were $189,570,000. Gross bonds outstanding at June 30, 2005 decreased $8,380,000 from the balance at June 30, 2004. This decrease consists of the sale of the Series 2005 bonds totaling $54,210,000 less principal payments of $11,045,000 and refundings of $51,545,000 in fiscal year 2005.
- The Authority's lease payments receivable from lessee at June 30, 2005 were $189,570,000. The lease payments are directly related to the bonds outstanding. Therefore, the decrease of $8,380,000 is mainly attributed to the net effect of bonds issued, redeemed and refunded during fiscal year 2005. These receivables represent lease payments due from the State of Maine and the County of Cumberland for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations. The Authority does receive loan servicing fees from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

As the result of the Authority issuing tax-exempt debt, it is required to prepare arbitrage rebate calculations for each series of tax-exempt bonds outstanding and remit payment to the Internal Revenue Service every five years. The Authority's policy is to prepare and review the calculations every six months for financial statement purposes and to annually fund rebate accounts for any rebate liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in fund equity may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Fund equity increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased fund equity, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in fund equity presents information showing how the Authority's fund equity changed during the fiscal year. All changes in fund equity are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Fund equity may serve, over time, as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $1,137,710 at June 30, 2005. This represents an increase of $351,257 (44.7%) over the previous fiscal year. Most of this increase is attributable to an increase in annual loan servicing fees, primarily related to initial issuance fees for a new bond issue in 2005 and an increase in short-term interest rates during fiscal year 2005.

The Authority's financial position and results of operations for the past two years are summarized as follows:

GENERAL OPERATING ACCOUNT

	2005	2004	Percentage Change
Current assets:			
Cash and cash equivalents	$ 2,265,718	$ 1,953,353	16.0%
Interest and other amounts receivable from lessee	6,239	2,576	142.2
Total assets	$ 2,271,957	$ 1,955,929	16.2
Current liabilities:			
Deferred fees	$ 45,322	$ 42,427	6.8
Accounts payable	7,826	5,235	49.5
Total current liabilities	53,148	47,662	11.5
Noncurrent liabilities:			
Deferred fees	1,081,099	1,121,814	(3.6)
Total noncurrent liabilities	1,081,099	1,121,814	(3.6)
Total liabilities	1,134,247	1,169,476	(3.0)
Undesignated fund equity	1,137,710	786,453	44.7
Total liabilities and fund equity	$ 2,271,957	$ 1,955,929	16.2%

GENERAL BOND RESOLUTION

	2005	2004	Percentage Change
Current assets:			
Cash and cash equivalents	$ 937,746	$ 1,170,155	(19.9)%
Lease payments receivable from lessee	12,245,000	11,044,585	10.9
Interest and other amounts receivable from lessee	2,192,324	2,217,719	(1.1)
Total current assets	15,375,070	14,432,459	6.5
Noncurrent assets:			
Lease payments receivable from lessee	177,325,000	186,905,415	(5.1)
Total noncurrent assets	177,325,000	186,905,415	(5.1)
Total assets	$ 192,700,070	$ 201,337,874	(4.3)%
Current liabilities:			
Bonds payable, net	$ 12,245,000	$ 11,044,585	10.9%
Accounts payable	6,243	10,175	(38.6)
Accrued interest payable	2,303,328	2,337,117	(1.4)
Other deferred revenue	–	14,532	(100.0)
Rebate payable to Internal Revenue Service	743,321	8,032	9154.5
Total current liabilities	15,297,892	13,414,441	14.0
Noncurrent liabilities:			
Bonds payable, net	177,325,000	186,905,415	(5.1)
Rebate payable to Internal Revenue Service	5,325	742,843	(99.3)
Total noncurrent liabilities	177,330,325	187,648,258	(5.5)
Total liabilities	192,628,217	201,062,699	(4.2)
Designated fund equity	71,853	275,175	(73.9)
Total liabilities and fund equity	$ 192,700,070	$ 201,337,874	(4.3)%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2005	2004	Percentage Change
Operating revenues:			
Administrative fees	$ 501,804	$ 433,755	15.7%
Interest income from investments	39,448	24,139	63.4
Total operating revenue	541,252	457,894	18.2
Operating expenses:			
Salaries	63,769	50,901	25.3
Employee benefits	13,970	10,667	31.0
Office	10,808	22,793	(52.6)
Accretion of interest on deferred fees	71,788	74,499	(3.6)
Other	29,660	26,245	13.0
Total operating expenses	189,995	185,105	2.6
Operating income	351,257	272,789	28.8
Fund equity, beginning of year	786,453	513,664	53.1
Fund equity, end of year	$ 1,137,710	$ 786,453	44.7%

GENERAL BOND RESOLUTION

	2005	2004	Percentage Change
Operating revenues:			
Received and receivable from lessee	$ 7,657,033	$ 10,221,274	(25.1)%
Interest income from investments	19,119	14,494	31.9
Other income	–	64,689	(100.0)
Total operating revenues	7,676,152	10,300,457	(25.5)
Operating expenses:			
Bond issuance costs	–	356,976	(100.0)
Interest expense	7,633,604	9,724,877	(21.5)
Amortization of deferred bond issuance costs	83,587	–	–
Other	162,283	114,710	41.5
Total operating expenses	7,879,474	10,196,563	(22.7)
Operating (loss) income	(203,322)	103,894	(295.7)
Fund equity, beginning of year	275,175	171,281	60.7
Fund equity, end of year	$ 71,853	$ 275,175	(73.9)%

General Operating Account

Cash and cash equivalents held in the General Operating Account increased $312,365 or 16% at June 30, 2005 compared to June 30, 2004. The increase was mainly the result of an increase in administrative fees collected by the Authority over 2004 and an increase in short-term interest rates during fiscal year 2005.

Fund equity increased $351,257 or 44.7% in fiscal year 2005. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Operating revenues are generated principally from fees charged to lessees. Administrative fees increased $68,049 or 15.7% in fiscal year 2005 from 2004. This increase was primarily the result of administrative initial issuance fees earned from a new bond issue in 2005 over initial issuance fees earned in 2004. Bonds issued in fiscal year 2005 totaled $54,210,000 versus $47,925,000 issued in 2004.

The Authority shares office space and staff with the Maine Municipal Bond Bank (Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Cash and cash equivalents in the General Bond Resolution decreased $232,409 or 19.9% from balances at June 30, 2004. The decrease is the result of cash and cash equivalents being used to pay expenses of the General Bond Resolution.

Lease payments receivable from lessee are directly related to the bonds outstanding, both decreased $8,380,000 or 4.2% at June 30, 2005 as compared to balances at June 30, 2004. The decrease is due to the net effect of the issuance of the Series 2005A refunding bonds, scheduled principal payments and bonds defeased in fiscal year 2005.

