

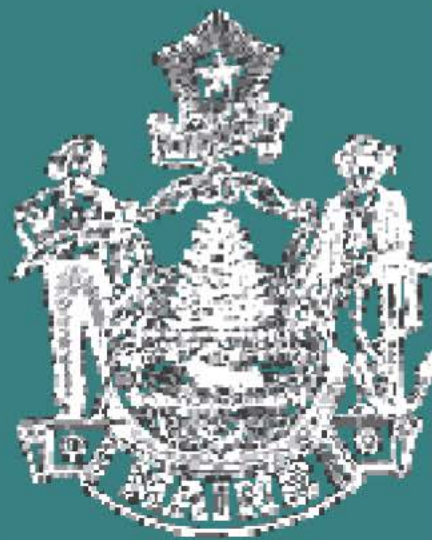
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# MAINE



*Comprehensive Annual Financial Report  
For The Fiscal Year Ended June 30, 2006*

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# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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# STATE OF MAINE



FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**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

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**[financialreporting@maine.gov](mailto:financialreporting@maine.gov)**

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**STATE OF MAINE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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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

March 7, 2007

**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 2006 (FY2006) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP). The annual CAFR, required by Title 5 MRSA § 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 MRSA § 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.

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 1 to the Basic Financial Statements, includes these funds, agencies, organizations, boards, commissions, Authorities and major component units in accordance with GASB Statement No. 14 as amended by GASB Statement No. 39. There are 13 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 MRSA § 1665, subsection 1, plus the average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee. This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits. The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

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 designation of the unreserved General Fund fund balance 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 35% of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap.

The statutory cap for the fund is 12% 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 2006 actual General Fund revenue, the statutory cap at the close of fiscal year 2006 and during fiscal year 2006 was \$352.2 million. At the close of fiscal year 2006, the balance of the Maine Budget Stabilization Fund was \$79.9 million, an increase of \$32.8 million over fiscal year 2005. 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**

Maine continues to grow consistent with the other New England states. 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 close to 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 2005 to July 2006; however, fuel and utilities prices rose much faster. The rise in oil prices to over \$70 a barrel in late summer due to unrest in the Middle East put pressure on both household and government budgets. Though oil prices have fallen into the \$55 to \$60 per barrel range, they will continue to affect budgeting decisions throughout FY07.

Personal income continues to rise in Maine faster than inflation. According to the latest statistics available, personal income is estimated to have risen by 5.6% in calendar year 2006. The solid growth in 2006 is in contrast to the much slower growth in 2005 when the state was affected by a number of events, the most significant of which was the BRAC process. Unemployment has hovered around the national average throughout the year. The rate in Maine stood at 4.7% in December of 2006 which is slightly above the national rate of 4.5%.

### **NEW ACCOUNTING STANDARD**

The Governmental Accounting Standards Board Statement No. 45, which sets accounting and financial reporting standards by employers for postemployment benefits other than pensions, is effective beginning in fiscal year 2008. The term other postemployment benefits (OPEB) includes postemployment healthcare benefits and other types of postemployment benefits, such as life insurance. This new accounting standard will require the State to measure and disclose its liability for the OPEB and the status of its efforts to fund that liability in its fiscal year 2008 financial reports. The State's independent actuary has prepared valuations of the health care benefit liabilities for the State Employee and Teachers' Retiree Health Care Fund. The actuarial valuation determined the State's annual required contribution (ARC) necessary to fully fund the OPEB and compare it to the actual contribution paid. The difference is the Net OPEB Obligation to be reported in the government-wide financial statements. See Management's Discussion and Analysis for further details.

Component units and independent authorities of the State will perform their own valuations as the State does not assume the risk or financial burden for their health care costs. The State has not yet made any final decision on when or how it will fund the full ARC, although it has taken several steps.

The Governmental Accounting Standards Board Statement No. 43 sets the financial reporting standards for postemployment benefit plans other than pension plans. The term plans refers to trust or other funds that accumulate assets to finance the OPEB, and benefits are paid as they come due. The requirements of this statement are effective beginning with fiscal year 2007. At this time the State of Maine administers OPEB benefits for health insurance through a self-insurance fund under the supervision of the Commissioner of Administrative and Financial Services for the purpose of accumulating funds to satisfy the ongoing retiree post-employment benefit costs for state employees and teachers, excluding pensions and benefits otherwise appropriated by statute. All funds remitted to the State as a subsidy on behalf of the members of the retiree health plan for employer-sponsored qualified prescription drug plans pursuant to the Medicare Prescription Drug Improvement and Modernization Act of 2003 will be deposited into this fund, as well as any appropriations by the legislature to fund retiree post-employment benefits other than pensions.

Funding the ARC for retiree health benefits will have an effect on resources available for future budgets.

## **CURRENT DEVELOPMENTS AND INITIATIVES**

Fiscal year 2006 saw the development and implementation of several important initiatives and the expansion of programs that have been provided in past years.

Chapter 636, Public Laws of 2006, “An Act To Implement Task Force Recommendations Relating to Parity and Portability of Benefits for Law Enforcement Officers and Firefighters”, enacted into law the expansion of retiree health benefits subsidized by the State of Maine to first responders such as firefighters and municipal and county law enforcement officers. The law provides that the State of Maine shall pay a premium subsidy of 45% for participating retirees.

During fiscal year 2006, the Governor’s Office of Health Policy and Finance expanded the State’s Health Plan to address Maine’s health care costs, quality and access and is a key element of Dirigo Health Reform. Issued every two years by the Governor’s Office of Health Policy and Finance, the Plan is a roadmap to make Maine the healthiest state in the nation. By setting goals and identifying existing and new initiatives to achieve the result of making Maine the healthiest state, the Plan asks all of us – consumers, providers and payers – to play a role. At the close of the fiscal year, approximately 15,800 Maine people had health care coverage through both Dirigo Health’s DirigoChoice program and Dirigo Health’s MaineCare Companion Plan for eligible parents. There are 10,700 DirigoChoice members, including over 2,300 businesses, and over 5,100 MaineCare parents.

“An Act To Accelerate Private Investment in Maine’s Wireless and Broadband Infrastructure”, was enacted in Chapter 665, Public Laws of 2006. Chapter 665 established the ConnectME Authority established to stimulate investment in advanced communications technology infrastructure in unserved or underserved areas. The authority is created as a body corporate and politic and a public instrumentality of the State.

