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# MAINE



*Comprehensive Annual Financial Report  
For The Fiscal Year Ended June 30, 2005*

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**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

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**STATE OF MAINE**



**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**JOHN ELIAS BALDACCI**  
*Governor*

**REBECCA M. WYKE**  
*Commissioner*  
*Department of Administrative & Financial Services*

**EDWARD A. KARASS**  
*State Controller*

*Prepared by the Office of the State Controller*

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State of Maine  
Office of the State Controller  
Financial Reporting and Analysis Division  
14 State House Station  
Augusta, ME 04333-0014

or e-mail us at:  
**financialreporting@maine.gov**

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**<http://www.maine.gov>**

**STATE OF MAINE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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# INTRODUCTORY SECTION

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STATE OF MAINE  
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES  
**OFFICE OF THE STATE CONTROLLER**  
14 STATE HOUSE STATION AUGUSTA, ME 04333-0014

EDWARD A. KARASS  
STATE CONTROLLER



TERRY E. BRANN, CPA  
DEPUTY STATE CONTROLLER

December 31, 2005

**To the Honorable John Elias Baldacci, Governor,  
the Honorable Members of the Legislature, and  
Citizens of the State of Maine**

We are pleased to present the State of Maine's Fiscal Year 2005 (FY2005) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP). The annual CAFR, required by Title 5 M.R.S.A., § 1547 is compiled and published by the Office of the State Controller (OSC). The report is the primary means of reporting the State's financial activities. The objective of this report is to provide a clear picture of our government as a single, unified entity, as well as providing traditional fund based financial statements.

**Responsibility**

The OSC is responsible for the accuracy, fairness and completeness of the financial statements presented in this report. The statements have been prepared in accordance with GAAP. To the best of our knowledge and belief, the information presented is accurate in all material respects and includes all disclosures necessary to enable the reader to gain a reasonable understanding of Maine's financial position and activities.

**Adherence to Generally Accepted Accounting Principles**

As required by State statute, we have prepared the CAFR in accordance with GAAP applicable to State and local governments, as promulgated by the GASB. The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports.

**Format of Report**

This CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory Section contains this letter including an overview of current initiatives, the list of principal elected and appointed officials, and the State government organization chart. The Financial Section contains: the Independent Auditor's Report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A), which provides an introduction, overview and analysis of the Basic Financial Statements; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds and similar component units, and component units, together with notes to the financial statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules, schedules of pension funding progress, and information about infrastructure assets; and the supplemental financial data, which includes the combining financial statements and schedules.



This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The State's MD&A can be found immediately following the Independent Auditor's Report from the State Auditor. The Statistical Section contains selected trend information, and statistical data on financial, economic and demographic measures.

### **Internal Control Structure**

The Office of the State Controller prepared these financial statements and assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the State Controller has established a comprehensive internal control framework that is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State of Maine's financial statements in conformity with GAAP.

Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

As a recipient of federal financial assistance for federal programs, the State is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these federal programs. The internal control structure is subject to periodic evaluation by management and by the State Department of Audit as part of the annual Single Audit.

### **Independent Auditors**

Pursuant to Title 5 M.R.S.A. § 243, the State Auditor has performed an examination of the Basic Financial Statements in accordance with auditing standards generally accepted in the United States of America. The auditor's opinion is presented in the financial section of this report. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the Basic Financial Statements; assessing the accounting principles used and significant estimates made by management; and, evaluating the overall financial statement presentation. The State Auditor rendered an unqualified opinion on the Basic Financial Statements for this fiscal year.

Also, pursuant to § 243 the State Auditor has undertaken a Single Audit of the State as a whole, 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, as required by federal law. The standards governing Single Audit engagements require the auditor to report not only on the fair presentation of the financial statements, but also on the government's internal controls and compliance with legal requirements involving the administration of federal awards. This statewide federal Single Audit Report, including the auditor's opinion in accordance with generally accepted government auditing standards, is published separately.

We express our appreciation to the staff of the State Auditor for their professionalism. The State Auditor is statutorily mandated to audit all accounts and other financial records of State Government or any department or agency of State Government, including the judiciary and the Executive Department of the Governor, except the Governor's Expense Account, and to report annually, and at such other times as the Legislature may require.

### **Management's Discussion and Analysis (MD&A)**

GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

# PROFILE OF THE GOVERNMENT

## **Reporting Entity**

The Governor and Legislature govern all funds and accounts for every executive agency, board, commission, public trust, Authority and component unit. The State of Maine financial reporting entity reflected in the CAFR, which is more fully described in Note 2 to the Basic Financial Statements, includes these funds, agencies, organizations, boards, commissions, Authorities and major component units in accordance with GASB Statement 14. There are 12 major component units, one blended component unit, and two fiduciary component units included in the CAFR. The major component units are discretely presented in the financial statements; and the blended component unit is included as a separate fund in the fund financial statements. The fiduciary component units are presented in the fiduciary fund and similar component unit financial statements along with the other fiduciary activities of the State. The fiduciary activities are not included in the government-wide financial statements because the resources of these funds are not available to support the State's own programs.

The departments of the primary government record their daily financial operations in the State accounting system called the Maine Financial and Administrative Statewide Information System (MFASIS) operated by the Office of the State Controller.

## **Budgetary Control**

The Governor presents a biennial budget for the General Fund and the Special Revenue Funds to the Legislature for enactment or revision. The State Constitution provides the Governor a "line item" veto, which allows an Executive 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.

Once passed and signed, the budget becomes the financial plan for the State 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. In accordance with statute, the State Budget Officer must use the projections of the Revenue Forecasting Committee to prepare the General Fund and Highway Fund budgets.

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 M.R.S.A. § 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.

The State maintains budgetary control at the account and line category levels. The head of each department and agency of State government must submit a work program to the Bureau of the Budget for the ensuing fiscal year. The work program is classified to show allotments requested for specific amounts for personal services, capital expenditures, and all other departmental expenses. These are the levels at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Controller authorizes all expenditures to be made from the amounts available on the basis of these allotments and not otherwise.

Budget revisions during the year, reflecting program changes or intradepartmental administrative transfers, require the approval of the State Budget Officer and the Governor. Except in specific instances, only the Legislature may transfer appropriations between departments. Agency requests for increases in appropriations, allocations, or funding for new programs are presented to the Legislature as a supplemental budget.

The State uses encumbrance accounting as an extension of formal budgetary control. This requires that purchase orders, contracts, and other commitments be recorded to reserve a portion of an appropriation or allocation for expenditure. Appropriated and allocated balances are available for subsequent expenditure to the extent that there are approved encumbrances at the end of a fiscal year. The State reports encumbrances outstanding at year-end as reservations of fund balances to identify those portions of fund balances that are not available for allocation or expenditure, or that are legally segregated for specific future uses. Unencumbered appropriations in the General Fund and in the Highway Fund are carried forward to a subsequent year only when authorized by law, otherwise the balances lapse at year-end.

#### **Maine Budget Stabilization Fund**

The Maine Budget Stabilization Fund, established in 2003 in Chapter 451, Public Laws 2003 to replace the Maine Rainy Day Fund, is a General Fund reserve account intended to be used when revenues are under budget and critical services must be preserved. The Governor may also allocate funds from the Budget Stabilization Fund for payment of death benefits for law enforcement officers, firefighters and emergency medical services persons.

Balances in the fund do not lapse; but carry forward each year. The money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. In addition to interest earnings, the fund is capitalized at the close of each fiscal year. As the first priority before any other transfer, the State Controller is required to transfer 32% of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap.

The statutory cap for the fund is 10% 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 2005 actual General Fund revenue, the statutory cap at the close of fiscal year 2005 and during fiscal year 2005 was \$279,084,505. At the close of fiscal year 2005, the balance of the Maine Budget Stabilization Fund was \$47,071,215. 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.

## ECONOMIC CONDITIONS AND OUTLOOK

The Maine economy recovered from the recession in 2004 and is now experiencing moderate and steady growth. The prime movers were an improved national economy and continued low interest rates. The Maine Coincident Economic Index (CEI – which roughly tracks Real Gross State Product) rose 2.3% for the year, the strongest performance since 2000, and a significant improvement over the 0.6% growth measured in 2003

Maine payroll employment increased by 6,900, or 1.1%, the best showing in four years. Maine's average unemployment rate in 2005 was 4.6%, down from 5% in the previous years, and still well below the national rate of 5.5%. As a result, personal income growth was also improved. Personal income growth in 2004 was 6%, 25th best in the country. Maine's ability to navigate through the recent recession better than many other states has resulted in Maine's per capita income ranking improving to 31st in the country in 2004.

Very low interest rates enabled a record setting year for national home sales and home refinancing activity again put billions into people's pockets, a boon to retailers. Maine total taxable retail sales increased by 6% in 2004, up from 5% growth in the previous year. The bulk of this improvement was due to the exceptional strength of the building supply store-type group (up 15.7%). In recent months rising interest rates and energy costs have slowed the growth in taxable sales to 3%.

The November 2005 Maine economic forecast calls for payroll employment growth of .8% in 2005 and .9% in 2006. The largest jobs gains over this period will be in education and health services, professional and business services, retail and leisure and hospitality. Construction employment is expected to shrink and manufacturing jobs will continue to decline, but at a slower rate than over the past few years.

Personal income is expected to grow a bit more slowly than in the recent past, with growth near 5.5% for this year and next. Wage and salary income growth will increase by an average of 5% for the period, with even stronger growth rates predicted for "other labor income," proprietors' income, and transfer payments

## CURRENT DEVELOPMENTS AND INITIATIVES

Chapter 20, Public Laws of 2005 enacted into law the Administration's comprehensive government reorganization plan to consolidate and streamline administrative services across Maine State Government through the consolidation of information technology, statewide payroll, accounting and finance, human resources, and administrative hearings. The consolidation is, perhaps, the most sweeping reorganization of backbone services in Maine's recent history. The initiative will provide State government and the citizens of Maine with long-term benefits.

- The consolidation brings an enterprise-wide view to managing the State's internal service resources. This structure ensures that State government is positioned to provide more efficient support services to State agencies.
- The plan changes the service delivery model in a way that benefits agencies with limited resources, while providing savings from the economies of scale.
- The consolidation provides an operating model to ensure that resources are managed with accountability and maximum transparency for the overall good of Maine's citizens.
- The model provides an enhanced measure of internal control over all backbone service resources throughout State government, allowing issues to be identified earlier and addressed timely and effectively.
- The State benefits by having a group of professional employees with specialized skills that are transferable to serve any agency in State government.
- It creates a mechanism for the rapid deployment of resources where needed in case of an emergency, or to address problems.
- The reorganization eliminates the inter-agency competition for qualified staff resources while providing employees with greater opportunity for professional development and career advancement.
- The plan saves approximately \$10.7 million across all funds that comprise State government. The General Fund alone will provide annual net savings of approximately \$5.3 million into the future.

Significant property tax legislation was enacted in Chapter 2, Public Laws 2005 which provides property tax relief to the vast majority of Maine's citizens. The tax reform law limits spending at the municipal level of government as well as the State level. The law increases the State's share of education aid by \$250 million in the 2006 – 2007 biennia and increases according to a predetermined formula until the State meets its obligation of funding local education at 55%.

The State Controller and State Treasurer jointly introduced a proposed change to Maine Law related to the overall management of the Treasurer's Cash Pool to provide better accountability of internal transfers of cash among the various funds that comprise the cash pool. The language proposed was adopted by the Legislature in Chapter 386, Public Laws of 2005.

# FINANCIAL INFORMATION

## **Cash Management**

The State pools cash for a variety of State agencies and public sector entities. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. In accordance with statute, the Treasurer of State may deposit State funds in any of the banking institutions organized under the laws of this State, and any national bank or federal savings and loan association located in the State. All State money in any depository of State Government shall be to the credit of the State but the Treasurer of State shall not withdraw any of the funds except upon the authority of the State Controller.

The Treasurer of State 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. The list of approved pool investments includes: U.S. Treasury Bills, Notes, Bonds and Agency Securities, certain secured repurchase agreements, prime commercial paper, tax-exempt obligations, banker's acceptances, and certain secured shares of an investment company registered under the federal Investment Company Act of 1940.

## **Debt Administration**

When issuing General Obligation Bonds, the State of Maine pledges its full faith and credit to repay the financial obligation. Unless certain tax revenue streams are specifically restricted, states typically pledge all of their tax-raising powers to secure the obligations. The major bond rating agencies regularly assess the capacity and willingness of the State to repay its general obligation debt. Moody's Investors Service, Standard & Poor's, and FitchRatings make their assessments, in large part, by examining four basic analytical areas:

- Economy
- Financial Performance and Flexibility
- Debt Burden
- Administration

The economic base is the most critical element in determining the rating. Growth and diversity in the demographics, tax base, and employment base of the State over the last decade are indicators of future growth prospects and debt repayment capabilities. Generally, States with higher income levels and diverse economic bases have superior debt repayment capabilities and are better protected from sudden shocks or unexpected volatility in the economy. Because a strong economy does not always ensure a State's ability to meet debt payments, the State's financial management and performance are also key factors.

Financial analysis involves several factors, including: accounting and reporting methods; revenue and expenditure patterns; annual operating and budgetary performance; leverage and equity positions; budget and financial planning; and contingency obligations. These factors present a clear indication of the financial strengths and weaknesses of the State. The rating agencies' analyses of these factors provide the framework for judging Maine's capacity to manage economic, political, and financial uncertainties. Following is a history of Maine's credit ratings from three of the major rating agencies, and a brief explanation of their meanings:

Standard & Poor's

“AAA” is the highest Issuer Credit Rating assigned by Standard & Poor's. An obligor rated “AAA” has EXTREMELY strong capacity to meet its financial commitments. An obligor rated “AA” has VERY strong capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree. Ratings from “AA” to “CCC” may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

<u>Year</u>	<u>Rating</u>
1995	AA+
1996	AA+
1997	AA+
1998	AA+
1999	AA+
2000	AA+
2001	AA+
2002	AA+
2003	AA+
2004	AA
2005	AA-

Moody's Investors Service

Moody's is one of the few major rating agencies that measures total expected credit loss over the life of the security, assessing both the likelihood that the issuer will default and the amount of loss after a default occurs. “Aaa” rated bonds are judged to be of the best quality. Generally referred to as "gilt edge," they carry the smallest degree of risk. “Aa” rated bonds are judged to be of high quality by all standards and together with the “Aaa” group they comprise what is generally known as high grade bonds. Moody's applies one of three numerical modifiers to each generic rating classification from “Aa” to “Caa.” The modifier 1 indicates that the issue ranks at the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks at the lower end of its generic category.

<u>Year</u>	<u>Rating</u>
1995	Aa
1996	Aa
1997	Aa3*
1998	Aa2
1999	Aa2
2000	Aa2
2001	Aa2
2002	Aa2
2003	Aa2
2004	Aa2
2005	Aa3

*\* Refinement of Aa rating, not a downgrade*

FitchRatings

“AAA” indicates obligations that have the highest rating assigned by FitchRatings on its national rating scale. The capacity for timely repayment of principal and interest is considered extremely strong. “AA” indicates obligations for which capacity for timely repayment of principal and interest is very strong. Obligations rated “A” indicate that the capacity for timely repayment of principal and interest is strong relative to other obligors. However, adverse changes in business, economic or financial conditions are more likely to affect the capacity for timely repayment than for obligations in higher rated categories.

<u>Year</u>	<u>Rating</u>
1996	AA**
1997	AA
1998	AA
1999	AA
2000	AA+
2001	AA+
2002	AA+
2003	AA+
2004	AA+
2005	AA

*\*\* Initial rating in 1996, not previously rated*

Various agencies and Authorities, the Maine Technical College System, and the University of Maine System issue revenue and/or lease-backed appropriation bonds. These obligations are supported solely by the revenues received by the issuing entities and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. More detailed information about long-term obligations may be found in Note 11 to the financial statements.

## **Risk Management**

In general, the State is “self-insured” for health and dental insurance, worker’s compensation, tort liability, vehicle liability, marine and aircraft, property losses, and retiree health insurance for State employees and teachers. The Risk Management Division’s activities include analysis of and control over insurance coverage and risk exposure. Risk Management funds the cost of providing claims servicing and claims payment by charging premiums to agencies based on a review of past losses and estimated losses for the current period.

## **OTHER INFORMATION**

### **Acknowledgements and Conclusion**

State government continues to have many accomplishments of which it can be proud. Consistent with the vision of Governor Baldacci to improve and enhance the fiscal administration of governmental operations, the Office of the State Controller continues to improve and refine its skills to meet the challenges of financial management in the 21<sup>st</sup> century. The Office provides assistance to many State agencies to help insure the integrity and accountability of the programs they deliver to Maine’s citizens. We strive to find solutions to the State’s financial challenges by partnering with financial and program managers ensuring that the best solutions are found to our many challenges.

This year we are mid-way through the implementation of an integrated financial management system for State government. The system integrates treasury functions, purchasing, general ledger accounting, cost allocation, fixed assets, cost and grant accounting, and financial reporting. The financial management system also provides the State with an integrated data analysis tool that will assist agencies to better manage and account for their resources. The system will be brought online July 1, 2006 as AdvantageME. In addition, the Office of the State Controller is in the midst of implementing an Employee Self Service system that will allow employees control over their personal information, benefit selection, and payroll deductions. The system will deliver the employee’s payroll advice to their desktop electronically. We expect to implement the Employee Self Service system on a statewide basis during January 2006. These new systems support the Administration’s comprehensive consolidation of backbone services by providing employees with the very best tools to increase their overall productivity and effectiveness.

The State of Maine continues to face budgetary challenges as we approach FY 2007 as do many other States across the country resulting in many challenges.

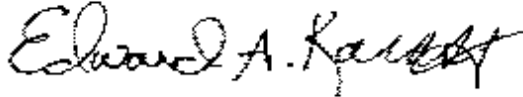
- The pressures on revenues and the demand by citizens to maintain critical services are reducing staff availability throughout State government;
- Fiscal officers and their departments are being challenged with far reaching reorganization efforts in order to maintain critical services and fiscal control over operations; and,
- Once again, in the next biennium, we will be called upon to meet the challenges presented by limited resources and demands for services by our citizens.

In an environment where economic resources are limited and agencies are coping with budget constraints, the challenge of maintaining effective internal controls is greater than ever. We will continue to partner with each department, at its highest levels, to ensure that the tools are available to help each agency assess its risks and target controls to manage those risks effectively and within its budgetary constraints whenever possible.

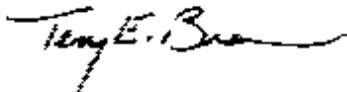


Each year the preparation of the CAFR requires the efforts of the finance people throughout the State from virtually all agencies, departments and component units. We sincerely appreciate the dedicated efforts of all of these individuals. I wish to express my appreciation to the Department of Audit for their help and cooperation. I am especially proud of the dedication and contributions of the staff of the Office of the State Controller, who each day makes a contribution to maintaining the public's trust in our financial operations. Their efforts culminate in the CAFR each year, and for the fourth consecutive year we have achieved an unqualified opinion from our auditors. Since the Balducci Administration has taken Office, we have been able to reduce the time it takes to produce an audited CAFR by approximately six months.

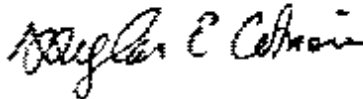
Sincerely,



Edward A. Karass, CGFM  
State Controller



Terry E. Brann, CPA  
Deputy State Controller



Douglas E. Cotnoir, CPA CIA  
Manager, Financial Reporting & Analysis



# STATE OF MAINE

## OFFICIALS OF STATE GOVERNMENT

AS OF JUNE 30, 2005

### EXECUTIVE

**John Elias Baldacci**, *Governor*

### LEGISLATIVE

**Beth Edmonds**, *President of the Senate*

**John Richardson**, *Speaker of the House*

#### Constitutional/Statutory Officers

**G. Steven Rowe**, *Attorney General*

**Neria R. Douglass**, *State Auditor*

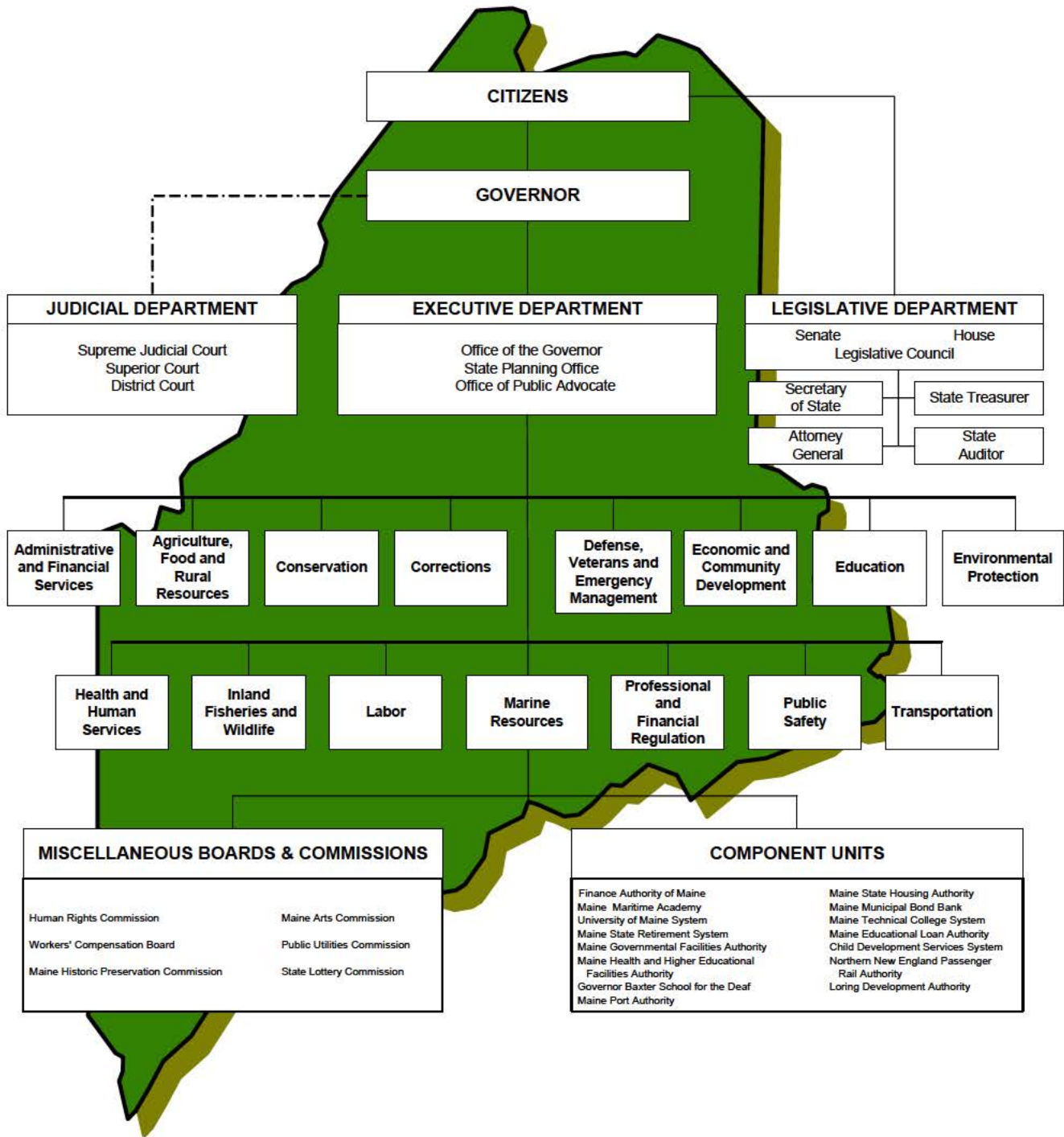
**Matthew Dunlap**, *Secretary of State*

**David G. Lemoine**, *State Treasurer*

### JUDICIAL

**Leigh Ingalls Saufley**, *Chief Justice of the State Supreme Court*

# ORGANIZATION CHART OF MAINE STATE GOVERNMENT AS OF JUNE 30, 2005





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**FINANCIAL SECTION**  
**INDEPENDENT AUDITOR'S REPORT**  
**BASIC FINANCIAL STATEMENTS**

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DEPARTMENT OF AUDIT

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**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, 2005, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Child Development Services System, Finance Authority of Maine, Governor Baxter School for the Deaf, Loring Development Authority, 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 State Housing Authority, Maine State Retirement System, Maine Community College System, Northern New England Passenger Rail Authority, and University of Maine System. Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions of the fund financial statements as follows:

<u>Government-Wide Financial Statements:</u>	<u>Percent of Assets</u>	<u>Percent of Revenues</u>
Component Units	100%	100%
<u>Fund Financial Statements:</u>	<u>Percent of Assets</u>	<u>Percent of Revenues or Additions</u>
Proprietary Funds-Governmental Activities-		
Internal Service Funds	44%	2%
Fiduciary Funds- Private Purpose Trust Funds	27.5%	9.62%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for those component units and funds, is based solely on the reports of the other auditors.

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 our 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 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, 2005, 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.

The Management's Discussion and Analysis, budgetary comparison schedules and related notes, information about infrastructure assets reported using the modified approach, and information on the schedules of funding progress and employer contributions for the State retirement plan and the Participating Local District plan 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 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 supplementary information—combining statements and individual fund statements, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining statements and individual fund statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section, as listed in the table of contents, have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As discussed in Note 3 to the financial statements, the State reclassified certain activities in 2005 and also corrected the recording of a prior period liability. As discussed in Notes 1 and 3 to the financial statements, the State changed its policy for determining which items are treated as cash equivalents.

As discussed in Note 3 to the financial statements, the State has implemented Governmental Accounting Standards Board Statement #40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*.



Neria K. Douglass, JD, CIA  
State Auditor

December 9, 2005

## 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, 2005. 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 4.6 percent from the previous fiscal year. Net assets of Governmental Activities increased by \$203.7 million, while net assets of Business-type Activities decreased by \$45.9 million. The State's assets exceeded its liabilities by \$3.6 billion at the close of fiscal year 2005. Component units reported net assets of \$1.7 billion, an increase of \$89 million (roughly six 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 \$537.7 million, an increase of \$140 million from the previous year. The General Fund's total fund balance was \$46.4 million, an increase of \$48.6 million from the previous year.
- The proprietary funds reported net assets at year end of \$491.5 million, a decrease of \$105.9 million.

#### Long-term Debt:

- The State's liability for general obligation bonds increased by \$70.7 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued \$137.5 million in bonds and made principal payments of \$66.8 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.

#### 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" one component unit, the Maine Governmental Facilities Authority (MGFA) with Governmental Activities as described above. Maine reports 14 other component units as discretely presented component units of the State, two of which are 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 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;*

*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 State Retirement System, the Maine Health and Higher Educational Facilities Authority, both discrete component units, 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 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.

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by 4.6 percent to \$3.6 billion at June 30, 2005, 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	
	<u>2005</u>	<u>2004*</u>	<u>2005</u>	<u>2004*</u>	<u>2005</u>	<u>2004*</u>
Current and other noncurrent assets	\$ 1,783,079	\$ 1,322,362	\$ 521,130	\$ 528,528	\$ 2,304,209	\$ 1,850,890
Capital assets	<u>3,468,381</u>	<u>3,239,067</u>	<u>49,961</u>	<u>52,718</u>	<u>3,518,342</u>	<u>3,291,785</u>
Total Assets	<u>5,251,460</u>	<u>4,561,429</u>	<u>571,091</u>	<u>581,246</u>	<u>5,822,551</u>	<u>5,142,675</u>
Current liabilities	1,247,806	830,316	32,710	22,051	1,280,516	852,367
Long-term liabilities	<u>823,245</u>	<u>754,372</u>	<u>100,327</u>	<u>75,247</u>	<u>923,572</u>	<u>829,619</u>
Total Liabilities	<u>2,071,051</u>	<u>1,584,688</u>	<u>133,037</u>	<u>97,298</u>	<u>2,204,088</u>	<u>1,681,986</u>
Net assets:						
Investment in capital assets, net of related debt	3,061,098	2,855,166	49,961	52,718	3,111,059	2,907,884
Restricted	290,385	217,608	459,538	450,475	749,923	668,083
Unrestricted	<u>(171,074)</u>	<u>(96,033)</u>	<u>(71,445)</u>	<u>(19,245)</u>	<u>(242,519)</u>	<u>(115,278)</u>
Total Net Assets	<u>\$ 3,180,409</u>	<u>\$ 2,976,741</u>	<u>\$ 438,054</u>	<u>\$ 483,948</u>	<u>\$ 3,618,463</u>	<u>\$ 3,460,689</u>

\* As restated

### Changes in Net Assets

The State's fiscal year 2005 revenues totaled \$6.5 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 46.9 percent and 38.9 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 \$6.3 billion for the year 2005. (See Table A-2) These expenses (70.8 percent) are predominantly related to health & human services and education activities. The State's governmental support & operations activities accounted for 7.6 percent of total costs. Total net assets increased by \$157.7 million.

**Table A-2: Changes in Net Assets**  
(Expressed in Thousands)

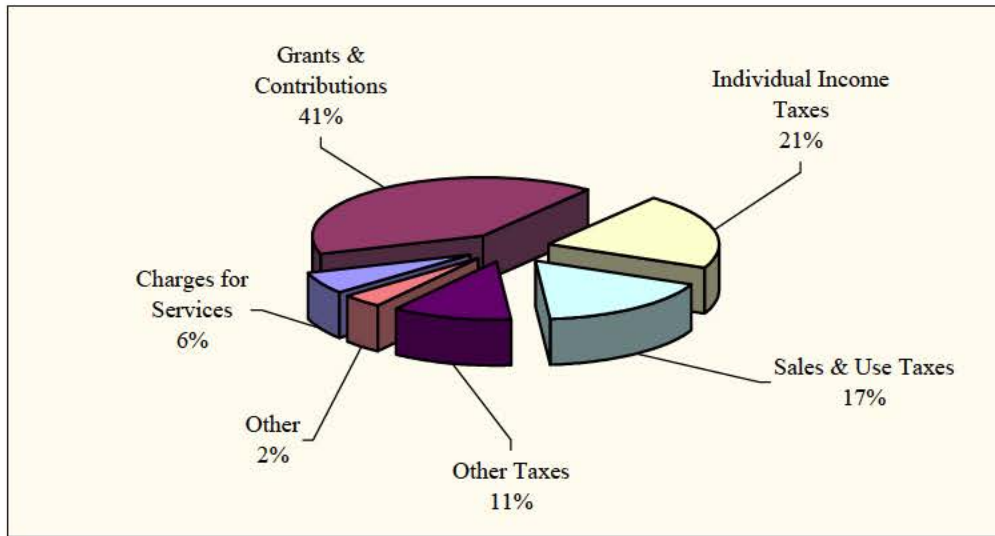
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004*</u>	<u>2005</u>	<u>2004*</u>	<u>2005</u>	<u>2004*</u>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 370,519	\$ 375,087	\$ 382,747	\$ 396,444	\$ 753,266	\$ 771,531
Grants/Contributions	2,498,863	2,470,193	24,109	27,698	2,522,972	2,497,891
General Revenues:						
Corporate Income Taxes	244,842	216,366	-	-	244,842	216,366
Individual Income Taxes	1,296,606	1,149,109	-	-	1,296,606	1,149,109
Fuel Taxes	176,020	166,174	-	-	176,020	166,174
Property Taxes	50,962	28,412	-	-	50,962	28,412
Sales & Use Taxes	1,049,890	1,086,049	-	-	1,049,890	1,086,049
Other Taxes	223,326	117,168	-	-	223,326	117,168
Investment Earnings	20,650	17,049	-	-	20,650	17,049
Other	<u>142,745</u>	<u>170,026</u>	-	-	<u>142,745</u>	<u>170,026</u>
Total Revenues	<u>6,074,423</u>	<u>5,795,633</u>	<u>406,856</u>	<u>424,142</u>	<u>6,481,279</u>	<u>6,219,775</u>
<b>Expenses</b>						
Governmental Activities:						
Governmental Support	480,837	476,149	-	-	480,837	476,149
Arts, Heritage & Culture	13,273	12,498	-	-	13,273	12,498
Business Lic & Reg	49,553	46,249	-	-	49,553	46,249
Economic Development & Workforce Training	171,092	191,869	-	-	171,092	191,869
Education	1,412,524	1,357,080	-	-	1,412,524	1,357,080
Health & Human Services	3,051,822	2,776,925	-	-	3,051,822	2,776,925
Justice & Protection	322,072	302,293	-	-	322,072	302,293
Natural Resources	171,307	166,195	-	-	171,307	166,195
Transportation Safety	246,837	203,968	-	-	246,837	203,968
Interest	32,530	31,324	-	-	32,530	31,324
Business-Type Activities:						
Employment Security	-	-	113,642	118,965	113,642	118,965
Alcoholic Beverages	-	-	7	61,958	7	61,958
Lottery	-	-	161,691	146,214	161,691	146,214
Airport	-	-	892	819	892	819
Marine Ports	-	-	1,829	1,415	1,829	1,415
Ferry Services	-	-	7,876	7,296	7,876	7,296
Military Equip. Maint.	-	-	50,908	24,639	50,908	24,639
Dirigo Health	-	-	13,587	821	13,587	821
Other	-	-	<u>2,107</u>	<u>2,107</u>	<u>2,107</u>	<u>2,107</u>
Total Expenses	<u>5,951,847</u>	<u>5,564,550</u>	<u>352,539</u>	<u>364,234</u>	<u>6,304,386</u>	<u>5,928,784</u>
Excess (Deficiency) before						
Special Items and Transfers	122,576	231,083	54,317	59,908	176,893	290,991
Special Items	30,881	75,000	(50,000)	(85,703)	(19,119)	(10,703)
Transfers	<u>50,211</u>	<u>15,137</u>	<u>(50,211)</u>	<u>(15,137)</u>	-	-
<b>Increase (Decrease) in Net Assets</b>	203,668	321,220	(45,894)	(40,932)	157,774	280,288
Beginning Net Assets *	2,976,741	2,655,521	483,948	524,880	3,460,689	3,180,401
Ending Net Assets	<u>\$ 3,180,409</u>	<u>\$2,976,741</u>	<u>\$ 438,054</u>	<u>\$ 483,948</u>	<u>\$ 3,618,463</u>	<u>\$ 3,460,689</u>

\* As restated

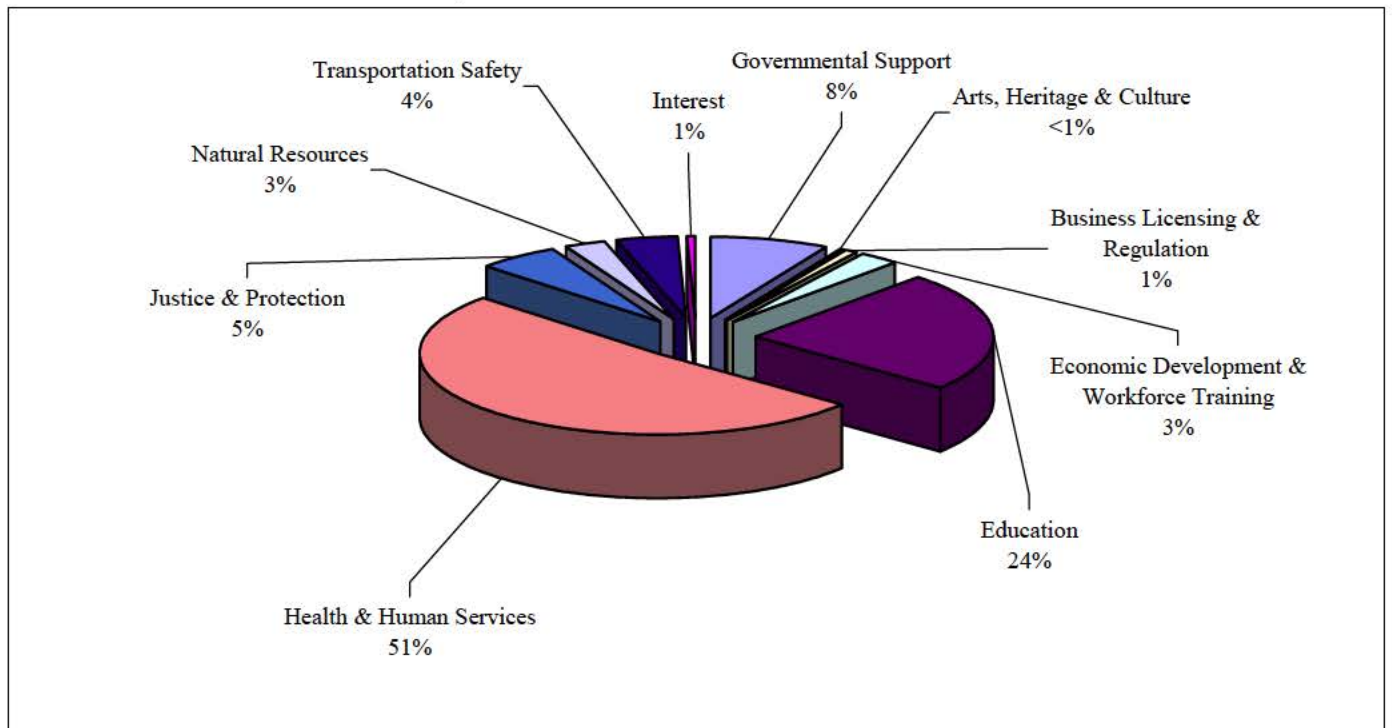
**Governmental Activities**

Revenues for the State's Governmental Activities totaled \$6.1 billion while total expenses equaled \$5.9 billion. Therefore, the increase in net assets for Governmental Activities was \$203.7 million in 2005. This is due, primarily, to increases in employment and construction, which resulted in higher-than-expected revenues in the major tax lines. The users of the State's programs financed \$370.5 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of \$2.5 billion. \$3.2 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 2005**



**Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2005**



## Business-type Activities

Revenues for the State's Business-type Activities totaled \$406.9 million while expenses totaled \$352.5 million. The decrease in net assets for Business-type Activities was \$45.9 million in 2005. One major event, recorded as a special item, contributed to the decrease: in fiscal year 2004, the State of Maine entered into a contract with a vendor to manage and operate wholesale liquor distribution as the State's agent and recorded the transfer of \$50 million of proceeds from the sale of those operating rights from the Alcoholic Beverages enterprise fund to the General Fund in the current fiscal year.