As the result of the Authority issuing tax-exempt debt, the Authority is required to prepare arbitrage rebate calculations for each series of bonds outstanding and remit payment to the Internal Revenue Service every five years. Rebate payable to Internal Revenue Service decreased .3% in fiscal year 2005 as the net result of the increase of the annual rebate liability calculation at June 30, 2005 and a rebate payment in fiscal year 2005.

Interest income in the General Bond Resolution for fiscal year 2005 increased 31.9% from 2004 as a result of an increase in short-term interest rates during fiscal year 2005.

Interest expense on the bonds decreased $2,091,273 or 21.5% in fiscal year 2005 from 2004 as the result of the 2005A Refunding Bonds which refunded a portion of the Authority's outstanding Lease Rental Revenue Bonds, series 1999, 2000A and 2000B (see note 4). The effect of the timing of the refunding was to eliminate scheduled debt service interest payments on the refunded bonds.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2005

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$2,265,718	$ 937,746	$ 3,203,464
Lease payments receivable from lessee (note 4)	–	12,245,000	12,245,000
Interest and other amounts receivable from lessee	6,239	2,192,324	2,198,563
Total current assets	2,271,957	15,375,070	17,647,027
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	177,325,000	177,325,000
Total assets	$2,271,957	$ 192,700,070	$ 194,972,027
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 12,245,000	$ 12,245,000
Accounts payable	–	6,243	6,243
Accrued interest payable	–	2,303,328	2,303,328
Deferred fees (note 6)	45,322	–	45,322
Rebate payable to Internal Revenue Service	–	743,321	743,321
Accounts payable – Maine Municipal Bond Bank (note 5)	7,826	–	7,826
Total current liabilities	53,148	15,297,892	15,351,040
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	177,325,000	177,325,000
Deferred fees (note 6)	1,081,099	–	1,081,099
Rebate payable to Internal Revenue Service	–	5,325	5,325
Total noncurrent liabilities	1,081,099	177,330,325	178,411,424
Total liabilities	1,134,247	192,628,217	193,762,464
Fund equity:			
Designated	–	71,853	71,853
Undesignated	1,137,710	–	1,137,710
Total fund equity	1,137,710	71,853	1,209,563
	$2,271,957	$ 192,700,070	$ 194,972,027

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY

Year Ended June 30, 2005

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$ 7,657,033	$ 7,657,033
Administrative fees (note 6)	501,804	–	501,804
Interest income from investments	39,448	19,119	58,567
Total operating revenue	541,252	7,676,152	8,217,404
Operating expenses (note 5):			
Interest expense	–	7,633,604	7,633,604
Salaries	63,769	–	63,769
Employee benefits	13,970	–	13,970
Office	10,808	–	10,808
Accretion of interest on deferred fees (note 6)	71,788	–	71,788
Amortization of deferred bond issuance costs	–	83,587	83,587
Other	29,660	162,283	191,943
Total operating expenses	189,995	7,879,474	8,069,469
Operating income (loss)	351,257	(203,322)	147,935
Fund equity, beginning of year	786,453	275,175	1,061,628
Fund equity, end of year	$1,137,710	$ 71,853	$ 1,209,563

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 388,533	$ 16,047,896	$ 16,436,429
Cash paid for operating expenses	(85,956)	–	(85,956)
Cash paid for other expenses	(29,660)	(166,215)	(195,875)
Net cash provided by operating activities	272,917	15,881,681	16,154,598
Noncapital financing activities:			
Proceeds from bonds payable	–	58,520,644	58,520,644
Principal paid on bonds payable	–	(11,045,000)	(11,045,000)
Deposit to refunding escrow	–	(54,879,884)	(54,879,884)
Issue costs paid with refunding	–	(975,760)	(975,760)
Interest paid on bonds payable	–	(7,750,980)	(7,750,980)
Net cash used by noncapital financing activities	–	(16,130,980)	(16,130,980)
Investing activities:			
Cash received from interest income	39,448	16,890	56,338
Net cash provided by investing activities	39,448	16,890	56,338
Increase (decrease) in cash and cash equivalents	312,365	(232,409)	79,956
Cash and cash equivalents at beginning of year	1,953,353	1,170,155	3,123,508
Cash and cash equivalents at end of year	$ 2,265,718	$ 937,746	$ 3,203,464
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 351,257	$ (203,322)	$ 147,935
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Accretion of interest on deferred fees	71,788	–	71,788
Amortization of deferred fees and costs	(109,608)	83,587	(26,021)
Interest expense	–	7,633,604	7,633,604
Interest income	(39,448)	(19,119)	(58,567)
Changes in operating assets and liabilities:			
Accounts receivable	(3,663)	25,395	21,732
Accounts payable	2,591	(3,932)	(1,341)
Other deferred revenue	–	(14,532)	(14,532)
Lease payments receivable from lessee	–	8,380,000	8,380,000
Net cash provided by operating activities	$ 272,917	$ 15,881,681	$ 16,154,598

See accompanying notes.

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations are Component Units*, is considered a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $227,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and state income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

2. Significant Accounting Policies (Continued)

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred as part of deferred amounts on refunding and are being amortized over the life of the refunded bonds using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds using a method which approximates the effective interest method.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies (Continued)

Use of Estimates

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

Total Columns

The "total" columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience and presentation purposes only.

3. Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's cash equivalents are primarily held by JPMorgan Chase Bank, N.A. and Bank of America. Management of the Authority is not aware of any issues with respect to custodial credit risk at either bank at June 30, 2005.

At June 30, 2005, cash and cash equivalents are as follows (at fair value):

General operating account:	
Cash and cash equivalents	$2,265,718
General bond resolution:	
Cash and cash equivalents	$ 937,746

The cash of the general operating account at June 30, 2005, consists of $100,000 insured and $504,523 uninsured deposits with a bank. Cash equivalents consist of $1,661,195 in money market funds, primarily held at Bank of America.

Cash and cash equivalents of the General Bond Resolution at June 30, 2005, consist primarily of money market funds secured by short-term U.S. Treasury obligations, held at JPMorgan Chase Bank, N.A.