## **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>
1996	AA+
1997	AA+
1998	AA+
1999	AA+
2000	AA+
2001	AA+
2002	AA+
2003	AA+
2004	AA
2005	AA-
2006	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>
1996	Aa
1997	Aa3*
1998	Aa2
1999	Aa2
2000	Aa2
2001	Aa2
2002	Aa2
2003	Aa2
2004	Aa2
2005	Aa3
2006	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
2006	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 and moral obligations may be found in Notes 11 and 15, respectively, of 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.

The Governor has submitted his Biennial Budget for the 2008 – 2009 fiscal years. His major budget proposal focuses on property tax relief for Maine citizens. To produce the savings necessary, he has proposed to reduce the number of independent school districts from approximately 290 to 26 regional districts. Through the consolidation effort, the Governor believes that approximately \$250 million in tax savings at all levels of government in Maine is possible through the elimination of duplicate services, economies of scale, and standardization of administrative practices. This proposal will be debated by the Legislature as the budget works its way through the legislative process.

The State continues to face challenges as we approach the new biennium and beyond.

- The funding pressures of implementing GASB Statement No. 45 and making consistent and predictable contributions to the unfunded liability for state employees, teachers, police and firefighters will impact future resources available for expenditure;
- Meeting the continuing service and caseload demands for Medicaid Services will require increased funding in future years that will put pressure on resources.

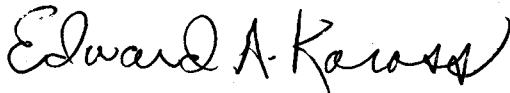
Although we face budgetary challenges as we move toward the next biennium, the State of Maine has worked diligently to improve funding of its two major reserves, the Budget Stabilization Fund and Working Capital. The Governor and the legislature have worked cooperatively together to build reserves, at a zero balance in 2003, to approximately \$152 million.

In an environment where economic resources are limited and agencies are coping with budget constraints, the challenge of maintaining effective 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 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 fifth consecutive year we have achieved an unqualified opinion from our auditors.


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, 2006

### EXECUTIVE

**John Elias Baldacci**, *Governor*

### LEGISLATIVE

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

**Glenn Cummings**, *Speaker of the House*

#### Constitutional/Statutory Officers

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

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

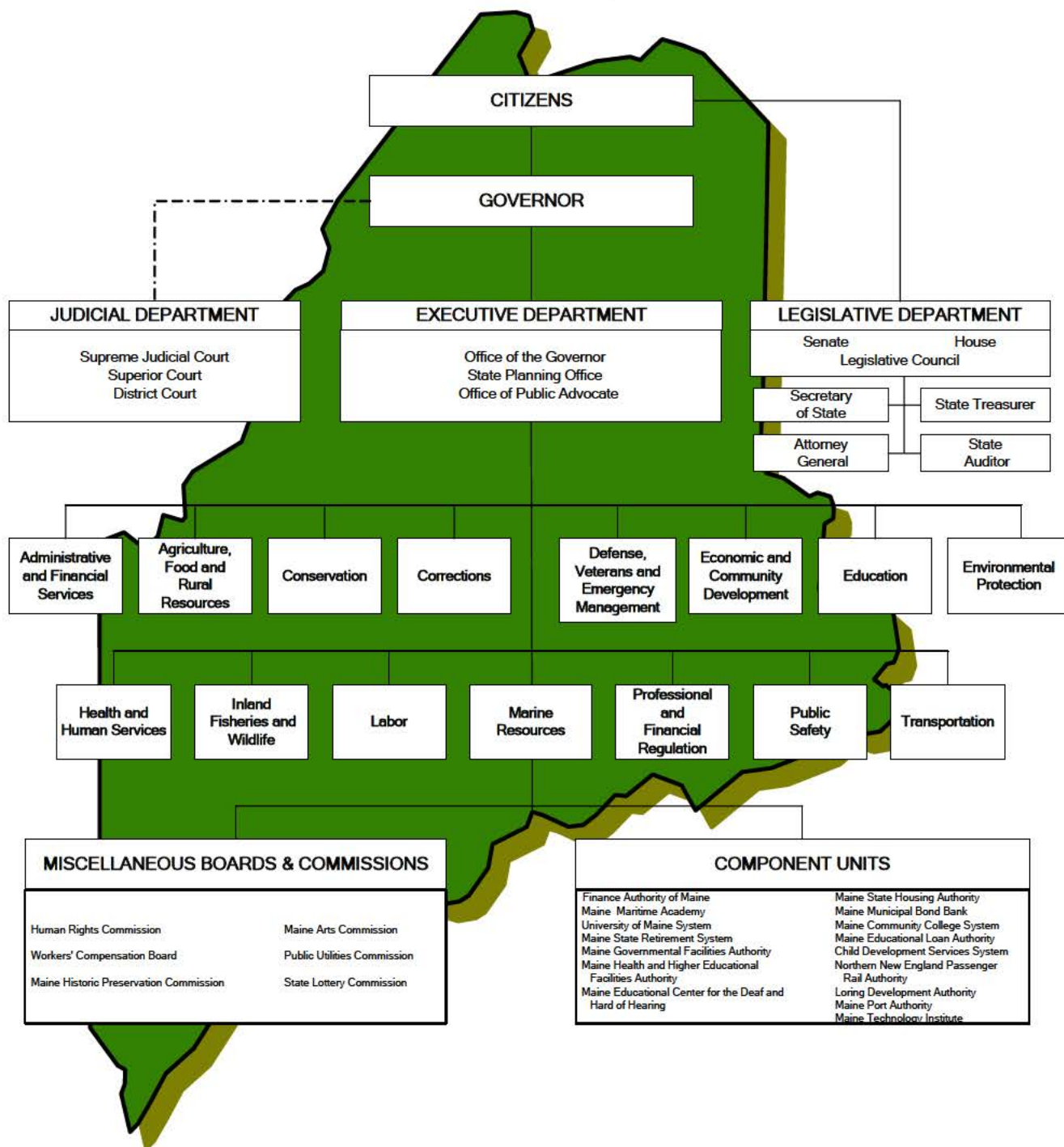
**Matthew Dunlap**, *Secretary of State*

**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, 2006





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

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# STATE OF MAINE DEPARTMENT OF AUDIT

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DIRECTOR OF AUDIT AND ADMINISTRATION

## INDEPENDENT AUDITOR'S REPORT

To the President of the Senate and the  
Speaker of the House of Representatives

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Child Development Services System, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, 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, Maine Technology Institute, 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	37%	2%
Fiduciary Funds – Pension (and Other	100%	100%
Employee Benefit) Trusts		
Fiduciary Funds- Private Purpose Trust Funds	99%	99.6%

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 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, 2006, 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, are presented for purposes of additional analysis and are 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, based on our audit and the reports of the other auditors, 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, the State changed its methods of applying accounting principles regarding accounting for interim payments to Medicaid providers, and recognizing certain tax revenues; it also corrected the reporting of certain capital assets. As discussed in Note 3 to the financial statements, the State's reporting entity changed to include a new component unit.