Table A-5 presents the cost of State Business-type Activities: employment security, alcoholic beverages, lottery, airport, marine ports, ferry services, 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		Net (Cost) Revenue	
	2005	2004*	2005	2004*
Employment Security	\$ 113,642	\$ 118,965	\$ 10,182	\$ (6,905)
Alcoholic Beverages	7	61,958	12,575	27,129
Lottery	161,691	146,214	50,274	42,457
Airport	892	819	(754)	(672)
Marine Ports	1,829	1,415	(1,402)	99
Ferry Services	7,876	7,296	(3,827)	(3,854)
Military Equip. Maint.	50,908	24,639	(4,431)	2,704
Dirigo Health	13,587	821	(8,371)	(821)
Other	2,107	2,107	71	(229)
Total	<u>\$ 352,539</u>	<u>\$ 364,234</u>	<u>\$ 54,317</u>	<u>\$ 59,908</u>

\*As restated.

The cost of all Business-type Activities this year was \$352.5 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was \$54.3 million. The State's Business-type Activities transferred \$100.2 million (net) to the Governmental Activities, which includes \$50.2 in statutorily required profit transfers and \$50 million of proceeds from the sale of operating rights from the Alcoholic Beverages enterprise fund.

## FINANCIAL ANALYSIS OF THE STATE'S FUNDS

At the close of the fiscal year, the State reported fund balances of \$537.7 million in its governmental funds. The Other Special Revenue Fund, at \$259.9 million, comprises 48.3 percent of the total, while the General Fund, at 46.4 million, the Highway Fund, at \$83.1 million, and the Federal Fund, at \$31.2 million comprise slightly less than 30 percent of the total fund balances. Miscellaneous non-major governmental funds, in the aggregate, comprise 21 percent of the total. Total fund balances in the governmental funds increased by \$140 million. More than 34 percent of that increase occurred in the General Fund, while 25 percent occurred in the Other Special Revenue Fund and 23 percent in the Highway Fund. Proceeds from the sale of operating rights for the State's wholesale liquor distribution accounted for \$50 million, or 36 percent of the increase in total fund balances in the governmental funds.

### **Budgetary Highlights**

For the 2005 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to \$2.8 billion, an increase of about \$160.6 million from the original legally adopted budget of approximately \$2.7 billion. Actual expenditures on the budgetary basis were \$80 million less than those authorized in the final budget, resulting from a concerted effort to reduce spending, primarily in the broad categories of education and social services. Actual revenues exceeded final budget forecasts by \$28 million mainly due to higher than expected personal income tax and sales tax revenues.

On the modified accrual basis, General Fund revenues and other financing sources exceeded expenditures and other financing uses by \$48.6 million for the fiscal year. A legislatively authorized contract with a vendor to manage and operate wholesale liquor distribution as the State's agent contributed 50 million and the return of excess equity from the Retiree Health Fund contributed 68.4 million towards the excess. The General Fund ended the year with a \$46 million surplus.

During Fiscal Year 2005, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers, which affected the General Fund: \$9.6 million from the Highway Fund to the Other Special Revenue Fund for distribution to municipalities for highway-related purposes and \$9.6 million from the Other Special Revenue Fund to the General Fund to return amounts that would otherwise have been distributed to municipalities in the absence of the transfer from the Highway Fund.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of fiscal year 2005, the State had roughly \$3.5 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2005, the State acquired or constructed more than \$269 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-6: Capital Assets**  
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004*</u>	<u>2005</u>	<u>2004*</u>	<u>2005</u>	<u>2004*</u>
Land	\$ 375,105	\$ 366,443	\$ 7,304	\$ 6,517	\$ 382,409	\$ 372,960
Buildings	459,349	441,316	8,747	8,747	468,096	450,063
Equipment	226,825	223,229	19,904	20,148	246,729	243,377
Improvements	25,022	24,372	51,410	51,410	76,432	75,782
Infrastructure	2,636,582	2,429,192	-	-	2,636,582	2,429,192
Construction in Progress	<u>28,013</u>	<u>26,972</u>	<u>708</u>	<u>1,904</u>	<u>28,721</u>	<u>28,876</u>
Total Capital Assets	3,750,896	3,511,524	88,073	88,726	3,838,969	3,600,250
Accumulated Depreciation	<u>(282,515)</u>	<u>(272,457)</u>	<u>(38,112)</u>	<u>(36,008)</u>	<u>(320,627)</u>	<u>(308,465)</u>
Capital Assets, net	<u>\$ 3,468,381</u>	<u>\$ 3,239,067</u>	<u>\$ 49,961</u>	<u>\$ 52,718</u>	<u>\$ 3,518,342</u>	<u>\$ 3,291,785</u>

\* 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 8,760 highway miles or 17,747 lane miles within the State. Bridges have a deck area of 11.4 million square feet among 2,967 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2005, the actual average condition was 79.3. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 77 at June 30, 2005. Preservation costs for fiscal year 2005 totaled \$46 million compared to estimated preservation costs of \$31 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 33, P&S 2003, \$22 million was spent during FY2005.

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% 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% of the total valuation of the State of Maine, whichever is the lesser.

At year-end, the State had \$1.1 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-7: Outstanding Long-Term Debt**  
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General Obligation						
Bonds	\$ 487,095	\$ 416,360	\$ -	\$ -	\$ 487,095	\$ 416,360
Other Long-Term						
Obligations	<u>575,708</u>	<u>451,939</u>	<u>383</u>	<u>277</u>	<u>576,091</u>	<u>452,216</u>
Total	<u>\$1,062,803</u>	<u>\$ 868,299</u>	<u>\$ 383</u>	<u>\$ 277</u>	<u>\$1,063,186</u>	<u>\$ 868,576</u>

During the year, the State reduced outstanding long-term obligations by \$66.8 million for outstanding general obligation bonds and \$250.8 million for other long-term debt. Also during fiscal year 2005, the State incurred \$513 million of additional long-term obligations.

## Credit Ratings

Three of the major bond rating agencies regularly assess the State's credit rating. During fiscal year 2005, Moody's Investors Service rated the State at Aa3, Standard & Poor's rated it at AA-, and Fitch Ratings rated it at AA.

## **FACTORS BEARING ON THE FUTURE OF STATE AND NEXT YEAR'S BUDGETS**

Maine continues to recover economically. Our State is home to many renowned institutions of higher education, both public and private, industries, vacation areas, and world famous retailers, keeping the economy relatively stable and an incubator for new ideas and growth. Unemployment has remained at or below the national average due to these stabilization factors. The State of Maine with an international reputation for recreational, cultural, historical and educational institutions remains a significant spoke of the New England economy. Maine's economy remains diversified.

Inflation continued to rise though the past year. The Consumer Price Index rose nearly 4% from July 2004 to July 2005; however, fuel and utilities prices rose nearly 16% and transportation 6%. This extended to September 2005 to include the oil price escalation due to Hurricane Katrina, with a huge 26.3% jump in fuel and utilities prices and a nearly 17.2% rise in other transportation prices. Though the oil price shock seems to be leveling, it will affect budgeting decisions throughout FY06.

Per capita income continues to rise in Maine faster than inflation. According to the latest statistics available, per capita net income rose 4.8% in FY05, ahead of the 4.7% rise nationally. However, Maine ranked 30th in the nation in growth for personal income. Unemployment has hovered at or below the national average throughout the year. Preliminary figures indicate that the rate in Maine stood at 4.9% in November of 2005 which is still below the national rate of 5.0%.

The General Fund Revenue estimate for the 2006 – 2007 Biennium provides approximately \$5.8 billion in resources to be available for general purpose spending. At the beginning of the budgeting process for the 2006-2007 Biennium, the Legislature's Office of Program and Fiscal Review estimated structural gap at approximately \$701.3 million between available revenues and costs to maintain current services. Maine is once again challenged to make significant adjustments to the spending expectations over the course of the 2006 and 2007 fiscal years.

## **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

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# **BASIC FINANCIAL STATEMENTS**

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# STATE OF MAINE STATEMENT OF NET ASSETS

June 30, 2005  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
<b>Assets</b>				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ 423,839	\$ 39,136	\$ 462,975	\$ 48,483
Cash and Cash Equivalents	282	974	1,256	18,956
Cash with Fiscal Agent	45,775	-	45,775	-
Investments	67,930	-	67,930	597,064
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	15,611	-	15,611	-
Restricted Deposits and Investments	40,753	430,372	471,125	-
Inventories	6,461	839	7,300	1,564
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	359,225	-	359,225	-
Loans Receivable	4,323	-	4,323	31,561
Notes Receivable	-	-	-	232
Other Receivables	235,872	52,079	287,951	40,801
Internal Balances	7,208	(7,208)	-	-
Due from Other Governments	477,161	-	477,161	177,498
Due from Primary Government	-	-	-	18,192
Loans Receivable from Primary Government	-	-	-	3,155
Due from Component Units	6,682	-	6,682	-
Other Current Assets	1,912	2,615	4,527	11,304
Total Current Assets	<u>1,693,034</u>	<u>518,807</u>	<u>2,211,841</u>	<u>948,810</u>
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	46,238	2,323	48,561	2,878
Assets Held in Trust	-	-	-	2
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	885	-	885	-
Restricted Deposits and Investments	-	-	-	445,348
Investments	-	-	-	409,452
Receivables, Net of Current Por ion:				
Taxes Receivable	42,922	-	42,922	-
Loans Receivable	-	-	-	1,099,377
Notes Receivable	-	-	-	105,094
Other Receivables	-	-	-	5,439
Due from Other Governments	-	-	-	1,066,615
Loans Receivable from Primary Government	-	-	-	46,268
Due From Primary Government	-	-	-	1,803
Other Noncurrent Assets	-	-	-	40,755
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	3,039,700	8,012	3,047,712	112,294
Buildings and Equipment	711,196	80,061	791,257	897,621
Less: Accumulated Depreciation	<u>(282,515)</u>	<u>(38,112)</u>	<u>(320,627)</u>	<u>(329,177)</u>
Capital Assets, Net of Accumulated Depreciation	<u>3,468,381</u>	<u>49,961</u>	<u>3,518,342</u>	<u>680,738</u>
Total Noncurrent Assets	<u>3,558,426</u>	<u>52,284</u>	<u>3,610,710</u>	<u>3,903,769</u>
Total Assets	<u>5,251,460</u>	<u>571,091</u>	<u>5,822,551</u>	<u>4,852,579</u>

The accompanying notes are an integral part of the financial statements.

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	\$ 688,599	\$ 4,319	\$ 692,918	\$ 59,327
Accrued Payroll	34,474	1,235	35,709	716
Compensated Absences	4,894	56	4,950	2,120
Tax Refunds Payable	138,721	-	138,721	-
Due to Component Units	24,707	-	24,707	-
Due to Other Governments	96,917	-	96,917	5,174
Due to Primary Government	-	-	-	7,496
Amounts Held under State & Federal Loan Programs	-	-	-	29,143
Undistributed Grants and Administrative Funds	-	-	-	8,925
Allowances for Losses on Insured Commercial Loans	-	-	-	9,189
Claims Payable	136,463	-	136,463	-
Bonds and Notes Payable	71,935	-	71,935	150,253
Revenue Bonds Payable	12,245	-	12,245	112
Obligations under Capital Leases	5,833	-	5,833	228
Certificates of Participation and Other Financing Arrangements	17,254	-	17,254	-
Pledged Future Revenues	3,155	-	3,155	-
Accrued Interest Payable	6,521	-	6,521	16,935
Deferred Revenue	2,109	13,192	15,301	60,284
Other Current Liabilities	3,979	13,908	17,887	37,429
Total Current Liabilities	<u>1,247,806</u>	<u>32,710</u>	<u>1,280,516</u>	<u>387,331</u>
Long-Term Liabilities:				
Compensated Absences	35,352	327	35,679	-
Due to Other Governments	6	-	6	4,822
Amounts Held under State & Federal Loan Programs	-	-	-	41,399
Claims Payable	49,000	-	49,000	-
Bonds and Notes Payable	415,160	-	415,160	2,680,055
Revenue Bonds Payable	177,325	-	177,325	2,483
Obligations under Capital Leases	34,072	-	34,072	4,945
Certificates of Participation and Other Financing Arrangements	19,611	-	19,611	-
Pledged Future Revenues	46,268	-	46,268	-
Deferred Revenue	12,215	100,000	112,215	664
Pension Obligation	34,236	-	34,236	-
Other Noncurrent Liabilities	-	-	-	76,863
Total Long-Term Liabilities	<u>823,245</u>	<u>100,327</u>	<u>923,572</u>	<u>2,811,231</u>
Total Liabilities	<u>2,071,051</u>	<u>133,037</u>	<u>2,204,088</u>	<u>3,198,562</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	3,061,098	49,961	3,111,059	545,272
Restricted:				
Highway Fund Purposes	80,686	-	80,686	-
Federal Programs	31,240	-	31,240	-
Natural Resources	20,170	-	20,170	-
Capital Projects and Debt Service	60,754	-	60,754	-
Unemployment Compensation	-	459,538	459,538	-
Other Purposes	29,444	-	29,444	909,671
Funds Held as Permanent Investments:				
Expendable	56,844	-	56,844	-
Nonexpendable	11,247	-	11,247	-
Unrestricted	<u>(171,074)</u>	<u>(71,445)</u>	<u>(242,519)</u>	<u>199,074</u>
Total Net Assets	<u>\$ 3,180,409</u>	<u>\$ 438,054</u>	<u>\$ 3,618,463</u>	<u>\$ 1,654,017</u>

**STATE OF MAINE  
STATEMENT OF ACTIVITIES**

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental Activities:				
Governmental Support & Operations	\$ 480,837	\$ 67,067	\$ 17,705	\$ -
Arts, Heritage & Cultural Enrichment	13,273	816	2,345	-
Business Licensing & Regulation	49,553	51,374	811	-
Economic Development & Workforce Training	171,092	3,355	88,019	-
Education	1,412,524	1,362	183,074	-
Health & Human Services	3,051,822	13,649	1,924,451	-
Justice & Protection	322,072	63,274	58,711	-
Natural Resources Development & Protection	171,307	72,450	30,501	1,522
Transportation, Safety & Development	246,837	97,172	19,106	172,618
Interest Expense	32,530	-	-	-
Total Governmental Activities	<u>5,951,847</u>	<u>370,519</u>	<u>2,324,723</u>	<u>174,140</u>
Business-Type Activities:				
Employment Security	113,642	100,136	23,688	-
Alcoholic Beverages	7	12,582	-	-
Lottery	161,691	211,965	-	-
Airport	892	125	-	13
Marine Ports	1,829	427	-	-
Ferry Services	7,876	3,642	226	181
Military Equipment Maintenance	50,908	46,476	1	-
Dirigo Health	13,587	5,216	-	-
Other	2,107	2,178	-	-
Total Business-Type Activities	<u>352,539</u>	<u>382,747</u>	<u>23,915</u>	<u>194</u>
Total Primary Government	<u>\$ 6,304,386</u>	<u>\$ 753,266</u>	<u>\$ 2,348,638</u>	<u>\$ 174,334</u>
<b>Component Units</b>				
Child Development Services	\$ 26,296	\$ 4,669	\$ 21,878	\$ -
Finance Authority of Maine	26,207	8,486	21,120	-
Governor Baxter School for the Deaf	6,012	102	107	-
Loring Development Authority	4,028	1,410	2,723	268
Maine Community College System	93,785	19,874	25,558	6,716
Maine Educational Loan Authority	3,320	2,536	614	-
Maine Maritime Academy	21,875	10,780	1,790	1,433
Maine Municipal Bond Bank	74,752	52,608	13,656	21,834
Maine Port Authority	1,056	99	306	-
Maine State Housing Authority	204,645	75,752	138,607	-
Northern New England Passenger Rail Authority	7,700	114	4,709	1,216
University of Maine System	574,850	225,653	189,255	26,264
Total Component Units	<u>\$ 1,044,526</u>	<u>\$ 402,083</u>	<u>\$ 420,323</u>	<u>\$ 57,731</u>
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				
Special Items				
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.

<b>Net (Expenses) Revenues and Changes in Net Assets</b>			
<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$ (396,065)	\$ -	\$ (396,065)	\$ -
(10,112)	-	(10,112)	-
2,632	-	2,632	-
(79,718)	-	(79,718)	-
(1,228,088)	-	(1,228,088)	-
(1,113,722)	-	(1,113,722)	-
(200,087)	-	(200,087)	-
(66,834)	-	(66,834)	-
42,059	-	42,059	-
(32,530)	-	(32,530)	-
<u>(3,082,465)</u>	<u>-</u>	<u>(3,082,465)</u>	<u>-</u>
-	10,182	10,182	-
-	12,575	12,575	-
-	50,274	50,274	-
-	(754)	(754)	-
-	(1,402)	(1,402)	-
-	(3,827)	(3,827)	-
-	(4,431)	(4,431)	-
-	(8,371)	(8,371)	-
-	71	71	-
-	<u>54,317</u>	<u>54,317</u>	<u>-</u>
<u>(3,082,465)</u>	<u>54,317</u>	<u>(3,028,148)</u>	<u>-</u>
-	-	-	251
-	-	-	3,399
-	-	-	(5,803)
-	-	-	373
-	-	-	(41,637)
-	-	-	(170)
-	-	-	(7,872)
-	-	-	13,346
-	-	-	(651)
-	-	-	9,714
-	-	-	(1,661)
-	-	-	(133,678)
-	-	-	<u>(164,389)</u>
244,842	-	244,842	-
1,296,606	-	1,296,606	-
176,020	-	176,020	-
50,962	-	50,962	-
1,049,890	-	1,049,890	-
223,326	-	223,326	-
20,650	-	20,650	9,891
-	-	-	235,768
92,851	-	92,851	7,755
(112)	-	(112)	(38)
50,006	-	50,006	-
30,881	(50,000)	(19,119)	-
50,211	(50,211)	-	-
<u>3,286,133</u>	<u>(100,211)</u>	<u>3,185,922</u>	<u>253,376</u>
203,668	(45,894)	157,774	88,987
2,976,741	483,948	3,460,689	1,565,030
<u>\$ 3,180,409</u>	<u>\$ 438,054</u>	<u>\$ 3,618,463</u>	<u>\$ 1,654,017</u>





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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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## 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 *Non-major Special Revenue 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.

Non-major governmental funds are presented, by fund type, beginning on page 107.

**STATE OF MAINE  
BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2005  
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Current Assets:						
Equity in Treasurer's Cash Pool	\$ 11,921	\$ 68,934	\$ 40,954	\$ 191,045	\$ 152	\$ 313,006
Cash and Short-Term Investments	124	114	4	37	-	279
Cash with Fiscal Agent	8,782	4,561	-	31,428	-	44,771
Investments	-	-	-	-	67,930	67,930
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	700	-	-	-	14,911	15,611
Restricted Deposits and Investments	-	-	-	-	37,550	37,550
Inventories	1,382	-	1,139	-	-	2,521
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	331,563	20,253	-	7,409	-	359,225
Loans Receivable	1	89	-	4,233	-	4,323
Other Receivable	79,238	2,327	60,958	69,009	-	211,532
Due from Other Funds	26,074	7,762	36,810	2,694	-	73,340
Due from Other Governments	-	-	408,778	-	-	408,778
Due from Component Units	5,900	-	-	-	782	6,682
Other Current Assets	378	73	67	-	-	518
Total Current Assets	<u>466,063</u>	<u>104,113</u>	<u>548,710</u>	<u>305,855</u>	<u>121,325</u>	<u>1,546,066</u>
Noncurrent Assets:						
Equity in Treasurer's Cash Pool	749	9,670	2,431	26,799	9	39,658
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	-	-	-	-	885	885
Taxes Receivable	42,922	-	-	-	-	42,922
Working Capital Advances Receivable	219	-	-	-	-	219
Total Noncurrent Assets	<u>43,890</u>	<u>9,670</u>	<u>2,431</u>	<u>26,799</u>	<u>894</u>	<u>83,684</u>
Total Assets	<u>\$ 509,953</u>	<u>\$ 113,783</u>	<u>\$ 551,141</u>	<u>\$ 332,654</u>	<u>\$ 122,219</u>	<u>\$ 1,629,750</u>
<b>Liabilities and Fund Balances</b>						
Current Liabilities:						
Accounts Payable	\$ 235,106	\$ 12,206	\$ 390,075	\$ 27,496	\$ 1,314	\$ 666,197
Accrued Payroll	15,929	8,153	4,142	5,061	-	33,285
Tax Refunds Payable	138,721	-	-	-	-	138,721
Due to Other Governments	-	-	96,174	-	-	96,174
Due to Other Funds	22,290	2,687	19,621	2,447	-	47,045
Due to Component Units	3,025	1,033	6,880	5,926	3,717	20,581
Compensated Absences	2,322	893	664	702	-	4,581
Deferred Revenue	-	-	1,750	24,950	-	26,700
Other Accrued Liabilities	3,282	421	595	269	-	4,567
Total Current Liabilities	<u>420,675</u>	<u>25,393</u>	<u>519,901</u>	<u>66,851</u>	<u>5,031</u>	<u>1,037,851</u>
Long-Term Liabilities:						
Working Capital Advances Payable	-	-	-	108	-	108
Deferred Revenue	42,922	5,307	-	5,827	-	54,056
Total Long-Term Liabilities	<u>42,922</u>	<u>5,307</u>	<u>-</u>	<u>5,935</u>	<u>-</u>	<u>54,164</u>
Total Liabilities	<u>463,597</u>	<u>30,700</u>	<u>519,901</u>	<u>72,786</u>	<u>5,031</u>	<u>1,092,015</u>
Fund Balances:						
Reserved						
Continuing Appropriations	78,510	93,597	66,928	214,313	175	453,523
Maine Budget Stabilization Fund	47,071	-	-	-	-	47,071
Debt Service	8,611	3,046	-	-	-	11,657
Capital Projects	-	-	-	-	49,097	49,097
Permanent Trusts	-	-	-	-	11,247	11,247
Other	58,492	89	-	26,823	56,669	142,073
Unreserved	<u>(146,328)</u>	<u>(13,649)</u>	<u>(35,688)</u>	<u>18,732</u>	<u>-</u>	<u>(176,933)</u>
Total Fund Balances	<u>46,356</u>	<u>83,083</u>	<u>31,240</u>	<u>259,868</u>	<u>117,188</u>	<u>537,735</u>
Total Liabilities and Fund Balances	<u>\$ 509,953</u>	<u>\$ 113,783</u>	<u>\$ 551,141</u>	<u>\$ 332,654</u>	<u>\$ 122,219</u>	<u>\$ 1,629,750</u>

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, 2005  
(Expressed in Thousands)

Total fund balances for governmental funds		\$ 537,735
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.	3,541,580	
Less: Accumulated depreciation	(159,927)	3,381,653
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	(487,095)	
Interest Payable Related to Long-term Financing	(3,530)	
Certificates of Participation and Other Financing Arrangements	(23,235)	
Claims Payable	(107,305)	
Pledged Future Revenues	(21,896)	
Compensated Absences	(34,252)	
Pension Obligation	(34,236)	(711,549)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		108,728
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.		(136,158)
Net assets of governmental activities		\$ 3,180,409

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, 2005  
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 2,653,628	\$ 218,815	\$ -	\$ 163,545	\$ -	\$ 3,035,988
Assessments and Other Revenue	88,514	92,798	-	75,378	-	256,690
Federal Grants and Reimbursements	28,894	-	2,469,632	1,997	-	2,500,523
Service Charges	38,351	6,665	656	74,324	-	119,996
Investment Income	6,877	1,441	266	2,085	6,071	16,740
Miscellaneous Revenue	12,437	3,838	9,217	105,077	40	130,609
Total Revenues	<u>2,828,701</u>	<u>323,557</u>	<u>2,479,771</u>	<u>422,406</u>	<u>6,111</u>	<u>6,060,546</u>
<b>Expenditures</b>						
Current:						
Governmental Support & Operations	270,370	34,227	5,861	142,337	8,850	461,645
Economic Development & Workforce Training	42,278	-	90,475	31,325	9,841	173,919
Education	1,201,008	-	180,790	11,137	32,309	1,425,244
Health and Human Services	957,371	-	1,934,930	205,018	533	3,097,852
Business Licensing & Regulation	3	-	763	50,117	-	50,883
Natural Resources Development & Protection	67,310	33	32,325	68,608	15,895	184,171
Justice and Protection	220,141	33,203	63,993	29,284	228	346,849
Arts, Heritage & Cultural Enrichment	8,521	-	2,437	862	1,651	13,471
Transportation Safety & Development	831	208,771	189,258	37,250	33,868	469,978
Debt Service:						
Principal Payments	53,510	13,280	-	-	-	66,790
Interest Payments	12,541	2,477	954	-	-	15,972
Total Expenditures	<u>2,833,884</u>	<u>291,991</u>	<u>2,501,786</u>	<u>575,938</u>	<u>103,175</u>	<u>6,306,774</u>
Revenue over (under) Expenditures	<u>(5,183)</u>	<u>31,566</u>	<u>(22,015)</u>	<u>(153,532)</u>	<u>(97,064)</u>	<u>(246,228)</u>
Other Financing Sources (Uses):						
Transfer from Other Funds	101,813	8,402	38,203	194,247	300	342,965
Transfer to Other Funds	(168,173)	(25,594)	(22,455)	(54,717)	(17,926)	(288,865)
Other	-	-	-	(739)	6,800	6,061
Proceeds from Pledged Future Revenues	-	-	-	49,423	-	49,423
Bonds Issued	1,681	819	-	-	137,525	140,025
Net Other Finance Sources (Uses)	<u>(64,679)</u>	<u>(16,373)</u>	<u>15,748</u>	<u>188,214</u>	<u>126,699</u>	<u>249,609</u>
Special Items:						
Return of Excess Equity from Retiree Health Insurance Fund	68,484	17,441	19,119	667	-	105,711
Refund to Federal Government Resulting from Excess Equity Distribution	-	-	(19,119)	-	-	(19,119)
Proceeds from Sale of Liquor Operating Rights	50,000	-	-	-	-	50,000
Net Special Items	<u>118,484</u>	<u>17,441</u>	<u>-</u>	<u>667</u>	<u>-</u>	<u>136,592</u>
Revenues and Other Sources over (under) Expenditures and Other Uses	<u>48,622</u>	<u>32,634</u>	<u>(6,267)</u>	<u>35,349</u>	<u>29,635</u>	<u>139,973</u>
Fund Balances at Beginning of Year (As Restated)	<u>(2,266)</u>	<u>50,449</u>	<u>37,507</u>	<u>224,519</u>	<u>87,553</u>	<u>397,762</u>
Fund Balances at End of Year	<u>\$ 46,356</u>	<u>\$ 83,083</u>	<u>\$ 31,240</u>	<u>\$ 259,868</u>	<u>\$ 117,188</u>	<u>\$ 537,735</u>

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, 2005  
(Expressed in Thousands)

Net change in fund balances - total governmental funds	\$	139,973
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	246,458	
Depreciation expense	<u>(14,034)</u>	232,424
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		
		(112)
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	(137,525)	
Proceeds from other financing arrangements	(2,500)	
Repayment of bond principal	66,790	
Repayment of other financing debt	9,911	
Accrued interest	<u>(2,031)</u>	(65,355)
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	11,824	
Pledged future revenues	(21,896)	
Claims payable	(83,135)	
Compensated absences	<u>(921)</u>	(94,128)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		
		42,522
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.		
		(51,656)
Changes in net assets of governmental activities	<u>\$</u>	<u>203,668</u>

The accompanying notes are an integral part of the financial statements.



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# PROPRIETARY FUND FINANCIAL STATEMENTS

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## MAJOR FUNDS

Unemployment Compensation Fund - This fund accounts for unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants.

Alcoholic Beverages Fund - This fund was established to license and regulate the sale of alcoholic beverages. During fiscal year 2004, the State entered into a ten-year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent.

## 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 119.

Combining fund statements for the internal service funds, whose combined totals are presented on these statements, begin on page 127.

**STATE OF MAINE**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**

June 30, 2005  
(Expressed in Thousands)

	Business-Type Activities			Totals	Governmental Activities Internal Service Funds
	Enterprise Funds				
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise		
<b>Assets</b>					
Current Assets:					
Equity in Treasurer's Cash Pool	\$ -	\$ -	\$ 39,136	\$ 39,136	\$ 110,833
Cash and Short-Term Investments	217	-	757	974	3
Cash with Fiscal Agent	-	-	-	-	1,004
Restricted Assets:					
Restricted Deposits and Investments	430,372	-	-	430,372	3,203
Inventories	-	-	839	839	3,940
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	12,245
Other Receivable	31,136	-	20,943	52,079	24,340
Due from Other Funds	8	-	3,483	3,491	17,123
Other Current Assets	-	-	2,615	2,615	1,394
Total Current Assets	<u>461,733</u>	<u>-</u>	<u>67,773</u>	<u>529,506</u>	<u>174,085</u>
Noncurrent Assets					
Equity in Treasurer's Cash Pool	-	-	2,323	2,323	6,580
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	177,325
Capital Assets - Net of Depreciation	-	-	49,961	49,961	86,728
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>52,284</u>	<u>52,284</u>	<u>270,633</u>
Total Assets	<u>461,733</u>	<u>-</u>	<u>120,057</u>	<u>581,790</u>	<u>444,718</u>
<b>Liabilities</b>					
Current Liabilities:					
Accounts Payable	693	-	3,626	4,319	22,402
Accrued Payroll	-	-	1,235	1,235	1,189
Due to Other Governments	-	-	-	-	749
Due to Other Funds	-	-	10,897	10,897	36,012
Due to Component Units	-	-	-	-	4,126
Current Portion of Long-Term Obligations:					
Certificates of Participation and Other Financing Arrangements	-	-	-	-	6,282
Revenue Bonds Payable	-	-	-	-	12,245
Obligations Under Capital Leases	-	-	-	-	5,833
Claims Payable	-	-	-	-	29,158
Compensated Absences	-	-	56	56	313
Deferred Revenue	-	12,500	692	13,192	359
Other Accrued Liabilities	1,502	-	12,406	13,908	2,403
Total Current Liabilities	<u>2,195</u>	<u>12,500</u>	<u>28,912</u>	<u>43,607</u>	<u>121,071</u>
Long-Term Liabilities:					
Working Capital Advances Payable	-	-	-	-	111
Deferred Revenue	-	100,000	-	100,000	1,081
Certificates of Participation and Other Financing Arrangements	-	-	-	-	7,348
Revenue Bonds Payable	-	-	-	-	177,325
Obligations Under Capital Leases	-	-	-	-	34,072
Claims Payable	-	-	-	-	49,000
Compensated Absences	-	-	327	327	1,100
Total Long-Term Liabilities	<u>-</u>	<u>100,000</u>	<u>327</u>	<u>100,327</u>	<u>270,037</u>
Total Liabilities	<u>2,195</u>	<u>112,500</u>	<u>29,239</u>	<u>143,934</u>	<u>391,108</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	-	-	49,961	49,961	33,193
Restricted for:					
Unemployment Compensation	459,538	-	-	459,538	-
Other Purposes	-	-	-	-	20
Unrestricted	-	(112,500)	40,857	(71,643)	20,397
Total Net Assets	<u>\$ 459,538</u>	<u>\$ (112,500)</u>	<u>\$ 90,818</u>	<u>437,856</u>	<u>\$ 53,610</u>

Amounts reported for business-type activities in the government-wide Statement of Net Assets are different due to elimination of the State's internal business-type activities.