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2005, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Original Maturity	Amount Issued	Amount Outstanding June 30, 2005
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	86,945,000	$ 27,750,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	18,150,000
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	6,995,000	2,460,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	30,770,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	9,770,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	17,120,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	29,340,000
Series 2005 A, 3.00% – 5.00%, dated March 8, 2005	2006 – 2020	54,210,000	54,210,000
			$ 189,570,000

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$ 189,570,000
Deferred amount on refunding	(5,562,063)
Unamortized original issue premium	6,954,302
Unamortized bond issue costs	(1,392,239)
	189,570,000
Less current portion	12,245,000
Long-term portion	$ 177,325,000

4. Bonds Payable and Lease Payments Receivable (Continued)

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2005	$ 12,245,000	$ 4,447,013	$ 16,692,013
2006	13,705,000	8,096,408	21,801,408
2007	13,720,000	7,539,239	21,259,239
2008	13,730,000	6,924,846	20,654,846
2009	13,130,000	6,343,674	19,473,674
2010 – 2014	62,365,000	23,376,186	85,741,186
2015 – 2019	55,295,000	9,466,000	64,761,000
2020 – 2024	5,380,000	447,395	5,827,395
	$ 189,570,000	$ 66,640,761	$ 256,210,761

The following summarizes bond payable activity for Authority for the year ended June 30, 2005:

Balance, beginning of year	$ 197,950,000
Issuances – face value	54,210,000
Redemptions	(11,045,000)
Refunded bonds	(51,545,000)
Capitalized issue costs	(975,760)
Capitalized premiums	4,310,644
Deferred amounts on refunding	(3,334,884)
Balance, end of year	$ 189,570,000

The Series 1999 Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 for the purpose of financing the acquisition and construction of court facilities for use by the Judicial Department of the State and the renovations of the Statehouse and State office building and construction of correctional facilities for the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolution. Pursuant to the lease agreement, dated as of August 1, 1999 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

4. Bonds Payable and Lease Payments Receivable (Continued)

The Series 2002, 2001 and 2000 A and B Bonds were issued pursuant to bond resolutions adopted by the Authority on August 18, 1999 and supplemental resolutions adopted by the Authority on November 21, 2002, June 25, 2001 and June 21, 2000, respectively, for the purpose of financing a portion of the remaining costs of acquisition and construction of certain governmental facilities for use by the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolutions. Pursuant to the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated November 1, 2002, August 1, 2001, October 1, 2000 and June 1, 2000 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The Series 2003 Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 and a supplemental resolution adopted by the Authority on July 22, 2003 for the purpose of refunding in whole the Authority's outstanding Lease Rental Revenue Bonds, Series 1993, and to finance a portion of the costs of acquisition, construction and equipping of certain governmental facilities for use by the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated June 1, 2000, October 1, 2000, August 1, 2001, November 1, 2002 and September 1, 2003 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The Series 2004 Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 and a supplemental resolution adopted by the Authority on March 25, 2004 for the purpose of refunding in whole the Authority's outstanding Lease Rental Revenue Bonds, series 1996, to refund a portion of the Authority's outstanding Lease Rental Revenue Bonds, series 1999 and 2000, and to finance a portion of the costs of acquisition, construction and equipping of certain governmental facilities for use by the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolutions. Pursuant to the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated June 1, 2000, October 1, 2000, August 1, 2001, November 1, 2002, September 1, 2003 and April 1, 2004 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

4. Bonds Payable and Lease Payments Receivable (Continued)

The Series 2005A Refunding Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 and a supplemental resolution adopted by the Authority on March 8, 2005 for the purpose of refunding a portion of the Authority's outstanding Lease Rental Revenue Bonds, series 1999, 2000A and 2000B Lease Rental Revenue Bonds. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolutions. Pursuant to the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated June 1, 2000, October 1, 2000, August 1, 2001, November 1, 2002, September 1, 2003 and April 1, 2004 and March 1, 2005 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The 2005 Refunding Bonds, which totaled \$54,210,000 at an average interest rate of 4.65%, were used to in-substance defease \$51,545,000 in Series 1999, 2000A and 2000B bonds with an average interest rate of 5.58%. The net proceeds of approximately \$57,545,000, including a bond premium of approximately \$4,311,000 and after payment of approximately \$976,000 in underwriting fees, insurance and other issuance costs, were used to purchase U.S. government securities which will provide for all future debt service payments on the defeased bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately \$3,335,000 in the year ended June 30, 2005, the Authority in effect reduced its aggregate debt service payments (and payments due from the lessee) by approximately \$2,800,000 over the next fifteen years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$2,700,000.

At June 30, 2005, the remaining balances of the insubstance defeased bonds total approximately \$81,505,000.

5. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead.

6. Deferred Fees

Deferred fees in the amount of \$1,126,421 at June 30, 2005 represents the advance payment of the present value of all future required annual fees on the 1999 and 2000 A bond issues by the executive branch of the State of Maine in 2002. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2005, \$109,608 of previously deferred fees was included in revenue.

Maine Governmental Facilities Authority

3 University Drive • P.O. Box 2268
Augusta, Maine 04338-2268
Telephone: (207) 622-9386 Facsimile: (207) 623-5359

Robert O. Lenna, Executive Director

TO: Interested Parties
FROM: Robert O. Lenna
RE: Annual Report

This is the annual fiscal year report of the Maine Governmental Facilities Authority for the 2004 fiscal year, running from July 1, 2003 to June 30, 2004. Created originally in 1987 as the Maine Court Facilities Authority, the Maine Governmental Facilities Authority amendments to the original legislation were enacted into law in 1997 authorizing the Authority undertake capital financing activities for structures designated for use as governmental facilities. Each project funded by the Authority requires project specific approval by the Legislature prior to the issuance of bonds for project activities.

In FY 2004, the Authority issued $47,925,000 of bonds in two series. Funds made available by these bond sales were used for construction and renovation of Court facilities in Rockland, upgrades and renovations to various state owned facilities, Court facilities planning and technology projects and to refinance a portion of the Authority's outstanding bonds.

If there is further information you might like or questions you may have concerning the Authority please give us a call at 207.622.9386. Additional information about the Authority is available on our website: www.mgfa.com.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2004

TABLE OF CONTENTS

BAKER NEWMAN & NOYES
LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Members of
Maine Governmental Facilities Authority
Augusta, Maine

We have audited the accompanying basic financial statements, consisting of the General Operating Account and General Bond Resolution, of Maine Governmental Facilities Authority as of and for the year ended June 30, 2004, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority'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 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maine Governmental Facilities Authority and the individual fund groups referred to above at June 30, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 – 6 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. The supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baker Newman & Noyes

Limited Liability Company

Portland, Maine
October 8, 2004

One Hundred Middle Street, P.O. Box 507, Portland, Maine 04112 • Telephone 207-879-2100 • Telefax 207-774-1793 • www.bnncpa.com
650 Elm Street, Suite 302, Manchester, New Hampshire 03101 • Telephone 603-641-6171 • Telefax 603-666-0643 • mail@bnncpa.com

MAINE GOVERNMENTAL FACILITIES AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

As financial management of the Maine Governmental Facilities Authority (the "Authority"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities of the Authority and to identify any significant changes in their financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements as a whole.