As discussed in Note 3 to the financial statements, the State implemented Governmental Accounting Standards Board Statements, #42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, #44 - *Economic Condition Reporting: The Statistical Section*, #46 - *Net Assets Restricted by Enabling Legislation* and #47 - *Accounting for Termination Benefits*.



Neria R. Douglass, ID, CIA  
State Auditor

January 31, 2007, except for Note 16, as to which the date is February 28, 2007.

## 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, 2006. 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 7.9 percent from the previous fiscal year. Net assets of Governmental Activities increased by \$245 million, while net assets of Business-type Activities increased by \$43.7 million. The State's assets exceeded its liabilities by \$3.9 billion at the close of fiscal year 2006. Component units reported net assets of \$1.8 billion, an increase of \$100 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 \$215.5 million, a decrease of \$188.9 million from the previous year. The General Fund's total fund balance was a negative \$177.6 million, a decrease of \$89 million from the previous year, as restated. The Highway Fund total fund balance also decreased by \$73.4 million.
- The proprietary funds reported net assets at year end of \$629.9 million, an increase of \$138.4 million. This increase is due to two major factors: an increase in the Retiree Health Insurance Fund of \$54.2 million, and an increase in the Employee Health Insurance Fund of \$34.3 million.

#### Long-term Debt:

- The State's liability for general obligation bonds decreased by \$19.5 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued \$52.4 million in bonds and made principal payments of \$71.9 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 13 other component units as discretely presented component units of the State, and two component units 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 revenues in the Governmental Activities, but are reported as deferred revenue on the governmental fund statements
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements
- Internal service funds are reported as Governmental Activities, but reported as proprietary funds in the fund financial statements
- Governmental fund long-term liabilities, such as certificates of participation, pension obligations, compensated absences, bonds and notes payable, and others appear as liabilities only in the government-wide statements
- Capital outlay spending results in capital assets on the government-wide statements, but is recorded as expenditures on the governmental fund statements
- Proceeds from bonds, notes and other long-term financing arrangements result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements
- Net asset balances are allocated as follows:

*Net Assets Invested in Capital Assets, Net of Related Debt;*

*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 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. Budgetary comparison schedules by agency are also included for the general fund, the highway fund, federal funds, and other special revenue fund.

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by 7.9 percent to \$3.9 billion at June 30, 2006, as detailed in Tables A-1 and A-2.

**Table A- 1: Condensed Statement of Net Assets**  
(Expressed in Thousands)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>2006</u>	<u>2005*</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005*</u>
Current and other noncurrent assets	\$2,220,676	\$ 1,787,227	\$ 526,219	\$ 521,130	\$ 2,746,895	\$ 2,308,357
Capital assets	<u>3,750,134</u>	<u>3,491,601</u>	<u>79,030</u>	<u>49,961</u>	<u>3,829,164</u>	<u>3,541,562</u>
Total Assets	<u>5,970,810</u>	<u>5,278,828</u>	<u>605,249</u>	<u>571,091</u>	<u>6,576,059</u>	<u>5,849,919</u>
Current liabilities	1,733,519	1,247,806	35,985	32,710	1,769,504	1,280,516
Long-term liabilities	<u>784,758</u>	<u>823,449</u>	<u>87,500</u>	<u>100,327</u>	<u>872,258</u>	<u>923,776</u>
Total Liabilities	<u>2,518,277</u>	<u>2,071,255</u>	<u>123,485</u>	<u>133,037</u>	<u>2,641,762</u>	<u>2,204,292</u>
Net assets:						
Investment in capital assets, net of related debt	3,347,672	3,084,318	79,030	49,961	3,426,702	3,134,279
Restricted	172,449	290,385	476,832	459,538	649,281	749,923
Unrestricted	<u>(67,588)</u>	<u>(167,130)</u>	<u>(74,098)</u>	<u>(71,445)</u>	<u>(141,686)</u>	<u>(238,575)</u>
Total Net Assets	<u>\$ 3,452,533</u>	<u>\$ 3,207,573</u>	<u>\$ 481,764</u>	<u>\$ 438,054</u>	<u>\$ 3,934,297</u>	<u>\$ 3,645,627</u>

\* As restated

### Changes in Net Assets

The State's fiscal year 2006 revenues totaled \$7 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 48.2 percent and 37 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 \$6.7 billion for the year 2006. (See Table A-2) These expenses are predominantly (70 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 8 percent of total costs. Total net assets increased by \$288.7 million.