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Net Assets of Business-Type Activities

\$ 438,054

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**

June 30, 2005  
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Totals	Governmental Activities Internal Service Funds
	Major	Major	Non-Major		
	Employment Security	Alcoholic Beverages	Other Enterprise		
<b>Operating Revenues</b>					
Charges for Services	\$ -	\$ 24	\$ 269,825	\$ 269,849	\$ 379,552
Assessments	100,136	-	-	100,136	-
Miscellaneous Revenues	-	51	78	129	73
Total Operating Revenues	<u>100,136</u>	<u>75</u>	<u>269,903</u>	<u>370,114</u>	<u>379,625</u>
<b>Operating Expenses</b>					
General Operations	-	5	235,431	235,436	304,545
Depreciation	-	2	3,411	3,413	15,220
Claims/Fees Expense	113,642	-	-	113,642	10,320
Other Operating Expenses	-	-	-	-	246
Total Operating Expenses	<u>113,642</u>	<u>7</u>	<u>238,842</u>	<u>352,491</u>	<u>330,331</u>
Operating Income (Loss)	<u>(13,506)</u>	<u>68</u>	<u>31,061</u>	<u>17,623</u>	<u>49,294</u>
<b>Nonoperating Revenues (Expenses)</b>					
Investment Revenue (Expense) - net	23,688	-	-	23,688	4,125
Interest Expense	-	-	-	-	(14,528)
Other Nonoperating Revenues (Expenses)- net	-	12,507	353	12,860	(614)
Total Nonoperating Revenues (Expenses)	<u>23,688</u>	<u>12,507</u>	<u>353</u>	<u>36,548</u>	<u>(11,017)</u>
Income (Loss) Before Capital Contributions, Transfers and Special Items	<u>10,182</u>	<u>12,575</u>	<u>31,414</u>	<u>54,171</u>	<u>38,277</u>
<b>Capital Contributions, Transfers and Special Items</b>					
Capital Contributions from (to) Other Funds	-	-	194	194	-
Transfers from (to) Other Funds	(1,119)	(75)	(49,017)	(50,211)	7,352
Special Items	-	(50,000)	-	(50,000)	(105,711)
Total Capital Contributions, Transfers In (Out) and Special Items	<u>(1,119)</u>	<u>(50,075)</u>	<u>(48,823)</u>	<u>(100,017)</u>	<u>(98,359)</u>
Change in Net Assets	9,063	(37,500)	(17,409)	(45,846)	(60,082)
Total Net Assets - Beginning of Year (As Restated)	<u>450,475</u>	<u>(75,000)</u>	<u>108,227</u>	<u>483,702</u>	<u>113,692</u>
Total Net Assets - End of Year	<u>\$ 459,538</u>	<u>\$ (112,500)</u>	<u>\$ 90,818</u>	437,856	<u>\$ 53,610</u>

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.

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Net Assets of Business-Type Activities

\$ 438,054

The accompanying notes are an integral part of the financial statements.

**STATE OF MAINE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

June 30, 2005  
(Expressed in Thousands)

	Business-Type Activities			Governmental Activities Internal Service Funds	
	Enterprise Funds				
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise		Totals
<b>Cash Flows from Operating Activities</b>					
Receipts from Customers and Users	\$ 93,602	\$ 1,565	263,709	\$ 358,876	\$ 374,939
Other Operating Cash Receipts (Payments)	-	-	-	-	-
Payments of Benefits	(114,046)	-	-	(114,046)	-
Payments to Prize Winners	-	-	(128,902)	(128,902)	-
Payments to Suppliers	-	(6,251)	(72,386)	(78,637)	(213,896)
Payments to Employees	-	(7)	(26,198)	(26,205)	(28,219)
Net Cash Provided (Used) by Operating Activities	<u>(20,444)</u>	<u>(4,693)</u>	<u>36,223</u>	<u>11,086</u>	<u>132,824</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Operating Transfers in	-	-	3,582	3,582	3,082
Operating Transfers out	(1,119)	(75)	(52,599)	(53,793)	(4,322)
Special Item - Proceeds from Sale of Right to Operate Liquor Business	-	50,000	-	50,000	-
Special Item - Transfer of Proceeds to General Fund	-	(50,000)	-	(50,000)	-
Special Item - Return of Excess Equity	-	-	-	-	(105,711)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,119)</u>	<u>(75)</u>	<u>(49,017)</u>	<u>(50,211)</u>	<u>(106,951)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Payments for Acquisition of Capital Assets	-	-	(807)	(807)	(9,132)
Proceeds from Financing Arrangements	-	-	-	-	62,921
Principal and Interest Paid on Financing Arrangements	-	3	-	3	(91,420)
Proceeds from Sale of Capital Assets	-	7	342	349	584
Net Cash Provided (Used) by Capital Financing Activities	<u>-</u>	<u>10</u>	<u>(465)</u>	<u>(455)</u>	<u>(37,047)</u>
<b>Cash Flows from Investing Activities</b>					
Interest Revenue	23,688	-	353	24,041	4,125
Payments to Purchase Investments	-	-	-	-	-
Proceeds from Sale of Investments	-	-	-	-	-
Net Cash Provided (Used) by Investing Activities	<u>23,688</u>	<u>-</u>	<u>353</u>	<u>24,041</u>	<u>4,125</u>
Net Increase (Decrease) in Cash/Cash Equivalents	2,125	(4,758)	(12,906)	(15,539)	(7,049)
Cash/Cash Equivalents - Beginning of Year	428,464	4,758	55,122	488,344	128,672
Cash/Cash Equivalents - End of Year	<u>\$ 430,589</u>	<u>\$ -</u>	<u>42,216</u>	<u>\$ 472,805</u>	<u>\$ 121,623</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities</b>					
Operating Income (Loss)	\$ (13,506)	\$ 68	31,061	\$ 17,623	\$ 49,294
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>					
Depreciation Expense	-	2	3,411	3,413	15,220
Decrease (Increase) in Assets					
Accounts Receivable	(6,547)	1,436	(4,998)	(10,109)	(3,977)
Interfund Balances	13	51	4,863	4,927	33,415
Inventories	-	-	7	7	(581)
Increase (Decrease) in Liabilities					
Accounts Payable	(1,778)	(5,365)	1,304	(5,839)	14,132
Accrued Payroll Expenses	-	(8)	519	511	162
Change in Compensated Absences	-	-	106	106	91
Other Accruals	1,374	(877)	(50)	447	25,068
Total Adjustments	<u>(6,938)</u>	<u>(4,761)</u>	<u>5,162</u>	<u>(6,537)</u>	<u>83,530</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (20,444)</u>	<u>\$ (4,693)</u>	<u>36,223</u>	<u>\$ 11,086</u>	<u>\$ 132,824</u>
<b>Non Cash Investing, Capital and Financing Activities</b>					
Property Leased, Accrued, or Acquired	-	-	-	-	\$ 4,289
Contributed Capital Assets	-	-	\$ 194	\$ 194	-
Decrease of deferred revenue from the sale of liquor operations	-	\$ 12,500	-	-	-

The accompanying notes are an integral part of the financial statements.

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# FIDUCIARY FUND FINANCIAL STATEMENTS

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Pension (and Other Employee Benefit) Trusts – accounts for funds held by the Maine State Retirement System (MSRS), a discrete component unit included with Fiduciary Funds per GASB Statement No. 34. MSRS provides pension, death, and disability benefits to its members, including State employees, some public school employees, and employees of approximately 270 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 Maine Health & Higher Educational Facilities Authority, a discrete component unit included with Fiduciary Funds per GASB Statement No. 34.

A listing of fiduciary funds and combining fund statements for private-purpose trusts and agency funds begin on page 135.

**STATE OF MAINE**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**

June 30, 2005  
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
<b>Assets</b>			
Equity in Treasurer's Cash Pool	\$ -	\$ 764	\$ 5,613
Cash and Short-Term Investments	433,389	88,039	40
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	23,251	-	-
Loans to Institutions	-	986,101	-
Interest and Dividends	23,059	462	-
Due from Brokers for Securities Sold	68,065	-	-
Other	-	608	-
Investments at Fair Value:			
Debt Securities	3,217,596	-	-
Equity Securities	2,076,149	-	-
Common/Collective Trusts	3,269,364	-	-
Restricted Deposits & Investments	-	99,536	-
Other	6,924	45,836	-
Securities Lending Collateral	2,636,501	-	-
Investments Held on Behalf of Others	-	3,169,856	57,225
Capital Assets - Net of Depreciation	1,445	3,632	-
Other Assets	-	22,416	290
Total Assets	<u>11,755,743</u>	<u>4,417,250</u>	<u>63,168</u>
<b>Liabilities</b>			
Accounts Payable	966	2,014	28
Due to Other Governments	-	1,726	-
Due to Brokers for Securities Purchased	125,407	-	-
Agency Liabilities	-	-	63,128
Obligations Under Securities Lending	2,636,501	-	-
Bonds Payable	-	1,096,041	-
Deferred Revenue	-	1,482	-
Other Accrued Liabilities	20,606	25,594	12
Total Liabilities	<u>2,783,480</u>	<u>1,126,857</u>	<u>63,168</u>
<b>Net Assets</b>			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	<u>8,972,263</u>	<u>3,290,393</u>	-
Total Net Assets	<u>\$ 8,972,263</u>	<u>\$ 3,290,393</u>	<u>\$ -</u>

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, 2005  
(Expressed in Thousands)

	<b>Pension (and Other Employee Benefit Trusts)</b>	<b>Private Purpose Trusts</b>
Additions:		
Contributions:		
Members	\$ 147,079	\$ 1,191,882
State and Local Agencies	291,827	-
Investment Income:		
Net Increase (Decrease) in the Fair Value of Investments	841,288	128,527
Capital Gains Distributions from Investments	-	18,795
Interest and Dividends	115,961	54,538
Less Investment Expense:		
Investment Activity Expense	12,967	-
Cost of Securities Lending	854	-
Net Investment Income	<u>943,428</u>	<u>201,860</u>
Bond and Note Proceeds	-	42,265
Received from Institutions	-	89,694
Miscellaneous Revenues	<u>-</u>	<u>27,262</u>
Total Additions	<u>1,382,334</u>	<u>1,552,963</u>
Deductions:		
Benefits Paid to Participants or Beneficiaries	478,064	712,389
Construction and Program Costs	-	35,416
Bond Refunding and Refinancing Escrows	-	30,566
Principal Payments on Bonds	-	37,728
Interest Expense	-	51,231
Refunds and Withdrawals	15,993	3,268
Administrative Expenses	9,535	30,609
Transfers Out	<u>-</u>	<u>11,241</u>
Total Deductions	<u>503,592</u>	<u>912,448</u>
Net Increase (Decrease)	878,742	640,515
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year (As Restated)	<u>8,093,521</u>	<u>2,649,878</u>
End of Year	<u>\$ 8,972,263</u>	<u>\$ 3,290,393</u>

The accompanying notes are an integral part of the financial statements.



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# COMPONENT UNIT

# FINANCIAL STATEMENTS

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Child Development Services System maintains a coordinated service delivery system for the provision of Childfind activities, early intervention services, and free, appropriate public education services for eligible children with disabilities.

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.

Governor Baxter School for the Deaf is a comprehensive educational organization that offers educational, residential, transitional, and outreach services to meet the needs of persons who are deaf or hard of hearing; their families, professionals, service providers, agencies and communities on a local, statewide, regional and national level.

The Loring Development Authority is responsible for the acquisition, development and management of the properties within the geographical area of the former Loring Air Force Base.

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 Educational Loan Authority was created to grant educational loans primarily using funds acquired through issuance of long-term bonds payable.

Maine Maritime Academy is a college specializing in ocean and marine programs at the undergraduate and graduate levels. The operation of the Academy is subject to review by the federal government.

The Maine Port Authority is responsible for acquiring, financing, constructing and operating port and railroad facilities within the State, to improve the global competitiveness of Maine businesses.

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.

Northern New England Passenger Rail Authority initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine.

University of Maine System – The State University consists of seven campuses and a central administrative office.

The State has three other component units, which are not included in the discretely presented component unit financial statements. The Maine State Retirement System and Maine Health and Higher Educational Facilities Authority have been included in the State’s Fiduciary Fund Statements, and the Maine Governmental Facilities Authority has been blended with the State’s Internal Service Funds.

**STATE OF MAINE**  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**

June 30, 2005  
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Governor Baxter School for the Deaf	Loring Development Authority	Maine Community College System
<b>Assets</b>					
Current Assets:					
Equity in Treasurer's Cash Pool	\$ -	\$ 36,972	\$ -	\$ -	\$ 1,805
Cash and Cash Equivalents	2,365	4,739	462	1,110	-
Investments	-	156,611	-	-	18,913
Inventories	-	-	-	-	1,215
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	-	-	22	-
Other Receivables	115	1,315	45	202	2,534
Due from Other Governments	-	107	-	134	-
Due from Primary Government	2,609	-	-	472	5,306
Loans Receivable from Primary Government	-	-	-	-	-
Other Current Assets	44	1,900	1	31	461
Total Current Assets	<u>5,133</u>	<u>201,644</u>	<u>508</u>	<u>1,971</u>	<u>30,234</u>
Noncurrent Assets:					
Equity in Treasurer's Cash Pool	-	2,195	-	-	107
Assets Held in Trust	-	-	2	-	-
Restricted Assets:					
Restricted Deposits and Investments	-	-	-	-	578
Investments	-	-	442	-	4,080
Receivables, Net of Current Portion:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	59,218	-	1,149	-
Other Receivables	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Due from Primary Government	-	-	-	-	-
Loans Receivable from Primary Government	-	-	-	-	-
Capital Assets - Net of Depreciation	700	1,822	95	69,209	84,776
Other Noncurrent Assets	-	570	-	-	-
Total Noncurrent Assets	<u>700</u>	<u>63,805</u>	<u>539</u>	<u>70,358</u>	<u>89,541</u>
Total Assets	<u>5,833</u>	<u>265,449</u>	<u>1,047</u>	<u>72,329</u>	<u>119,775</u>
<b>Liabilities</b>					
Current Liabilities:					
Accounts Payable	2,095	1,171	327	111	2,205
Accrued Payroll	294	-	422	-	-
Compensated Absences	351	-	145	51	1,561
Due to Other Governments	-	-	-	189	-
Due to Primary Government	814	-	-	782	-
Amounts Held under State & Federal Loan Programs	-	-	-	-	-
Undistributed Grants and Administrative Funds	-	8,925	-	-	-
Allowances for Losses on Insured Commercial Loans	-	9,189	-	-	-
Bonds Payable	-	52	-	-	-
Obligations under Capital Leases	7	-	-	-	-
Accrued Interest Payable	-	244	-	-	-
Deferred Revenue	60	1,642	-	32	837
Other Current Liabilities	-	335	29	77	6,616
Total Current Liabilities	<u>3,621</u>	<u>21,558</u>	<u>923</u>	<u>1,242</u>	<u>11,219</u>
Long-Term Liabilities:					
Due to Other Governments	-	-	-	-	-
Amounts Held under State & Federal Loan Programs	-	41,399	-	-	-
Bonds Payable	-	175,358	-	-	-
Obligations under Capital Leases	20	-	-	-	4,490
Deferred Revenue	-	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-	-
Total Long-Term Liabilities	<u>20</u>	<u>216,757</u>	<u>-</u>	<u>-</u>	<u>4,490</u>
Total Liabilities	<u>3,641</u>	<u>238,315</u>	<u>923</u>	<u>1,242</u>	<u>15,709</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	700	1,822	95	68,991	80,864
Restricted	1,433	(83)	293	-	12,868
Unrestricted	59	25,395	(264)	2,096	10,334
Total Net Assets	<u>\$ 2,192</u>	<u>\$ 27,134</u>	<u>\$ 124</u>	<u>\$ 71,087</u>	<u>\$ 104,066</u>

The accompanying notes are an integral part of the financial statements.



Meine Educational Loan Authority	Meine Maritime Academy	Meine Municipal Bond Bank	Meine Port Authority	Meine State Housing Authority	Northern New England Passenger Rail Authority	University of Maine System	Totals
\$ -	\$ 469	\$ -	\$ -	\$ -	\$ -	\$ 9,237	\$ 48,483
4,157	307	322	1,038	2,590	500	1,366	18,956
-	5,298	13,611	-	279,898	-	122,733	597,064
-	315	-	-	-	34	-	1,564
4,223	214	-	-	27,124	-	-	31,561
-	-	-	-	8	-	202	232
837	671	997	19	15,790	33	18,243	40,801
-	-	166,620	-	3,449	142	7,046	177,498
-	-	533	-	-	880	8,392	18,192
-	-	3,155	-	-	-	-	3,155
120	932	2,127	-	-	57	5,631	11,304
9,337	8,206	187,365	1,057	328,859	1,646	172,850	948,810
-	28	-	-	-	-	548	2,878
-	-	-	-	-	-	-	2
-	1,149	274,234	-	145,863	2,617	20,907	445,348
20,458	10,895	-	-	139,036	-	234,541	409,452
47,239	2,554	-	-	1,049,584	-	-	1,099,377
-	-	-	1,251	2,271	-	41,205	105,094
-	480	-	-	-	-	4,959	5,439
-	-	1,066,433	-	-	-	182	1,066,615
-	-	-	-	-	-	1,803	1,803
-	-	46,268	-	-	-	-	46,268
-	18,744	836	18,684	1,288	1,097	483,487	680,738
707	5,141	7,725	-	3,425	-	23,187	40,755
68,404	38,991	1,395,496	19,935	1,341,467	3,714	810,819	3,903,769
77,741	47,197	1,582,861	20,992	1,670,326	5,360	983,669	4,852,579
161	2,453	457	55	37,671	1,546	11,075	59,327
-	-	-	-	-	-	-	716
-	-	-	-	-	12	-	2,120
145	-	2,098	-	2,742	-	-	5,174
-	-	5,900	-	-	-	-	7,496
-	-	29,143	-	-	-	-	29,143
-	-	-	-	-	-	-	8,925
-	-	-	-	-	-	-	9,189
5,310	112	100,804	-	37,495	-	6,592	150,365
-	-	-	-	-	-	221	228
126	-	8,821	-	7,744	-	-	16,935
230	88	4,985	-	33,450	-	18,960	60,284
-	420	-	-	5,529	-	24,423	37,429
5,972	3,073	152,208	55	124,631	1,558	61,271	387,331
1,034	1,710	2,078	-	-	-	-	4,822
-	-	-	-	-	-	-	41,399
67,372	2,483	1,004,934	-	1,291,515	-	140,876	2,682,538
-	-	-	-	-	-	435	4,945
664	-	-	-	-	-	-	664
-	-	-	-	-	-	76,863	76,863
69,070	4,193	1,007,012	-	1,291,515	-	218,174	2,811,231
75,042	7,266	1,159,220	55	1,416,146	1,558	279,445	3,198,562
-	13,313	-	18,684	1,288	1,097	358,418	545,272
1,776	14,828	363,586	834	237,084	3,915	273,137	909,671
923	11,790	60,055	1,419	15,808	(1,210)	72,669	199,074
\$ 2,699	\$ 39,931	\$ 423,641	\$ 20,937	\$ 254,180	\$ 3,802	\$ 704,224	\$ 1,654,017

**STATE OF MAINE  
STATEMENT OF ACTIVITIES  
COMPONENT UNITS**

June 30, 2005  
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Governor Baxter School for the Deaf	Loring Development Authority	Maine Community College System
<b>Expenses</b>	\$ 26,296	\$ 26,207	\$ 6,012	\$ 4,028	\$ 93,785
<b>Program Revenues</b>					
Charges for Services	4,669	8,486	102	1,410	19,874
Program Investment Income	24	1,047	-	-	385
Operating Grants and Contributions	21,854	20,073	107	2,723	25,173
Capital Grants and Contributions	-	-	-	268	6,716
Net Revenue (Expense)	251	3,399	(5,803)	373	(41,637)
<b>General Revenues</b>					
Unrestricted Investment Earnings	-	-	37	84	1,135
Non-program Specific Grants, Contributions and Appropriations	-	-	5,868	770	41,504
Miscellaneous Income	48	-	-	7	5,476
Gain (Loss) on Assets Held for Sale	1	-	-	30	(71)
Total General Revenues	49	-	5,905	891	48,044
Change in Net Assets	300	3,399	102	1,264	6,407
Net Assets, Beginning of the Year (As Restated)	1,892	23,735	22	69,823	97,659
Net Assets, End of Year	\$ 2,192	\$ 27,134	\$ 124	\$ 71,087	\$ 104,066

The accompanying notes are an integral part of the financial statements.

<b>Maine Educational Loan Authority</b>	<b>Maine Maritime Academy</b>	<b>Maine Municipal Bond Bank</b>	<b>Maine Port Authority</b>	<b>Maine State Housing Authority</b>	<b>Northern New England Passenger Rail Authority</b>	<b>University of Maine System</b>	<b>Totals</b>
\$ 3,320	\$ 21,875	\$ 74,752	\$ 1,056	\$ 204,645	\$ 7,700	\$ 574,850	\$ 1,044,526
2,536	10,780	52,608	99	75,752	114	225,653	402,083
614	-	11,757	-	11,483	-	7,323	32,633
-	1,790	1,899	306	127,124	4,709	181,932	387,690
-	1,433	21,834	-	-	1,216	26,264	57,731
<u>(170)</u>	<u>(7,872)</u>	<u>13,346</u>	<u>(651)</u>	<u>9,714</u>	<u>(1,661)</u>	<u>(133,678)</u>	<u>(164,389)</u>
-	832	257	15	208	63	7,260	9,891
-	7,722	-	-	-	-	179,904	235,768
-	502	1,722	-	-	-	-	7,755
-	(306)	-	-	-	-	308	(38)
-	<u>8,750</u>	<u>1,979</u>	<u>15</u>	<u>208</u>	<u>63</u>	<u>187,472</u>	<u>253,376</u>
(170)	878	15,325	(636)	9,922	(1,598)	53,794	88,987
<u>2,869</u>	<u>39,053</u>	<u>408,316</u>	<u>21,573</u>	<u>244,258</u>	<u>5,400</u>	<u>650,430</u>	<u>1,565,030</u>
<u>\$ 2,699</u>	<u>\$ 39,931</u>	<u>\$ 423,641</u>	<u>\$ 20,937</u>	<u>\$ 254,180</u>	<u>\$ 3,802</u>	<u>\$ 704,224</u>	<u>\$ 1,654,017</u>



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# **NOTES TO THE FINANCIAL STATEMENTS**

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**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 all funds, organizations, agencies, boards, commissions and authorities. It includes as component units those legally separate organizations for which the State is financially accountable or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, 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.

**Blended Component Units** - Blended component units are entities that are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, benefit the State. Therefore, the State reports these organizations' balances and transactions as though they were part of the primary government. The Maine Governmental Facilities Authority (MGFA) has been blended within the financial statements of the primary government.

The MGFA was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of 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. The MGFA is included as an internal service fund in the State's financial statements.

**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. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. Because of their nature, two of the discrete component units are reported in the fiduciary funds. Those component units are the Maine State Retirement System and the Maine Health & Higher Educational Facilities Authority. The State's discrete component units are:

*The Child Development Services System* was established for the purpose of maintaining a coordinated service delivery system for the provision of Childfind activities, early intervention services, and free, appropriate public education services for eligible children with disabilities. CDS as a reporting entity includes a State-level intermediate educational unit and 16 regional intermediate educational units.

*The Finance Authority of Maine*, created in 1983, 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, the Occupational Safety Program Fund Board, and the Small Business Enterprise Growth 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 15 voting members of the Authority.

*The Governor Baxter School for the Deaf* is a comprehensive educational organization that offers educational, residential, transitional, and outreach programs while promoting deaf culture. The school offers services to meet the needs of infants, children and adults who are deaf or hard of hearing; their families, professionals, service providers, agencies and communities on a local, statewide, regional and national level. The combined financial statements of the School include the activity of the School and its component unit, the Maine Foundation for the Deaf.

*The Loring Development Authority* is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the former Loring Air Force Base. The United States Air Force transferred title to approximately 3,600 acres of land, associated facilities, infrastructure and personal property to the Authority. The Governor appoints the 13 voting members of the Board of Trustees, subject to confirmation by the Senate. At least 7 of the members must be residents of Aroostook County; at least 4 must not be residents of Aroostook County; and one shall be a Commissioner of a department of State Government, *ex officio*.

*The Maine Community College System*, formerly the Maine Technical 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 Educational Loan Authority* was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. The Governor appoints five of the Authority's seven commissioners. The Authority's fiscal year ends on December 31.

*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 consists of 12 members, one of whom must be the Superintendent of Banking, *ex officio*; one of whom must be the Commissioner of Human Services, *ex officio*; one of whom must be the Commissioner of Education, *ex officio*; one of whom must be the Treasurer of State, *ex officio*; and eight of

whom must be residents of the State appointed by the Governor. The Authority, pursuant to the Student Loan Corporations Act of 1983, may finance student loan programs of institutions of higher education.

*Maine Maritime Academy* is a college specializing in ocean and marine programs at the undergraduate and graduate levels. The operation of the Academy is subject to review by the federal government. State appropriations, student fees, and a subsidy from the Maritime Administration support the Academy. The financial statements of the Academy include the activity of the college and of a wholly-owned subsidiary "Essence Limited", whose purpose is to maintain and charter certain large donated vessels owned by the Academy for use in its programs.

*The Maine Municipal Bond Bank* is authorized to issue bonds providing funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations 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*.

*The Maine Port Authority* was established for the general purpose of acquiring, financing, constructing and operating port terminal facilities and railroad facilities within the State. Its mission is to improve the global competitiveness of Maine businesses by developing marine and rail facilities for the intermodal movement of people and cargo. The Governor appoints four of the five members of the Board of Directors. The fifth member is the Commissioner of Transportation.

*The Maine State Housing Authority* is authorized to issue bonds for the purchase of 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 Authority's fiscal year ends on December 31.

*The Maine State Retirement System* is the administrator of 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 270 local municipalities and



other public entities in Maine. The Governor appoints four of the Board's seven voting members.

*The Northern New England Passenger Rail Authority*, established on June 29, 1995 by the State of Maine Legislature, initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine. The Governor appoints the five voting members of the Authority.

*The University of Maine System* is the State University. In 1968 all existing units of the State college system (Orono, Portland, Augusta, and the Law School) were merged by the 103<sup>rd</sup> Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. 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.

Complete financial statements of the individual component units can be obtained directly from their respective administrative offices by writing to:

Child Development Services System  
146 State House Station  
Augusta, ME 04333-0146

Finance Authority of Maine  
5 Community Dr., PO Box 949  
Augusta, ME 04332-0949

Governor Baxter School for the Deaf  
Mackworth Island  
Falmouth, ME 04105

Loring Development Authority  
154 Development Drive, Suite F  
Limestone, ME 04750

Maine Community College System  
323 State Street  
Augusta, ME 04330-7131

Maine Educational Loan Authority  
One City Center 11<sup>th</sup> Floor  
Portland, ME 04101-4631

Maine Governmental Facilities Authority  
PO Box 2268  
Augusta, ME 04338-2268

Maine Health and Higher Ed. Facilities Authority  
PO Box 2268  
Augusta, ME 04338-2268.

Maine Maritime Academy  
Castine, ME 04420

Maine Municipal Bond Bank  
PO Box 2268  
Augusta, ME 04338-2268

Maine Port Authority  
16 State House Station  
Augusta, ME 04333-0016

Maine State Housing Authority  
89 State House Station, 353 Water Street  
Augusta, ME 04330-4633

Maine State Retirement System  
46 State House Station  
Augusta, ME 04333-0046

Northern New England Passenger Rail Authority  
75 West Commercial St., Suite 204  
Portland, ME 04101-4631

University of Maine System  
16 Central Street  
Bangor, ME 04401

#### **Other Component Units**

The following entities meet the criteria of component units but have not been included in the financial statements of the primary government. The amounts associated with these component units are not material to the State's financial statements: the Maine School of Science and Mathematics, the Maine Technology Institute, and the Maine Rural Development Authority.

#### **Related Organizations**

Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Public Broadcasting Corporation, the Maine Turnpike Authority, and the Maine Veteran's Home. The primary government has no material accountability for these organizations beyond making the 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.

**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 are 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 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, 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 or contradict GASB pronouncements.

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, that is, 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 be used to pay liabilities of the current period. For this purpose, the State generally considers revenues as available if they are collected within 60 days of the end

of the fiscal year. Individual income, corporate income, and sales and use taxes are considered available if collected within 12 months 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.

The State reports the following major enterprise funds:

The *Maine Employment Security Fund* accounts for contributions received from employers and unemployment compensation benefits paid to eligible unemployed workers.

The *Alcoholic Beverages Fund* was established to license and regulate the sale of alcoholic beverages. 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.

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. Examples include learning technology, funds for acquisition of public reserved lands, and other activities.

*Capital Projects Funds* account for the acquisition or construction of major capital assets and other programs financed by proceeds from bond issues.

*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 lottery operations and transportation services, as well as the State's unemployment compensation program.

*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 services, 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 those 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 State Retirement System, which is presented with the State's fiduciary funds per GASB Statement No. 34.

*Private Purpose Trust Funds* report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments as well as component units which are fiduciary in nature. Examples include Abandoned Property, Public Reserved Lands, Permanent School funds, the NextGen College Investing Plan and MHHEFA.

*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 component units are reported using fiscal years which end on June 30, except for the Maine Educational Loan Authority and the Maine State Housing Authority, which utilize December 31 year-ends.

**E. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCE****Equity in Treasurer's Cash Pool**

The State follows the practice of pooling 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 those component units that participate in the cash pool, equity in the cash pool 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 the 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 \$175 million of Workers' Compensation and \$21 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 that have been 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 at fiscal year end 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, except for the residual amounts due between governmental and business-type activities.

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 reservations of fund balance indicating that the reserves 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.

### 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 are primarily 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 (i.e., 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 \$10 thousand or more. Governmental fund equipment is capitalized at \$10 thousand or more and proprietary fund equipment is capitalized \$3 thousand or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if not purchased, at fair value at date of acquisition. The historical cost for some capital assets is not available. The cost of these assets, at the date of acquisition, has been estimated. No interest has been capitalized on self-constructed assets, since non-capitalization of interest does not materially affect the financial statements.

In the government-wide statements, depreciation is reported on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for 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's infrastructure assets are maintained and preserved at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Fixed 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 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.

### Accounts Payable

Accounts payable represent the gross amount of expenditures or expenses that have been incurred as a result of normal operation, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims

settlements, however, are actuarially estimated and recorded net of any receivables that may be due from related providers. The recorded net value of IBNP claims totals approximately \$194 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 expenses and liabilities as they accrue. In the governmental fund financial statements, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. 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 is comprised of sales and income taxes. Deferred revenue in the Federal Fund is primarily for food commodities and vaccines not yet issued. Deferred revenue in the Alcoholic Beverages Fund is comprised of the proceeds from the sale of the State's liquor operations.

#### **Pledged Future Revenues**

In the Statement of Net Assets, the amount of bond proceeds received by a component unit for unspent GARVEE bond proceeds is called "Pledged Future Revenues." 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 Reservations**

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: funds legally restricted for a specific future use or assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund.

The State reported the following fund balance reservations:

*Continuing Appropriations* - indicates appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year, if unexpended.

*Debt Service* - indicates amounts reserved for payment of future debt service obligations.

*Budget Stabilization* - indicates amounts reserved for use when revenues are under budget and critical services must be preserved.

*Capital Projects* - indicates a legally segregated portion of funds available to finance the construction of major capital facilities.

*Permanent Trusts* - indicates assets reserved for the purpose of the permanent fund.

*Other* - indicates fund balance reserved for other specified purposes including amounts for working capital needs, long-term loans to other funds, transfers to other funds, and contingency funds from which the Governor may allocate sums for various purposes.

**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 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) 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.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "dedicated" or "undedicated." Undedicated revenues are available to fund any activity accounted for in the fund. Dedicated revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused dedicated revenues at year-end are recorded as reservations of fund balance. When both dedicated and undedicated funds are available for use, it is the State's policy to use dedicated resources first.

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.

**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 M.R.S.A. § 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, established in 2003 in Chapter 451, Public Laws 2003 to replace the Maine Rainy Day Fund, is a General Fund reserve account intended to be used when revenues are under budget and critical services must be preserved. The Governor may also allocate funds from the Budget Stabilization Fund for payment of death benefits for law enforcement officers, firefighters and emergency medical services persons.

Balances in the fund do not lapse; but carry forward each year. The money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. In addition to interest earnings, the fund is capitalized at the close of each fiscal year. As the first priority before any other transfer, the State Controller is required to transfer 32% of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap. In accordance with statute, the State Controller made the required transfer for fiscal year 2005.

The statutory cap for the fund is 10% 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 2005 actual General Fund revenue, the statutory cap at the close of fiscal year 2005 and during fiscal year 2005 was \$279 million. At the close of fiscal year 2005, the balance of the Maine Budget Stabilization Fund was \$47 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.

### **Budgetary Overexpenditures**

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. For the year ended June 30, 2005, the legislature approved \$138.5 million of supplemental appropriations for the General Fund.

Actual expenditures did not exceed legislatively authorized appropriations at the Department level; therefore, the State complied with all related budget laws.