Financial Highlights

- Operating revenue for the Authority's General Operating Account was $457,894 for fiscal year 2004, an increase of $177,003 or 63% from fiscal year 2003. This increase was caused primarily by an increase in annual loan servicing fees, primarily related to issuance fees for new bond issues in 2004.
- Fund equity in the Authority's Operating Account at June 30, 2004 was $786,453. This represents an increase of $272,789 or 53.1% over the fund equity at June 30, 2003, mainly due to excess administrative fees collected over operating expenses incurred in 2004, as indicated above.
- The Authority's gross bonds outstanding at June 30, 2004 were $197,950,000. Gross bonds outstanding at June 30, 2004 increased $1,160,000 over the balance at June 30, 2003. This increase consists of the sale of the Series 2003 bonds totaling $18,425,000 and Series 2004 bonds totaling $29,500,000 less principal payments of $11,850,000 and refundings of $34,915,000 in fiscal year 2004.
- The Authority's lease payments receivable from lessee at June 30, 2004 are $197,950,000. The increase of $3,214,310 is mainly attributed to additional bond issues completed during 2004. These receivables represent lease payments due from the State of Maine and the County of Cumberland for the financing, acquisition, construction, improvements, reconstruction and equipping of structures, or facilities, for the use by the judicial, legislative or executive branches of the State of Maine and related entities.

Overview of the Authority

The Authority was created in 1997 by an Act of the Maine Legislature, is a public body corporate and politic and is constituted as an instrumentality exercising public and essential governmental functions of the State. The Authority was established to issue bonds for the purpose, among other things, of providing funds to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State of Maine and related entities.

For financial statement reporting purposes, the Authority is considered a component unit of the State of Maine. However, the Authority does not receive any State appropriations for its operations. The Authority does receive loan servicing fees from the judicial, legislative and executive branches of the State of Maine that are based on the original amount of the lease for each project.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which is comprised of the basic financial statements and the notes to the financial statements.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as fund equity. Over time, increases or decreases in fund equity may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Fund equity increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased fund equity, which may indicate an improved financial position.

The statement of revenues, expenses, and changes in fund equity presents information showing how the Authority's fund equity changed during the fiscal year. All changes in fund equity are generally reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The Authority's financial position and results of operations for the past two years are summarized as follows:

GENERAL OPERATING ACCOUNT

	2004	2003	Percentage Change
Current assets:			
Cash and cash equivalents	$ 1,953,353	$ 1,658,553	17.8%
Accounts receivable from lessee	2,576	59,300	(95.7)
Total assets	$ 1,955,929	$ 1,717,853	13.9%
Current liabilities:			
Deferred fees	$ 42,427	$ 39,716	6.8%
Accounts payable	5,235	232	2156.5
Total current liabilities	47,662	39,948	19.3
Noncurrent liabilities:			
Deferred fees	1,121,814	1,164,241	(3.6)
Total noncurrent liabilities	1,121,814	1,164,241	(3.6)
Total liabilities	1,169,476	1,204,189	(2.9)
Undesignated fund equity	786,453	513,664	53.1
Total liabilities and fund equity	$ 1,955,929	$ 1,717,853	13.9%

GENERAL BOND RESOLUTION

	2004	2003 (Unaudited)	Percentage Change
Current assets:			
Cash and cash equivalents	$ 1,170,155	$ 1,026,804	14.0%
Investments	–	21,830	(100.0)
Lease payments receivable from lessee	11,044,585	11,850,000	(6.8)
Accounts receivable from lessee	2,217,719	2,578,612	(14.0)
Total current assets	14,432,459	15,477,246	(6.8)
Noncurrent assets:			
Cash and cash equivalents	–	1,527,896	(100.0)
Lease payments receivable from lessee	186,905,415	182,885,690	2.2
Total noncurrent assets	186,905,415	184,413,586	1.4
Total assets	$ 201,337,874	$ 199,890,832	.7%
Current liabilities:			
Bonds payable, net	$ 11,044,585	$ 11,830,091	(6.6)%
Accounts payable	10,175	9,616	5.8
Accrued interest payable	2,337,117	2,561,155	(8.7)
Other deferred revenue	14,532	–	–
Rebate payable to Internal Revenue Service	8,032	6,787	18.3
Total current liabilities	13,414,441	14,407,649	(6.9)
Noncurrent liabilities:			
Bonds payable, net	186,905,415	184,553,377	1.3
Rebate payable to Internal Revenue Service	742,843	758,525	(2.1)
Total noncurrent liabilities	187,648,258	185,311,902	1.3
Total liabilities	201,062,699	199,719,551	0.7
Designated fund equity	275,175	171,281	60.7
Total liabilities and fund equity	$ 201,337,874	$ 199,890,832	0.7%

The Authority's results of operations for the past two years are summarized below:

GENERAL OPERATING ACCOUNT

	2004	2003	Percentage Change
Operating revenues:			
Administrative fees	$ 433,755	$ 258,795	67.6%
Interest income from investments	24,139	22,096	9.2
Total operating revenue	457,894	280,891	63.0
Operating expenses:			
Salaries	50,901	50,938	(0.1)
Employee benefits	10,667	11,042	(3.4)
Office	22,793	13,254	72.0
Accretion of interest on deferred fees	74,499	77,036	(3.3)
Other	26,245	22,798	15.1
Total operating expenses	185,105	175,068	5.7
Operating income	272,789	105,823	157.8
Fund equity, beginning of year	513,664	407,841	25.9
Fund equity, end of year	$ 786,453	$ 513,664	53.1%

GENERAL BOND RESOLUTION

	2004	2003 (Unaudited)	Percentage Change
Operating revenues:			
Received and receivable from lessee	$ 10,221,274	$ 9,799,790	4.3%
Interest income from investments	14,494	31,586	(54.1)
Other income	64,689	59,003	9.6
Total operating revenues	10,300,457	9,890,379	4.2
Operating expenses:			
Bond issuance costs	356,976	220,535	61.9
Interest expense	9,724,877	10,026,500	(3.0)
Rebate paid to Internal Revenue Service	–	40,886	(100.0)
Amortization of deferred costs	–	81,278	(100.0)
Other	114,710	–	–
Total operating expenses	10,196,563	10,369,199	(1.7)
Operating income	103,894	(478,820)	(121.7)
Fund equity, beginning of year	171,281	650,101	(73.7)
Fund equity, end of year	$ 275,175	$ 171,281	60.7%

General Operating Account

Cash and cash equivalents held in the General Operating Account increased $294,800 or 17.8% at June 30, 2004 compared to June 30, 2003. The increase was mainly the result of an increase of administrative fees collected by the Authority in fiscal year 2004.