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

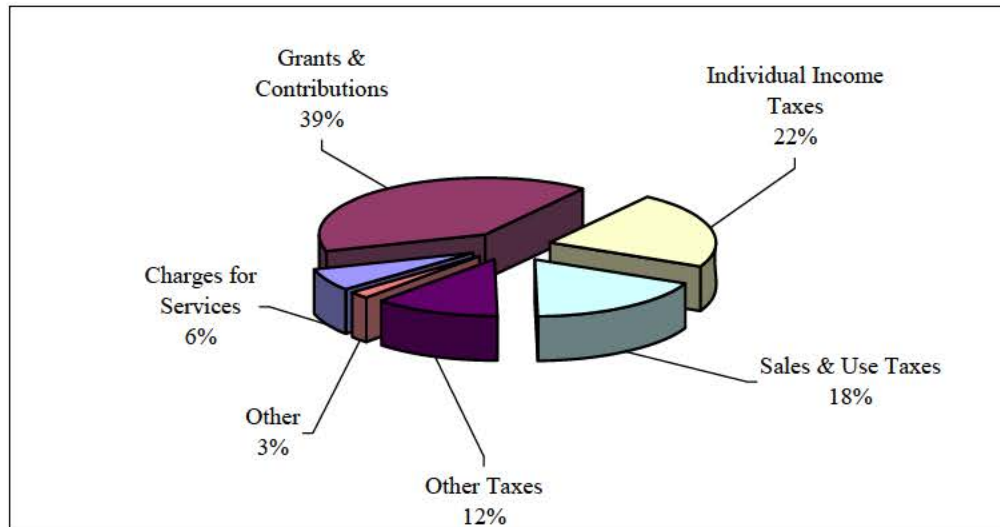
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>2006</u>	<u>2005*</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005*</u>
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 412,033	\$ 374,463	\$ 450,117	\$ 382,747	\$ 862,150	\$ 757,210
Grants/Contributions	2,561,125	2,498,863	20,535	24,109	2,581,660	2,522,972
General Revenues:						
Corporate Income Taxes	305,872	244,842	-	-	305,872	244,842
Individual Income Taxes	1,403,790	1,296,606	-	-	1,403,790	1,296,606
Fuel Taxes	177,904	176,020	-	-	177,904	176,020
Property Taxes	53,272	50,962	-	-	53,272	50,962
Sales & Use Taxes	1,156,201	1,049,890	-	-	1,156,201	1,049,890
Other Taxes	263,506	223,326	-	-	263,506	223,326
Investment Earnings	28,881	20,650	-	-	28,881	20,650
Other	<u>145,628</u>	<u>142,745</u>	<u>-</u>	<u>-</u>	<u>145,628</u>	<u>142,745</u>
Total Revenues	<u>6,508,212</u>	<u>6,078,367</u>	<u>470,652</u>	<u>406,856</u>	<u>6,978,864</u>	<u>6,485,223</u>
<b>Expenses</b>						
Governmental Activities:						
Governmental Support	530,008	480,837	-	-	530,008	480,837
Arts, Heritage & Culture	12,191	13,273	-	-	12,191	13,273
Business Lic & Reg	53,547	49,553	-	-	53,547	49,553
Economic Development			-	-		
& Workforce Training	160,093	171,092			160,093	171,092
Education	1,494,438	1,412,524	-	-	1,494,438	1,412,524
Health & Human Services	3,167,521	3,051,822	-	-	3,167,521	3,051,822
Justice & Protection	340,281	322,072	-	-	340,281	298,852
Natural Resources	166,358	148,087	-	-	166,358	171,307
Transportation Safety	322,438	246,837	-	-	322,438	246,837
Interest	36,873	32,530	-	-	36,873	32,530
Business-Type Activities:						
Employment Security	-	-	103,867	113,642	103,867	113,642
Alcoholic Beverages	-	-	-	7	-	7
Lottery	-	-	179,628	161,691	179,628	161,691
Airport	-	-	22	892	22	892
Marine Ports	-	-	1,378	1,829	1,378	1,829
Ferry Services	-	-	6,707	7,876	6,707	7,876
Military Equip. Maint.	-	-	64,437	50,908	64,437	50,908
Dirigo Health	-	-	47,122	13,587	47,122	13,587
Other	<u>-</u>	<u>-</u>	<u>3,860</u>	<u>2,107</u>	<u>3,860</u>	<u>2,107</u>
Total Expenses	<u>6,283,748</u>	<u>5,928,627</u>	<u>407,021</u>	<u>352,539</u>	<u>6,690,769</u>	<u>6,281,166</u>
Excess (Deficiency) before						
Special Items and	224,464	149,740	63,631	54,317	288,095	204,057
Transfers						
Special Items	(31,212)	30,881	31,787	(50,000)	575	(19,119)
Transfers	<u>51,708</u>	<u>50,211</u>	<u>(51,708)</u>	<u>(50,211)</u>	<u>-</u>	<u>-</u>
<b>Increase (Decrease) in</b>	244,960	230,832	43,710	(45,894)	288,670	184,938
<b>Net Assets</b>						
Beginning Net Assets *	<u>3,207,573</u>	<u>2,976,741</u>	<u>438,054</u>	<u>483,948</u>	<u>3,645,627</u>	<u>3,460,689</u>
Ending Net Assets	<u>\$ 3,452,533</u>	<u>\$ 3,207,573</u>	<u>\$ 481,764</u>	<u>\$ 438,054</u>	<u>\$ 3,934,297</u>	<u>\$ 3,645,627</u>