## **NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS**

### **Accounting Changes**

During fiscal year 2005, the State implemented the Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, (an amendment of GASB Statement No. 3). This Statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The Statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

### **Restatements – Primary Government**

The beginning net assets for Governmental Activities in the Statement of Net Assets was reduced by \$23.4 million to correct an error in recorded capital assets; reduced by \$6.3 million to correct an error in reported claims payable; and increased by \$3.6 million to correct an error in reported federal revenue. Beginning net assets for the Federal Fund, a major governmental fund, were also increased by \$3.6 to correct the federal revenue error.

The Dirigo Health program, formerly reported as part of the Other Special Revenue Fund, a major governmental fund, was reclassified as a non-major enterprise fund. The effect of this change was to increase beginning net assets of the Dirigo Health Fund and Business-Type Activities by \$52.1 million. Beginning net assets for the Other Special Revenue Fund and Governmental Activities were reduced by like amounts.

The Alcoholic Beverages Fund was reclassified from a non-major enterprise fund to a major enterprise fund; thereby, increasing that fund's beginning net assets by \$75 million. Beginning net assets of the non-major enterprise funds were reduced by \$75 million as a result.

Beginning balances were restated to correctly record capital assets that were not previously reported. The beginning net assets of the Maine Military Authority Fund, a non major enterprise fund, and Business-Type activities increased by \$1.3 million.

The NextGen College Investing plan, formerly reported as an Agency Fund, was reclassified as a Private Purpose Trust Fund. Beginning net assets of the Private Purpose Trust Funds were increased by \$2.6 billion due to the reclassification.

Cash/Cash Equivalents -Beginning of Year Cash/Cash Equivalents were restated on the Statement of Cash Flows for the Proprietary Funds to include investments reported in fiscal year 2004 due to a change in presentation.



**Restatements – Component Units**

The Maine Health and Higher Educational Facilities Authority, a discrete component unit that is fiduciary in nature, was previously reported in a separate column in the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. Balances associated with this fund were reclassified as part of the Private Purpose Trusts column on these statements, resulting in an increase in beginning net assets of \$106.9 million.

The beginning net assets of the Loring Development Authority, a discretely presented component unit, were reduced by \$842 thousand to correctly report capital assets acquired from the United States Air Force.

**NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS**

Two internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2005. The Workers' Compensation Fund reported a deficit of \$34.7 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund showed a deficit of \$3.8 million, which reflects the recording of capital lease depreciation. These deficits are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of \$112.5 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 Maine Military Authority Enterprise Fund shows a deficit of \$1.3 million. Expenses are recognized when incurred; however, related revenue is not earned until repair projects are satisfactorily completed. The deficit will be funded by future billings as projects are completed.

**NOTE 5 - DEPOSITS AND INVESTMENTS**

The deposit and investment policies of the State of Maine Office of the Treasurer are governed by Title 5 of the Maine Revised Statutes Annotated (M.R.S.A.). Per 5 M.R.S.A. § 135, 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 5 M.R.S.A. § 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, M.R.S.A. 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% of the capital, surplus, and undivided profits of any trust company or national bank or 25% 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 rates. 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, 2005 consisted of:

**Primary Government Deposits and Investments**  
(Expressed in Thousands)

	<b>Governmental</b>	<b>Business-Type</b>	<b>Private Purpose</b>	<b>Agency</b>	
	<u>Activities</u>	<u>Activities</u>	<u>Trusts (1)</u>	<u>Funds</u>	<u>Total</u>
Equity in Treasurer's Cash Pool	\$ 470,077	\$ 41,459	\$ 764	\$ 5,613	\$ 517,913
Cash and Cash Equivalents	282	974	-	40	1,296
Cash with Fiscal Agent	45,775	-	-	-	45,775
Investments	67,930	-	10,511	-	78,441
Restricted Equity in Treasurer's Cash Pool	16,496	-	-	-	16,496
Restricted Deposits and Investments	40,753	430,372	-	-	471,125
Investments Held on Behalf of Others	-	-	3,169,856	57,225	3,227,081
Other Assets	-	-	20,849	-	20,849
<b>Total Primary Government</b>	<b>\$ 641,313</b>	<b>\$ 472,805</b>	<b>\$ 3,201,980</b>	<b>\$ 62,878</b>	<b>\$ 4,378,976</b>

(1) Maine Health & Higher Educational Facilities Authority, a component unit that is fiduciary in nature, has been excluded.

*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, 2005:

	Maturities in Years (Expressed in Thousands)						Fair Value
	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>11-20</u>	<u>More than 20</u>	<u>No Maturity</u>	
<i>Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds</i>							
US Instrumentalities	\$ 64,325	\$ 43,846	\$ -	\$ -	\$ -	\$ -	\$ 108,171
US Treasury Notes	12,922	-	-	-	-	-	12,922
Repurchase Agreements	84,225	-	-	-	-	-	84,225
Corporate Notes and Bonds	2,864	2,615	-	-	-	-	5,479
Commercial Paper	298,112	-	-	-	-	-	298,112
Certificates of Deposit	9,861	-	-	-	-	-	9,861
Money Market	46,814	-	-	-	-	-	46,814
Cash and Cash Equivalents	-	-	-	-	-	4,459	4,459
Unemployment Fund Deposits with US Treasury	-	-	-	-	-	430,372	430,372
<i>Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds</i>							
US Instrumentalities	1,289	3,995	3,102	2,514	2,450	-	13,350
US Treasury Notes	1,115	17,866	5,174	4,683	7,606	-	36,444
Repurchase Agreements	564	-	-	-	-	-	564
Corporate Notes and Bonds	439	5,431	2,439	684	1,732	-	10,725
Other Fixed Income Securities	-	176	80	-	-	-	256
Commercial Paper	3,600	-	-	-	-	-	3,600
Certificates of Deposit	119	-	-	-	-	-	119
Money Market	565	-	-	-	-	430	995
Cash and Cash Equivalents	-	-	-	-	-	25,472	25,472
Equities	-	-	-	-	-	50,545	50,545
Other	-	-	-	-	-	11	11
	\$ 526,814	\$ 73,929	\$ 10,795	\$ 7,881	\$ 11,788	\$ 511,289	\$ 1,142,496
NextGen College Investing Plan							3,169,856
Other Assets							20,849
Cash with Fiscal Agent							45,775
Total Primary Government							<u>\$ 4,378,976</u>

**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. To the extent possible in the Treasurer’s Cash Pool, at least 30% of the portfolio shall be invested in U.S. Treasury, Federal

Agency or Federal Instrumentality securities, or Repurchase Agreements. The State limits credit risk in its trusts by ensuring that at least 85% of the debt securities are rated A or better.

The Primary Government’s total investments by credit quality rating as of June 30, 2005 is presented below:

	Standard & Poor’s Credit Rating (Expressed in Thousands)								Total
	<u>A1</u>	<u>A</u>	<u>AA</u>	<u>AA+</u>	<u>AAA</u>	<u>BB</u>	<u>BBB</u>	<u>Not Rated</u>	
<i>Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds</i>									
US Instrumentalities	\$ -	\$ -	\$ -	\$ -	\$ 108,171	\$ -	\$ -	\$ -	\$ 108,171
US Treasury Notes	-	-	-	-	12,922	-	-	-	12,922
Corporate Notes and Bonds	-	-	-	2,614	2,865	-	-	-	5,479
Commercial Paper	263,246	-	-	-	-	-	-	34,866	298,112
Money Market	-	-	-	-	-	-	-	46,814	46,814
<i>Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds</i>									
US Instrumentalities	-	-	105	-	8,453	-	-	4,792	13,350
US Treasury Notes	-	-	-	-	36,444	-	-	-	36,444
Corporate Notes and Bonds	-	3,407	1,180	32	4,354	50	1,517	185	10,725
Commercial Paper	3,179	-	-	-	-	-	-	421	3,600
Money Market	-	-	-	-	-	-	-	995	995
Other Fixed Income Securities	-	-	256	-	-	-	-	-	256
Total Primary Government	<u>\$ 266,425</u>	<u>\$ 3,407</u>	<u>\$ 1,541</u>	<u>\$ 2,646</u>	<u>\$ 173,209</u>	<u>\$ 50</u>	<u>\$ 1,517</u>	<u>\$ 88,073</u>	<u>\$ 536,868</u>

**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, 2005, more than 5% of the cash pool’s investments were in FHLB and TD Banknorth. These investments are 11% and 14%, respectively, of the cash pool’s total investments.

**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments 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. The State does not have a policy regarding custodial credit risk for its trusts. Of the cash pool’s \$11.3 million invested in non-negotiable certificates of deposit, \$5.6 million exceed the FDIC insured amounts for the institutions at which they were held. 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, 2005 was \$56.6 million and was comprised of the following investments (in thousands):

U.S. Instrumentalities	\$ 6,554
US Treasury Notes	4,102
Corporate Notes and Bonds	4,744
Other fixed Income Securities	256
Equities	38,193
Cash and Equivalents	2,821
Other	11
Total	<u>\$ 56,681</u>

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to the vendors. During fiscal year 2005, these disbursements, on average, exceeded \$138 million per month. The funds in transit are not collateralized and are not held by the State Treasurer so, until the vendor receives payment, the State retains some liability.

#### MAINE STATE RETIREMENT SYSTEM

The Maine State Retirement System (The System) makes investments in a combination of equities, fixed income securities, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy. The System prohibits its investment managers from using leverage in its derivative financial instruments or from investing in speculative positions.

The System has also entered into agreements for securities lending transactions, which are collateralized in an amount at least equal to 102 percent (105 percent for international securities) of the market value of the securities loaned.

#### 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 M.R.S.A. §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. 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 52 different investment portfolios which are reported at fair value and total \$3.2 billion at June 30, 2005.

*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's investments are held in either the name of the Account or the Account's 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, 2005 was \$34.7 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, and other short-term debt securities issued by U.S. and foreign entities repurchase agreements. In addition, the Account invests in certificates of deposit issued by Maine financial institutions in accordance with instructions of FAME and the Treasurer. All Maine CD's are FDIC insured or fully collateralized. The value of the Account at June 30, 2005 was \$141.3 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 risk disclosures. The Account intends to invest no more than a maximum of 10 percent of its assets in Maine CDs even though it has no prescribed limit on such investments.

*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):

	<u>Fair Value</u>
Principal Plus Portfolio	\$ 34,739
Cash Allocation Account	141,352
Fixed Income Securities	<u>659,666</u>
Total Fair Value	<u>\$ 835,757</u>

#### 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 11 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 \$51.4 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 \$17.1 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.

**NOTE 6 - RECEIVABLES**

Receivable balances are segregated by type, classified as current and noncurrent, 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)

	<u>Taxes</u>	<u>Accounts</u>	<u>Loans</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivables</u>
<b>Governmental Funds:</b>					
General	\$506,700	\$95,588	\$ 1	\$(148,565)	\$ 453,724
Highway	23,314	2,329	89	(3,063)	22,669
Federal	-	70,088	-	(9,130)	60,958
Other Special Revenue	7,742	71,467	5,458	(4,016)	80,651
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	<u>537,756</u>	<u>239,472</u>	<u>5,548</u>	<u>(164,774)</u>	<u>618,002</u>
Allowance for Uncollectibles	<u>(135,609)</u>	<u>(27,940)</u>	<u>(1,225)</u>	-	-
Net Receivables	<u>\$ 402,147</u>	<u>\$ 211,532</u>	<u>\$ 4,323</u>		<u>\$ 618,002</u>
<b>Proprietary Funds:</b>					
Employment Security	\$ -	\$ 38,083	\$ -	\$(6,947)	\$ 31,136
Nonmajor Enterprise	-	21,064	-	(121)	20,943
Internal Service	-	<u>24,341</u>	<u>189,570</u>	<u>(1)</u>	<u>213,910</u>
Total Proprietary Funds	-	83,488	189,570	(7,069)	265,989
Allowance for Uncollectibles	-	<u>(7,069)</u>	-	-	-
Net Receivables	<u>\$ -</u>	<u>\$ 76,419</u>	<u>\$189,570</u>		<u>\$ 265,989</u>

**Component Units - Receivables**  
(Expressed in Thousands)

	<u>Accounts</u>	<u>Loans</u>	<u>Notes</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivables</u>
Finance Authority of Maine	\$ 1,315	\$ -	\$63,449	\$(4,231)	\$60,533
Maine Educational Loan Authority	837	52,604	-	(1,142)	52,299
Maine State Housing Authority	15,790	1,087,129	2,381	(10,523)	1,094,777
University of Maine System	25,181	-	42,030	(2,602)	64,609

**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, 2005 were:

<b>Interfund Receivables</b> (Expressed in Thousands)				
<b>Due to Other Funds</b>				
<u>Due from Other Funds</u>	<u>General</u>	<u>Highway</u>	<u>Federal Fund</u>	<u>Other Special Revenue</u>
General	\$ -	\$ -	\$ 6,319	
Highway	-	-	7,532	
Federal	16,483	15	134	843
Other Special Revenue	439	159	682	395
Employment Security		-	8	-
Non-Major Enterprise	3	8	3,081	1
Internal Service	<u>5,365</u>	<u>2,505</u>	<u>1,865</u>	<u>1,208</u>
Total	<u>\$22,290</u>	<u>\$2,687</u>	<u>\$19,621</u>	<u>\$2,447</u>
<u>Due from Other Funds</u>	<u>Employment Security</u>	<u>Non-Major Enterprise</u>	<u>Internal Service</u>	<u>Total</u>
General	\$ -	\$ 10,411	\$9,344	\$26,074
Highway	-		230	7,762
Federal	-		19,335	36,810
Other Special Revenue		33	986	2,694
Employment Security	-	-	-	8
Non-Major Enterprise			390	3,483
Internal Service	<u>-</u>	<u>453</u>	<u>5,727</u>	<u>17,123</u>
Total	<u>\$ -</u>	<u>\$10,897</u>	<u>\$36,012</u>	<u>\$93,954</u>

Not included in the table above are the following interfund loans/advances, which are not expected to be repaid within one year. Various funds owe a total of \$219 thousand to the General Fund for operating capital: Department of Defense, Veterans and Emergency

Management (a special revenue fund) \$108 thousand; and, Postal Printing & Supply (an internal service fund) \$111 thousand.



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 2005, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers: \$9.6 million from the Highway Fund to the Other Special Revenue Fund for distribution to municipalities for highway-related purposes and \$9.6 million from the Other Special Revenue Fund to the General Fund to return amounts that would otherwise have been distributed to municipalities in the absence of the transfer from the Highway Fund.

Interfund transfers for the year ended June 30, 2005, consisted of the following:

**Interfund Transfers**  
(Expressed in Thousands)

<u>Transferred To</u>	<u>Transferred From</u>				
	<u>General</u>	<u>Highway</u>	<u>Federal</u>	<u>Other Special Revenue</u>	<u>Other Governmental</u>
General	\$ -	\$ 14,400	\$86	\$ 27,454	\$ 300
Highway	6,801	-	2	1,599	-
Federal	12,689	-	-	24,380	-
Other Special Revenue	141,818	9,611	20,985	-	17,626
Other Governmental Funds	300	-	-	-	-
Employment Security	-	-	-	-	-
Non-Major Enterprise	2,737	-	3	-	-
Internal Service	3,828	1,583	1,379	1,284	-
Fiduciary	-	-	-	-	-
Total	<u>\$168,173</u>	<u>\$25,594</u>	<u>\$22,455</u>	<u>\$54,717</u>	<u>\$17,926</u>

<u>Transferred To</u>	<u>Transferred From</u>					
	<u>Alcoholic Beverages</u>	<u>Employment Security</u>	<u>Non-Major Enterprise</u>	<u>Internal Service</u>	<u>Fiduciary</u>	<u>Total</u>
General	\$ 75	\$ -	\$48,998	\$500	\$10,000	\$101,813
Highway	-	-	-	-	-	8,402
Federal	-	1,119	15	-	-	38,203
Other Special Revenue	-	-	2,965	1	1,241	194,247
Other Governmental Funds	-	-	-	-	-	300
Employment Security	-	-	-	-	-	-
Non-Major Enterprise	-	-	-	366	-	3,106
Internal Service	-	-	145	3,455	-	11,674
Fiduciary	-	-	-	-	-	-
Total	<u>\$ 75</u>	<u>\$1,119</u>	<u>\$52,123</u>	<u>\$4,322</u>	<u>\$11,241</u>	<u>\$357,745</u>

**NOTE 8 - CAPITAL ASSETS**

The following schedule details capital asset activity of the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2005:

<b>Primary Government - Capital Assets</b> (Expressed in Thousands)				
	<u>Beginning Balance*</u>	<u>Increases and Other Additions</u>	<u>Decreases and Other Deletions</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 366,443	\$ 8,774	\$ 112	\$ 375,105
Construction in progress	26,972	15,129	14,088	28,013
Infrastructure	<u>2,429,192</u>	<u>207,390</u>	<u>-</u>	<u>2,636,582</u>
Total capital assets, not being depreciated	2,822,607	231,293	14,200	3,039,700
Capital assets, being depreciated				
Buildings	441,316	22,287	4,254	459,349
Equipment	223,229	26,939	23,343	226,825
Improvements other than buildings	<u>24,372</u>	<u>653</u>	<u>3</u>	<u>25,022</u>
Total capital assets, being depreciated	<u>688,917</u>	<u>49,879</u>	<u>27,600</u>	<u>711,196</u>
Less accumulated depreciation for:				
Buildings	103,373	16,213	4,377	115,209
Equipment	161,461	11,031	14,818	157,674
Improvements other than buildings	<u>7,623</u>	<u>2,012</u>	<u>3</u>	<u>9,632</u>
Total accumulated depreciation	<u>272,457</u>	<u>29,256</u>	<u>19,198</u>	<u>282,515</u>
Total capital assets being depreciated, net	<u>416,460</u>	<u>20,623</u>	<u>8,402</u>	<u>428,681</u>
Governmental Activities Capital Assets, net	<u>\$ 3,239,067</u>	<u>\$ 251,916</u>	<u>\$ 22,602</u>	<u>\$ 3,468,381</u>
<b>Business-Type Activities:</b>				
		<u>Net Additions</u>	<u>Net Deletions</u>	
Capital assets, not being depreciated				
Land	\$ 6,517	\$ 787	\$ -	\$ 7,304
Construction in progress	<u>1,904</u>	<u>160</u>	<u>1,356</u>	<u>708</u>
Total capital assets, not being depreciated	8,421	947	1,356	8,012
Capital assets, being depreciated				
Buildings	8,747	-	-	8,747
Equipment	20,148	1,068	1,312	19,904
Improvements other than buildings	<u>51,410</u>	<u>-</u>	<u>-</u>	<u>51,410</u>
Total capital assets, being depreciated	<u>80,305</u>	<u>1,068</u>	<u>1,312</u>	<u>80,061</u>
Less accumulated depreciation	<u>36,008</u>	<u>3,420</u>	<u>1,316</u>	<u>38,112</u>
Total capital assets, being depreciated, net	<u>44,297</u>	<u>(2,352)</u>	<u>(4)</u>	<u>41,949</u>
Business-Type Activities Capital Assets, net	<u>\$ 52,718</u>	<u>\$ (1,405)</u>	<u>\$ 1,352</u>	<u>\$ 49,961</u>

\* As Restated.

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)

	<u>Amount</u>
<b>Governmental Activities:</b>	
Arts, Heritage and Cultural Enrichment	\$ 72
Business Licensing and Regulation	287
Economic Development and Workforce Training	759
Education	122
Governmental Support and Operations	5,562
Health and Human Services	2,380
Justice and Protection	7,721
Natural Resources Development and Protection	3,485
Transportation Safety and Development	<u>8,868</u>
Total Depreciation Expense – Governmental Activities	<u>\$29,256</u>

**NOTE 9 - MAINE STATE RETIREMENT SYSTEM**

**PLAN DESCRIPTION**

The Maine State Retirement System is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Maine State Retirement System Laws, Title 5 M.R.S.A., C. 421, 423, and 425. The System is a component unit of the State. Financial information for the System is included in the Statement of Fiduciary Net Assets and in the Statement of Changes in Fiduciary Net Assets. Additional schedules and information are presented in the accompanying Required Supplementary Information (RSI). The Maine State Retirement System issues a stand-alone financial report which includes schedules of funding progress and employer contributions. That comprehensive annual financial report for June 30, 2005 may be obtained from the Maine State Retirement System, 46 State House Station, Augusta, ME 04333.

The System provides pension, death, and disability benefits to its members, which include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement benefit contribution purposes, and employees of approximately 270 local municipalities and other public entities in Maine, each of which contracts for participation in the System under provisions of relevant statutes.

At June 30, 2005, the membership consisted of:

Active vested and nonvested members	52,434
Terminated vested participants	6,248
Retirees and benefit recipients	<u>32,250</u>
Total	<u>90,932</u>

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 is age 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993 (effective October 1, 1999, the prior ten-year requirement was reduced to five years by legislative action). 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 death and disability benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all

benefits and membership rights. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 6.0 percent.

In the event that a participating entity withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The participating entity 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.

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 annual actuarial valuations.

The total funds managed by the System are constitutionally restricted, as 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 Maine State 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.

The System also provides group life insurance under a plan that is administered by a third party insurance company. 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 in the amount of benefits paid out and additional payments representing administrative fees.

## FUNDING POLICY

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due.

Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize 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 unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 12 years remained at June 30, 2005.

For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability, and the amount of the unfunded liability. Amortization periods range from 4 years to 16 years.

In order to reduce any unfunded pension liability for State employees and teachers, the State is required to remit 32% of its General Fund unappropriated surplus to the System at year end. For fiscal 2005, this additional contribution was approximately \$13.1 million. The amount will be paid by the State after year end.

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 2005 for participating entities are:

<u>State:</u>	
Employees <sup>1</sup>	7.65-8.65%
Employer <sup>1</sup>	13.39-38.18%
<u>Teachers:</u>	
Employees	7.65%
Employer	16.02%
<u>Participating Local Entities:</u>	
Employees <sup>1</sup>	3.0-8.0%
Employer <sup>1</sup>	1.5-6.5%

<sup>1</sup> Contribution rates vary depending on specific terms of plan benefits for certain classes of employees and/or, in the case of PLDs, in 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 participating local districts. 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	\$261,698
Interest on net pension obligation	3,685
Adjustment to annual required contribution	<u>(2,509)</u>
Annual pension cost	262,874
Contributions made	<u>274,698</u>
Increase (decrease) in net pension obligation	(11,824)
Net pension obligation beginning of year	<u>46,060</u>
Net pension obligation end of year	<u>\$ 34,236</u>

**Analysis of Funding Progress**  
(Expressed in Thousands)

<u>Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Covered</u>	<u>Net Pension Obligation</u>
2005	\$262,874	104.50%	\$34,236
2004	253,282	107.98%	46,060
2003	253,370	103.88%	66,261

The annual required contribution for the current year was determined as part of the June 30, 2003 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 8% return on investments and (b) projected salary increases of 5.5% to 9.5% per year, including cost of living. The assumptions include post retirement benefit increases of 4% per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a 25 year period. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability, (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 4 to 16 years.

**COMPONENT UNIT PARTICIPANTS**

The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine State Retirement System have defined benefit pension plans. All are participants in plans administered by the Maine State Retirement System. Employees of the Maine Community College System, Governor Baxter School for the Deaf, and the Northern New England Passenger Rail Authority are considered to be State employees for retirement benefit purposes and are included in the pension disclosures of the State.

Employer contributions met actuarially determined contribution requirements.

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS****POST RETIREMENT HEALTH CARE BENEFITS**

The State of Maine funds postretirement health care benefits for most retired State employees and legislators, as authorized by 5 M.R.S.A. § 285, and for a portion of the premiums for teachers, as authorized by 20-A M.R.S.A. § 13451. Pursuant to 5 M.R.S.A., § 285, most retired employees of the Maine Turnpike Authority, the Maine Community College System, the Maine Maritime Academy, the Maine State Retirement System, and the Governor Baxter School for the Deaf are eligible to participate in the health plan but are not funded by the State. Specifically excluded (5 M.R.S.A., § 285 1-B) are members of the Maine Municipal Association, the Maine Teachers Association and employees of counties and municipalities and their instrumentalities.

The State pays 100 percent of post retirement health insurance premiums for 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. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. The 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. Effective August 1, 2003, the State contribution to retired teacher health premium was increased to 40 %.

The State had been in the process of changing funding of retiree health care benefits from a pay-as-you-go basis to an actuarial funding method. For retired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount is generated using a contribution rate, authorized by 5 MRSA § 286-A, multiplied by the value of the current employee payroll. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual amount necessary to pay its 40 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in

the General Fund. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed. Due to budgetary constraints and difficulties accumulating sufficient resources to fund retiree health care benefits on an actuarial basis, Chapter 673 PL 2003 authorizes the State to manage the retiree health insurance fund on a cost-reimbursement basis beginning June 30, 2005.

As of June 30, 2005, there were 8,964 retired eligible State employees and 6,535 retired teachers. In fiscal year 2005, the State paid into the Retiree Health Insurance Fund \$63.6 million for retired employees and \$13.9 million for retired teachers. Premium charges paid were \$37 million and \$11.6 million, respectively. Overall, Net Assets decreased by \$82.8 million to \$7.6 million at June 30, 2005 as a result of refunding excess contributions back to originating funds or entities.

The most recent actuarial study, issued for the fiscal year ended June 30, 2003, estimated the liability for current and future retirees at \$1.2 billion. This includes 13,945 retirees and 42,528 active employees expected to retire in the future.

**POST RETIREMENT LIFE INSURANCE BENEFITS**

The Maine State Retirement System provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of ten years. Payments of claims are made from a fund containing the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. For the fiscal year ended June 30, 2005, claims totaled \$1.9 million for retired State employees and \$1.5 million for retired teachers. The number of participants eligible to receive benefits at fiscal year end was 6,665 retired State employees and 5,188 retired teachers.

**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; pledged future revenues for repayment of bonds issued by the MMBB on behalf of the Maine Department of Transportation; compensated employee absences; and the State's net pension obligation.

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 2005 were:

**GENERAL OBLIGATION BONDS**

Programs for which the State issues general obligation bonds include: adaptive equipment loan programs;

**Primary Government - Changes in General Obligation Bonds**  
(Expressed in Thousands)

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Debt:					
General Fund	\$ 355,025	\$ 137,525	\$ 53,440	\$ 439,110	\$ 57,915
Special Revenue Fund	61,105	-	13,280	47,825	13,950
Self Liquidating	230	-	70	160	70
Total	<u>\$ 416,360</u>	<u>\$ 137,525</u>	<u>\$ 66,790</u>	<u>\$ 487,095</u>	<u>\$ 71,935</u>

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary

government, from June 30, 2005 until maturity, are summarized in the following table:

**Future Debt Service on General Obligation Bonds**  
(Expressed in Thousands)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	71,935	17,271	89,206
2007	74,520	16,431	90,951
2008	65,660	13,411	79,071
2009	57,435	10,740	68,175
2010	51,635	8,256	59,891
2011-2015	<u>165,910</u>	<u>14,262</u>	<u>180,172</u>
Total	<u>\$ 487,095</u>	<u>\$ 80,371</u>	<u>\$ 567,466</u>

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2005 are as follows:

**Primary Government – General Obligation Bonds Outstanding**  
(Expressed in Thousands)

	<u>Amounts Issued</u>	<u>Outstanding 6/30/2005</u>	<u>Fiscal Year Maturities</u>		<u>Interest Rates</u>
			<u>First Year</u>	<u>Last Year</u>	
General Fund:					
Series 1991	\$109,625	\$7,695	1994	2007	5.70% - 8.95%
Series 1995	51,350	4,300	1997	2006	4.25% - 7.50%
Series 1996	51,700	4,250	1997	2006	4.10% - 7.00%
Series 1997	37,700	5,360	1998	2007	4.875% - 7.125%
Series 1998	54,500	15,615	1999	2008	4.20% - 6.50%
Series 1999	54,385	15,485	2000	2009	4.20% - 6.75%
Series 2000	66,290	28,025	2000	2010	4.875% - 7.75%
Series 2001	22,050	12,830	2002	2011	4.00% - 6.08%
Series 2002	27,610	19,320	2003	2012	3.00% - 5.75%
Series 2003	97,080	77,655	2003	2013	1.50% - 5.00%
Series 2004	117,275	110,765	2005	2014	2.00% - 5.27%
Series 2005	137,525	137,525	2006	2015	2.00% - 5.27%
Miscellaneous	6,000	<u>285</u>	1966	2006	4.00%
Total General Fund		<u>\$439,110</u>			
Special Revenue Fund:					
Series 1991	26,500	3,760	1994	2007	5.70% - 7.875%
Series 1995	10,000	1,000	1997	2006	4.25% - 5.10%
Series 1996	25,000	2,500	1997	2006	4.20% - 5.375%
Series 1997	5,000	1,000	1998	2007	4.30% - 5.00%
Series 1998	30,000	9,000	1999	2008	4.00% - 5.25%
Series 1999	16,900	6,760	2000	2009	4.00% - 5.50%
Series 2001	19,225	11,525	2002	2011	4.00% - 5.00%
Series 2004	13,000	<u>12,280</u>	2005	2014	2.00% - 4.00%
Total Special Revenue		<u>\$47,825</u>			
Self Liquidating:					
Maine Veteran's Home	1,700	<u>\$160</u>	1982	2008	8.3421%

**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, 2005, general obligations bonds authorized and unissued totaled \$71.5 million.

**REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY**

The State has included \$189.6 million in other financing arrangements to reflect revenue bonds issued by the

Maine Governmental Facilities Authority, 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 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 may not issue securities in excess of \$227.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2005, the Authority issued the Series 2005 Bonds, which totaled \$54 million at an average interest rate of 4.65%. These bonds were used to in-substance defease \$51.5 million of Series 1999, 2000A and 2000B bonds with an average interest



rate of 5.58%. Net proceeds from the bonds totaled \$57.5 million, including bond premiums of approximately \$4.3 million, and after payment of \$976,000 of issuance costs.

Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of \$3.3 million, the Authority reduced its aggregate debt service payments by \$2.8 million over the next 15 years and obtained an economic gain of \$2.7 million. Proceeds were used to purchase U.S. Government securities which will provide for all future debt service payments on the defeased bonds. At June 30, 2005, there were approximately \$81.5 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 the construction of certain State buildings and to purchase equipment and vehicles, including school buses. Certificates of Participation 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 Certificates of Participation 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.

#### **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 and net pension obligation.

The following schedule shows the changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2005:

#### **Primary Government - Changes in Other Long-Term Obligations** (Expressed in Thousands)

	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2005</b>	<b>Due Within One Year</b>
<b>Governmental Activities:</b>					
MGFA Revenue Bonds	\$ 197,950	\$ 54,210	\$ 62,590	\$ 189,570	\$ 12,245
COP's and Other Financing Arrangements	45,346	6,900	15,381	36,865	17,254
Compensated Absences	38,510	5,737	4,001	40,246	4,894
Claims Payable	83,216	259,089	156,842	185,463	136,463
Pledged Future Revenues	-	49,423	-	49,423	3,155
Net Pension Obligation	<u>46,060</u>	<u>-</u>	<u>11,824</u>	<u>34,236</u>	
Total Governmental Activities	<u>\$ 411,082</u>	<u>\$ 375,359</u>	<u>\$ 250,638</u>	<u>\$ 535,803</u>	
<b>Business-Type Activities:</b>					
Compensated Absences	\$ 277	\$ 106	\$ -	\$ 383	\$ 56
Total Business-Type Activities	<u>\$ 277</u>	<u>\$ 106</u>	<u>\$ -</u>	<u>\$ 383</u>	<u>\$ 56</u>

Debt service requirements (principal and interest) for all COP's and other financing arrangements of the primary

government, from June 30, 2005 until maturity, are summarized in the following table:

**Future Debt Service on MGFA Revenue Bonds, COP's and Other Financing Arrangements**  
(Expressed in Thousands)

<u>Fiscal Year</u>	<u>Governmental Funds</u>			<u>Internal Service Funds, incl. MGFA</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 10,973	\$ 815	11,788	18,526	8,932	27,458
2007	5,276	398	5,674	17,305	8,061	25,366
2008	3,233	259	3,492	15,933	7,346	23,279
2009	1,452	140	1,592	15,073	6,675	21,748
2010	1,010	84	1,094	13,324	6,060	19,384
2011 - 2015	1,290	62	1,352	62,365	21,996	84,361
2016 - 2020	-	-	-	55,295	8,096	63,391
2021 - 2025	-	-	-	<u>5,380</u>	<u>315</u>	<u>5,695</u>
Total	<u>\$ 23,234</u>	<u>\$ 1,758</u>	<u>\$ 24,992</u>	<u>\$ 203,201</u>	<u>\$ 67,481</u>	<u>\$ 270,682</u>

**SHORT TERM OBLIGATIONS**

The State of Maine issued and retired \$190 million in Tax Anticipation Notes and \$142.9 million in Bond Anticipation Notes during fiscal year 2005. At June 30, 2005 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

**CONDUIT DEBT OBLIGATIONS**

To enable local school districts to purchase learning technology at a lower cost than they would be able to negotiate independently, the State has entered into a series of lease agreements with Apple Computer. These leases are special limited obligations of the State, payable solely from and secured by a pledge of rentals to be received from participating school administrative units. The leases do not constitute a debt or pledge of the faith and credit of the State or any political subdivision thereof, and accordingly have not been reported in the accompanying financial statements.

At June 30, 2005, the lease agreements outstanding totaled \$2.5 million.

**PLEGGED FUTURE REVENUES**

On December 16<sup>th</sup>, 2004, the Maine Municipal Bond Bank (MMBB) issued \$48.4 million of GARVEE grant anticipation revenue bonds on behalf of the Maine Department of Transportation, to provide financing for construction of a new Waldo-Hancock bridge. Net proceeds from the bonds totaled \$49.4 million including bond premium of approximately \$.9 million. The bonds payable bear interest rates from 2.5% to 5.0%, and have maturities from 2005 to 2015. The State has committed to appropriate each year a portion of the State's future federal transportation funds, in amounts 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 has insured payments of principal and interest with a financial guaranty insurance policy. The Bonds do not constitute a debt or obligation of the State.

Total principal and interest requirements over the life of the bonds are \$60.2 million, with annual requirements of up to \$5.6 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the bonds totaled \$178 million. Total federal transportation funds received in federal fiscal year 2005 were \$175 million, and current year payments to MMBB were \$366,480 (0.2% of federal transportation funds received).