Accounts receivable from lessee decreased 95.7% mainly due to the timing of cash receipts and amounts due from the various lessees at June 30, 2004 versus June 30, 2003.

Fund equity increased 53.1% in fiscal year 2004. The Authority continued to maintain a positive spread of income from fees and interest income over operating expenses.

Operating revenues are generated principally from fees charged to lessees. Administrative fees in 2004 increased 67.6% from 2003. This increase was primarily the result of administrative issuance fees earned from several new bond issues in 2004. Bonds issued in 2004 totaled $47,925,000, versus $10,860,000 issued in 2003.

The Authority shares office space and staff with the Maine Municipal Bond Bank (Bond Bank). The Authority reimburses the Bond Bank for its proportionate share of personnel services, employee benefits, office space, equipment rental and other miscellaneous costs.

General Bond Resolution

Current and noncurrent cash and cash equivalents in the General Bond Resolution decreased $1,384,545 or 54.2% from balances at June 30, 2003. Conversely, investments decreased $21,830 or 100% from balances at June 30, 2003. These changes are mainly due to the refunding of the Series 1993 bond issue which utilized the investments in the debt service reserve fund.

Lease payments receivable from lessee at June 30, 2004 represents an increase of $3,214,310 or 1.6% as compared to balances at June 30, 2003. Lease payments receivable from lessee increased mainly due to the issuance of the Series 2003 and Series 2004 bonds (net of refunding portions), less scheduled principal payments throughout 2004.

Bond issuance costs in 2004 of $356,976 represents an increase of $136,441 from 2003 mainly due to an increase in the par amount of bonds issued in 2004 versus 2003.

As the result of the Authority issuing tax-exempt debt, the Authority is required to prepare arbitrage rebate calculations for each series of bonds outstanding and remit payment to the Internal Revenue Service every five years. There was no rebate expense in 2004, which represents a reduction of $40,886 from 2003. This is mainly due to a reduction in the average investments held, as well as reductions in the average yield on the investments held by the Authority in 2004 versus 2003.

Interest income in the General Bond Resolution for 2004 decreased 54.1% from 2003 as a result of lower average investments on hand during the year, and the fact the debt service reserve fund for the Series 1993 bonds was refunded.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial statements for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the Executive Director, Maine Governmental Facilities Authority, P.O. Box 2268, Augusta, ME 04338-2268.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

BALANCE SHEET

June 30, 2004

ASSETS	General Operating Account	General Bond Resolution	Total
Current assets:			
Cash and cash equivalents (note 3)	$1,953,353	$ 1,170,155	$ 3,123,508
Lease payments receivable from lessee (note 4)	–	11,044,585	11,044,585
Accounts receivable from lessee	2,576	2,217,719	2,220,295
Total current assets	1,955,929	14,432,459	16,388,388
Noncurrent assets:			
Lease payments receivable from lessee (note 4)	–	186,905,415	186,905,415
Total assets	$1,955,929	$ 201,337,874	$ 203,293,803
LIABILITIES AND FUND EQUITY			
Current liabilities:			
Bonds payable, net (note 4)	$ –	$ 11,044,585	$ 11,044,585
Accounts payable	–	10,175	10,175
Accrued interest payable	–	2,337,117	2,337,117
Deferred fees (note 6)	42,427	–	42,427
Other deferred revenue	–	14,532	14,532
Rebate payable to Internal Revenue Service	–	8,032	8,032
Accounts payable – Maine Municipal Bond Bank (note 5)	5,235	–	5,235
Total current liabilities	47,662	13,414,441	13,462,103
Noncurrent liabilities:			
Bonds payable, net (note 4)	–	186,905,415	186,905,415
Deferred fees (note 6)	1,121,814	–	1,121,814
Rebate payable to Internal Revenue Service	–	742,843	742,843
Total noncurrent liabilities	1,121,814	187,648,258	188,770,072
Total liabilities	1,169,476	201,062,699	202,232,175
Fund equity:			
Designated	–	275,175	275,175
Undesignated	786,453	–	786,453
Total fund equity	786,453	275,175	1,061,628
	$1,955,929	$ 201,337,874	$ 203,293,803

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY

Year Ended June 30, 2004

	General Operating Account	General Bond Resolution	Total
Operating revenues:			
Received and receivable from lessee	$ –	$ 10,221,274	$ 10,221,274
Administrative fees (note 6)	433,755	–	433,755
Interest income from investments	24,139	14,494	38,633
Other income	–	64,689	64,689
Total operating revenue	457,894	10,300,457	10,758,351
Operating expenses (note 5):			
Bond issuance costs	–	356,976	356,976
Interest expense	–	9,724,877	9,724,877
Salaries	50,901	–	50,901
Employee benefits	10,667	–	10,667
Office	22,793	–	22,793
Accretion of interest on deferred fees (note 6)	74,499	–	74,499
Other	26,245	114,710	140,955
Total operating expenses	185,105	10,196,563	10,381,668
Operating income	272,789	103,894	376,683
Fund equity, beginning of year	513,664	171,281	684,945
Fund equity, end of year	$786,453	$ 275,175	$ 1,061,628

See accompanying notes.

MAINE GOVERNMENTAL FACILITIES AUTHORITY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

	General Operating Account	General Bond Resolution	Total
Operating activities:			
Cash received from lessee	$ 376,264	$ 7,382,389	$ 7,758,653
Cash paid for operating expenses	(79,358)	–	(79,358)
Cash received for other income	–	64,689	64,689
Cash paid for other expenses	(26,245)	(114,151)	(140,396)
Cash paid for bond issuance costs	–	(356,976)	(356,976)
Net cash provided by operating activities	270,661	6,975,951	7,246,612
Noncapital financing activities:			
Proceeds from bonds payable	–	51,090,169	51,090,169
Principal paid on bonds payable	–	(11,850,000)	(11,850,000)
Deposit to refunding escrow	–	(37,571,132)	(37,571,132)
Issue costs paid with refunding	–	(509,037)	(509,037)
Interest paid on bonds payable	–	(9,542,384)	(9,542,384)
Net cash used by noncapital financing activities	–	(8,382,384)	(8,382,384)
Investing activities:			
Cash received from interest income	24,139	58	24,197
Sales and maturities of investments	–	21,830	21,830
Net cash provided by investing activities	24,139	21,888	46,027
Increase (decrease) in cash and cash equivalents	294,800	(1,384,545)	(1,089,745)
Cash and cash equivalents at beginning of year (note 2)	1,658,553	2,554,700	4,213,253
Cash and cash equivalents at end of year	$ 1,953,353	$ 1,170,155	$ 3,123,508
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 272,789	$ 103,894	$ 376,683
Adjustments to reconcile operating income to net cash provided by operating activities:			
Accretion of interest on deferred fees	74,499	–	74,499
Amortization of deferred fees and costs	(114,215)	–	(114,215)
Interest expense	–	9,724,877	9,724,877
Interest income	(24,139)	(14,494)	(38,633)
Changes in operating assets and liabilities:			
Accounts receivable	56,724	360,893	417,617
Accounts payable	5,003	559	5,562
Other deferred revenue	–	14,532	14,532
Lease payments receivable from lessee	–	(3,214,310)	(3,214,310)
Net cash provided by operating activities	$ 270,661	$ 6,975,951	$ 7,246,612

See accompanying notes.