\* As restated

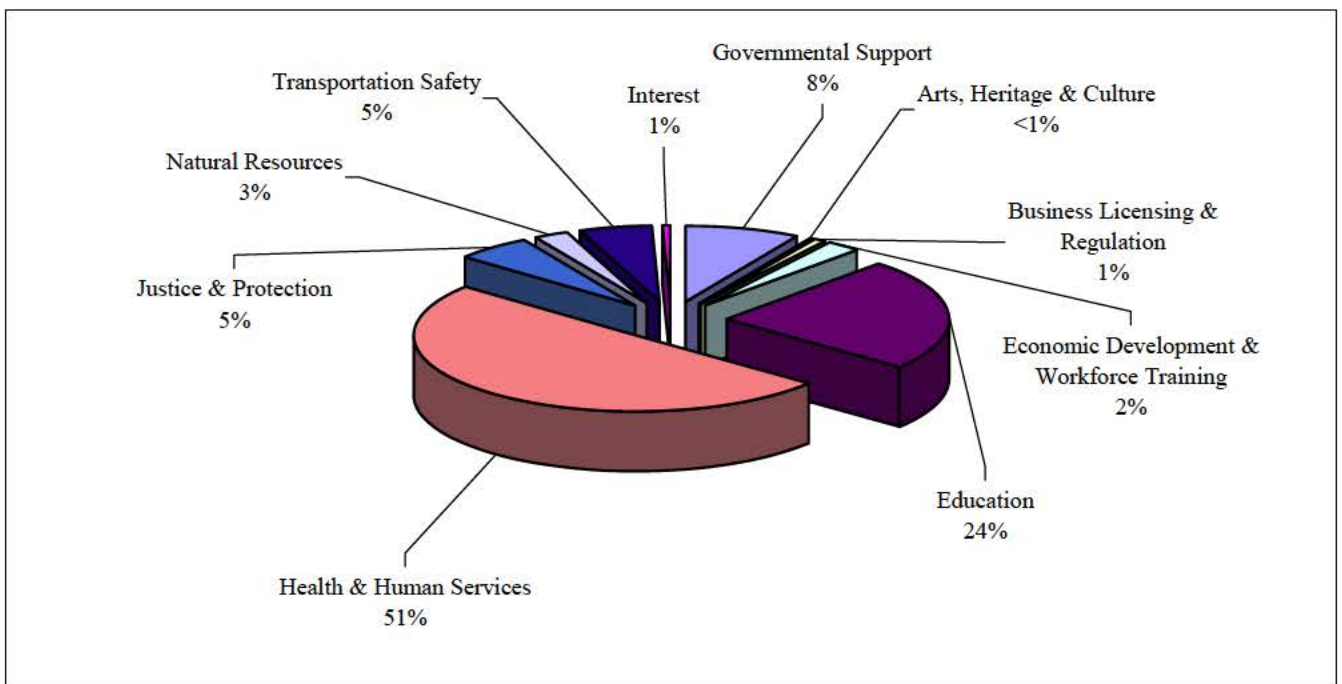
## Governmental Activities

Revenues for the State's Governmental Activities totaled \$6.5 billion while total expenses equaled \$6.3 billion. The increase in net assets for Governmental Activities was \$245 million in 2006. 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 \$412 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of \$2.6 billion. \$3.5 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 2006**



**Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2006**



## Business-type Activities

Revenues for the State's Business-type Activities totaled \$470.8 million while expenses totaled \$407.6 million. The increase in net assets for Business-type Activities was \$43.7 million in 2006, due mainly to the creation of the STAR Fund (State Transit, Aviation and Rail Transportation Fund), which was recorded as a special item.

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	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Employment Security	\$ 103,867	\$ 113,642	\$ 19,407	\$ 10,182
Alcoholic Beverages	-	7	12,525	12,575
Lottery	179,628	161,691	51,334	50,274
Airport	22	892	5	(754)
Marine Ports	1,378	1,829	(1,291)	(1,402)
Ferry Services	6,707	7,876	(3,243)	(3,827)
Military Equip. Maint.	65,013	50,908	5,414	(4,431)
Dirigo Health	47,122	13,587	(21,236)	(8,371)
Other	<u>3,860</u>	<u>2,107</u>	<u>268</u>	<u>71</u>
Total	<u>\$ 407,597</u>	<u>\$ 352,539</u>	<u>\$ 63,183</u>	<u>\$ 54,317</u>

The cost of all Business-type Activities this year was \$407.6 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was \$63.2 million. The State's Business-type Activities transferred \$51.7 million (net) to the Governmental Activities in statutorily required profit transfers.

## FINANCIAL ANALYSIS OF THE STATE'S FUNDS

**Table A-6: Governmental Fund Balances**  
(Expressed in Thousands)

Fund	<u>2006</u>	<u>2005*</u>	<u>Change</u>
General	\$ (177,631)	\$(88,594)	\$ (89,037)
Highway	9,712	83,083	(73,371)
Federal	22,190	31,240	(9,050)
Other Special Revenue	258,033	261,473	(3,440)
Other Governmental	<u>103,174</u>	<u>117,188</u>	<u>(14,014)</u>
Total	<u>\$ 215,478</u>	<u>\$ 404,390</u>	<u>\$(188,912)</u>

\* *As restated*

The State's governmental fund balances decreased during fiscal year 2006 from fiscal year 2005 by \$188.9 million. The General Fund's decrease was due mainly to the restatement of fund balance from recognizing revenues as available if collected within 12 months of year end, to 60 days. Also, two special items in fiscal year 2005 not present in 2006 accounted for the change: the return of \$68.5 million of excess equity from the retiree health insurance fund, and \$50 million in proceeds from the sale of the state's liquor operating rights. Net operating expenditures were \$19 million higher in fiscal year 2006. The Highway Fund fund balance decreased by \$73.4 million from fiscal year 2005. The return of excess equity from the retiree health program in 2005 not applicable to 2006 was \$17.4 million for this fund. Operationally, transportation, safety and development expenditures were \$108 million higher in fiscal year 2006. Transportation projects undertaken during fiscal year 2006 accounted for most of the increase.

### Budgetary Highlights

For the 2006 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to \$2.9 billion, an increase of about \$200 million from the original legally adopted budget of approximately \$2.7 billion. Actual expenditures on a budgetary basis amounted to approximately \$113 million less than those authorized in the final budget; however, after deducting the encumbered obligations that will come due in fiscal year 2007, \$71.4 million of unobligated funds remained as a result of a continuing concerted effort to control spending, primarily in the broad categories of education and social services. Actual revenues exceeded final budget forecasts by \$71.4 million mainly due to higher than expected personal income tax, corporate tax, and sales tax revenues.

As a part of the final budget adjustment for Fiscal Year 2006, the Legislature approved a direct appropriation to the State's Budget Stabilization Fund in the amount of \$29 million. The additional appropriation increased the balance in the Fund to \$79.9 million as of June 30, 2006. This item is further explained in Note 2 of Notes to the Financial Statements.