**OBLIGATIONS UNDER CAPITAL LEASES**

The State of Maine 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, which are in substance 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 at the lower of fair market value or the present value of the minimum lease payments. The principle 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,

2005 capital assets include \$59.9 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of \$23.8 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.

The following schedule includes the future minimum lease payments for capital leases reported in proprietary funds, and the future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year from June 30, 2005:

**Future Minimum Lease Payments  
Capital and Operating Leases**  
(Expressed in Thousands)

<b>Fiscal Year</b>	<b>Capital Leases</b>	<b>Operating Leases</b>
2006	\$ 5,833	\$ 981
2007	5,670	451
2008	5,437	363
2009	5,038	268
2010	4,618	229
2011-2015	16,989	310
2016-2020	6,402	24
2021-2025	439	-
2026-2030	<u>59</u>	<u>-</u>
Total Minimum Payments	50,485	<u>\$ 2,626</u>
Less: Amount Representing Interest	<u>10,580</u>	
Present Value of Future Minimum Payments	<u>\$ 39,905</u>	

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 pledged future revenues will be liquidated from the Federal 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, while relatively small amounts will be paid by the General Fund and Highway Fund. 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.

Compensated absence liabilities will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations will be liquidated by the State’s governmental and internal service funds that contribute toward the pension funds, based on their respective required contribution rates. Other claims and judgments attributable to governmental activities will generally be liquidated by the General Fund and related special revenue 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)

<u>Component Unit</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Maturity Dates</u>
Finance Authority of Maine	1.0 – 2.92%	175,410	2003 - 2035
Maine Municipal Bond Bank	1.0 - 10.25%	1,105,738	1990 - 2034
Maine Educational Loan Authority	1.85 - 3.65%	72,682	2005 - 2032
Maine State Housing Authority	1.40 - 6.40%	1,329,010	2005 - 2038
University of Maine System	2.0 - 5.75%	147,468	2000 - 2034

**Fiduciary Component Units Bonds Outstanding**

(expressed in thousands)

Maine Health and Higher Educational Facilities Authority	4.5 - 7.3%	\$1,096,041	1988 - 2043
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On December 9, 2004, the Authority issued \$42.3 million Series 2004B bonds with an average interest rate of 4.4%, a portion of which was used to refund \$24.9 million of outstanding 1999 bonds with an average interest rate of 7.54%. Approximately \$700 thousand in issuance costs were paid. Total interest payments over the next 29 years were reduced by approximately \$5.9 million. Proceeds were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. At June 30, 2005, there were approximately \$77.6 million of advance refunded bonds remaining outstanding.

which was used to advance refund \$19 million of outstanding bonds. The refunding resulted in a deferred amount on refunding of \$2.5 million, of which the unamortized balance was \$1.8 million as of June 30, 2005. Total interest payments over the next 13 years were reduced by \$1 million, and an economic gain of \$0.8 million was obtained. At June 30, 2005, the entire \$19.0 million of advance refunded bonds remained outstanding.

On March 31, 2004, the University of Maine System issued 2004 Series A Revenue Bonds, \$21.3 million of

Debt service principal maturities for outstanding bonds of the discretely presented component units, from June 30, 2005 until maturity, are summarized in the following table:

**Component Units Principal Maturities**

(Expressed in Thousands)

<u>Fiscal Year Ending</u>	<u>FAME</u>	<u>MMBB</u>	<u>MELA</u>	<u>MSHA</u>	<u>UMS</u>	<u>MHHEFA*</u>
2006	\$ 52	\$ 102,577	\$ 5,310	\$ 37,495	\$ 6,485	\$ 40,986
2007	53	95,225	-	34,130	6,180	43,456
2008	53	93,969	-	36,430	6,467	44,529
2009	54	88,618	11,615	40,940	5,930	44,180
2010	54	84,841	-	187,588	6,123	44,100
2011-2015	280	343,564	-	205,145	61,994	238,470
2016-2020	295	205,135	-	220,450	21,419	228,240
2021-2025	298	96,480	36,500	237,425	15,119	195,845
2026-2030	-	2,100	20,000	193,375	9,890	165,515
2031-2035	175,000	970	-	109,930	5,710	46,940
2036-2040	-	-	-	43,200	-	1,995
2041-2045	-	-	-	-	-	1,785
2046-2050	-	-	-	-	-	-
Net unamortized premium or (deferred amount)	(729)	(7,741)	(743)	(17,098)	2,151	-
Total Principal Payments	<u>\$175,410</u>	<u>\$1,105,738</u>	<u>\$72,682</u>	<u>\$1,329,010</u>	<u>\$147,468</u>	<u>\$1,096,041</u>

\* MHHEFA is reported in fiduciary fund financial statements.

**NOTE 12 - SELF-INSURANCE**

**A. RISK MANAGEMENT**

The State maintains several types of insurance plans and accounts for them in two funds. The Risk Management Division provides insurance advice and services to State governmental agencies, and 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.

Not all departments elect to insure through the Risk Management Division; specifically, the Department of Transportation has elected not to purchase general liability insurance.

In some cases the State purchases excess insurance to limit the State’s liability for insured events. For example, coverage for property damage is \$250 million per occurrence. The State retains \$2 million of this risk per occurrence, with the remainder being covered by a private insurance carrier (excess insurance). Settlements 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:

<u>Type of Insurance</u>	<u>Coverage Per Occurrence</u>	<u>Risk Retention Per Occurrence</u>	<u>Excess Insurance Per Occurrence</u>
Property *	\$250 million	\$2 million	\$250 million
Ocean Marine Boat Liability *	10 million	10 thousand	10 million
Loss of Software and Data *	8 million	25 thousand	8 million
Boiler and Machinery*	3 million	2 million	3 million
General Liability Including			
Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none
Vehicular Liability	400 thousand	400 thousand	none
Bonding	500 thousand	500 thousand	none
Foster Parents	300 thousand	300 thousand	none
Inland Marine (various policies)	2 million	2 million	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.

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 June 30, 2005. This cost of claims includes case reserves, the development of known claims and incurred-but-not-reported claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis and are re-evaluated periodically 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 June 30, 2004, the present value of the claims payable for the State’s self-insurance plan was estimated at \$3.5 million. At June 30, 2005, the State has estimated the present value of the loss at \$3.5 million. The actuary calculated this based on a 1.75 percent yield on investments.

**Risk Management Fund**  
**Changes in Claims Payable**  
(Expressed in Thousands)

	<u>2005</u>	<u>2004</u>
Liability at Beginning of Year	\$3,547	\$4,073
Current Year Claims and Changes in Estimates	1,415	449
Claims Payments	<u>1,415</u>	<u>975</u>
Liability at End of Year	<u>\$3,547</u>	<u>\$3,547</u>

As of June 30, 2005, fund assets of \$16.2 million exceeded fund liabilities of \$3.9 million by \$12.3 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 not been incorporated into the estimate used to determine claims payable as of June 30, 2005.

**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 \$980 thousand for the fiscal year ended June 30, 2005.

**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 is based on an actuarial study as of June 30, 2005:

**Workers' Compensation Fund**  
**Changes in Claims Payable**  
(Expressed in Thousands)

	<u>2005</u>	<u>2004</u>
Liability at Beginning of Year	\$ 61,839	\$ 61,839
Current Year Claims and Changes in Estimates	1,329	9,616
Claims Payments	<u>9,825</u>	<u>9,616</u>
Liability at End of Year	<u>\$ 53,343</u>	<u>\$ 61,839</u>

Current year claims and changes in estimates include an \$8.5 million reduction in estimated outstanding claims. In prior periods, changes in the estimate of outstanding claims were not material and were reported as an increase or decrease to claims expense. The significant change in the current year estimate is partially due to a change in the June 30, 2004 estimate, which resulted in excess premiums being charged to user funds. These excess premiums have been reported as an operating transfer. Current year premium revenue and claims expense reflect actual operating activity for the fiscal year.

Based on the actuarial calculation as of June 30, 2005, the State is liable for unfunded claims, and incurred but not reported claims, of approximately \$67.1 million. The discounted amount is \$53.3 million and was calculated based on a 4.0 percent yield 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 \$350 thousand.

The State has retained an independent contractor for claims administration, utilization review, and case management services. Premiums are paid to the independent contractor 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. The Group Companion Plan is a supplement to Medicare Parts A & B and is available to Medicare eligible retirees. Total enrollment has averaged approximately 41,000 covered individuals. This total includes 30,300 active employees and dependents, 4,200 pre-Medicare retirees and dependents, and, 6,500 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, 2005, the State recorded a receivable of \$21.7 million for an overpayment 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 \$21.3 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2005 follows (in thousands):

	<u>Employee</u> <u>Health</u> <u>Fund</u>	<u>Retiree</u> <u>Health</u> <u>Fund</u>
Liability at Beginning of Year	\$ -	\$ -
Current Year Claims and Changes in Estimates	117,796	49,074
Claims Payments	<u>103,508</u>	<u>42,094</u>
Liability at End of Year	<u>\$ 14,288</u>	<u>\$ 6,980</u>

**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.

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 has designated that 50 percent of its operating revenue be aggregated in a common prize pool. 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 zero-coupon U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on the amount of 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; Daily Number expenses that are allocated to each State based on Daily Number ticket sales; and certain other miscellaneous costs that are based on actual charges generated by each State.

The Tri-State Lotto Commission financial report for fiscal year 2005, 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	\$ 42,783
Noncurrent Assets	139,087
Total Assets	<u>\$ 181,870</u>
Current Liabilities	\$ 26,360
Long-term Liabilities	131,599
Total Liabilities	<u>157,959</u>
Designated Prize Reserves	4,096
Unrealized Gain on Investments Held for Installment Prize Obligations	19,815
Total Net Assets	<u>23,911</u>
Total Liabilities and Net Assets	<u>\$ 181,870</u>
Total Revenue	\$ 65,120
Total Expenses	43,746
Allocation to Member States	21,374
Change in Unrealized Gain on Investments Held for Resale	4,460
Change in Net Assets	<u>\$ 4,460</u>

**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 29 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 that are 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 2005, 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	\$ 113,929
Investments in US Government Securities	72,666
US Government Securities Held for Prize Annuities	939,939
Due from Party Lotteries	11,064
Other Assets	<u>1,184</u>
Total Assets	<u>\$ 1,138,782</u>
Amount Held for Future Prizes	180,636
Grand Prize Annuities Payable	954,972
Other Liabilities	2,948
	<u>1,138,556</u>
Net Assets, Unrestricted	226
Total Liabilities and Net Assets	<u>\$ 1,138,782</u>
Total Revenue	\$ 3,521
Total Expenses	<u>3,518</u>
Excess (deficit) of revenue over expenses	3
Net assets, beginning	<u>223</u>
Net assets, ending	<u>\$ 226</u>

**NOTE 14 - RELATED PARTY TRANSACTIONS**

**PRIMARY GOVERNMENT**

Title 20 M.R.S.A. § 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, the program assets and liabilities 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 College Investing Plan had approximately \$3.2 billion in net assets at June 30, 2005, which have been recorded in an Agency Fund on the financial statements of the State.

General Obligation Bonds of the State include \$60 thousand of self-liquidating bonds of the Maine Veterans' Home. The State issues the bonds, and the Maine Veterans' Home remits to the State the debt service as it comes due.

The State of Maine has entered into contracts for health care claims processing services with a local vendor through the State's competitive bidding process. The President and Chief Executive Officer of the company also served as Minority Floor Leader in the Maine House of Representatives until his retirement in November, 2004. During fiscal year 2005, the State of Maine paid \$14.1 million for services under these contracts; \$5.2 million from the General Fund, \$7.8 million from the Federal Fund and \$1.1 million from the Other Special Revenue Fund. At fiscal year end, no accounts payable balances existed for services provided under these contracts.

The State of Maine pays a local company as a provider for prescription drugs through the MaineCare program. The recently retired Minority Floor Leader in the Maine House of Representatives is a member of the Board of the controlling group for this single-partner LP. During fiscal year 2005, the State paid \$14.3 million to this company; \$5.7 million from the General Fund and \$8.6 million from the Federal Fund.

The State of Maine pays a local company as a provider for mental health and independent living services through the MaineCare program. The Executive Director of the company also serves as House Chair of the Joint Standing Committee on Appropriations and Financial Affairs in the Maine Legislature. During fiscal year 2005, the State paid \$10.7 million for these services; \$5.2 million from the General Fund and \$5.5 million from the Federal Fund.

The State of Maine has 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, \$214.1 million; Child Development Services, \$27.0 million; Maine Community College System, \$50.6 million; Maine Municipal Bond Bank, \$13.5 million; Finance Authority of Maine, \$17.3 million; Maine Maritime Academy, \$7.5 million; Maine State Housing Authority, \$9.3 million; Loring Development Authority, \$1.4 million; and the Governor Baxter School for the Deaf, \$5.8 million.

The Finance Authority of Maine (FAME) administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total \$31.2 million at June 30, 2005, as a liability in Amounts Held Under State Revolving Loan Programs in their financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2005, the State expended \$455 thousand to FAME for State revolving loan funds.

Title 20-A M.R.S.A. Chapter 419-A establishes 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 2005, FAME paid approximately \$5.9 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 State of Maine has contributed the use of land and buildings to the Governor Baxter School for the Deaf, a discretely presented component unit, for the operations of the School. The School does not recognize contribution revenue and the corresponding lease expense related to the contributed use of the property.

**RELATED ORGANIZATIONS**

The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature has defined operating surplus within the Maine Turnpike Authority statute to be the total operating revenues of the Authority after money has been set aside to pay reasonable operating expenses and to meet the requirements of any resolution authorizing

bonds. The Authority, with the concurrence of the Maine Department of Transportation, has established the operating surplus at \$4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 2005.

**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. The following 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.

*Inland Hospital v. DHHS*. This case was filed on August 12, 2005 in Superior Court, Kennebec County. The issue is whether DHHS correctly calculated Medicaid prospective payments to the hospital. The potential liability is \$1.3 million to \$1.4 million. The potential for expenditure regarding this matter is possible.

*Callahan Mine Superfund Site*. The U.S. EPA identified the State of Maine as a Potentially Responsible Party for a Superfund site – the Callahan Mine Site in Brooksville, Maine. The mining occurred pursuant to a lease from 1968 to 1972 in part on state-owned submerged land that had been drained. No court action has been filed by EPA at this time. If the State is found liable as a Responsible Party for the site, costs could exceed \$1 million just for the work conducted by EPA to date. The State has only agreed to conduct feasibility studies to date. Potential liability for remedial actions could exceed \$1 million, however feasibility studies have not yet been completed. The potential for expenditure regarding this matter is probable; however, the State cannot reasonably estimate the amount of potential loss.

*Buchanan v. State of Maine*. The case is in State court, and arises out of the shooting death of Michael Buchanan on February 25, 2002. He was shot by a Lincoln County deputy sheriff after he stabbed the deputy sheriff's partner. The theory of the liability against the State is that we failed to provide him with sufficient mental health services, which led him to engage in erratic and dangerous behavior, which caused him to be shot by the police. Claims are brought under section 1983 and the American Disabilities Act. Plaintiff's theory of the case is somewhat novel. A motion for summary judgment is pending. Potential for expenditure is possible, however, the State cannot reasonably estimate the amount of potential 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.

In September 2005, the United States Department of Education (USDOE) estimated that it would disallow \$5.3 million of federal financial participation in the State's Migrant Education Program. The State has settled \$2.3 million of this disallowance by de-obligating federal grant award balances for federal fiscal years 2003 and 2004. The USDOE and the State are currently negotiating a mechanism to repay the remaining balance that may not require the use of existing financial resources. The State has not accrued a liability for the estimated disallowance at June 30, 2005.

**MUNICIPAL SOLID WASTE LANDFILLS**

Title 38 M.R.S.A., §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 \$65 thousand for fiscal year 2005.

During the 2005 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects, which completed work before January 1, 2000. 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%, 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. No additional cost share eligible closures have been approved by DEP. Consequently, the DEP expects no further expenditures for municipal landfill closures.

During the 2005 fiscal year, the State expended \$65 thousand of general obligation bond funds for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue

for 90% 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% for structures constructed after that date. Current outstanding remedial obligations total approximately \$235 thousand. Bonds have not been issued to cover these outstanding obligations.

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 to be as high as \$5 million, based on current site knowledge and the increasing frequency of residential development near closed municipal landfills and the discovery of older abandoned dump sites now occupied by residential homes.

**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 \$18.9 million. This consists of approximately \$11.9 million for State-owned facilities and approximately \$7 million for the State's share, under a cost sharing arrangement, for municipal facilities.

**POLLUTION ABATEMENT PROGRAM**

Title 38 M.R.S.A. § 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 2005 fiscal year, \$6.95 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2005, amounts encumbered for pollution abatement projects totaled \$1.49 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled \$2.12 million. At June 30, 2005, DEP estimated the total cost (federal, State, and local) of future projects to be \$367 million.

**DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY**

The State has been identified as a potentially responsible party at four hazardous waste clean-up sites in Maine. These sites are located in Plymouth, Casco, Ellsworth and Brooksville. The amount or range of potential liability has not been determined.

**GROUND WATER OIL CLEAN-UP FUND**

The Ground Water Oil Clean-up Fund is established in Title 38 M.R.S.A. § 569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for clean up 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 December 15, 2000, submitted by the Maine Department of Environmental Protection (DEP), identified 356 long-term remediation sites as of August 2000 that are covered by the insurance program. At June 30, 2005 there were 302 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 approximately 72% of the annual payments. As of June 30, 2005, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled \$788.0 million.

At June 30, 2005, the Department of Transportation had contractual commitments of approximately \$119.1 million for construction of various highway projects. The State's share of that amount is expected to be approximately \$22.4 million. This amount 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 five jurisdictions agreed to an out-of-court settlement with certain Participating Tobacco Manufacturers (PM's) to recover smoking-related Medicaid costs. The PM's agreed to pay \$206 billion to the states and jurisdictions. In return, the states have agreed to relinquish claims to further damages resulting from Medicaid costs.

Maine's percentage of the total settlement payment is 0.7693505%, which equals \$1.58 billion. Annual payments will fluctuate subject to various adjustments and litigation offsets and are contingent on the passage and enforcement of a State statute imposing economic conditions on the PM's. This settlement will result in an ongoing revenue stream to the State, which will continue into perpetuity.

As compensation, the PM's have also agreed to pay \$8.6 billion to certain states and jurisdictions for their contribution to the overall settlement. These payments are subject to the adjustments referred to above.

Maine's share is approximately \$114 million and will be received in ten annual payments beginning in 2008.

**BAXTER COMPENSATION AUTHORITY**

Chapter 439 PL 2001 established the Baxter Compensation Authority to provide monetary compensation to former students of the Baxter School for the Deaf who, while students, were subjected to abuse by a State employee or by inaction of the State. The Authority is established by the provisions of Title 5 MRSA, Chapter 601 as a public instrumentality of the State, limiting any liabilities to its available resources.

The Authority was initially capitalized by the legislature with \$6 million, to settle cases and provide for its administrative expenses. In Chapter 673 PL 2003, the Legislature provided an additional \$6 million on a one-time basis to pay additional claims that may come forward. Chapter 3 PL 2005 further provides an additional transfer of up to \$8.1 million from the available unappropriated surplus of the General Fund at the close of fiscal year 2005. As of June 30, 2005, the Authority paid claims of \$10.5 million, and the State accrued an additional \$8.1 million in claims payable. The Authority has a statutory sunset of July 1, 2007.

**DIRIGO HEALTH AGENCY**

Chapter 469 PL 2003 established the Dirigo Health Agency to arrange for the provision of comprehensive, affordable health care coverage to eligible small employers, including the self-employed, their employees and dependents, and individuals on a voluntary basis (DirigoChoice).

Because DirigoChoice members had no prior claims history, the Dirigo Health Agency agreed to share claims costs that exceed an agreed upon level through an Experience Modification Program (EMP) with its carrier, Anthem Blue Cross Blue Shield (Anthem). The EMP is a form of experience rating not uncommon in start up association-like plans where the risk of the population is unknown. The EMP protects the DirigoChoice pool from adverse selection.

The Dirigo Health Agency prepays the EMP quarterly, based on enrollment assumptions. Because the Dirigo Health Agency assumes the most adverse outcome, the EMP liability cannot exceed the total prepayments. If the experience outcome is favorable in the DirigoChoice plan, Anthem returns all of the EMP to the Dirigo Healthy Agency. Terms of the outcome sharing are

detailed in the contractual agreement between the Dirigo Health Agency and Anthem.

Claims for calendar year 2005 will not be finalized until July 1, 2006, when a six month run-out period elapses. Due to limited claims and experience data for DirigoChoice members for 2005, the medical loss ratio and related amount that may be returned to the Dirigo Health Agency, if any, cannot be reasonably estimated. EMP payments for State fiscal year 2005 totaled \$3.2 million.

#### **DISPROPORTIONATE SHARE PAYMENTS TO HOSPITALS**

In State fiscal years 2004 and 2005, the Department of Health & Human Services funded the federal share of the Non-Categorical Childless Adult Medicaid Waiver with Disproportionate Share allotments. An undeterminable amount of the allotted funds may be required to fund Disproportionate Share payments to Acute Care Hospitals in the future.

#### **UNION ARBITRATION AWARD**

As the result of an arbitration award dated October 4, 2005, the State was ordered to increase the pay grade for Department of Health and Human Services (DHHS) Caseworkers. The increase in pay is retroactive to 1998 when the Maine State Employees Association (MSEA) formally requested a pay scale review. The MSEA has estimated that the settlement could exceed \$6 million. Due to changes in employment and position status for affected Caseworkers since 1998, DHHS estimates the negotiated settlement will be between \$2.1 and \$2.5 million. The State has accrued a liability for claims payable of \$2.3 million in the Entity-wide Statements at June 30, 2005.

#### **DISCRETELY PRESENTED COMPONENT UNITS**

##### **NURSING HOME LOANS**

The owners of certain financially troubled nursing homes, with the concurrence of The Maine Health and Higher Educational Facilities Authority (MHHEFA), started refinancing portions of MHHEFA's loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of MHHEFA expects that these refinancings will reduce annual debt service requirements, thereby eliminating its exposure in the Taxable Financing Reserve Fund and reducing its overall exposure.

Through June 30, 2005, HUD completed refinancings for nine institutions which, at the time they were refinanced, had combined bond-related loans and advances due MHHEFA of approximately \$44.3 million. As part of

the refinancing completed by HUD, MHHEFA agreed to issue 8% subordinated notes receivable to these nine institutions from its operating fund. These notes totaled \$6.7 million at June 30, 2005, record interest only to the extent that cash payments are received and are subordinate to all HUD loans. If these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid.

The Authority advanced approximately \$2.2 million from the operating fund as of June 30, 2005 to other financially troubled institutions, with combined loan amounts due the Authority of approximately \$15.5 million at June 30, 2005, including loans of \$10.2 million reserved at June 30, 2005. These advances were primarily made to assist these institutions in meeting debt service requirements. The Authority established a \$2.1 million reserve in its operating fund related to amounts that have been advanced or are expected to require an advance to troubled institutions.

#### **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, 2005, loans outstanding pursuant to these authorizations are \$36.9 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, 2005.

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. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2005.

**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)

<u>Issuer</u>	<u>Bonds Outstanding</u>	<u>Required Debt Reserve</u>	<u>Obligation Debt Limit</u>	<u>Legal Citation</u>
Maine Health and Higher Educational Facilities Authority *	\$ 1,062,835	\$ 90,851	no limit	22 MRSA § 2075
Finance Authority of Maine	84,483	23,570	619,483	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	1,105,738	122,443	no limit	30-A MRSA §6006
Maine Educational Loan Authority	32,115	1,285	50,000	20-A MRSA §11424
University of Maine System	141,591	4,948	220,000	5 MRSA §10952
Maine State Housing Authority	<u>1,183,147</u>	<u>106,234</u>	2,150,000	30-A MRSA §4906
Total	<u>\$3,609,909</u>	<u>\$ 349,331</u>		

\*\* MHHEFA is reported in fiduciary fund financial statements.

\*\* Under 10 MRSA §1053, FAME may issue up to \$330 million of bonds for the electric rate stabilization program. However, per 35-A MRSA §3156, as of July 31, 1998 no new approvals for bonds could be made under this program. Therefore, the moral obligation of the State is reported to be the amount of bonds currently outstanding.

**NOTE 16 - SUBSEQUENT EVENTS**

**PRIMARY GOVERNMENT**

On July 14, and October 11, 2005, the State issued \$13.7 million and \$9.2 million respectively of Bond Anticipation Notes. The BAN’s will mature on June 22, 2006.

On July 21, 2005 the State issued \$123.6 million of Tax Anticipation Notes which become due on June 30, 2006.

On November 1<sup>st</sup>, 2005, the State issued \$9.2 million of Certificates of Participation, with an interest rate of 3.59%, and maturity date in 2010, for the purpose of financing the upgrade of the State’s integrated financial processing and reporting system.

Several Maine hospitals, 21 out of a total of 39, were appealing some or all of the following issues: whether third party liability adjustments were made properly; whether the hospitals should have been re-based; whether the Department should have calculated the eligibility of the hospitals for disproportionate share payments (DSH); and, if the hospitals were eligible for DSH, whether the Department is obligated to make a DSH payment to eligible hospitals. The hospitals agreed to a discounted settlement of \$96.4 million, which was paid by the State in September, 2005. The hospitals have subsequently dismissed their claims.

Effective September, 2005, MGFA's debt limit increased \$35 million in order to provide more judicial financing in accordance with Title 4, MRSA, Section 1606. Pursuant to Title 4, MRSA, Section 1610-D, MGFA received authorization to issue up to \$9 million in debt in order to pay for specific capital improvements and repairs costs associated with state-owned facilities as designated by the Commissioner of Administrative and Financial Services.

#### COMPONENT UNITS

On March 1, 2005 the Maine State Housing Authority (MSHA) redeemed \$9.0 million of its 2004-A General Housing Draw Down bonds, with variable interest rates maturing in 2010. In January, February and March 2005, MSHA issued a total of \$35.0 million Series A and B General Housing Draw Down bonds at par, with variable interest rates maturing in 2010.

In January, February and March 2005, MSHA redeemed a total of \$52.7 million of various series of its Mortgage Purchase Program bonds at par. The bonds carried

interest rates from 3.65% to 6.125%, and maturities from 2005 to 2035. In March 2005, MSHA committed to redeem a further \$9.9 million of Mortgage Purchase Program bonds at par. On January 18, 2005, MSHA issued \$40.0 million of various series of its Mortgage Purchase Program bonds. These bonds carry interest rates ranging from 2.08% to 4.9%, with maturities from 2005 to 2039.

In accordance with the Higher Education Loan Purchase Program, the Finance Authority of Maine purchased FFELP student loan portfolios totaling approximately \$2.8 million and \$24.0 million in July 2005 and September 2005, respectively.

On November 3, 2005, the University of Maine System issued \$69.1 million of its 2005 Series A Revenue Bonds to advance refund a total of \$8.8 million of previously issued revenue bonds and to fund new capital projects. These bonds carry interest rates ranging from 3.5% to 5.0%, with maturities from 2006 to 2035.

#### NOTE 17 – SPECIAL ITEMS

In accordance with statutory authority, the State of Maine entered into a contract with a vendor to manage and operate wholesale liquor distribution as the State's agent during fiscal year 2004. Although considered a remote possibility, the contract provides for rescission by either party, which would result in a prorated return of the purchase price. The State recorded the transfer of \$50 million of proceeds from the license fee from the Alcoholic Beverages enterprise fund to the General Fund as a Special Item.

Chapter 673 PL 2003 required the State of Maine to manage the Retiree Health Insurance Fund (the Fund), an internal service fund, on a cost-reimbursement basis beginning June 30, 2005. Prior to the effective date, with agreement from the federal government, the State had been preparing to change to an actuarial funding basis. Likewise, the Fund had been allowed to accumulate significant resources to facilitate the funding change. Chapter 673 further required the State to calculate and return the amount of excess equity due each fund and ancillary group contributing to the Fund, after retaining a reasonable amount of working capital, no later than June 30, 2005. After retaining \$7 million in the Fund for working capital, the State returned \$105.7 million of excess equity available for distribution to all groups. Additionally, the State returned \$19.1 million to the federal government for its share of the equity

distribution. The returns of excess equity from the Fund to its participants, as well as the return of funds to the federal government have been recorded as Special Items in the financial statements for the fiscal year ended June 30, 2005.





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**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

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Required Supplementary Information - Budgetary Reporting

**STATE OF MAINE  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS**

Fiscal Year Ended June 30, 2005  
(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
<b>Revenues</b>								
Taxes	\$ 2,487,229	\$ 2,591,964	\$ 2,623,546	\$ 31,582	\$ 216,638	220,839	\$ 220,461	\$ (378)
Assessments and Other	76,364	87,332	90,006	2,674	84,329	87,550	90,432	2,882
Federal Grants	24,673	26,803	26,162	(641)	-	-	-	-
Service Charges	36,271	35,458	39,814	4,356	5,937	6,814	6,665	(149)
Income from Investments	1,026	4,896	6,632	1,736	1,026	1,060	1,441	381
Miscellaneous Revenue	60,384	56,988	45,355	(11,633)	687	5,405	5,685	280
<b>Total Revenues</b>	<u>2,685,947</u>	<u>2,803,441</u>	<u>2,831,515</u>	<u>28,074</u>	<u>308,617</u>	<u>321,668</u>	<u>324,684</u>	<u>3,016</u>
<b>Expenditures</b>								
Governmental Support and Operations	325,332	333,921	321,530	12,391	34,413	36,112	34,239	1,873
Economic Development & Workforce Training	46,363	46,655	41,756	4,899	-	-	-	-
Education	1,188,842	1,212,648	1,206,090	6,558	-	-	-	-
Health and Human Services	818,251	937,783	892,524	45,259	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	69,689	73,101	68,922	4,179	36	37	30	7
Justice and Protection	221,536	226,114	219,571	6,543	36,547	36,527	32,460	4,067
Arts, Heritage & Cultural Enrichment	8,370	8,748	8,508	240	-	-	-	-
Transportation Safety & Development	3,589	3,588	3,584	4	244,591	308,271	232,868	75,403
<b>Total Expenditures</b>	<u>2,681,972</u>	<u>2,842,558</u>	<u>2,762,485</u>	<u>80,073</u>	<u>315,587</u>	<u>380,947</u>	<u>299,597</u>	<u>81,350</u>
<b>Revenues Over (Under) Expenditures</b>	<u>3,975</u>	<u>(39,117)</u>	<u>69,030</u>	<u>108,147</u>	<u>(6,970)</u>	<u>(59,279)</u>	<u>25,087</u>	<u>84,366</u>
<b>Other Financing Sources (Uses)</b>								
Operating Transfers Net	(54,698)	(49,458)	11,378	60,836	2,056	1,834	(1)	(1,835)
Proceeds from Pledged Future Revenues	-	-	-	-	-	-	-	-
<b>Net Other Financing Sources (Uses)</b>	<u>(54,698)</u>	<u>(49,458)</u>	<u>11,378</u>	<u>60,836</u>	<u>2,056</u>	<u>1,834</u>	<u>(1)</u>	<u>(1,835)</u>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<u>\$ (50,723)</u>	<u>\$ (88,575)</u>	<u>\$ 80,408</u>	<u>\$ 168,983</u>	<u>\$ (4,914)</u>	<u>\$ (57,445)</u>	<u>\$ 25,086</u>	<u>\$ 82,531</u>
Fund Balances at Beginning of Year			151,866				94,110	
Fund Balances at End of Year			<u>\$ 232,274</u>				<u>\$ 119,196</u>	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
\$ -	\$ -	\$ -	\$ -	\$ 62,786	\$ 141,743	\$ 145,278	\$ 3,535
-	-	-	-	100,326	98,434	74,930	(23,504)
2,708,263	3,251,515	2,601,303	(650,212)	128,932	53,904	2,087	(51,817)
-	-	656	656	195,731	199,409	131,257	(68,152)
-	-	266	266	2,832	2,839	1,870	(969)
5,513	4,768	19,207	14,439	44,289	220,087	94,017	(126,070)
<u>2,713,776</u>	<u>3,256,283</u>	<u>2,621,432</u>	<u>(634,851)</u>	<u>534,896</u>	<u>716,416</u>	<u>449,439</u>	<u>(266,977)</u>
6,391	20,035	5,637	14,398	145,409	155,319	137,889	17,430
136,501	139,738	91,167	48,571	25,689	34,097	21,453	12,644
150,346	222,527	176,144	46,383	16,262	17,748	11,556	6,192
1,739,518	2,075,667	1,963,718	111,949	290,713	438,365	254,701	183,664
1,240	1,685	732	953	60,727	65,443	51,293	14,150
34,273	47,121	30,278	16,843	93,544	101,330	69,274	32,056
62,265	157,782	97,105	60,677	27,061	31,095	24,598	6,497
2,874	3,181	2,407	774	978	1,540	840	700
213,208	223,684	187,395	36,289	15,231	66,687	37,181	29,506
<u>2,346,616</u>	<u>2,891,420</u>	<u>2,554,583</u>	<u>336,837</u>	<u>675,614</u>	<u>911,624</u>	<u>608,785</u>	<u>302,839</u>
367,160	364,863	66,849	(298,014)	(140,718)	(195,208)	(159,346)	35,862
(11,080)	(11,062)	12,824	23,886	157,717	158,474	139,729	(18,745)
						27,527	27,527
(11,080)	(11,062)	12,824	23,886	157,717	158,474	167,256	8,782
<u>\$ 356,080</u>	<u>\$ 353,801</u>	<u>\$ 79,673</u>	<u>\$ (274,128)</u>	<u>\$ 16,999</u>	<u>\$ (36,734)</u>	<u>\$ 7,910</u>	<u>\$ 44,644</u>
		(72,706)				260,676	
		<u>\$ 6,967</u>				<u>\$ 268,586</u>	



## Required Supplementary Information - Budgetary Reporting

### STATE OF MAINE BUDGETARY COMPARISON SCHEDULE BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Federal Funds</u>	<u>Special Revenue Fund</u>
Fund Balances - Non-GAAP Budgetary Basis	\$ 232,274	\$ 119,196	\$ 6,967	\$ 268,586
<b>Basis Differences</b>				
Revenue Accruals/Adjustments:				
Taxes Receivable	194,320	(464)	-	6,196
Intergovernmental Receivables	-	-	407,308	-
Other Receivables	41,378	(14,555)	60,688	60,979
Due from Component Units	5,900			
Due from Other Funds	13,646	8,443	36,507	45,867
Other Assets	(3,322)	-	(18,753)	(55)
Deferred Revenues	(42,922)	(5,307)	18,286	(25,727)
Total Revenue Accruals/Adjustments	<u>209,000</u>	<u>(11,883)</u>	<u>504,036</u>	<u>87,260</u>
Expenditure Accruals/Adjustments:				
Accounts Payable	(214,313)	(12,283)	(447,868)	(26,104)
Due to Component Units	(3,025)	(1,033)	(6,880)	(5,926)
Bonds Issued	1,681	819	-	-
Accrued Liabilities	(18,250)	(9,046)	(5,394)	(3,757)
Taxes Payable	(138,721)			
Due to Other Funds	(22,290)	(2,687)	(19,621)	(60,191)
Total Expenditure Accruals/Adjustments	<u>(394,918)</u>	<u>(24,230)</u>	<u>(479,763)</u>	<u>(95,978)</u>
Fund Balances - GAAP Basis	<u>\$ 46,356</u>	<u>\$ 83,083</u>	<u>\$ 31,240</u>	<u>\$ 259,868</u>

## **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.

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. For the year ended June 30, 2005, the legislature approved \$138.5 million of supplemental appropriations for the General Fund.