1. Organization

The Maine Governmental Facilities Authority (the Authority) is constituted as an instrumentality and, for accounting purposes under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, is considered a component unit of the State of Maine (the State), organized and existing under and pursuant to M.R.S.A., Title 4, Chapter 33, Sections 1601 to 1618, inclusive (the Act).

The Authority was created for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction and equipping of structures, or facilities, for use by the judicial, legislative, or executive branches of the State government and related entities. To accomplish its purposes, the Authority is authorized to acquire real or personal property, prepare and plan projects, furnish and equip projects, provide for financing or refinancing of such projects and lease properties back to the judicial, legislative or executive branches of the State government and related entities. The Authority is also authorized to issue bonds and notes to fulfill its statutory purposes.

The Authority may not issue securities in excess of $218,485,000 outstanding at any one time except for the issuance of certain revenue refunding securities. The State Legislature may increase this limit as necessary to meet the Authority's needs.

Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority is exempt from federal and state income taxes. Interest paid on bonds issued by the Authority is exempt from federal and Maine income taxes.

Except for earnings on investments, substantially all of the Authority's revenue is received from lease payments, which are scheduled to closely match required bond principal and interest payments and loan servicing fees from the State for facilities financed by the Authority.

2. Significant Accounting Policies

The State of Maine treats the Authority as an "internal service fund" on the State's financial statements. Therefore, the books of accounts of the Authority are maintained in accordance with the principles of proprietary fund accounting and the requirements of the bond issue documents. The accompanying financial statements are prepared on the accrual basis of accounting.

The Authority complies with Governmental Accounting Standards Board Statement (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This Statement requires that the Authority apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's). As permitted by GASB No. 20, the Authority has elected not to comply with the FASB Statements and Interpretations issued after November 30, 1989.

2. Significant Accounting Policies (Continued)

The financial statements are prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statement No. 21 and No. 34* and No. 38, *Certain Financial Statement Note Disclosures* (the Statements).

Cash and Cash Equivalents

The Authority considers all checking and savings deposits and highly liquid investments with maturities of three months or less to be cash equivalents. Cash and cash equivalents totaling $1,603,853 on the general operating account at June 30, 2003 were reclassified from investments to cash equivalents for purposes of the 2004 statement of cash flows.

Bond Issuance Costs

Bond issuance costs resulting from the advance refunding of bonds outstanding have been deferred as part of deferred amounts on refunding and are being amortized over the life of the refunded bonds using the bonds outstanding method. Other bond issuance costs paid by the Authority are expensed as incurred.

Deferred Amounts on Refunding

The difference between the reacquisition price and the net carrying amount of the refunded bonds is recorded as a deferred amount on refunding and reported as a deduction from or an addition to the new bonds. The deferred amount on refunding is amortized over the remaining life of the refunded bonds, or the life of the new bonds, whichever is shorter, as a component of interest expense using the bonds outstanding method.

Original Issue Premiums

Original issue premiums resulting from the advance refunding of bonds outstanding have been deferred and are being amortized over the life of the refunded bonds using a method which approximates the effective interest method.

Financing Leases

Projects financed through the issuance of bonds are subsequently leased or subleased to the three branches of state government under financing lease arrangements. The property is not reflected on the accompanying combined financial statements since the lease agreements meet the criteria for financing leases under accounting principles generally accepted in the United States of America.

2. Significant Accounting Policies (Continued)

New Accounting Pronouncements

GASB issued Statement No. 40 in March 2003. This statement amends GASB Statement No. 3 by establishing new disclosure requirements related to investment risks, including credit risk, interest rate risk and foreign currency risk. The statement is expected to be applicable to the Authority beginning in fiscal 2005.

Use of Estimates

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

Total Columns

The "total" columns contain the totals of the similar accounts of the various funds. The combination of the accounts, including assets therein, is for convenience and presentation purposes only.

3. Cash and Cash Equivalents

The Authority is authorized, under Maine statutes, to invest in obligations of the U.S. Treasury, certain U.S. Governmental Agencies and collateralized repurchase agreements. The Authority invests available cash in accordance with Maine statutes, applicable Series Resolution and Tax Regulatory Agreement.

The Authority's policy is to invest all available funds at the highest possible rates, in conformance with legal and administrative guidelines. Generally, the funds are invested in government securities whose maturities are planned to coincide with the cash needs for operating, debt service and arbitrage rebate requirements.

The cash of the general operating account at June 30, 2004 consists of a $100,000 insured and $226,212 uninsured deposit with a bank. Cash equivalents consist of money market funds.

Government Accounting Standards Board Statement No. 3 requires the investments to be classified into three categories to give an indication of the level of risk assumed by the Authority; Category 1 includes investments insured or registered in the Authority's name or securities held by the Authority or by the Authority's agent in the Authority's name; Category 2 includes investments uninsured and unregistered with securities held by the financial institution's trust department or agent in the Authority's name; and Category 3 includes investments uninsured and unregistered, with securities held by the financial institution's trust department or its agent, but not in the Authority's name. There are no category 1 or 3 investments held by the Authority or its trustees at June 30, 2004.