The cost of the State's Medicaid Program exceeded the \$632 million in resources approved in the legally adopted budget for Fiscal Year 2006, requiring additional budgetary resources amounting to approximately \$75 million. The Legislature adjusted the budget by advancing the funding from the budgeted resources for Fiscal Year 2007, causing a potential shortfall by the same amount. The budget adjustments were required to meet the cost of the weekly cycle payments as well as continue to make "interim payments" to providers as a result of continuing claims processing problems with the Department of Health and Human Services Maine Medical Claims Management System known as MECMS. We note that the Department has submitted an emergency request for Fiscal Year 2007 which will be considered by the Legislature.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of fiscal year 2006, the State had roughly \$3.8 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2006, the State acquired or constructed more than \$350 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)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>2006</u>	<u>2005*</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005*</u>
Land	\$ 394,069	\$ 383,348	\$ 38,161	\$ 7,304	\$ 432,230	\$ 390,652
Buildings	506,881	476,315	9,322	8,747	516,203	485,062
Equipment	254,007	226,825	20,220	19,904	274,227	246,729
Improvements	17,233	25,022	61,218	51,410	78,451	76,432
Infrastructure	2,861,522	2,636,582	-	-	2,861,522	2,636,582
Construction in Progress	<u>14,527</u>	<u>26,025</u>	<u>925</u>	<u>708</u>	<u>15,452</u>	<u>26,733</u>
Total Capital Assets	4,048,239	3,774,117	129,846	88,073	4,178,085	3,862,190
Accumulated Depreciation	<u>(298,105)</u>	<u>(282,516)</u>	<u>(50,816)</u>	<u>(38,112)</u>	<u>(348,921)</u>	<u>(320,628)</u>
Capital Assets, net	<u>\$ 3,750,134</u>	<u>\$ 3,491,601</u>	<u>\$ 79,030</u>	<u>\$ 49,961</u>	<u>\$ 3,829,164</u>	<u>\$3,541,562</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 8,836 highway miles or 17,952 lane miles within the State. Bridges have a deck area of 11.5 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, 2006, the actual average condition was 75.0. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 77 at June 30, 2006. Preservation costs for fiscal year 2006 totaled \$51.1 million compared to estimated preservation costs of \$51.8 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 ,and Chapter 38, P&S 2001, none was spent during FY 2006.

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 \$909 million 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)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$ 467,550	\$ 487,095	\$ -	\$ -	\$ 467,550	\$ 487,095
Other Long-Term Obligations	<u>441,512</u>	<u>575,708</u>	<u>135</u>	<u>383</u>	<u>441,647</u>	<u>576,091</u>
Total	<u>\$909,062</u>	<u>\$1,062,803</u>	<u>\$ 135</u>	<u>\$ 383</u>	<u>\$909,197</u>	<u>\$1,063,186</u>

During the year, the State reduced outstanding long-term obligations by \$71.9 million for outstanding general obligation bonds and \$260.1 million for other long-term debt. Also during fiscal year 2006, the State incurred \$173.2 million of additional long-term obligations.

### Credit Ratings

Three of the major bond rating agencies regularly assess the State's credit rating. During fiscal years 2006 and 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 near 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 2005 to July 2006; however, fuel and utilities prices rose much faster. The rise in oil prices to over \$70 a barrel in late summer due to unrest in the Middle East put pressure on both household and government budgets. Though oil prices have fallen into the \$55 to \$60 per barrel range, they will continue to affect budgeting decisions throughout fiscal year 2007.

Personal income continues to rise in Maine faster than inflation. According to the latest statistics available, personal income is estimated to have risen by 5.6% in calendar year 2006. The solid growth in 2006 is in contrast to the much slower growth in 2005 when the state was affected by a number of events, the most significant of which was the Base Realignment and Closure Commission process. Unemployment has hovered around the national average throughout the year. The rate in Maine stood at 4.7% in December of 2006 which is slightly above the national rate of 4.5%.

The General Fund Revenue estimate accepted by the Independent Revenue Forecasting Commission 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 revenue and costs to maintain current services. The 2006-2007 biennial budget was brought into balance with the enactment of Public Law 2005, Chapter 12, **"An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2005, June 30, 2006, and June 30, 2007."** The Budget has been amended several times through various public laws to ensure adequate resources are available for the fiscal years of the biennium.

The budget will require further amendment in fiscal year 2007 to ensure adequate resources are available for the State's Medicaid Program to pay "cycle payments" on a timely basis and to pay outstanding bill from the various hospitals throughout the State. It is anticipated that the resources to pay for these costs will be managed through a reforecast of revenues and the use of any unappropriated surplus that may accrue by June 30, 2007.

### **New Accounting Standard**

The State maintains a retiree healthcare plan for State employees and teachers that are affected by the standard. The plan is operated on a pay-as-you-go basis, i.e. claims benefits for healthcare plan participants are paid as they occur. The portion of active and retired employee's healthcare premiums for which the State is responsible is estimated and budgeted.

New accounting standards will require the State to begin disclosing its liability for other post employment benefits (commonly referred to as "OPEB") in its FY 2008 financial reports. An initial valuation report by an independent actuarial firm for the State's liability for these health care and life insurance benefits for the fiscal year ended June 30, 2006 was released in January, 2007. The report presented two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded in a manner meeting the requirements of GASB Statement No. 45.

According to the report, assuming no prefunding, the actuarial accrued liability of the State for OPEB obligations incurred through June 30, 2006 is \$4.8 billion. The Present Value of Projected Benefits amounts to approximately \$5.9 billion at a discount rate of 4.5%. To fully amortize this liability over a 30-year period, utilizing an amortization

growth rate of 4.5% per year would require annual required contributions (ARC) commencing at \$116 million for fiscal 2007 and projected to increase to \$296 million in fiscal year 2015-2016.

However, if prefunding at 7.5% is assumed, the actuarial accrued liability is reduced to \$3.2 billion and the annual required contribution is calculated to commence at \$275 million for fiscal year 2007. As the incremental cost of funding the full ARC is not within reach for the State, the State has decided to fund the ARC on a graduated basis over a ten year period to attain full funding of the annual ARC.

In making these calculations, the independent actuarial firm utilized employment and other data provided by the State and projected annual claims growth initially at 10.5% and declining to 5.1% after ten years and continuation of current benefit levels and current retiree contribution requirements. The report covered only the State's OPEB obligations for State employees, teachers, and participating ancillary groups. Municipalities and authorities of the State of Maine, even if their health care coverage is administered by the State of Maine's Retiree Healthcare Program, will perform their own valuations, as the State acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs or liabilities.

In the absence of prefunding, the discount rate must approximate the State's rate of return on non-pension (liquid) investments over the long term, estimated at 4.5% for the purpose of this study. In the event of prefunding, the discount rate would increase to a standard return on long-term investments, estimated at 7.5% for the purpose of this study. In order to qualify its OPEB liabilities as prefunded, the State will have to enact legislation providing for the escrowing of annual contributions in the manner required by GASB Statement No. 45 (and similar to the program for funding the State's unfunded actuarial liability for pension).

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future health care claims, by whether or not the State enacts legislation that qualifies its OPEB obligations to be calculated on a prefunded basis, by changes in the State's employee profile, and possible changes in OPEB coverage levels and retiree contribution rates. Accordingly, it should be anticipated that the actuarial accrued liability of the State for OPEB liabilities will fluctuate.