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, is employed in governmental fund types. For financial statement purposes, encumbrances outstanding at June 30 are shown as reservations of fund balance. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. Amounts carried forward are shown as reservations 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 2004-2005, 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 23, 2004, 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 13, 2005, 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 following schedules depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds.

## Required Supplementary Information - Budgetary Reporting

### STATE OF MAINE BUDGETARY COMPARISON SCHEDULE GENERAL FUND EXPENDITURES BY AGENCY

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	Final Budget	Actual	Variance with Final Budget
<b>Department of Administrative and Financial Services</b>			
Administrative Services	\$ 12,818	\$ 11,961	\$ 857
Employee Relations	741	726	15
Financial Services	194,761	188,988	5,773
Human Resources	1,772	1,606	166
Financial and Personnel Services	1,014	951	63
Purchasing	493	487	6
	211,599	204,719	6,880
<b>Department of Agriculture</b>	8,753	8,279	474
<b>Attorney General</b>	13,886	13,781	105
<b>Department of Audit</b>	1,495	1,494	1
<b>Department of Corrections</b>			
Corrections	43,475	41,254	2,221
Maine State Prison	34,221	33,907	314
Maine Correctional Center	19,689	19,572	117
Downeast Correctional Facility	5,121	5,076	45
Charleston Correctional Facility	14,732	14,652	80
Long Creek Youth Development Center	13,996	13,527	469
	131,234	127,988	3,246
<b>Department of Conservation</b>	22,532	21,019	1,513
<b>Department of Economic and Community Development</b>	13,486	12,597	889
<b>Department of Environmental Protection</b>	6,529	6,293	236
<b>Department of Human Services</b>			
Human Services	663,471	630,214	33,257
Behavioral and Developmental Services	239,988	229,733	10,255
Augusta Mental Health Institute	10,528	10,000	528
Dorothea Dix Psychiatric Center	10,953	10,295	658
Office of Substance Abuse	8,449	7,965	484
Freeport Towne Square	1,261	1,256	5
Elizabeth Levinson Center	2,876	2,833	43
Aroostook Residential Center	42	16	26
	937,568	892,312	45,256
<b>Department of Labor</b>	19,546	15,537	4,009
Labor Relations Board	447	447	-
	19,993	15,984	4,009
<b>Department of Transportation</b>			
Transportation	645	643	2
Air Transportation	233	231	2
Ferry Service/Ports and Marine	2,510	2,510	-
Rail/Van Pool	201	200	1
	3,589	3,584	5
<b>Defense, Veterans and Emergency Management</b>	5,426	4,912	514
<b>Department of Education</b>			
Education	966,572	961,485	5,087
Education - Unorganized Territory	11,328	9,929	1,399
	977,900	971,414	6,486
<b>General Government</b>			
Office of the Governor	3,401	2,708	693
State Planning	2,693	2,250	443
Ombudsman Program	64	63	1
	6,158	5,021	1,137



	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Department of Inland Fisheries and Wildlife</b>	\$ 24,503	\$ 22,969	\$ 1,534
<b>Judicial Department</b>	54,791	53,673	1,118
<b>Legislative Department</b>			
Legislative	23,558	21,974	1,584
Law and Legislative Reference Library	1,512	1,339	173
Statehouse Preservation and Maintenance	1,800	1,302	498
Program Evaluation and Government Accountability	450	129	321
	<u>27,320</u>	<u>24,744</u>	<u>2,576</u>
<b>Department of Marine Resources</b>	9,981	9,560	421
<b>Department of Public Safety</b>	20,120	18,574	1,546
<b>Secretary of State</b>			
Secretary of State	2,708	2,396	312
Archives Services	841	840	1
	<u>3,549</u>	<u>3,236</u>	<u>313</u>
<b>Treasurer of State</b>	77,166	75,755	1,411
<b>Other Agencies</b>			
Museum	1,576	1,550	26
Maine State Cultural Affairs Council	100	35	65
Maine Historic Preservation Commission	319	319	-
Library	3,530	3,406	124
Maine Humanities Council	71	71	-
Finance Authority of Maine	12,558	12,558	-
Centers for Innovation	157	157	-
Com. On Governmental Ethics and Election Practices	167	138	29
Maine Indian Tribal State Council	36	36	-
Board of Property Tax Review	105	98	7
Maine Municipal Bond Bank	92	92	-
Maine State Retirement System	233	195	38
Maine Criminal Justice Commission	17	17	-
Maine Fire Protection Services Commission	16	4	12
Human Rights Commission	488	485	3
Saco River Corridor Commission	54	54	-
Atlantic Salmon Commission	664	664	-
NE International Water Pollution Control Commission	10	10	-
Downeast Institutes Appl Marine	15	15	-
Atlantic States Marine Fisheries Commission	36	36	-
St. Croix International Waterway	25	25	-
Maine Public Broadcasting Corporation	2,280	2,280	-
Maine State Housing Authority	461	461	-
Governor Baxter School for the Deaf	5,758	5,758	-
Baxter Compensation Authority	6,000	6,000	-
Board of Education	158	84	74
Maine Historical Society	58	58	-
Foundation for Blood Research	69	69	-
Pine Tree Legal	136	136	-
Maine Community College System	41,472	41,472	-
Maine Maritime Academy	7,457	7,457	-
University of Maine	179,904	179,904	-
Arts and Humanities Administration	815	790	25
Disability Rights Center	74	74	-
Maine Hospice Counsel	69	69	-
	<u>264,980</u>	<u>264,577</u>	<u>403</u>
<b>Grand Total</b>	\$ 2,842,558	\$ 2,762,485	\$ 80,073



<b>Required Supplementary Information - Budgetary Reporting</b>
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**STATE OF MAINE**  
**BUDGETARY COMPARISON SCHEDULE**  
**HIGHWAY FUND EXPENDITURES BY AGENCY**

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	Final Budget	Actual	Variance with Final Budget
<b><i>Department of Administrative and Financial Services</i></b>			
Administrative Services	\$ 2,477	\$ 2,387	\$ 90
Financial Services	711	593	118
	3,188	2,980	208
<b><i>Department of Environmental Protection</i></b>			
	36	30	6
<b><i>Department of Transportation</i></b>			
Transportation	307,631	232,228	75,403
Rail/Van Pool	640	640	-
	308,271	232,868	75,403
<b><i>Department of Public Safety</i></b>			
	36,527	32,460	4,067
<b><i>Secretary of State</i></b>			
Motor Vehicles	32,925	31,259	1,666
	32,925	31,259	1,666
<b><i>Grand Total</i></b>	\$ 380,947	\$ 299,597	\$ 81,350

## Required Supplementary Information - Budgetary Reporting

### STATE OF MAINE BUDGETARY COMPARISON SCHEDULE FEDERAL FUND EXPENDITURES BY AGENCY

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	Final Budget	Actual	Variance with Final Budget
<b>Department of Administrative and Financial Services</b>			
Bureau of Information Services	\$ 223	\$ 113	\$ 110
Financial Services	5	2	3
Financial and Personnel Services	30	6	24
State Employee Health Commission	96	-	96
	354	121	233
<b>Department of Agriculture</b>			
	6,086	2,983	3,103
<b>Attorney General</b>			
	4,925	3,788	1,137
<b>Department of Corrections</b>			
Corrections	7,318	3,304	4,014
Maine State Prison	19	14	5
Maine Correctional Center	107	73	34
Downeast Correctional Facility	53	2	51
Charleston Correctional Facility	248	140	108
Long Creek Youth Development Center	486	222	264
	8,231	3,755	4,476
<b>Department of Conservation</b>			
	8,942	5,530	3,412
<b>Department of Economic and Community Development</b>			
	37,484	19,062	18,422
<b>Department of Environmental Protection</b>			
	16,184	11,155	5,029
<b>Department of Human Services</b>			
Human Services	2,040,664	1,939,469	101,195
Behavioral and Developmental Services	16,345	11,139	5,206
Dorothea Dix Psychiatric Center	38	-	38
Office of Substance Abuse	18,548	13,097	5,451
	2,075,595	1,963,705	111,890
<b>Department of Labor</b>			
	102,255	72,104	30,151
<b>Department of Transportation</b>			
Transportation	218,583	184,462	34,121
Air Transportation	3,821	2,765	1,056
Ferry Service/Ports and Marine	500	145	355
Rail/Van Pool	781	23	758
	223,685	187,395	36,290
<b>Defense, Veterans and Emergency Management</b>			
	128,109	78,447	49,662
<b>Department of Education</b>			
Education	222,038	175,698	46,340
Education - Unorganized Territory	489	446	43
	222,527	176,144	46,383
<b>General Government</b>			
Office of the Governor	1,018	309	709
State Planning	5,811	3,822	1,989
	6,829	4,131	2,698
<b>Department of Inland Fisheries and Wildlife</b>			
	8,678	5,727	2,951
<b>Judicial Department</b>			
	3,910	3,205	705
<b>Department of Marine Resources</b>			
	5,436	3,494	1,942
<b>Department of Professional and Financial Regulation</b>			
Professional and Financial Regulation	52	35	17
	52	35	17
<b>Department of Public Safety</b>			
	12,188	7,582	4,606

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Public Utilities Commission</b>	\$ 1,633	\$ 697	\$ 936
<b>Secretary of State</b>			
Secretary of State	12,148	1,102	11,046
Motor Vehicles	485	155	330
Archives Services	157	85	72
	<u>12,790</u>	<u>1,342</u>	<u>11,448</u>
<b>Treasurer of State</b>	<u>61</u>	<u>42</u>	<u>19</u>
<b>Other Agencies</b>			
Arts and Humanities Administration	838	626	212
Atlantic Salmon Commission	1,795	1,389	406
Human Rights Commission	419	329	90
Library	1,304	1,080	224
Maine Health Data Organization	71	15	56
Maine Historic Preservation Commission	676	525	151
Museum	363	175	188
	<u>5,466</u>	<u>4,139</u>	<u>1,327</u>
<b>Grand Total</b>	<u>\$ 2,891,420</u>	<u>\$ 2,554,583</u>	<u>\$ 336,837</u>

## Required Supplementary Information - Budgetary Reporting

### STATE OF MAINE BUDGETARY COMPARISON SCHEDULE OTHER SPECIAL REVENUE FUND EXPENDITURES BY AGENCY

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	Final Budget	Actual	Variance with Final Budget
<b>Department of Administrative and Financial Services</b>			
Administrative Services	\$ 1,262	\$ 522	\$ 740
Financial Services	18,893	11,601	7,292
Human Resources	866	407	459
Financial and Personnel Services	2,765	2,169	596
State Employee Health Commission	1,200	394	806
	24,986	15,093	9,893
<b>Department of Agriculture</b>	14,211	10,676	3,535
<b>Attorney General</b>	8,114	7,353	761
<b>Department of Audit</b>	1,524	1,196	328
<b>Department of Corrections</b>			
Corrections	1,353	838	515
Maine State Prison	202	106	96
Maine Correctional Center	576	423	153
Downeast Correctional Facility	150	64	86
Charleston Correctional Facility	455	276	179
Long Creek Youth Development Center	38	38	-
	2,774	1,745	1,029
<b>Department of Conservation</b>	18,438	12,133	6,305
<b>Department of Economic and Community Development</b>	10,057	7,726	2,331
<b>Department of Environmental Protection</b>			
Environmental Protection	51,551	35,567	15,984
A.C.E. Service Center	1,033	1,009	24
	52,584	36,576	16,008
<b>Department of Human Services</b>			
Human Services	363,501	195,438	168,063
Behavioral and Developmental Services	5,669	4,314	1,355
Augusta Mental Health Institute	19,814	17,914	1,900
Dorothea Dix Psychiatric Center	15,243	13,668	1,575
Office of Substance Abuse	6,322	6,049	273
Freeport Towne Square	85	49	36
	410,634	237,432	173,202
<b>Department of Labor</b>			
Labor	7,475	3,766	3,709
Labor Relations Board	117	53	64
	7,592	3,819	3,773
<b>Department of Transportation</b>			
Transportation	65,942	36,670	29,272
Air Transportation	208	84	124
Rail/Van Pool	537	427	110
	66,687	37,181	29,506
<b>Defense, Veterans and Emergency Management</b>	3,440	1,719	1,721
<b>Department of Education</b>			
Education	16,303	10,639	5,664
Education - Unorganized Territory	8	-	8
	16,311	10,639	5,672
<b>General Government</b>			
Office of the Governor	405	317	88
State Planning	2,719	1,301	1,418
Public Advocate	2,448	1,675	773
	5,572	3,293	2,279
<b>Department of Inland Fisheries and Wildlife</b>	7,612	3,656	3,956

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Judicial Department</b>	\$ 3,312	\$ 2,276	\$ 1,036
<b>Legislative Department</b>			
Legislative	37	5	32
<b>Department of Marine Resources</b>	5,204	3,257	1,947
<b>Department of Professional and Financial Regulation</b>			
Professional and Financial Regulation	24,074	18,612	5,462
Board of Dental Examiners	324	268	56
Board of Nursing	723	557	166
Board of Optometry	53	41	12
Board of Osteopathic Examination and Registration	161	151	10
Board of Professional Engineers	245	189	56
Board of Registration in Medicine	1,227	1,140	87
	<u>26,807</u>	<u>20,958</u>	<u>5,849</u>
<b>Department of Public Safety</b>	13,431	11,505	1,926
<b>Public Utilities Commission</b>	27,440	20,333	7,107
<b>Secretary of State</b>			
Secretary of State	629	169	460
Motor Vehicles	977	917	60
Archives Services	71	33	38
	<u>1,677</u>	<u>1,119</u>	<u>558</u>
<b>Treasurer of State</b>	120,130	117,611	2,519
<b>Other Agencies</b>			
Arts and Humanities Administration	161	62	99
Atlantic Salmon Commission	108	76	32
Baxter Compensation Authority	758	528	230
Baxter State Park Authority	3,042	2,820	222
Board of Water System Operators	82	33	49
Com. On Governmental Ethics and Election Practices	3,083	718	2,365
Dirigo Health	26,067	16,054	10,013
Finance Authority of Maine	619	599	20
Harness Racing Promotion Board	184	146	38
Human Rights Commission	24	-	24
Library	308	263	45
Lobster Promotion Council	480	400	80
Maine Community College System	904	904	-
Maine Consumer Choice Health Plan	1	-	1
Maine Health Data Organization	1,564	1,184	380
Maine Historic Preservation Commission	583	349	234
Maine Potato Board	1,353	581	772
Maine State Cultural Affairs Council	76	10	66
Maine State Housing Authority	12,337	7,304	5,033
Mine Children's Trust Incorporated	100	32	68
Museum	410	155	255
Saco River Corridor Commission	47	47	-
University of Maine	533	13	520
Worker's Compensation Board	8,750	8,328	422
Wild Blueberry Commission of Maine	1,476	878	598
	<u>63,050</u>	<u>41,484</u>	<u>21,566</u>
<b>Grand Total</b>	\$ <u>911,624</u>	\$ <u>608,785</u>	\$ <u>302,839</u>

<b>Required Supplementary Information – State Retirement Plan</b>
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### Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
June 30, 2005	7,013,846,148	10,048,587,643	3,034,741,495	69.8%	1,516,390,862	200.1%
June 30, 2004	6,498,608,717	9,485,605,608	2,986,996,891	68.5%	1,472,429,214	202.9%
June 30, 2003	6,085,632,834	9,007,851,422	2,922,218,588	67.6%	1,442,278,362	202.6%
June 30, 2002	5,920,475,637	8,511,834,626	2,591,358,989	69.6%	1,413,262,420	183.4%
June 30, 2001	5,844,838,370	7,997,931,582	2,153,093,212	73.1%	1,326,375,573	162.3%
June 30, 2000	5,528,795,711	7,491,075,545	1,962,279,834	73.8%	1,271,009,158	154.4%
June 30, 1999	4,881,389,092	7,053,934,465	2,172,545,373	69.2%	1,209,804,594	179.6%
June 30, 1998	4,325,864,097	6,706,620,132	2,380,756,055	64.5%	1,165,614,285	204.2%

### Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2005	261,697,901	274,697,901	105.0%
2004	251,482,848	273,482,848	108.7%
2003	252,709,148	263,209,148	104.2%
2002	242,486,089	242,486,089	100.0%
2001	247,526,221	247,526,221	100.0%
2000	232,878,658	236,878,658	101.7%
1999	246,155,629	268,001,527	108.9%
1998	218,506,594	239,915,051	109.8%



<b>Required Supplementary Information – Participating Local District Plan</b>
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### Schedule of Funding Progress

(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c	
Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
June 30, 2005	1,874,310,141	1,641,144,382	(233,165,759)	114.2%	304,975,678	-76.5%
June 30, 2004	1,774,950,786	1,582,991,084	(191,959,702)	112.1%	292,321,815	-65.7%
June 30, 2003	1,701,572,665	1,463,437,856	(238,134,809)	116.3%	277,032,661	-86.0%
June 30, 2002	1,692,033,523	1,377,659,381	(314,374,142)	122.8%	268,161,476	-117.2%
June 30, 2001	1,544,720,492	1,427,090,054	(117,630,438)	108.2%	254,155,180	-46.3%
June 30, 2000	1,498,729,722	1,351,640,782	(147,088,940)	110.9%	244,163,272	-60.2%
June 30, 1999	1,354,840,239	1,278,819,201	(76,021,038)	105.9%	233,507,942	-32.6%
June 30, 1998	1,066,810,947	1,147,652,930	80,841,983	93.0%	223,525,533	36.2%

### Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2005	7,587,753	7,594,557	100.1%
2004	7,664,957	17,089,419	223.0%
2003	8,503,871	22,436,866	263.8%
2002	10,017,340	173,065,194	1727.7%
2001	17,122,717	17,122,717	100.0%
2000	13,433,467	13,433,467	100.0%
1999	23,475,495	23,475,495	100.0%
1998	27,355,304	27,355,304	100.0%

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION PENSION INFORMATION**

### **Basis of Presentation**

For financial statement reporting purposes, the information provided on the required supplementary information schedules includes amounts for employees of participating local districts as well as combined amounts for State employees, teachers, judicial and legislative employees.

### **Actuarial Assumptions and Methods:**

The information in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2005 is as follows:

#### **Funding Method**

Costs are developed using the entry age normal cost method (based on a level percentage of covered payroll), except for the costs of the legislative plan, where the aggregate method is used. Under this method the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payroll. Entry age is defined as the first day service is credited under the plan.

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

#### **Asset Valuation Method**

Assets are valued for funding purposes using a three-year moving average. Under this method, the year-end actuarial asset value equals 1/3 of the current fiscal year-end fair value, as reported in the financial statements, plus 2/3 of the "expected market value." For purposes of this calculation, the "expected market value" is the preceding fiscal year's actuarial asset value, adjusted for the current fiscal year's cash flows with interest accumulated at the actuarial assumed rate of return on investments.

#### **Amortization**

The unfunded actuarial liability is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements, which is over a 19 year closed 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 unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 12 years remained at June 30, 2005.

The IUUAL of PLDs are amortized over periods established for each PLD separately. During fiscal year 2005 and 2004, various PLD's contributed approximately \$6,800 and \$9.4 million to decrease their initial unpooled unfunded actuarial liability, respectively.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2005 are as follows:

Investment Return – 8% per annum, compounded annually

Salary Increases – 5.5% to 9.5% per year (including inflation of 5%)

Mortality Rates – Active State employee members and active participating local district members, non-disabled State employee retirees and non-disabled participating local district members with retirement dates on or after July 1, 1998 – UP 1994 Tables; Active teacher members and non-disabled teacher retirees with retirement dates on or after July 1, 1998 – 85% of UP 1994 Tables; Non-disabled State employee retirees and non-disabled participating local district retirees with retirement dates before July 1, 1998 – GAM 1971 Tables; Non-disabled teacher retirees with retirement dates before July 1, 1998 – GAM 1971 Tables set back two years; All recipients of disability benefits with retirement dates on or after July 1, 1998 – 1964 Commissioners Disability Table; All recipients of disability benefits with retirement dates before July 1, 1998 – RPA 1994 Table for pre-1995 Disabilities.

Post Retirement Benefit Increases – 4% per annum

**Group Life Plan:**

The Group Life Insurance Program administered by the System provides for a life insurance benefit for active members equal to a member’s annual base compensation as defined by statute. Upon retirement, life insurance coverage in the amount of the member’s average final compensation is provided with a reduction of 15% per year until the greater of 40% of the average final compensation or \$2,500 is reached. To be covered in retirement, retirees must have participated in the Group Life Program for a minimum of ten years. Premiums are remitted to the System by the employer. The State pays a premium rate of \$0.30 per \$1,000 of coverage per month for active state employees. Teachers and employees of participating local districts pay a premium rate of \$0.22 and \$0.46 per \$1,000 of coverage per month, respectively, some or all of which may be deducted from employees’ compensation as per individual agreements with employees. Assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 2005 and 2004, the net assets held in trust for group life insurance benefits were \$41.8 million and \$40.0 million, respectively. At June 30, 2005 and 2004, the plan had the following actuarially determined liabilities:

	(In millions)	
	<u>2005</u>	<u>2004</u>
Actuarial Liabilities:		
Active Members	\$ 58.9	\$ 49.2
Retired Members	68.1	42.5
 Total	 <u>\$ 127.0</u>	 <u>\$ 91.7</u>

**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 8,760 highway miles or 17,747 lane miles of roads and 2,967 bridges having a total deck area of 11.4 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
2005	79.3	77.0
2004	78.2	77.0
2003	77.6	76.0

**Budgeted and Estimated Costs to Maintain**

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). DOT did not collect estimated information in this format, prior to FY 2003.

Fiscal Year	Estimated Spending	Actual Spending
2006	\$ 52	\$ -
2005	31	46.1
2004	30	35.3
2003	36	34.3
2002	-	41.4
2001	-	29.4

**Transportation Bonds**

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 33, P&S 2003, \$22 million was spent during FY2005.

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**COMBINING AND  
INDIVIDUAL FUND  
FINANCIAL STATEMENTS  
AND SCHEDULES  
NON-MAJOR FUNDS**

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**STATE OF MAINE**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**

June 30, 2005  
(Expressed in Thousands)

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent Funds</u>	<u>Totals  Other Governmental Funds</u>
<b>Assets</b>				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ 152	\$ -	\$ -	\$ 152
Investments	56,683	-	11,247	67,930
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	-	14,911	-	14,911
Restricted Deposits and Investments	-	37,550	-	37,550
Due from Component Units	-	782	-	782
Total Current Assets	<u>56,835</u>	<u>53,243</u>	<u>11,247</u>	<u>121,325</u>
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	9	-	-	9
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	-	885	-	885
Total Noncurrent Assets	<u>9</u>	<u>885</u>	<u>-</u>	<u>894</u>
Total Assets	<u>\$ 56,844</u>	<u>\$ 54,128</u>	<u>\$ 11,247</u>	<u>\$ 122,219</u>
<b>Liabilities and Fund Balances</b>				
Current Liabilities:				
Accounts Payable	\$ -	\$ 1,314	\$ -	\$ 1,314
Due to Component Units	-	3,717	-	3,717
Total Current Liabilities	<u>-</u>	<u>5,031</u>	<u>-</u>	<u>5,031</u>
Total Liabilities	<u>-</u>	<u>5,031</u>	<u>-</u>	<u>5,031</u>
Fund Balances:				
Reserved				
Continuing Appropriations	175	-	-	175
Capital Projects	-	49,097	-	49,097
Permanent Trusts	-	-	11,247	11,247
Other	56,669	-	-	56,669
Total Fund Balances	<u>56,844</u>	<u>49,097</u>	<u>11,247</u>	<u>117,188</u>
Total Liabilities and Fund Balances	<u>\$ 56,844</u>	<u>\$ 54,128</u>	<u>\$ 11,247</u>	<u>\$ 122,219</u>



**STATE OF MAINE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent Funds</u>	<u>Totals Other Governmental Funds</u>
Revenues:				
Investment Income	\$ 5,000	\$ -	\$ 1,071	\$ 6,071
Miscellaneous Revenue	-	40	-	40
Total Revenues	<u>5,000</u>	<u>40</u>	<u>1,071</u>	<u>6,111</u>
Expenditures:				
Governmental Support & Operations	105	8,745	-	8,850
Economic Development & Workforce Training	-	9,841	-	9,841
Education	-	32,309	-	32,309
Health and Human Services	-	533	-	533
Natural Resources Development & Protection	-	15,895	-	15,895
Justice and Protection	-	228	-	228
Arts, Heritage, and Cultural Enrichment	-	1,651	-	1,651
Transportation, Safety & Development	-	33,868	-	33,868
Total Expenditures	<u>105</u>	<u>103,070</u>	<u>-</u>	<u>103,175</u>
Revenue over (under) Expenditures	<u>4,895</u>	<u>(103,030)</u>	<u>1,071</u>	<u>(97,064)</u>
Other Financing Sources (Uses):				
Transfers from Other Funds	-	300	-	300
Transfers to Other Funds	(4,745)	(13,181)	-	(17,926)
Other	-	6,800	-	6,800
Bonds Issued	-	137,525	-	137,525
Net Other Finance Sources (Uses)	<u>(4,745)</u>	<u>131,444</u>	<u>-</u>	<u>126,699</u>
Revenue and Other Sources over (under) Expenditures and Other Uses	<u>150</u>	<u>28,414</u>	<u>1,071</u>	<u>29,635</u>
Fund Balances at Beginning of Year	<u>56,694</u>	<u>20,683</u>	<u>10,176</u>	<u>87,553</u>
Fund Balances at End of Year	<u>\$ 56,844</u>	<u>\$ 49,097</u>	<u>\$ 11,247</u>	<u>\$ 117,188</u>



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# NON-MAJOR GOVERNMENTAL FUNDS

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## Special Revenue Funds

Learning Technology Fund – This fund accounts for funds dedicated by the Legislature and by other private and public sources for the advancement of learning technology for elementary and secondary students in Maine.

Baxter Park Fund – This fund accounts for a gift to the State of Maine by former Governor Baxter, which

allows for the principal and interest to be used to purchase public reserved lands. Interest income may also be used for operations of the Baxter State Park.

Revenue on Permanent Funds Fund – This fund accounts for expendable earnings on permanent fund balances.

## Capital Projects Funds

General Bond Fund – This fund accounts for the acquisition or construction of major capital facilities, other than highways and bridges that are financed primarily from proceeds of general obligation bonds.

The State also includes proceeds from bond issues for purposes other than construction of major capital facilities in this fund.

## Permanent Funds

Baxter Park Trust Fund – This fund accounts for a gift to the State of Maine by former Governor Baxter, calling for principal to be maintained intact and income to be used for park operations.

Other Trust Funds – These funds are comprised of numerous small Permanent Funds, the income from which may be used for specified purposes.

**STATE OF MAINE  
COMBINING BALANCE SHEET  
NON-MAJOR SPECIAL REVENUE FUNDS**

June 30, 2005  
(Expressed in Thousands)

	<u>Learning Technology Fund</u>	<u>Baxter Park</u>	<u>Revenue on Permanent Funds</u>	<u>Totals Special Revenue Funds</u>
<b>Assets</b>				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ -	\$ -	\$ 152	\$ 152
Investments	-	56,683	-	56,683
Total Current Assets	<u>-</u>	<u>56,683</u>	<u>152</u>	<u>56,835</u>
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	-	9	9
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>9</u>	<u>9</u>
Total Assets	<u>\$ -</u>	<u>\$ 56,683</u>	<u>\$ 161</u>	<u>\$ 56,844</u>
<b>Liabilities and Fund Balances</b>				
Current Liabilities:				
Total Current Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:				
Reserved				
Continuing Appropriations	-	-	175	175
Other	-	56,683	(14)	56,669
Total Fund Balances	<u>-</u>	<u>56,683</u>	<u>161</u>	<u>56,844</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 56,683</u>	<u>\$ 161</u>	<u>\$ 56,844</u>

**STATE OF MAINE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR SPECIAL REVENUE FUNDS**

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	<u>Learning Technology Fund</u>	<u>Baxter Park</u>	<u>Revenue on Permanent Funds</u>	<u>Totals Special Revenue Funds</u>
<b>Revenues:</b>				
Investment Income	\$ 29	\$ 4,590	\$ 381	\$ 5,000
Total Revenues	<u>29</u>	<u>4,590</u>	<u>381</u>	<u>5,000</u>
<b>Expenditures</b>				
Governmental Support & Operations	-	-	105	105
Total Expenditures	<u>-</u>	<u>-</u>	<u>105</u>	<u>105</u>
Revenue over (under) Expenditures	<u>29</u>	<u>4,590</u>	<u>276</u>	<u>4,895</u>
Other Financing Sources (Uses):				
Transfer to Other Funds	<u>(2,753)</u>	<u>(1,702)</u>	<u>(290)</u>	<u>(4,745)</u>
Net Other Finance Sources (Uses)	<u>(2,753)</u>	<u>(1,702)</u>	<u>(290)</u>	<u>(4,745)</u>
Revenues and Other Sources over (under) Expenditures and Other Uses	<u>(2,724)</u>	<u>2,888</u>	<u>(14)</u>	<u>150</u>
Fund Balances at Beginning of Year	<u>2,724</u>	<u>53,795</u>	<u>175</u>	<u>56,694</u>
Fund Balances at End of Year	<u>\$ -</u>	<u>\$ 56,683</u>	<u>\$ 161</u>	<u>\$ 56,844</u>

**STATE OF MAINE  
BALANCE SHEET  
NON-MAJOR CAPITAL PROJECTS FUND**

June 30, 2005  
(Expressed in Thousands)

	<b>General Bond Fund</b>
<b>Assets</b>	
Current Assets:	
Restricted Assets:	
Restricted Equity in Treasurer's Cash Pool	\$ 14,911
Restricted Deposits and Investments	37,550
Due from Component Units	782
Total Current Assets	53,243
Noncurrent Assets:	
Restricted Assets:	
Restricted Equity in Treasurer's Cash Pool	885
Total Noncurrent Assets	885
Total Assets	\$ 54,128
<b>Liabilities and Fund Balances</b>	
Current Liabilities:	
Accounts Payable	\$ 1,314
Due to Component Units	3,717
Total Current Liabilities	5,031
Long-Term Liabilities:	
Total Long-Term Liabilities	-
Total Liabilities	5,031
Fund Balances:	
Reserved	
Capital Projects	49,097
Total Fund Balances	49,097
Total Liabilities and Fund Balances	\$ 54,128

**STATE OF MAINE**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR CAPITAL PROJECTS FUND**

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	<b>General Bond Fund</b>
<b>Revenues:</b>	
Miscellaneous Revenue	\$ 40
Total Revenues	40
<b>Expenditures</b>	
Current:	
Governmental Support & Operations	8,745
Economic Development & Workforce Training	9,841
Education	32,309
Health and Human Services	533
Natural Resources Development & Protection	15,895
Justice and Protection	228
Arts, Heritage & Cultural Enrichment	1,651
Transportation, Safety & Development	33,868
Total Expenditures	103,070
Revenue over (under) Expenditures	(103,030)
Other Financing Sources (Uses):	
Transfers from Other Funds	300
Transfers to Other Funds	(13,181)
Other	6,800
Bonds Issued	137,525
Net Other Finance Sources (Uses)	131,444
Revenues and Other Sources over (under)	
Expenditures and Other Uses	28,414
Fund Balances at Beginning of Year	20,683
Fund Balances at End of Year	\$ 49,097

**STATE OF MAINE  
COMBINING BALANCE SHEET  
NON-MAJOR PERMANENT FUNDS**

June 30, 2005  
(Expressed in Thousands)

	<u>Baxter Trust</u>	<u>Other Trusts</u>	<u>Totals Permanent Funds</u>
<b>Assets</b>			
Investments	\$ 4,617	\$ 6,630	\$ 11,247
Total Assets	<u>\$ 4,617</u>	<u>\$ 6,630</u>	<u>\$ 11,247</u>
<b>Fund Balances</b>			
Reserved: Permanent Trusts	<u>\$ 4,617</u>	<u>\$ 6,630</u>	<u>\$ 11,247</u>



**STATE OF MAINE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR PERMANENT FUNDS**

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	<u>Baxter Trust</u>	<u>Other Trusts</u>	<u>Totals Permanent Funds</u>
Revenues:			
Investment Income (Loss)	\$ 166	\$ 905	\$ 1,071
Total Revenues	<u>166</u>	<u>905</u>	<u>1,071</u>
Expenditures			
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over Expenditures	<u>166</u>	<u>905</u>	<u>1,071</u>
Net Other Finance Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and Other Sources over Expenditures and Other Uses	<u>166</u>	<u>905</u>	<u>1,071</u>
Fund Balances at Beginning of Year	<u>4,451</u>	<u>5,725</u>	<u>10,176</u>
Fund Balances at End of Year	<u>\$ 4,617</u>	<u>\$ 6,630</u>	<u>\$ 11,247</u>



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# NON-MAJOR ENTERPRISE FUNDS

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Lottery Fund – This fund was established to account for all operations of the Maine State Lottery. This includes the Tri-State Lotto Commission and the Multi-State Lottery Association. The Tri-State Lotto Commission was established in 1985 and is a joint venture between 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 the prices of tickets, the number and size of prizes for winning tickets, and the licensing of agents. The Multi-State Lottery Association was established in July 2004 and is authorized to initiate, promulgate, administer and carry out one or more lottery product offerings.