3. Cash and Cash Equivalents (Continued)

At June 30, 2004, cash and cash equivalents are all classified as category 2 and are as follows (at fair value):

General operating account:	
Cash and cash equivalents	$1,953,353
General bond resolution:	
Cash and cash equivalents	$1,170,155

4. Bonds Payable and Lease Payments Receivable

As of June 30, 2004, the Authority had authorized and has outstanding the following series and amounts of revenue bonds:

	Maturity	Amount Issued	Amount Outstanding June 30, 2004
Series 1999, 4.50% – 5.625%, dated September 1, 1999	2000 – 2019	86,945,000	$ 67,030,000
Series 2000 A, 4.50% – 6.00%, dated June 1, 2000	2001 – 2019	51,855,000	34,075,000
Series 2000 B, 4.30% – 5.375%, dated November 1, 2000	2001 – 2020	6,995,000	5,930,000
Series 2001, 3.75% – 5.375%, dated August 1, 2001	2002 – 2021	36,485,000	32,675,000
Series 2002, 2.00% – 5.00%, dated November 1, 2002	2003 – 2022	10,860,000	10,315,000
Series 2003, 2.00% – 5.00%, dated September 11, 2003	2004 – 2023	18,425,000	18,425,000
Series 2004, 2.00% – 5.00%, dated April 22, 2004	2004 – 2023	29,500,000	29,500,000
			$ 197,950,000

4. Bonds Payable and Lease Payments Receivable (Continued)

Such amounts are reflected on the balance sheet of the general bond resolution as follows:

Total principal outstanding	$ 197,950,000
Deferred amount on refunding	(2,609,327)
Unamortized original issue premium	3,109,394
Unamortized bond issue costs	(500,067)
	197,950,000
Less current portion	11,044,585
Long-term portion	$ 186,905,415

The outstanding bonds payable will mature in each of the following years (in substantially equivalent amounts to payments due from lessees) with interest paid semiannually:

Due Bond Year Ending	Principal	Interest	Total
2004	$ 11,044,586	$ 9,208,373	$ 20,252,959
2005	13,295,000	8,778,917	22,073,917
2006	13,310,000	8,218,639	21,528,639
2007	13,315,000	7,644,858	20,959,858
2008	13,310,000	7,059,451	20,369,451
2009 – 2013	61,639,788	26,525,328	88,165,116
2014 – 2018	55,915,626	11,627,977	67,543,603
2019 – 2023	16,120,000	879,719	16,999,719
	$ 197,950,000	$ 79,943,262	$ 277,893,262

The following summarizes bond payable activity for Authority for the year ended June 30, 2004:

Balance, beginning of year	$ 196,383,468
Issuances – face value	47,925,000
Redemptions	(11,850,000)
Refunded bonds	(34,915,000)
Capitalized issue costs	(509,037)
Capitalized premiums	3,165,169
Deferred amounts on refunding	(2,656,132)
Accretion/amortization of premiums and deferred amounts on refunding	406,532
Balance, end of year	$ 197,950,000

4. Bonds Payable and Lease Payments Receivable (Continued)

The Series 1999 Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 for the purpose of financing the acquisition and construction of court facilities for use by the Judicial Department of the State and the renovations of the Statehouse and State office building and construction of correctional facilities for the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolution. Pursuant to the lease agreement, dated as of August 1, 1999 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The Series 2002, 2001 and 2000 A and B Bonds were issued pursuant to bond resolutions adopted by the Authority on August 18, 1999 and supplemental resolutions adopted by the Authority on November 21, 2002, June 25, 2001 and June 21, 2000, respectively, for the purpose of financing a portion of the remaining costs of acquisition and construction of certain governmental facilities for use by the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolutions. Pursuant to the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated November 1, 2002 August 1, 2001, October 1, 2000 and June 1, 2000 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The Series 2003 Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 and a supplemental resolution adopted by the Authority on July 22, 2003 for the purpose of refunding in whole the Authority's outstanding Lease Rental Revenue Bonds, Series 1993, and to finance a portion of the costs of acquisition, construction and equipping of certain governmental facilities for use by the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated June 1, 2000, October 1, 2000, August 1, 2001, November 1, 2002 and September 1, 2003 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

4. Bonds Payable and Lease Payments Receivable (Continued)

The Series 2004 Bonds were issued pursuant to a bond resolution adopted by the Authority on August 18, 1999 and a supplemental resolution adopted by the Authority on March 25, 2004 for the purpose of refunding in whole the Authority's outstanding Lease Rental Revenue Bonds, series 1996, to refund a portion of the Authority's outstanding Lease Rental Revenue Bonds, series 1999 and 2000, and to finance a portion of the costs of acquisition, construction and equipping of certain governmental facilities for use by the State of Maine. The bonds are limited revenue obligations of the Authority, payable solely from the lease payments and the funds and accounts established by the resolutions. Pursuant to the master lease agreement, dated as of August 1, 1999, and amendments to such agreement, dated June 1, 2000, October 1, 2000, August 1, 2001, November 1, 2002, September 1, 2003 and April 1, 2004 between the Authority and the State, acting through its Chief Justice of the Supreme Judicial Court for the court facilities project and through the Department of Administration for other projects (the Lessee), the State has agreed to make lease payments sufficient to pay the debt service of the Authority. The Lessee's obligation to make lease payments and any other obligation under the lease agreement are subject to and dependent upon biennial appropriations being made by the State Legislature for such purposes.

The refunding portion of the Series 2003 Bonds, which totaled $6,780,000 at an average interest rate of 2.67%, was used to refund $6,476,000 in Series 1993 Bonds with an average interest rate of 5.07%. The net proceeds from the refunding issue of $6,679,000, including a bond premium of approximately $35,000 and after payment of approximately $136,000 in underwriting fees, insurance and other issuance costs, were used to purchase U.S. government securities which will provide for all future debt service payments on the refunded bonds. Although the advance refunding resulted in the recognition of a deferred accounting loss of approximately $203,000 in the year ended June 30, 2004, the Authority in effect reduced its aggregate debt service payments by approximately $332,000 over the next nine years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $546,000 after consideration of the elimination of the debt service reserve fund.

The refunding portion of the Series 2004 Bonds, which totaled $27,750,000 at an average interest rate of 4.83%, was used to refund $26,910,000 in Series 1996, 1999 and 2000 Bonds with an average interest rate of 5.84%. The net proceeds from the refunding issue of $30,406,000, including a bond premium of approximately $3,165,000 and after payment of approximately $509,000 in underwriting fees, insurance and other issuance costs, were used to purchase U.S. government securities which will provide for all future debt service payments on the refunded bonds. Although the advance refunding resulted in the recognition of a deferred accounting loss of approximately $2.6 million in the year ended June 30, 2004, the Authority in effect reduced its aggregate debt service payments by almost $1,299,000 over the next twelve years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $1,286,000.

At June 30, 2004, the remaining balances of the insubstance defeased bonds total approximately $34,915,000.

5. Operating Expenses

The Authority has a management agreement with Maine Municipal Bond Bank which allocates a portion of Bond Bank expenses to the Authority. The allocation is based on expenses specifically incurred on behalf of the Authority and the Authority's estimated portion of general overhead.