A copy of the valuation report discussed above can be obtained by calling the Office of the State Controller.

## **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](mailto:financialreporting@maine.gov)



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# **BASIC FINANCIAL STATEMENTS**

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# STATE OF MAINE STATEMENT OF NET ASSETS

June 30, 2006  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
<b>Assets</b>				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ 534,963	\$ 22,237	\$ 557,200	\$ 94,271
Cash and Cash Equivalents	277	757	1,034	40,091
Cash with Fiscal Agent	21,400	-	21,400	2,201
Investments	70,790	-	70,790	605,882
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	16,017	-	16,017	-
Restricted Deposits and Investments	23,802	449,748	473,550	-
Inventories	7,466	810	8,276	1,704
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	374,179	-	374,179	-
Loans Receivable	4,286	-	4,286	29,467
Notes Receivable	-	-	-	530
Other Receivables	404,450	53,535	457,985	43,802
Internal Balances	2,764	(2,764)	-	10,511
Due from Other Governments	668,469	-	668,469	138,640
Due from Primary Government	-	-	-	2,747
Loans receivable from primary government	-	-	-	3,915
Due from Component Units	772	-	772	-
Other Current Assets	3,404	444	3,848	38,277
Total Current Assets	2,133,039	524,767	2,657,806	1,012,038
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	35,125	1,452	36,577	6,152
Assets Held in Trust	-	-	-	2,410
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	841	-	841	-
Restricted Deposits and Investments	-	-	-	596,459
Investments	-	-	-	448,947
Receivables, Net of Current Portion:				
Taxes Receivable	51,671	-	51,671	-
Loans Receivable	-	-	-	1,124,087
Notes Receivable	-	-	-	161,563
Other Receivables	-	-	-	5,543
Due from Other Governments	-	-	-	1,090,326
Loans receivable from primary government	-	-	-	42,353
Due From Primary Government	-	-	-	2,495
Other Noncurrent Assets	-	-	-	34,470
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	3,270,118	39,086	3,309,204	98,845
Buildings, Equipment and Other Depreciable Assets	778,121	90,760	868,881	960,428
Less: Accumulated Depreciation	(298,105)	(50,816)	(348,921)	(339,672)
Capital Assets, Net of Accumulated Depreciation	3,750,134	79,030	3,829,164	719,601
Total Noncurrent Assets	3,837,771	80,482	3,918,253	4,234,406
Total Assets	\$ 5,970,810	\$ 605,249	\$ 6,576,059	\$ 5,246,444

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	\$ 1,145,467	\$ 5,120	\$ 1,150,587	\$ 62,069
Accrued Payroll	46,806	1,151	47,957	795
Compensated Absences	669	135	804	2,196
Tax Refunds Payable	130,001	-	130,001	-
Due to Component Units	13,676	-	13,676	-
Due to Other Governments	241,226	-	241,226	4,044
Due to Primary Government	-	-	-	1,652
Amounts Held under State & Federal Loan Programs	-	-	-	30,155
Undistributed Grants and Administrative Funds	-	-	-	9,472
Allowances for Losses on Insured Commercial Loans	-	-	-	6,273
Claims Payable	24,177	-	24,177	-
Bonds and Notes Payable	79,765	-	79,765	237,438
Revenue Bonds Payable	14,595	-	14,595	119
Obligations under Capital Leases	6,154	-	6,154	1,238
Certificates of Participation and Other Financing Arrangements	11,003	-	11,003	-
Pledged Future Revenues	3,915	-	3,915	-
Accrued Interest Payable	8,281	-	8,281	17,775
Deferred Revenue	3,404	14,430	17,834	65,321
Other Current Liabilities	4,380	15,149	19,529	37,704
Total Current Liabilities	1,733,519	35,985	1,769,504	476,251
Long-Term Liabilities:				
Compensated Absences	40,657	-	40,657	-
Due to Other Governments	136	-	136	7,080
Amounts Held under State & Federal Loan Programs	-	-	-	42,945
Claims Payable	48,804	-	48,804	-
Bonds and Notes Payable	387,785	-	387,785	2,879,934
Revenue Bonds Payable	171,620	-	171,620	2,503
Obligations under Capital Leases	33,937	-	33,937	3,890
Certificates of Participation and Other Financing Arrangements	25,578	-	25,578	-
Pledged Future Revenues	42,353	-	42,353	-
Deferred Revenue	15,838	87,500	103,338	774
Pension Obligation	18,050	-	18,050	-
Other Noncurrent Liabilities	-	-	-	79,083
Total Long-Term Liabilities	784,758	87,500	872,258	3,016,209
Total Liabilities	2,518,277	123,485	2,641,762	3,492,460
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	3,347,672	79,030	3,426,702	571,960
Restricted:				
Highway Fund Purposes	9,401	-	9,401	-
Federal Programs	22,190	-	22,190	-
Natural Resources	20,827	-	20,827	-
Capital Projects and Debt Service	38,090	-	38,090	-
Unemployment Compensation	-	476,832	476,832	-
Other Purposes	11,033	-	11,033	981,488
Funds Held as Permanent Investments:				
Expendable	59,634	-	59,634	-
Nonexpendable	11,274	-	11,274	-
Unrestricted	(67 588)	(74 098)	(141 686)	200 536
Total Net Assets	\$ 3,452,533	\$ 481,764	\$ 3,934,297	\$ 1,753,984