Maine Military Authority Fund – This fund was created for the purpose of operating the Maine Readiness Sustainment Maintenance Center. The Center maintains, rebuilds, repairs, stores and manufactures equipment for the United States Departments of Defense, Army, Air Force, Navy and Treasury.

Seed Potato Board Fund – This fund accounts for the growing of nuclear seed for sale to potato growers, for research in disease control, and the development of new product varieties.

State Airport Fund – This fund accounts for all operations and maintenance of the Maine State Airport. The State, through the Department of Transportation, entered into a lease/purchase agreement with the City of Augusta to operate and eventually own the airport.

Marine Ports Fund – This fund is used to account for the operation and maintenance of port facilities within the jurisdiction of the Department of Transportation.

State Ferry Service Fund – This fund accounts for the operation of ferry services between the mainland and various islands for the purpose of transporting vehicles, freight, and passengers to and from those islands.

Prison Industries Fund – This fund accounts for a self-supporting program of job training through the employment of inmates in manufacturing and selling products.

Community Industrial Building Fund – This fund is used to assist a local development corporation to construct a community industrial building by lending money when the project can reasonably be expected to create new employment. Preference is given to projects in economically deprived areas.

Dirigo Health Agency - This fund was created to arrange for the provision of comprehensive, affordable health care coverage to eligible small employers, including the self-employed, their employees and dependents, and individuals on a voluntary basis.

**STATE OF MAINE**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR ENTERPRISE FUNDS**

June 30, 2005  
(Expressed in Thousands)

	<u>Lottery</u>	<u>Maine Military Authority</u>	<u>Seed Potato</u>	<u>Airport</u>
<b>Assets</b>				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ 7	\$ -	\$ -	\$ 202
Cash and Short-Term Investments	750	-	1	-
Inventories	-	-	1	-
Receivables, Net of Allowance for Uncollectibles:				
Other Receivable	18,900	1,543	97	-
Due from Other Funds	-	3,459	-	-
Other Current Assets	-	4	-	-
Total Current Assets	<u>19,657</u>	<u>5,006</u>	<u>99</u>	<u>202</u>
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	-	-	12
Capital Assets - Net of Depreciation	<u>17</u>	<u>1,926</u>	<u>635</u>	<u>4,016</u>
Total Noncurrent Assets	<u>17</u>	<u>1,926</u>	<u>635</u>	<u>4,028</u>
 Total Assets	 <u>19,674</u>	 <u>6,932</u>	 <u>734</u>	 <u>4,230</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	1,142	2,108	-	76
Accrued Payroll	50	864	15	-
Due to Other Funds	5,140	5,204	23	-
Current Portion of Long-Term Obligations:				
Compensated Absences	24	8	-	-
Deferred Revenue	303	-	-	-
Other Accrued Liabilities	<u>12,376</u>	<u>-</u>	<u>30</u>	<u>-</u>
Total Current Liabilities	<u>19,035</u>	<u>8,184</u>	<u>68</u>	<u>76</u>
Long-Term Liabilities:				
Compensated Absences	<u>87</u>	<u>63</u>	<u>-</u>	<u>-</u>
Total Long-Term Liabilities	<u>87</u>	<u>63</u>	<u>-</u>	<u>-</u>
 Total Liabilities	 <u>19,122</u>	 <u>8,247</u>	 <u>68</u>	 <u>76</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	17	1,926	635	4,016
Unrestricted	<u>535</u>	<u>(3,241)</u>	<u>31</u>	<u>138</u>
 Total Net Assets	 <u>\$ 552</u>	 <u>\$ (1,315)</u>	 <u>\$ 666</u>	 <u>\$ 4,154</u>

<u>Marine Ports</u>	<u>Ferry Service</u>	<u>Prison Industries</u>	<u>Community Industrial Building</u>	<u>Dirigo Health</u>	<u>Totals Other Enterprise Funds</u>
\$ 802	\$ 60	\$ 239	\$ -	\$ 37,826	\$ 39,136
-	3	3	-	-	757
-	257	581	-	-	839
205	152	27	-	19	20,943
-	14	10	-	-	3,483
-	-	-	-	2,611	2,615
<u>1,007</u>	<u>486</u>	<u>860</u>	<u>-</u>	<u>40,456</u>	<u>67,773</u>
48	4	14	-	2,245	2,323
<u>22,740</u>	<u>20,607</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>49,961</u>
<u>22,788</u>	<u>20,611</u>	<u>34</u>	<u>-</u>	<u>2,245</u>	<u>52,284</u>
<u>23,795</u>	<u>21,097</u>	<u>894</u>	<u>-</u>	<u>42,701</u>	<u>120,057</u>
-	166	26	-	108	3,626
-	251	17	-	38	1,235
-	13	17	-	500	10,897
-	24	-	-	-	56
-	-	-	-	389	692
-	-	-	-	-	12,406
<u>-</u>	<u>454</u>	<u>60</u>	<u>-</u>	<u>1,035</u>	<u>28,912</u>
-	177	-	-	-	327
<u>-</u>	<u>177</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>327</u>
-	631	60	-	1,035	29,239
22,740	20,607	20	-	-	49,961
<u>1,055</u>	<u>(141)</u>	<u>814</u>	<u>-</u>	<u>41,666</u>	<u>40,857</u>
<u>\$ 23,795</u>	<u>\$ 20,466</u>	<u>\$ 834</u>	<u>\$ -</u>	<u>\$ 41,666</u>	<u>\$ 90,818</u>

**STATE OF MAINE**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**NON-MAJOR ENTERPRISE FUNDS**

June 30, 2005  
(Expressed in Thousands)

	<u>Lottery</u>	<u>Maine Military Authority</u>	<u>Seed Potato</u>	<u>Airport</u>
<b>Operating Revenues</b>				
Charges for Services	\$ 211,875	\$ 46,450	\$ 540	\$ 120
Miscellaneous Revenues	-	27	11	-
Total Operating Revenues	<u>211,875</u>	<u>46,477</u>	<u>551</u>	<u>120</u>
<b>Operating Expenses</b>				
General Operations	161,685	50,760	557	459
Depreciation	6	148	53	433
Total Operating Expenses	<u>161,691</u>	<u>50,908</u>	<u>610</u>	<u>892</u>
Operating Income (Loss)	<u>50,184</u>	<u>(4,431)</u>	<u>(59)</u>	<u>(772)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Other Nonoperating Revenues (Expenses)- net	90	-	2	5
Total Nonoperating Revenues (Expenses)	<u>90</u>	<u>-</u>	<u>2</u>	<u>5</u>
Income (Loss) Before Capital Contributions, Transfers and Special Items	<u>50,274</u>	<u>(4,431)</u>	<u>(57)</u>	<u>(767)</u>
<b>Capital Contributions, Transfers and Special Items</b>				
Capital Contributions from Other Funds	-	-	-	13
Transfers from (to) Other Funds	(49,802)	294	(11)	228
Total Capital Contributions, Transfers In (Out) and Special Items	<u>(49,802)</u>	<u>294</u>	<u>(11)</u>	<u>241</u>
Change in Net Assets	472	(4,137)	(68)	(526)
Total Net Assets - Beginning of Year ( As Restated)	<u>80</u>	<u>2,822</u>	<u>734</u>	<u>4,680</u>
Total Net Assets - End of Year	<u>\$ 552</u>	<u>\$ (1,315)</u>	<u>\$ 666</u>	<u>\$ 4,154</u>

<u>Marine Ports</u>	<u>Ferry Service</u>	<u>Prison Industries</u>	<u>Community Industrial Building</u>	<u>Dirigo Health</u>	<u>Totals Other Enterprise Funds</u>
\$ 413	\$ 3,632	\$ 1,579	\$ -	\$ 5,216	\$ 269,825
-	-	1	39	-	78
<u>413</u>	<u>3,632</u>	<u>1,580</u>	<u>39</u>	<u>5,216</u>	<u>269,903</u>
487	6,404	1,492	-	13,587	235,431
1,342	1,424	5	-	-	3,411
<u>1,829</u>	<u>7,828</u>	<u>1,497</u>	<u>-</u>	<u>13,587</u>	<u>238,842</u>
<u>(1,416)</u>	<u>(4,196)</u>	<u>83</u>	<u>39</u>	<u>(8,371)</u>	<u>31,061</u>
14	236	6	-	-	353
<u>14</u>	<u>236</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>353</u>
<u>(1,402)</u>	<u>(3,960)</u>	<u>89</u>	<u>39</u>	<u>(8,371)</u>	<u>31,414</u>
-	181	-	-	-	194
100	2,346	(35)	-	(2,137)	(49,017)
<u>100</u>	<u>2,527</u>	<u>(35)</u>	<u>-</u>	<u>(2,137)</u>	<u>(48,823)</u>
(1,302)	(1,433)	54	39	(10,508)	(17,409)
<u>25,097</u>	<u>21,899</u>	<u>780</u>	<u>(39)</u>	<u>52,174</u>	<u>108,227</u>
<u>\$ 23,795</u>	<u>\$ 20,466</u>	<u>\$ 834</u>	<u>\$ -</u>	<u>\$ 41,666</u>	<u>\$ 90,818</u>

**STATE OF MAINE**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NON-MAJOR ENTERPRISE FUNDS**

June 30, 2005  
(Expressed in Thousands)

	<u>Lottery</u>	<u>Maine Military Authority</u>	<u>Seed Potato</u>	<u>Airport</u>
<b>Cash Flows from Operating Activities</b>				
Receipts from Customers and Users	\$ 208,537	\$ 43,721	\$ 500	\$ 120
Payments to Prize Winners	(128,902)	-	-	-
Payments to Suppliers	(28,441)	(25,478)	(149)	(383)
Payments to Employees	(1,475)	(18,759)	(406)	-
Net Cash Provided (Used) by Operating Activities	<u>49,719</u>	<u>(516)</u>	<u>(55)</u>	<u>(263)</u>
Operating Transfers in	476	369		228
Operating Transfers out	(50,278)	(75)	(11)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(49,802)</u>	<u>294</u>	<u>(11)</u>	<u>228</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Payments for Acquisition of Capital Assets	-	(770)	(36)	(1)
Proceeds from Sale of Capital Assets	-	-	-	-
Net Cash Provided (Used) by Capital Financing Activities	<u>-</u>	<u>(770)</u>	<u>(36)</u>	<u>(1)</u>
<b>Cash Flows from Investing Activities</b>				
Interest Revenue	90	-	2	5
Payments to Purchase Investments	-	-	-	-
Proceeds from Sale of Investments	-	-	-	-
Net Cash Provided (Used) by Investing Activities	<u>90</u>	<u>-</u>	<u>2</u>	<u>5</u>
Net Increase (Decrease) in Cash/Cash Equivalents	7	(992)	(100)	(31)
Cash/Cash Equivalents - Beginning of Year	<u>750</u>	<u>992</u>	<u>101</u>	<u>245</u>
Cash/Cash Equivalents - End of Year	\$ <u><u>757</u></u>	\$ <u><u>-</u></u>	\$ <u><u>1</u></u>	\$ <u><u>214</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities</b>				
Operating Income (Loss)	\$ 50,184	\$ (4,431)	\$ (59)	\$ (772)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>				
Depreciation Expense	6	148	53	433
Decrease (Increase) in Assets & Liabilities:				
Accounts Receivable	(3,338)	(1,543)	(76)	-
Interfund Balances	516	3,777	48	-
Inventories	-	-	-	-
Accounts Payable	104	1,065	(33)	76
Accrued Payroll Expenses	9	400	15	-
Change in Compensated Absences	21	71	-	-
Other Accruals	2,217	(3)	(3)	-
Total Adjustments	<u>(465)</u>	<u>3,915</u>	<u>4</u>	<u>509</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>49,719</u></u>	\$ <u><u>(516)</u></u>	\$ <u><u>(55)</u></u>	\$ <u><u>(263)</u></u>
<b>Non Cash Investing, Capital and Financing Activities</b>				
Contributed Capital Assets	-	-	-	\$ 13



	<b>Marine Ports</b>	<b>Ferry Service</b>	<b>Prison</b>	<b>Community Industrial Building</b>	<b>Dirigo Health</b>	<b>Totals Other Enterprise Funds</b>
\$	413	\$ 3,608	\$ 1,574	\$ 39	\$ 5,197	\$ 263,709
	-	-	-	-	-	(128,902)
	(487)	(2,044)	(1,225)	(39)	(14,140)	(72,386)
	-	(4,294)	(241)	-	(1,023)	(26,198)
	(74)	(2,730)	108	-	(9,966)	36,223
	100	2,409	-	-	-	3,582
	-	(63)	(35)	-	(2,137)	(52,599)
	100	2,346	(35)	-	(2,137)	(49,017)
	-	-	-	-	-	(807)
	340	1	1	-	-	342
	340	1	1	-	-	(465)
	14	236	6	-	-	353
	-	-	-	-	-	-
	-	-	-	-	-	-
	14	236	6	-	-	353
	380	(147)	80	-	(12,103)	(12,906)
	470	214	176	-	52,174	55,122
\$	<u>850</u>	<u>67</u>	<u>256</u>	<u>-</u>	<u>40,071</u>	<u>42,216</u>
\$	<u>(1,416)</u>	<u>(4,196)</u>	<u>83</u>	<u>39</u>	<u>(8,371)</u>	<u>31,061</u>
	1,342	1,424	5	-	-	3,411
	-	(12)	(10)	-	(19)	(4,998)
	-	1	21	-	500	4,863
	-	(4)	11	-	-	7
	-	3	(19)	-	108	1,304
	-	40	17	-	38	519
	-	14	-	-	-	106
	-	-	-	(39)	(2,222)	(50)
	1,342	1,466	25	(39)	(1,595)	5,162
\$	<u>(74)</u>	<u>(2,730)</u>	<u>108</u>	<u>-</u>	<u>(9,966)</u>	<u>36,223</u>
	-	\$ 181	-	-	-	\$ 194



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# INTERNAL SERVICE FUNDS

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Motor Transport Service Fund – This fund accounts for all the equipment and vehicle operations of the Department of Transportation.

Postal, Printing and Supply Fund – This fund accounts for the purchase of general office supplies, materials and photocopiers required by any State department or agency, the purchase of and contract for all postal and mailing services, duplicating needs, and the acquisition and disposition of State and federal surplus property. This fund is also used to administer the State's Procurement Card Program.

Information Services Fund – This fund accounts for the costs of providing information services in data processing and telecommunications and for coordinating data processing services including computer operations, programming and applications systems development, technical support and networking services.

Risk Management Fund – This fund accounts for resources generated and used to provide insurance advice and services for all forms of insurance except health and workers' compensation. This includes insurance for automobile, fire, liability and any other type of coverage that may be necessary to protect the State against financial loss.

Workers' Compensation Fund – This fund accounts for resources generated and used to provide workers' compensation advice and insurance services.

Central Fleet Management Fund – This fund accounts for the cost of administering a uniform program for the operation and maintenance of all State vehicles except those of the Department of Transportation and Public Safety.

Leased Space Fund – This fund accounts for State facilities leasing activities and maintains records of State agency property, leasing needs and all available space owned, leased and potentially available for lease.

Revenue Services Fund – This fund accounts for the resources generated and used to provide up-to-date information to facilitate compliance with Maine tax law and to help reduce common mistakes in filing tax forms.

Retiree Health Insurance Fund – This fund accounts for post retirement health care premiums and benefits for most retired state employees and Legislators, and for a portion of the premiums for teachers.

Employee Health Insurance Fund – This fund accounts for health care premiums and benefits for most state employees.

Statewide Radio & Network System Fund – This fund accounts for resources generated and used to acquire, expand, upgrade and replace a statewide radio and network system for use by State agencies.

Governmental Facilities Authority Fund – This fund includes the operations of the Maine Governmental Facilities Authority, a blended component unit. The Authority was created to assist in the financing, equipping, improvement, reconstruction, acquisition, and construction of additions to structures designed for use as a court facility, State office or State activity space.

**STATE OF MAINE**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**

June 30, 2005  
(Expressed in Thousands)

	Motor Transport Service	Postal Printing & Supply	Information Services	Risk Management
<b>Assets</b>				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ 9,398	\$ -	\$ 5,926	\$ 14,234
Cash and Short-Term Investments	1	1	-	-
Cash with Fiscal Agent	714	-	-	-
Restricted Assets:				
Restricted Deposits and Investments	-	-	-	-
Inventories	2,939	966	-	-
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	-
Other Receivable	2	40	56	17
Due from Other Funds	2,144	2,852	7,030	916
Other Current Assets	1	50	604	261
Total Current Assets	<u>15,199</u>	<u>3,909</u>	<u>13,616</u>	<u>15,428</u>
Noncurrent Assets				
Equity in Treasurer's Cash Pool	557	-	352	845
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	-
Capital Assets - Net of Depreciation	33,988	24	3,974	-
Total Noncurrent Assets	<u>34,545</u>	<u>24</u>	<u>4,326</u>	<u>845</u>
Total Assets	<u>49,744</u>	<u>3,933</u>	<u>17,942</u>	<u>16,273</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	1,226	1,565	5,732	-
Accrued Payroll	611	78	397	11
Due to Other Governments	-	-	-	-
Due to Other Funds	63	1,377	87	49
Due to Component Units	-	-	-	-
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	1,719	-	605	-
Revenue Bonds Payable	-	-	-	-
Obligations Under Capital Leases	-	-	-	-
Claims Payable	-	-	-	-
Compensated Absences	56	13	109	19
Deferred Revenue	-	-	10	304
Other Accrued Liabilities	31	-	4	-
Total Current Liabilities	<u>3,706</u>	<u>3,033</u>	<u>6,944</u>	<u>383</u>
Long-Term Liabilities:				
Working Capital Advances Payable	-	111	-	-
Deferred Revenue	-	-	-	-
Certificates of Participation and Other Financing Arrangements	2,641	-	390	-
Revenue Bonds Payable	-	-	-	-
Obligations Under Capital Leases	-	-	-	-
Claims Payable	-	-	-	3,547
Compensated Absences	421	110	569	-
Total Long-Term Liabilities	<u>3,062</u>	<u>221</u>	<u>959</u>	<u>3,547</u>
Total Liabilities	<u>6,768</u>	<u>3,254</u>	<u>7,903</u>	<u>3,930</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	29,628	24	2,979	-
Restricted for:				
Other Purposes	-	-	-	-
Unrestricted	13,348	655	7,060	12,343
Total Net Assets	<u>\$ 42,976</u>	<u>\$ 679</u>	<u>\$ 10,039</u>	<u>\$ 12,343</u>

								Totals
Workers' Compensation	Central Fleet Management	Leased Space	Revenue Services	Retiree Health Insurance	Employee Health Insurance	Statewide Radio & Network System	Governmental Facilities Authority	Internal Service Funds
\$ 17,065	\$ -	\$ -	\$ 499	\$ 39,820	\$ 23,872	\$ 19	\$ -	\$ 110,833
-	1	-	-	-	-	-	-	3
-	290	-	-	-	-	-	-	1,004
-	-	-	-	-	-	-	3,203	3,203
-	35	-	-	-	-	-	-	3,940
-	-	-	-	-	-	-	12,245	12,245
-	21	-	-	4,784	17,221	-	2,199	24,340
802	997	141	-	2,203	38	-	-	17,123
464	-	-	-	-	14	-	-	1,394
<u>18,331</u>	<u>1,344</u>	<u>141</u>	<u>499</u>	<u>46,807</u>	<u>41,145</u>	<u>19</u>	<u>17,647</u>	<u>174,085</u>
1,013	-	-	31	2,364	1,417	1	-	6,580
-	-	-	-	-	-	-	177,325	177,325
-	12,627	36,115	-	-	-	-	-	86,728
<u>1,013</u>	<u>12,627</u>	<u>36,115</u>	<u>31</u>	<u>2,364</u>	<u>1,417</u>	<u>1</u>	<u>177,325</u>	<u>270,633</u>
<u>19,344</u>	<u>13,971</u>	<u>36,256</u>	<u>530</u>	<u>49,171</u>	<u>42,562</u>	<u>20</u>	<u>194,972</u>	<u>444,718</u>
534	231	104	-	426	12,570	-	14	22,402
38	28	6	-	-	20	-	-	1,189
-	-	-	-	-	-	-	749	749
74	803	43	-	30,081	3,435	-	-	36,012
-	-	-	-	4,126	-	-	-	4,126
-	3,958	-	-	-	-	-	-	6,282
-	-	-	-	-	-	-	12,245	12,245
-	-	5,833	-	-	-	-	-	5,833
7,890	-	-	-	6,980	14,288	-	-	29,158
42	32	3	-	-	39	-	-	313
-	-	-	-	-	-	-	45	359
-	65	-	-	-	-	-	2,303	2,403
<u>8,578</u>	<u>5,117</u>	<u>5,989</u>	<u>-</u>	<u>41,613</u>	<u>30,352</u>	<u>-</u>	<u>15,356</u>	<u>121,071</u>
-	-	-	-	-	-	-	-	111
-	-	-	-	-	-	-	1,081	1,081
-	4,317	-	-	-	-	-	-	7,348
-	-	-	-	-	-	-	177,325	177,325
-	-	34,072	-	-	-	-	-	34,072
45,453	-	-	-	-	-	-	-	49,000
-	-	-	-	-	-	-	-	1,100
<u>45,453</u>	<u>4,317</u>	<u>34,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,406</u>	<u>270,037</u>
<u>54,031</u>	<u>9,434</u>	<u>40,061</u>	<u>-</u>	<u>41,613</u>	<u>30,352</u>	<u>-</u>	<u>193,762</u>	<u>391,108</u>
-	4,352	(3,790)	-	-	-	-	-	33,193
-	-	-	-	-	-	20	-	20
<u>(34,687)</u>	<u>185</u>	<u>(15)</u>	<u>530</u>	<u>7,558</u>	<u>12,210</u>	<u>-</u>	<u>1,210</u>	<u>20,397</u>
<u>\$ (34,687)</u>	<u>\$ 4,537</u>	<u>\$ (3,805)</u>	<u>\$ 530</u>	<u>\$ 7,558</u>	<u>\$ 12,210</u>	<u>\$ 20</u>	<u>\$ 1,210</u>	<u>\$ 53,610</u>

**STATE OF MAINE**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**

June 30, 2005  
(Expressed in Thousands)

	<u>Motor Transport Service</u>	<u>Postal Printing &amp; Supply</u>	<u>Information Services</u>	<u>Risk Management</u>
<b>Operating Revenues</b>				
Charges for Services	\$ 30,532	\$ 42,903	\$ 32,933	\$ 4,759
Assessments	-	-	-	-
Miscellaneous Revenues	52	-	-	-
Total Operating Revenues	<u>30,584</u>	<u>42,903</u>	<u>32,933</u>	<u>4,759</u>
<b>Operating Expenses</b>				
General Operations	21,862	42,993	32,715	2,694
Depreciation	6,611	32	1,754	-
Claims/Fees Expense	-	-	-	495
Other Operating Expenses	-	-	-	-
Total Operating Expenses	<u>28,473</u>	<u>43,025</u>	<u>34,469</u>	<u>3,189</u>
Operating Income (Loss)	<u>2,111</u>	<u>(122)</u>	<u>(1,536)</u>	<u>1,570</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment Revenue (Expense) - net	217	-	151	381
Interest Expense	(177)	-	(63)	-
Other Nonoperating Revenues (Expenses)- net	<u>(320)</u>	<u>-</u>	<u>7</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(280)</u>	<u>-</u>	<u>95</u>	<u>381</u>
Income (Loss) Before Capital Contributions, Transfers and Special Items	<u>1,831</u>	<u>(122)</u>	<u>(1,441)</u>	<u>1,951</u>
<b>Capital Contributions, Transfers and Special Items</b>				
Capital Contributions from Other Funds	-	-	-	-
Transfers from (to) Other Funds	1,165	246	760	34
Special Items	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Contributions, Transfers In (Out) and Special Items	<u>1,165</u>	<u>246</u>	<u>760</u>	<u>34</u>
Change in Net Assets	2,996	124	(681)	1,985
Total Net Assets - Beginning of Year	<u>39,980</u>	<u>555</u>	<u>10,720</u>	<u>10,358</u>
Total Net Assets - End of Year	<u>\$ 42,976</u>	<u>\$ 679</u>	<u>\$ 10,039</u>	<u>\$ 12,343</u>

								<u>Totals</u>	
<u>Workers' Compensation</u>	<u>Central Fleet Management</u>	<u>Leased Spaces</u>	<u>Revenue Services</u>	<u>Retiree Health Insurance</u>	<u>Employee Health Insurance</u>	<u>Statewide Radio &amp; Network Systems</u>	<u>Governmental Facilities Authority</u>	<u>Internal Service Funds</u>	
\$ 14,042	\$ 8,045	\$ 20,335	\$ 136	\$ 73,017	\$ 144,691	\$ -	\$ 8,159	\$ 379,552	-
-	-	-	-	-	-	-	-	-	-
21	-	-	-	-	-	-	-	-	73
<u>14,063</u>	<u>8,045</u>	<u>20,335</u>	<u>136</u>	<u>73,017</u>	<u>144,691</u>	<u>-</u>	<u>8,159</u>	<u>379,625</u>	
2,948	4,678	9,992	-	49,167	137,306	-	190	304,545	
2	2,406	4,415	-	-	-	-	-	15,220	
9,825	-	-	-	-	-	-	-	10,320	
-	-	-	-	-	-	-	246	246	
<u>12,775</u>	<u>7,084</u>	<u>14,407</u>	<u>-</u>	<u>49,167</u>	<u>137,306</u>	<u>-</u>	<u>436</u>	<u>330,331</u>	
1,288	961	5,928	136	23,850	7,385	-	7,723	49,294	
426	-	25	11	2,641	215	-	58	4,125	
(10)	(233)	(6,412)	-	-	-	-	(7,633)	(14,528)	
-	(301)	-	-	-	-	-	-	(614)	
<u>416</u>	<u>(534)</u>	<u>(6,387)</u>	<u>11</u>	<u>2,641</u>	<u>215</u>	<u>-</u>	<u>(7,575)</u>	<u>(11,017)</u>	
1,704	427	(459)	147	26,491	7,600	-	148	38,277	
-	-	-	-	-	-	-	-	-	
8,582	65	13	-	(3,546)	33	-	-	7,352	
-	-	-	-	(105,711)	-	-	-	(105,711)	
<u>8,582</u>	<u>65</u>	<u>13</u>	<u>-</u>	<u>(109,257)</u>	<u>33</u>	<u>-</u>	<u>-</u>	<u>(98,359)</u>	
10,286	492	(446)	147	(82,766)	7,633	-	148	(60,082)	
<u>(44,973)</u>	<u>4,045</u>	<u>(3,359)</u>	<u>383</u>	<u>90,324</u>	<u>4,577</u>	<u>20</u>	<u>1,062</u>	<u>113,692</u>	
<u>\$ (34,687)</u>	<u>\$ 4,537</u>	<u>\$ (3,805)</u>	<u>\$ 530</u>	<u>\$ 7,558</u>	<u>\$ 12,210</u>	<u>\$ 20</u>	<u>\$ 1,210</u>	<u>\$ 53,610</u>	

**STATE OF MAINE**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**

June 30, 2005  
(Expressed in Thousands)

	Motor Transport Service	Postal Printing & Supply	Information Services	Risk Management
<b>Cash Flows from Operating Activities</b>				
Receipts from Customers and Users	\$ 28,786	\$ 42,983	\$ 32,650	\$ 3,982
Payments to Suppliers	(10,173)	(40,806)	(18,060)	(3,004)
Payments to Employees	(11,233)	(2,435)	(11,948)	(308)
Net Cash Provided (Used) by Operating Activities	7,380	(258)	2,642	670
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating Transfers In	1,316	271	1,335	36
Operating Transfers Out	(151)	(25)	(575)	(2)
Special Item - Return of Excess Equity				
Net Cash Provided (Used) by Noncapital Financing Activities	1,165	246	760	34
<b>Cash Flows from Capital and Related Financing Activities</b>				
Payments for Acquisition of Capital Assets	(4,130)	-	(2,646)	-
Proceeds From Financing Arrangements	1,500	-	-	-
Principal and Interest Paid on Financing Arrangements	(1,635)	-	(645)	-
Proceeds from Sale of Capital Assets	-	-	-	-
Net Cash Provided (Used) by Capital Financing Activities	(4,265)	-	(3,291)	-
<b>Cash Flows from Investing Activities</b>				
Interest Revenue	217	-	151	381
Payments to Purchase Investments	-	-	-	-
Proceeds from Sale of Investments	-	-	-	-
Net Cash Provided (Used) by Investing Activities	217	-	151	381
Net Increase (Decrease) in Cash/Cash Equivalents	4,497	(12)	262	1,085
Cash/Cash Equivalents - Beginning of Year	6,173	13	6,016	13,994
Cash/Cash Equivalents - End of Year	\$ 10,670	\$ 1	\$ 6,278	\$ 15,079
<b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities</b>				
Operating Income (Loss)	\$ 2,111	\$ (122)	\$ (1,536)	\$ 1,570
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>				
Depreciation Expense	6,611	32	1,754	-
Decrease (Increase) in Assets				
Accounts Receivable	(1,357)	265	(181)	(721)
Interfund Balances	32	1,165	(62)	(147)
Inventories	(440)	(150)	-	-
Increase (Decrease) in Liabilities				
Accounts Payable	349	(1,408)	2,677	(5)
Accrued Payroll Expenses	49	4	77	1
Change in Compensated Absences	42	(2)	35	5
Other Accruals	(17)	(42)	(122)	(33)
Total Adjustments	5,269	(136)	4,178	(900)
Net Cash Provided (Used) by Operating Activities	\$ 7,380	\$ (258)	\$ 2,642	\$ 670
<b>Non Cash Investing, Capital and Financing Activities</b>				
Property Leased, Accrued, or Acquired	-	-	-	-



Workers' Compensation	Central Fleet Management	Leased Space	Revenue Services	Retiree Health Insurance	Employee Health Insurance	Statewide Radio & Network System	Governmental Facilities Authority	Totals Internal Service Funds
\$ 13,995	\$ 7,680	\$ 20,590	\$ 136	\$ 77,020	\$ 130,557	\$ -	\$ 16,560	\$ 374,939
(11,341)	(3,749)	(10,090)	-	(8,383)	(107,764)	-	(526)	(213,896)
<u>(885)</u>	<u>(706)</u>	<u>(189)</u>	<u>-</u>	<u>-</u>	<u>(515)</u>	<u>-</u>	<u>-</u>	<u>(28,219)</u>
<u>1,769</u>	<u>3,225</u>	<u>10,311</u>	<u>136</u>	<u>68,637</u>	<u>22,278</u>	<u>-</u>	<u>16,034</u>	<u>132,824</u>
-	72	14	-	-	38	-	-	3,082
(10)	(7)	(1)	-	(3,546)	(5)	-	-	(4,322)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(105,711)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(105,711)</u>
<u>(10)</u>	<u>65</u>	<u>13</u>	<u>-</u>	<u>(109,257)</u>	<u>33</u>	<u>-</u>	<u>-</u>	<u>(106,951)</u>
-	(2,356)	-	-	-	-	-	-	(9,132)
-	2,900	-	-	-	-	-	58,521	62,921
(10)	(3,663)	(10,933)	-	-	-	-	(74,534)	(91,420)
<u>-</u>	<u>-</u>	<u>584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>584</u>
<u>(10)</u>	<u>(3,119)</u>	<u>(10,349)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,013)</u>	<u>(37,047)</u>
426	-	25	11	2,641	215	-	58	4,125
-	-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>426</u>	<u>-</u>	<u>25</u>	<u>11</u>	<u>2,641</u>	<u>215</u>	<u>-</u>	<u>58</u>	<u>4,125</u>
2,175	171	-	147	(37,979)	22,526	-	79	(7,049)
<u>15,903</u>	<u>120</u>	<u>-</u>	<u>383</u>	<u>80,163</u>	<u>2,763</u>	<u>20</u>	<u>3,124</u>	<u>128,672</u>
<u>\$ 18,078</u>	<u>\$ 291</u>	<u>\$ -</u>	<u>\$ 530</u>	<u>\$ 42,184</u>	<u>\$ 25,289</u>	<u>\$ 20</u>	<u>\$ 3,203</u>	<u>\$ 121,623</u>
<u>\$ 1,288</u>	<u>\$ 961</u>	<u>\$ 5,928</u>	<u>\$ 136</u>	<u>\$ 23,850</u>	<u>\$ 7,385</u>	<u>\$ -</u>	<u>\$ 7,723</u>	<u>\$ 49,294</u>
2	2,406	4,415	-	-	-	-	-	15,220
(148)	(374)	255	-	4,003	(14,120)	-	8,401	(3,977)
74	225	(128)	-	30,081	2,175	-	-	33,415
-	9	-	-	-	-	-	-	(581)
-	-	-	-	-	-	-	-	-
358	23	2	-	(403)	12,542	-	(3)	14,132
19	6	1	-	-	5	-	-	162
-	(7)	-	-	-	18	-	-	91
<u>176</u>	<u>(24)</u>	<u>(162)</u>	<u>-</u>	<u>11,106</u>	<u>14,273</u>	<u>-</u>	<u>(87)</u>	<u>25,068</u>
<u>481</u>	<u>2,264</u>	<u>4,383</u>	<u>-</u>	<u>44,787</u>	<u>14,893</u>	<u>-</u>	<u>8,311</u>	<u>83,530</u>
<u>\$ 1,769</u>	<u>\$ 3,225</u>	<u>\$ 10,311</u>	<u>\$ 136</u>	<u>\$ 68,637</u>	<u>\$ 22,278</u>	<u>\$ -</u>	<u>\$ 16,034</u>	<u>\$ 132,824</u>
-	-	\$ 4,289	-	-	-	-	-	\$ 4,289



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# PRIVATE PURPOSE TRUSTS & AGENCY FUNDS

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## Private Purpose Trust Funds

Abandoned Property Fund - This fund accounts for unclaimed property receipts. All holders of property presumed abandoned must report these properties to the Treasurer annually. The Treasurer will honor claims indefinitely.

Revenue on Private Purpose Trusts Fund – This fund accounts for expendable earnings on private purpose trust fund balances.