6. Deferred Fees

Deferred fees in the amount of $1,164,241 at June 30, 2004 represents the advance payment of the present value of all future required annual fees on the 1999 and 2000 A bond issues by the executive branch of the State of Maine in 2002. These amounts are being amortized using the effective interest method over the respective terms of the underlying bonds. During the year ended June 30, 2004, $114,215 of previously deferred fees were included in revenue.

STANDARD
& POOR'S
RATINGS SERVICES

225 Franklin Street, 15th Floor
Boston, MA 02110-2804
tel 617 530-8338
reference no.: 1258478

May 20, 2013

Maine Municipal Bond Bank
3 University Drive
P.O. Box 2268
Augusta, ME 04330
Attention: Mr. Michael R. Goodwin, Executive Director

Re: ***$32,500,000 Maine Government Facilities Authority, Lease Rental Revenue Refunding Bonds, Series 2013 A***

Dear Mr. Goodwin:

Pursuant to your request for a Standard & Poor's Ratings Services ("Ratings Services") rating on the above-referenced obligations, Ratings Services has assigned a rating of "AA-". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

This letter constitutes Ratings Services' permission for you to disseminate the above-assigned ratings to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we've released the rating on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable.

To maintain the rating, Standard & Poor's must receive all relevant financial and other information, including notice of material changes to financial and other information provided to us and in relevant documents, as soon as such information is available. You understand that Ratings Services relies on you and your agents and advisors for the accuracy, timeliness and completeness of the information submitted in connection with the rating and the continued flow of material information as part of the surveillance process. Please send all information via electronic delivery to: pubfin_statelocalgovt@standardandpoors.com. If SEC rule 17g-5 is applicable, you may post such information on the appropriate website. For any information not available in electronic format or posted on the applicable website,

Please send hard copies to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003.

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

Ratings Services is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at www.standardandpoors.com. If you have any questions, please contact us. Thank you for choosing Ratings Services.

Sincerely yours,

Standard & Poor's

Standard & Poor's Ratings Services
a Standard & Poor's Financial Services LLC business.

lm
enclosures
cc: Mr. Maulin Shah,
Bank of America Merrill Lynch

STANDARD
& POOR'S
RATINGS SERVICES

Standard & Poor's Ratings Services
Terms and Conditions Applicable To Public Finance Credit Ratings

General. The credit ratings and other views of Standard & Poor's Ratings Services ("Ratings Services") are statements of opinion and not statements of fact. Credit ratings and other views of Ratings Services are not recommendations to purchase, hold, or sell any securities and do not comment on market price, marketability, investor preference or suitability of any security. While Ratings Services bases its credit ratings and other views on information provided by issuers and their agents and advisors, and other information from sources it believes to be reliable, Ratings Services does not perform an audit, and undertakes no duty of due diligence or independent verification, of any information it receives. Such information and Ratings Services' opinions should not be relied upon in making any investment decision. Ratings Services does not act as a "fiduciary" or an investment advisor. Ratings Services neither recommends nor will recommend how an issuer can or should achieve a particular credit rating outcome nor provides or will provide consulting, advisory, financial or structuring advice. Unless otherwise indicated, the term "issuer" means both the issuer and the obligor if the obligor is not the issuer.

All Credit Rating Actions in Ratings Services' Sole Discretion. Ratings Services may assign, raise, lower, suspend, place on CreditWatch, or withdraw a credit rating, and assign or revise an Outlook, at any time, in Ratings Services' sole discretion. Ratings Services may take any of the foregoing actions notwithstanding any request for a confidential or private credit rating or a withdrawal of a credit rating, or termination of a credit rating engagement. Ratings Services will not convert a public credit rating to a confidential or private credit rating, or a private credit rating to a confidential credit rating.

Publication. Ratings Services reserves the right to use, publish, disseminate, or license others to use, publish or disseminate a credit rating and any related analytical reports, including the rationale for the credit rating, unless the issuer specifically requests in connection with the initial credit rating that the credit rating be assigned and maintained on a confidential or private basis. If, however, a confidential or private credit rating or the existence of a confidential or private credit rating subsequently becomes public through disclosure other than by an act of Ratings Services or its affiliates, Ratings Services reserves the right to treat the credit rating as a public credit rating, including, without limitation, publishing the credit rating and any related analytical reports. Any analytical reports published by Ratings Services are not issued by or on behalf of the issuer or at the issuer's request. Ratings Services reserves the right to use, publish, disseminate or license others to use, publish or disseminate analytical reports with respect to public credit ratings that have been withdrawn, regardless of the reason for such withdrawal. Ratings Services may publish explanations of Ratings Services' credit ratings criteria from time to time and Ratings Services may modify or refine its credit ratings criteria at any time as Ratings Services deems appropriate.

Reliance on Information. Ratings Services relies on issuers and their agents and advisors for the accuracy and completeness of the information submitted in connection with credit ratings and the surveillance of credit ratings including, without limitation, information on material changes to information previously provided by issuers, their agents or advisors. Credit ratings, and the maintenance of credit ratings, may be affected by Ratings Services' opinion of the information received from issuers, their agents or advisors.

Confidential Information. Ratings Services has established policies and procedures to maintain the confidentiality of certain non-public information received from issuers, their agents or advisors. For these purposes, "Confidential Information" shall mean verbal or written information that the issuer or its agents or advisors have provided to Ratings Services and, in a specific and particularized manner, have marked or otherwise indicated in writing (either prior to or promptly following such disclosure) that such information is "Confidential."

Ratings Services Not an Expert, Underwriter or Seller under Securities Laws. Ratings Services has not consented to and will not consent to being named an "expert" or any similar designation under any applicable securities laws or other regulatory guidance, rules or recommendations, including without limitation, Section 7 of the U.S. Securities Act of 1933. Rating Services has not performed and will not perform the role or tasks associated with an "underwriter" or "seller" under the United States federal securities laws or other regulatory guidance, rules or recommendations in connection with a credit rating engagement.

Disclaimer of Liability. Ratings Services does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a credit rating or the results obtained from the use of such information. RATINGS SERVICES GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. Ratings Services, its affiliates or third party providers, or any of their officers, directors, shareholders, employees or agents shall not be liable to any person for any inaccuracies, errors, or omissions, in each case regardless of cause, actions, damages (consequential, special, indirect, incidental, punitive, compensatory, exemplary or otherwise), claims, liabilities, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in any way arising out of or relating to a credit rating or the related analytic services even if advised of the possibility of such damages or other amounts.

No Third Party Beneficiaries. Nothing in any credit rating engagement, or a credit rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of a credit rating. No person is intended as a third party beneficiary of any credit rating engagement or of a credit rating when issued.