Lands Reserved Trust Funds – These funds were established to account for revenue derived from the sale of timber from public lands and from appreciation on investments. The income is to be used for school purposes by townships when they become organized towns or plantations.

Permanent School Fund – This fund is comprised of numerous small private purpose trusts, the income from which may be used for specified purposes.

NextGen College Investing Plan – is the Maine College Savings Program. The program was established under Chapter 417-E of Title 20-A, to encourage the investment of funds to be used for

Qualified Higher Education Expenses at institutions of higher education. The plan consists of the investments made by participants in the State’s Qualified State Tuition Program under Section 529 of the Internal Revenue Code.

The State presents discretely reported component units that are fiduciary in nature in the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. In accordance with GAAP, this external entity is excluded from the government-wide financial statements.

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

## Agency Funds

Payroll Withholding Fund – This fund accounts for all payroll taxes and deductions withheld to pay the federal government, other State agencies, and payroll vendors.

Private Trusts Fund – This fund is used to account for assets held by the State acting as an agent for patients of State Mental Health facilities, inmates at State Correctional Institutions, recipients of State-supported elder and adult services, and child support enforcement services. Also included in this fund are insurance company and unemployment guaranty

deposits, and assets held in Courts and Corrections restitution escrow accounts.

Other Agency Funds – These funds account for numerous small agency funds which have been combined for financial reporting purposes.

Treasurer’s Agency Fund – This fund accounts for deposits of quasi-governmental units placed in the Treasurer’s Cash Pool for investment purposes.

**STATE OF MAINE**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**PRIVATE PURPOSE TRUST FUNDS**

June 30, 2005  
(Expressed in Thousands)

	Abandoned Property	Revenue on Private Purpose Trusts	Lands Reserved	Permanent School	Maine Health & Higher Educational Facilities Authority	NextGen College Investing Plan	Totals Private Purpose Trusts
<b>Assets</b>							
Equity in Treasurer's Cash Pool	\$ 131	\$ 70	\$ 563	\$ -	\$ -	\$ -	\$ 764
Cash and Short-Term Investments	-	-	-	-	88,039	-	88,039
Investments at Fair Value:							
Restricted Deposits and Investments	-	-	-	-	99,536	-	99,536
Other	-	-	7,919	2,592	35,325	-	45,836
Investments Held on Behalf of Others	-	-	-	-	-	3,169,856	3,169,856
Receivables, Net of Allowance for Uncollectibles:							
Loans to Institutions	-	-	-	-	986,101	-	986,101
Interest and Dividends	-	-	-	-	12	450	462
Other Receivables	-	-	-	-	608	-	608
Capital Assets - Net of Depreciation	-	-	-	-	3,632	-	3,632
Other Assets	20,849	-	-	-	1,567	-	22,416
Total Assets	<u>20,980</u>	<u>70</u>	<u>8,482</u>	<u>2,592</u>	<u>1,214,820</u>	<u>3,170,306</u>	<u>4,417,250</u>
<b>Liabilities</b>							
Accounts Payable	-	-	-	-	156	1,858	2,014
Due to Other Governments	-	-	-	-	1,726	-	1,726
Bonds Payable	-	-	-	-	1,096,041	-	1,096,041
Deferred Revenue	-	-	-	-	1,482	-	1,482
Other Accrued Liabilities	-	-	-	-	25,594	-	25,594
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1 124 999</u>	<u>1 858</u>	<u>1 126 857</u>
<b>Net Assets</b>							
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	<u>20,980</u>	<u>70</u>	<u>8,482</u>	<u>2,592</u>	<u>89,821</u>	<u>3,168,448</u>	<u>3,290,393</u>
Total Net Assets	<u>\$ 20,980</u>	<u>\$ 70</u>	<u>\$ 8,482</u>	<u>\$ 2,592</u>	<u>\$ 89,821</u>	<u>\$ 3,168,448</u>	<u>\$ 3,290,393</u>

**STATE OF MAINE**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PRIVATE PURPOSE TRUST FUNDS**

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	<u>Abandoned Property</u>	<u>Revenue on Private Purpose Trusts</u>	<u>Lands Reserved</u>	<u>Permanent School</u>	<u>Maine Health &amp; Higher Educational Facilities Authority</u>	<u>NextGen College Investing Plan</u>	<u>Totals Private Purpose Trusts</u>
<b>Additions</b>							
Contributions:							
Members	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,191,882	\$ 1,191,882
Investment Income:							
Net Increase in the Fair Value of Investments	-	-	172	71	418	127,866	128,527
Capital Gains Distributions from Investments	-	-	-	-	-	18,795	18,795
Interest and Dividends	158	166	177	18	7,722	46,297	54,538
Net Investment Income	158	166	349	89	8,140	192,958	201,860
Bond and Note Proceeds	-	-	-	-	42,265	-	42,265
Received from Institutions	-	-	-	-	89,694	-	89,694
Miscellaneous Revenues	17,919	-	-	-	9,343	-	27,262
Total Additions	18,077	166	349	89	149,442	1,384,840	1,552,963
<b>Deductions</b>							
Benefits Paid to Participants or Beneficiaries	204	46	-	-	-	712,139	712,389
Construction and Program Costs	-	-	-	-	35,416	-	35,416
Bond Refunding and Refinancing Escrows	-	-	-	-	30,566	-	30,566
Principal Payments on Bonds	-	-	-	-	37,728	-	37,728
Interest Expense	-	-	-	-	51,231	-	51,231
Refunds and Withdrawals	-	-	-	-	3,268	-	3,268
Administrative Expenses	-	-	-	-	8,370	22,239	30,609
Transfers Out	11,104	137	-	-	-	-	11,241
Total Deductions	11,308	183	-	-	166,579	734,378	912,448
Net Increase (Decrease)	6,769	(17)	349	89	(17,137)	650,462	640,515
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:							
Beginning of Year, As Restated	14,211	87	8,133	2,503	106,958	2,517,986	2,649,878
End of Year	<u>\$ 20,980</u>	<u>\$ 70</u>	<u>\$ 8,482</u>	<u>\$ 2,592</u>	<u>\$ 89,821</u>	<u>\$ 3,168,448</u>	<u>\$ 3,290,393</u>

**STATE OF MAINE**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**

June 30, 2005  
(Expressed in Thousands)

	<u>Payroll Withholding</u>	<u>Private Trusts</u>	<u>Other Agency</u>	<u>Treasurer's Agency</u>	<u>Totals Agency Funds</u>
<b>Assets</b>					
Equity in Treasurer's Cash Pool	\$ 28	\$ 4,344	\$ 1,241	\$ -	\$ 5,613
Cash and Short-Term Investments	-	27	-	13	40
Investments Held on Behalf of Others	-	57,225	-	-	57,225
Other Assets	-	290	-	-	290
Total Assets	<u>\$ 28</u>	<u>\$ 61,886</u>	<u>\$ 1,241</u>	<u>\$ 13</u>	<u>\$ 63,168</u>
<b>Liabilities</b>					
Accounts Payable	\$ 16	\$ -	\$ 12	\$ -	\$ 28
Agency Liabilities	-	61,886	1,229	13	63,128
Other Accrued Liabilities	12	-	-	-	12
Total Liabilities	<u>\$ 28</u>	<u>\$ 61,886</u>	<u>\$ 1,241</u>	<u>\$ 13</u>	<u>\$ 63,168</u>

**STATE OF MAINE**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**

Fiscal Year Ended June 30, 2005  
(Expressed in Thousands)

	<u>Balance</u>		<u>Balance</u>		<u>Balance</u>
	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2005</u>	
	<u>(As Restated)</u>				
<b>Payroll Withholding</b>					
<b>Assets</b>					
Cash, Short-term Investments & Equity in Treasurer's Cash Pool	\$ 34	\$ 240,216	\$ 240,222	\$ 28	
Total Assets	<u>\$ 34</u>	<u>\$ 240,216</u>	<u>\$ 240,222</u>	<u>\$ 28</u>	
<b>Liabilities</b>					
Accounts Payable & Other Accrued Liabilities Due to Other Funds	\$ 34	\$ 371,640	\$ 371,646	\$ 28	
Total Liabilities	<u>\$ 34</u>	<u>\$ 371,640</u>	<u>\$ 371,646</u>	<u>\$ 28</u>	
<b>Private Trusts</b>					
<b>Assets</b>					
Cash, Short-term Investments & Equity in Treasurer's Cash Pool	\$ -	\$ 4,371	\$ -	\$ 4,371	
Other Assets	-	290	-	290	
Investments Held on Behalf of Others	59,047	8,307	10,129	57,225	
Total Assets	<u>\$ 59,047</u>	<u>\$ 12,968</u>	<u>\$ 10,129</u>	<u>\$ 61,886</u>	
<b>Liabilities</b>					
Accounts Payable & Other Accrued Liabilities	-	843	843	-	
Agency Liabilities	59,047	9,110	6,271	61,886	
Total Liabilities	<u>\$ 59,047</u>	<u>\$ 9,953</u>	<u>\$ 7,114</u>	<u>\$ 61,886</u>	
<b>Other Agency</b>					
<b>Assets</b>					
Cash, Short-term Investments & Equity in Treasurer's Cash Pool	\$ 1,155	\$ 6,637	\$ 6,551	\$ 1,241	
Total Assets	<u>\$ 1,155</u>	<u>\$ 6,637</u>	<u>\$ 6,551</u>	<u>\$ 1,241</u>	
<b>Liabilities</b>					
Accounts Payable & Other Accrued Liabilities	-	12	-	12	
Agency Liabilities	1,155	10,846	10,772	1,229	
Total Liabilities	<u>\$ 1,155</u>	<u>\$ 10,858</u>	<u>\$ 10,772</u>	<u>\$ 1,241</u>	
<b>Treasurer's Agency</b>					
<b>Assets</b>					
Cash, Short-term Investments & Equity in Treasurer's Cash Pool	\$ 12	\$ 241,604	\$ 241,603	\$ 13	
Total Assets	<u>\$ 12</u>	<u>\$ 241,604</u>	<u>\$ 241,603</u>	<u>\$ 13</u>	
<b>Liabilities</b>					
Agency Liabilities	\$ 12	\$ 242,232	\$ 242,231	\$ 13	
Total Liabilities	<u>\$ 12</u>	<u>\$ 242,232</u>	<u>\$ 242,231</u>	<u>\$ 13</u>	
<b>Totals - All Agency Funds</b>					
<b>Assets</b>					
Cash, Short-term Investments & Equity in Treasurer's Cash Pool	\$ 1,201	\$ 492,828	\$ 488,376	\$ 5,653	
Investments Held on Behalf of Others	59,047	8,307	10,129	57,225	
Other Assets	-	290	-	290	
Total Assets	<u>\$ 60,248</u>	<u>\$ 501,425</u>	<u>\$ 498,505</u>	<u>\$ 63,168</u>	
<b>Liabilities</b>					
Accounts Payable & Other Accrued Liabilities	\$ 34	\$ 372,495	\$ 372,489	\$ 40	
Agency Liabilities	60,214	262,188	259,274	63,128	
Due to Other Funds	-	-	-	-	
Total Liabilities	<u>\$ 60,248</u>	<u>\$ 634,683</u>	<u>\$ 631,763</u>	<u>\$ 63,168</u>	





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# STATISTICAL SECTION

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TABLE I

**STATE OF MAINE**  
**EXPENDITURES BY FUNCTION**  
**ALL GOVERNMENTAL FUND TYPES**

Last Ten Fiscal Years  
(Expressed in Thousands)

<i>* See Notes *</i>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Government Support &amp; Operations</b>	\$ 257,228	\$ 259,715	\$ 313,648	\$ 407,423	\$ 431,959	\$ 555,264	\$ 481,855	\$ 394,011	\$ 474,173	\$ 461,645
<b>Economic Development &amp; Workforce Training</b>	93,329	96,141	92,173	88,315	112,079	110,304	133,320	207,732	194,379	173,919
<b>Education</b>	979,323	817,559	845,751	910,540	966,947	993,992	1,325,259	1,327,936	1,367,414	1,425,244
<b>Health and Human Services</b>	1,700,472	1,697,053	1,712,124	1,816,359	1,934,243	2,077,991	2,443,949	2,595,767	2,830,069	3,097,852
<b>Labor</b>	54,651	77,793	83,613	82,012	79,690	76,389	92,191	-	-	-
<b>Business Licensing &amp; Regulation</b>	-	-	-	-	-	-	-	35,282	47,702	50,883
<b>Natural Resources Development &amp; Protection</b>	110,166	104,575	103,738	111,800	119,783	132,041	136,601	175,348	200,428	184,171
<b>Justice &amp; Protection</b>	57,291	63,872	87,009	82,093	82,641	92,947	109,022	323,326	303,659	346,849
<b>Arts, Heritage &amp; Cultural Enrichment</b>	-	-	-	-	-	-	-	13,074	12,715	13,471
<b>Transportation, Safety &amp; Development</b>	342,133	364,978	319,123	339,572	355,801	397,588	393,985	456,482	458,679	469,978
<b>Debt Service</b>	111,825	122,275	104,220	107,587	112,980	123,407	108,384	102,122	87,805	82,762
<b>Total Expenditures</b>	<u>\$3,706,418</u>	<u>\$3,603,961</u>	<u>\$3,661,399</u>	<u>\$3,945,701</u>	<u>\$4,196,123</u>	<u>\$4,559,923</u>	<u>\$5,224,566</u>	<u>\$5,631,080</u>	<u>\$5,977,023</u>	<u>\$6,306,774</u>

Notes: Governmental Fund Types of the primary government are described in Note 1C of the Notes to the Financial Statements. 2003 expenditures depict a statutory realignment of agencies among policy areas and the effect of a prior year restatement which totaled \$8,495 for accrued expenditures.

TABLE II

**STATE OF MAINE**  
**REVENUES BY SOURCE**  
**ALL GOVERNMENTAL FUND TYPES**

Last Ten Fiscal Years  
(Expressed in Thousands)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Taxes</b>	\$ 1,975,208	\$ 2,113,711	\$ 2,326,004	\$ 2,350,495	\$ 2,632,465	\$ 2,522,131	\$ 2,417,458	\$ 2,585,456	\$ 2,764,684	\$ 3,035,988
<b>Assessments &amp; Other Revenue</b>	147,770	150,213	175,502	178,997	189,213	208,904	212,777	206,454	260,225	256,690
<b>Federal Grants &amp; Reimbursements</b>	1,404,181	1,324,706	1,337,685	1,470,231	1,555,970	1,610,209	1,837,347	2,169,919	2,461,204	2,500,523
<b>Service Charges</b>	113,477	133,886	113,442	83,639	71,398	69,350	141,584	128,148	131,871	119,996
<b>Investment Income</b>	-	-	161	28,898	37,094	50,369	6,422	6,396	15,247	16,740
<b>Miscellaneous Revenue</b>	51,326	35,160	51,649	53,842	113,705	110,182	91,321	161,861	148,537	130,609
<b>Total Revenues</b>	<u>\$3,691,962</u>	<u>\$3,757,676</u>	<u>\$4,004,443</u>	<u>\$4,166,102</u>	<u>\$4,599,845</u>	<u>\$4,571,145</u>	<u>\$4,706,909</u>	<u>\$5,258,234</u>	<u>\$5,781,768</u>	<u>\$6,060,546</u>

Notes: Governmental Fund Types of the primary government are described in Note 1C of the Notes to the Financial Statements. 2003 revenues reflect a \$9,266 decrease mainly related to timing of deferred revenue recognition.

TABLE III

**STATE OF MAINE  
NET GENERAL LONG-TERM BONDED DEBT  
AND OTHER FINANCING PER CAPITA**

Last Ten Fiscal Years  
(Expressed in Thousands)

Fiscal Year	Population (1)	Bonded Debt	Notes and Other Financing (2)	Total Debt	Total Debt Per Capita
2005	1,325	\$487,095	\$212,805	\$ 699,900	528
2004	1,315	416,360	228,596	644,956	490
2003	1,306	358,410	230,489	588,899	451
2002	1,295	346,495	197,007	543,502	420
2001	1,285	406,490	159,870	566,360	441
2000	1,277	452,975	105,971	558,946	438
1999	1,244	486,620	14,631	501,251	403
1998	1,244	497,050	6,137	503,187 (3)	404
1997	1,244	490,086	6,894	496,980	399
1996	1,244	515,690	8,045	523,735	421

Notes: (1) Source 2004: Maine State Planning Office Population Projections released December 2003. Source for 2003 and prior US Census population estimates released annually in December.

(2) Includes Other Debt of the General and Highway Fund expected to be repaid through general governmental resources Includes revenue bonds of the Maine Governmental Facilities Authority.

(3) In fiscal year 1997, the State adopted GASB Statement No.14. This resulted in \$719,000 of Maine Technical College System bonds being reported with discrete component units and \$15,400,000 of Maine Governmental Facilities Authority bonds (then the Maine Court Facilities Authority) being blended with the primary government.

TABLE IV

**STATE OF MAINE  
RATIO OF NET GENERAL LONG-TERM BONDED DEBT  
AND OTHER FINANCING TO ASSESSED VALUE**

Last Ten Fiscal Years  
(Expressed in Thousands)

Fiscal Year	Assessed Value (1)	Bonded Debt	Notes and Other Financing (2)	Total Debt	Ratio to Assessed Value
2005	\$118,038,020	\$487,095	\$212,805	\$699,900	0.59%
2004	104,219,950	416,360	228,596	644,956	0.62%
2003	94,034,050	358,410	230,489	588,899	0.63%
2002	84,873,180	346,495	197,007	543,502	0.64%
2001	78,389,000	406,490	159,870	566,360	0.72%
2000	74,260,000	452,975	105,971	558,946	0.75%
1999	71,779,350	486,620	14,631	501,251	0.70%
1998	69,691,900	497,050	6,137	503,187 (3)	0.72%
1997	68,286,600	490,086	6,894	496,980	0.73%
1996	67,102,926	515,690	8,045	523,735	0.78%

Notes: (1) The Maine Revenue Service valuation of taxable property is filed in January of each year, based on the value of property as of April 1, 21 months prior to the filing date.

(2) Includes Other Debt of the General and Highway Fund expected to be repaid through general governmental resources Includes revenue bonds of the Maine Governmental Facilities Authority.

(3) In fiscal year 1997, the State adopted GASB Statement No.14. This resulted in \$719,000 of Maine Technical College System bonds being reported with discrete component units and \$15,400,000 of Maine Governmental Facilities Authority bonds (then the Maine Court Facilities Authority) being blended with the primary government.

**TABLE V**

**STATE OF MAINE  
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL  
LONG-TERM BONDED DEBT AND OTHER FINANCING  
TO TOTAL GENERAL GOVERNMENT EXPENDITURES**

Last Ten Fiscal Years  
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total Debt Service	Total General Government Expenditures (1)&(2)	Ratio of Debt Service to General Government Expenditures
2005	\$66,790	\$15,972	\$82,762	\$6,306,774	1.3%
2004	72,325	15,480	87,805	5,977,023	1.5%
2003	85,165	16,957	102,122	5,631,080	1.8%
2002	87,605	20,775	108,380	5,224,565	2.1%
2001	87,760	23,774	111,534	4,516,812	2.5%
2000	82,280	24,359	106,639	4,155,963	2.6%
1999	79,615	25,022	104,637	3,933,125	2.7%
1998	76,426	25,111	101,537	3,661,399	2.8%
1997	87,917	27,486	115,403	3,603,961	3.2%
1996	76,807	26,828	103,635	3,706,418	2.8%

Notes: (1) Includes Other Debt of the General and Highway Fund expected to be repaid through general governmental resources. Does not include debt of the Maine Governmental Facilities Authority.

(2) 2003 expenditures depict a statutory realignment of agencies among policy areas and the effect of a prior year restatement which totaled \$8,495 for accrued expenditures.

**TABLE VI**

**STATE OF MAINE  
COMPUTATION OF LEGAL DEBT MARGIN**

JUNE 30, 2005

Pursuant to Article IX, Section 14 of the Maine Constitution, the Legislature shall not create any debt or debts on behalf of the State, which shall exceed \$2,000,000 in the aggregate, except to suppress insurrection, to repel invasion, or for purposes of war, and except for temporary loans to be paid out of money raised by taxation during the fiscal year in which they are made. Whenever 2/3 of both Houses 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 as approved by such action. 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 10% 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 1% of the total valuation of the State of Maine, whichever is the lesser.

There were no temporary loans outstanding at June 30, 2005, which were subject to the Constitutional limitations.

All other general long-term bonds outstanding at June 30, 2005 were issued pursuant to properly ratified legislation.

**TABLE VII**

**STATE OF MAINE  
PRINCIPAL INDUSTRIAL EMPLOYERS  
NOT SEASONALLY ADJUSTED  
RANKED BY NUMBER OF EMPLOYEES IN MAINE**

June 2005

<b>Company</b>	<b>Number of Employees (1)</b>
1 Hannaford Brothers Company.....	7,000
2 Wal Mart Associates, Inc.....	6,000
3 Bath Iron Works Corporation.....	5,000
4 Maine Medical Center Foundation.....	5,000
5 L.L. Bean, Inc.....	5,000
6 Shaw's Supermarkets.....	3,000
7 Eastern Maine Medical Center.....	3,000
8 UNUMPROVIDENT Corp.....	3,000
9 MBNA Marketing Systems, Inc.....	2,500
10 Banknorth N.A.....	2,500
11 MaineGeneral Medical Center - Augusta.....	2,000
12 International Paper Co.....	2,000
13 Home Depot USA, Inc.....	1,500
14 Central Maine Medical Center.....	1,500
15 Pratt & Whitney Aircraft Group.....	1,200
16 Mercy Hospital.....	1,200
17 S. D. Warren.....	1,200
18 Rite Aid of Maine, Inc.....	1,200
19 Jackson Laboratory.....	1,200
20 Central Maine Power Co.....	1,000
21 Verizon New England, Inc.....	1,000
22 Anthem Health Systems.....	1,000
23 Irving Oil Corporation.....	1,000
24 Mead Oxford Corp.....	1,000
25 Aroostook Medical Center.....	1,000
26 Southern Maine Medical Center.....	1,000
27 Bowdoin College.....	900
28 Fairchild Semiconductor Corp.....	900
29 Sweetser Children's Services.....	900
30 Dead River Company.....	900
31 Attendant Services, Inc.....	800
32 United Parcel Service.....	800
33 Penobscot Bay Medical Center.....	800
34 Kindred Nursing Centers West LLC.....	800
35 C. N. Brown Co.....	800
36 Manpower.....	800
37 New Balance Athletic Shoe, Inc.....	800
38 Goodwill Industries of Northern N. E.....	800
39 Cianbro Corporation.....	800
40 North Country Associates, Inc.....	800
41 Fraser Papers, Inc.....	800
42 Sears Roebuck and Co.....	800
43 Mardens, Inc.....	800
44 Spurwink School.....	800
45 Barber Foods.....	800
46 Bates College.....	800
47 University of New England.....	700
48 Mid Coast Hospital.....	700
49 St. Mary's Regional Medical Center.....	700
50 Community Health and Counseling Services.....	700

Note: (1) Approximate number of employees

Source: Maine State Department of Labor

TABLE VIII

**STATE OF MAINE  
EXPORTS BY INDUSTRY**

June 2004 and 2003 \*  
(Expressed in Thousands)

<u>Description</u>	<u>2004</u>	<u>2003</u>	<u>Percentage Change</u>
Computer and Electronic Products	\$674,843	\$605,224	11.5 %
Paper	429,442	414,834	3.5
Transportation Equipment	327,309	164,442	99.0
Forestry Products	197,078	184,867	6.6
Fish, Fresh, Chilled or Frozen & Other Marine Products	177,016	181,322	-2.4
Wood Products	90,411	74,155	21.9
Machinery, Except Electrical	87,306	88,888	-1.8
Food and Kindred Products	68,532	84,532	-18.9
Chemicals	57,606	59,300	-2.9
Leather and Allied Products	55,052	68,147	-19.2
Electrical Equipment, Appliances, and Components	36,926	38,446	-4.0
Plastics and Rubber Products	31,292	43,078	-27.4
Livestock and Livestock Products	30,025	28,585	5.0
Waste and Scrap	26,052	21,705	20.0
Miscellaneous Manufactured Commodities	19,255	14,522	32.6
Primary Metal Manufacturing	17,516	7,784	125.0
Fabricated Metal Products	16,915	14,577	9.3
Agricultural Products	16,746	19,604	-14.6
Goods Returned to Canada	15,321	18,634	-17.8
Special Classification Provisions	12,195	10,293	18.5
Textile Mill Products	9,135	7,298	25.2
Furniture and Fixtures	8,626	7,853	9.9
Textile and Fabrics	5,674	7,458	-23.9
Nonmetallic Mineral Products	4,925	7,626	-35.4
Apparel and Accessories	4,711	2,834	66.2
Beverages and Tobacco Products	3,941	5,513	-28.5
Printing, Publishing and Similar Products	2,595	2,921	-11.2
Petroleum and Coal Products	2,477	2,152	15.1
Used or Second Hand Merchandise	2,160	1,650	30.9
Prepackaged Software	685	11	5989.6
Minerals and Ores	451	157	187.4
<b>Maine Export Totals</b>	<b><u>\$2,432,218</u></b>	<b><u>\$2,188,412</u></b>	<b><u>11.1 %</u></b>

TABLE IX

**STATE OF MAINE  
TOP TEN MARKETS**

June 2004 and 2003 \*  
(Expressed in Thousands)

<u>Country</u>	<u>2004</u>	<u>2003</u>	<u>Percentage Change</u>
Canada	\$827,138	\$821,041	0.7 %
Malaysia	338,618	236,716	43.1
Brazil	262,528	N/A	1549.9
Singapore	234,253	224,376	4.4
China (Mainland)	112,885	78,307	44.2
Korea, Republic of	92,247	91,178	1.2
Japan	84,552	93,005	-9.1
Belgium	39,848	52,857	-24.6
Netherlands	39,321	44,544	11.7
Italy	35,740	40,268	-11.2
United Kingdom	N/A	133,079	101.9

Source: Maine International Trade Center

\* Information for 2005 is unavailable until January 2006. The State of Maine's CAFR was prepared prior to its issuance.

TABLE X

**STATE OF MAINE**  
**EMPLOYED AND UNEMPLOYED BY LABOR MARKET**  
**NOT SEASONALLY ADJUSTED**

June 2005 and 2004

Labor Market Areas (5)	Civilian Labor Force (1)		Employed (2)		Unemployed (3)		Unemployment Rate (4)	
	June 05	June 04	June 05	June 04	June 05	June 04	June 05	June 04
Augusta	43,760	43,300	41,770	41,380	1,990	1,920	4.5 %	4.4 %
Bangor	70,800	71,300	67,700	68,100	3,100	3,200	4.4	4.5
Belfast	14,380	14,340	13,750	13,710	630	620	4.3	4.3
Boothbay Harbor	4,980	4,800	4,830	4,650	150	150	3.1	3.1
Biddeford-Paris	14,250	14,100	13,580	13,370	670	730	4.7	5.2
Brunswick	34,890	34,790	33,450	33,510	1,440	1,270	4.1	3.7
Calais	6,540	6,450	5,970	5,940	570	510	8.8	7.9
Camden	8,790	8,670	8,500	8,410	280	270	3.2	3.1
Conway, NH - ME (6)	3,990	3,870	3,850	3,740	130	140	3.3	3.6
Dover-Foxcroft	9,600	9,630	8,980	9,020	620	610	6.4	6.3
Ellsworth	32,270	31,840	30,940	30,550	1,330	1,290	4.1	4.1
Farmington	17,200	17,140	16,190	16,130	1,000	1,010	5.8	5.9
Houlton	8,920	8,760	8,300	8,170	630	590	7.0	6.7
Lewiston-Auburn	57,000	56,300	54,400	53,900	2,700	2,400	4.6	4.3
Lincoln	3,650	3,760	3,380	3,410	260	360	7.2	9.5
Machias	8,240	8,130	7,700	7,630	540	500	6.6	6.1
Madawaska	2,940	3,010	2,780	2,830	160	180	5.6	5.9
Millinocket	4,120	4,390	3,750	3,890	370	500	9.0	11.4
Pittsfield	7,860	7,580	7,350	7,040	510	550	6.5	7.2
Portland-South Portland-Biddeford	210,500	205,700	203,200	198,600	7,300	7,100	3.5	3.5
Portsmouth, NH - ME (6)	9,450	9,240	9,180	8,930	270	310	2.8	3.4
Presque Isle	24,770	24,480	23,270	23,050	1,500	1,430	6.1	5.8
Rochester-Dover, NH - ME (6)	10,850	10,730	10,480	10,310	370	420	3.4	4.0
Rockland	13,430	13,130	12,940	12,650	500	470	3.7	3.6
Rumford	10,110	9,900	9,330	9,190	780	700	7.7	7.1
Saint George	1,550	1,520	1,510	1,480	40	40	2.7	2.6
Sanford	11,240	11,180	10,630	10,600	610	580	5.4	5.2
Skowhegan	15,520	15,330	14,450	14,250	1,070	1,080	6.9	7.0
Waldoboro	10,250	10,120	9,880	9,790	360	330	3.5	3.3
Waterville	22,070	21,930	20,920	20,780	1,150	1,150	5.2	5.2
York	18,830	18,450	18,250	17,880	580	570	3.1	3.1
MAINE	719,100	710,200	684,100	678,900	31,800	31,300	4.4 %	4.4 %
UNITED STATES (000's)	150,327	148,478	139,861	139,861	7,870	8,616	5.2 %	5.8 %

Notes: (1) Civilian labor force, employed, and unemployed estimates are by place of residence. Year-ago estimates are revised. Items may not add due to rounding. All data exclude members of the Armed Forces.

(2) Total employment includes nonfarm wage and salary workers, agricultural workers, unpaid family workers, domestics, the self employed, and workers involved in labor disputes.

(3) People are classified as unemployed, regardless of their eligibility for unemployment benefits or public assistance, if they meet all of the following criteria: they were not employed during the survey week; they were available for work at that time; and they made specific efforts to find employment some time during the prior four weeks. Persons laid off from their former jobs and awaiting recall and those expecting to report to a job within 30 days need not be looking for work to be counted as unemployed.

(4) The unemployment rate is calculated by dividing the total number of unemployed by the total civilian labor force, and is expressed as a percent.

(5) Bangor, Lewiston-Auburn; Portland-South Portland-Biddeford; Portsmouth, NH-ME; and Rochester-Dover, NH-ME are Metropolitan Statistical Areas. Augusta, Brunswick, Rockland, Sanford, and Waterville are Micropolitan Statistical Areas.

(6) Maine portion of the area which includes towns in both Maine and New Hampshire.

Source: Maine Department of Labor, Labor Market Information Services, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

TABLE XI

**STATE OF MAINE  
FINANCIAL INSTITUTION DEPOSITS**

Last Ten Fiscal Years  
(Expressed in Thousands)

	<u>2005</u>		<u>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</u>	
	<u>No.</u>	<u>Bank Deposits</u>	<u>No.</u>	<u>Bank Deposits</u>	<u>No.</u>	<u>Bank Deposits</u>	<u>No.</u>	<u>Bank Deposits</u>	<u>No.</u>	<u>Bank Deposits</u>
Trust Companies	11	\$2,363,406	10	\$1,845,199	10	\$1,697,078	9	\$1,547,458	9	\$1,424,564
Limited Purpose Banks	10	-	9	-	8	-	7	-	6	-
National Banks	6	\$8,625,754	7	8,462,889	7	7,837,742	7	7,440,908	7	7,494,223
State Savings Banks	15	\$6,141,686	15	5,678,939	15	5,302,765	15	5,010,519	16	4,690,828
Federal Savings Banks	1	\$514,003	2	847,584	2	765,155	2	739,898	2	704,563
State Savings & Loans	3	\$117,200	3	112,302	3	110,428	3	103,550	3	100,834
Federal Savings & Loans	4	\$230,012	4	223,857	4	211,965	4	206,822	4	200,502
State Credit Unions	12	\$847,813	14	806,457	15	782,689	15	711,205	14	628,463
Federal Credit Unions	63	\$2,526,081	64	2,430,151	63	2,333,734	63	2,127,767	67	1,948,491
<b>Total Institutions</b>	125	\$21,365,955	128	\$20,407,378	127	\$19,041,556	128	\$17,888,127	128	\$17,192,468
State Chartered	51	\$9,470,105	51	\$8,442,897	51	\$7,892,960	49	\$7,372,732	48	\$6,844,689
Federally Chartered	74	\$11,895,850	77	11,964,481	76	11,148,596	76	10,515,395	80	10,347,779
<b>Total Chartered</b>	125	\$21,365,955	128	\$20,407,378	127	\$19,041,556	128	\$17,888,127	128	\$17,192,468

Source: Bureau of Financial Institutions, Maine Department of Professional and Financial Regulation.



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<u>2000</u>		<u>1999</u>		<u>1998</u>		<u>1997</u>		<u>1996</u>	
<u>No.</u>	<u>Bank Deposits</u>	<u>No.</u>	<u>Bank Deposits</u>	<u>No.</u>	<u>Bank Deposits</u>	<u>No.</u>	<u>Bank Deposits</u>	<u>No.</u>	<u>Bank Deposits</u>
10	\$2,488,507	11	\$2,958,142	12	\$2,660,193	13	\$2,790,194	14	\$5,396,641
5	-	5	772		-		-		-
6	6,035,433	5	2,920,566	5	2,915,927	6	3,433,699	5	1,032,321
16	4,269,611	17	6,909,744	17	6,497,694	17	5,307,205	17	5,062,377
4	750,020	4	661,957	4	613,691	4	556,835	4	428,519
3	94,665	3	95,868	3	91,170	3	88,399	3	83,630
4	179,365	4	178,385	4	173,879	4	168,591	5	243,010
13	502,274	13	501,390	12	422,829	11	380,613	12	368,532
72	1,841,490	75	1,816,004	77	1,721,696	80	1,650,747	82	1,579,902
133	\$16,161,365	134	\$16,042,828	138	\$15,097,079	142	\$14,376,283	137	\$14,194,932
47	\$7,355,057	49	\$10,465,916	44	\$9,671,886	44	\$8,566,411	46	\$10,911,180
86	8,806,308	88	5,576,912	90	5,425,193	94	5,809,872	96	3,283,752
133	\$16,161,365	137	\$16,042,828	134	\$15,097,079	138	\$14,376,283	142	\$14,194,932