# STATE OF MAINE STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental activities:				
Governmental Support & Operations	\$ 530,008	\$ 71,507	\$ 6,628	\$ -
Arts, Heritage & Cultural Enrichment	12,191	920	2,449	-
Business Licensing & Regulation	53,547	65,588	1,216	-
Economic Development & Workforce Training	160,093	2,966	82,316	-
Education	1,494,438	8,605	190,614	-
Health & Human Services	3,167,521	15,097	1,956,406	-
Justice & Protection	340,281	75,035	68,638	-
Natural Resources Development & Protection	166,358	76,921	32,573	24,268
Transportation Safety & Development	322,438	95,394	196,017	-
Interest Expense	36,873	-	-	-
Total Governmental Activities	6,283,748	412,033	2,536,857	24,268
Business-Type Activities:				
Employment Security	103,867	102,611	20,663	-
Alcoholic Beverages	-	12,525	-	-
Lottery	179,628	230,962	-	-
Airport	22	27	-	-
Marine Ports	1,378	87	-	-
Ferry Services	6,707	3,464	-	-
Military Equipment Maintenance	65,013	70,427	-	-
Dirigo Health	47,122	25,886	-	-
Other	3,860	4,128	-	-
Total Business-Type Activities	407,597	450,117	20,663	-
Total Primary Government	\$ 6,691,345	\$ 862,150	\$ 2,557,520	\$ 24,268
<b>Component Units</b>				
Child Development Services	\$ 27,801	\$ 4,558	\$ 22,228	\$ -
Finance Authority of Maine	29,572	15,449	21,855	-
Maine Educational Center for the Deaf and Hard of Hearing	6,312	120	1	-
Loring Development Authority	3,488	1,389	75	11
Maine Community College System	96,422	22,277	26,119	6,386
Maine Educational Loan Authority	4,419	3,523	1,216	-
Maine Maritime Academy	22,891	11,768	2,792	1,421
Maine Municipal Bond Bank	69,042	50,369	1,303	37,193
Maine Port Authority	2,188	125	93	505
Maine Technology Institute	8,023	49	7,724	-
Maine State Housing Authority	204,397	72,359	147,896	-
Northern New England Passenger Rail Authority	10,547	5,068	5,942	975
University of Maine System	600,012	242,316	182,420	4,746
Total Component Units	\$ 1,085,114	\$ 429,370	\$ 419,664	\$ 51,237
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>
\$ (451,873)	\$ -	\$ (451,873)	\$ -
(8,822)	-	(8,822)	-
13,257	-	13,257	-
(74,811)	-	(74,811)	-
(1,295,219)	-	(1,295,219)	-
(1,196,018)	-	(1,196,018)	-
(196,608)	-	(196,608)	-
(32,596)	-	(32,596)	-
(31,027)	-	(31,027)	-
(36,873)	-	(36,873)	-
(3,310,590)	-	(3,310,590)	-
-	19,407	19,407	-
-	12,525	12,525	-
-	51,334	51,334	-
-	5	5	-
-	(1,291)	(1,291)	-
-	(3,243)	(3,243)	-
-	5,414	5,414	-
-	(21,236)	(21,236)	-
-	268	268	-
-	63,183	63,183	-
(3,310,590)	63,183	(3,247,407)	-
-	-	-	(1,015)
-	-	-	7,732
-	-	-	(6,191)
-	-	-	(2,013)
-	-	-	(41,640)
-	-	-	320
-	-	-	(6,910)
-	-	-	19,823
-	-	-	(1,465)
-	-	-	(250)
-	-	-	15,858
-	-	-	1,438
-	-	-	(170,530)
-	-	-	(184,843)
305,872	-	305,872	-
1,403,790	-	1,403,790	-
177,904	-	177,904	-
53,272	-	53,272	-
1,156,201	-	1,156,201	-
263,506	-	263,506	-
28,881	-	28,881	12,255
-	-	-	264,955
104,272	448	104,720	6,430
(217)	-	(217)	301
41,573	-	41,573	-
(31,212)	31,787	575	-
51,708	(51,708)	-	-
3,555,550	(19,473)	3,536,077	283,941
244,960	43,710	288,670	99,098
3,207,573	438,054	3,645,627	1,654,886
\$ 3,452,533	\$ 481,764	\$ 3,934,297	\$ 1,753,984



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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 101.

# STATE OF MAINE BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2006  
(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	\$ 64,564	\$ 45,396	\$ 30,614	\$ 226,401	\$ 114	\$ 367,089
Cash and Short-Term Investments	118	116	3	37	-	274
Cash with Fiscal Agent	4,503	3,091	-	10,866	-	18,460
Investments	-	-	-	-	70,790	70,790
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	3,124	-	-	-	12,893	16,017
Restricted Deposits and Investments	-	-	-	-	21,192	21,192
Inventories	1,422	-	1,680	-	-	3,102
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	339,381	21,638	-	13,160	-	374,179
Loans Receivable	1	80	-	4,205	-	4,286
Other Receivable	127,844	2,558	199,124	67,091	-	396,617
Due from Other Funds	18,675	1,712	19,966	1,994	-	42,347
Due from Other Governments	-	-	663,143	-	-	663,143
Due from Component Units	-	-	-	-	772	772
Other Current Assets	2,174	-	52	(34)	-	2,192
Total Current Assets	<u>561,806</u>	<u>74,591</u>	<u>914,582</u>	<u>323,720</u>	<u>105,761</u>	<u>1,980,460</u>
Noncurrent Assets:						
Equity in Treasurer's Cash Pool	4,419	2,962	1,998	14,778	8	24,165
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	-	-	-	-	841	841
Taxes Receivable	51,671	-	-	-	-	51,671
Working Capital Advances Receivable	111	-	-	-	-	111
Total Noncurrent Assets	<u>56,201</u>	<u>2,962</u>	<u>1,998</u>	<u>14,778</u>	<u>849</u>	<u>76,788</u>
Total Assets	<u>\$ 618,007</u>	<u>\$ 77,553</u>	<u>\$ 916,580</u>	<u>\$ 338,498</u>	<u>\$ 106,610</u>	<u>\$ 2,057,248</u>
<b>Liabilities and Fund Balances</b>						
Current Liabilities:						
Accounts Payable	\$ 398,345	\$ 47,948	\$ 637,324	\$ 34,490	\$ 939	\$ 1,119,046
Accrued Payroll	22,681	8,970	6,015	6,276	-	43,942
Tax Refunds Payable	130,001	-	-	-	-	130,001
Due to Other Governments	11,677	-	229,549	-	-	241,226
Due to Other Funds	32,073	3,054	14,855	3,775	-	53,757
Due to Component Units	2,235	40	4,364	4,542	2,495	13,676
Deferred Revenue	144,282	-	1,724	22,704	-	168,710
Other Accrued Liabilities	2,673	319	559	1,383	2	4,936
Total Current Liabilities	<u>743,967</u>	<u>60,331</u>	<u>894,390</u>	<u>73,170</u>	<u>3,436</u>	<u>1,775,294</u>
Long-Term Liabilities:						
Deferred Revenue	51,671	7,510	-	7,295	-	66,476
Total Long-Term Liabilities	<u>51,671</u>	<u>7,510</u>	<u>-</u>	<u>7,295</u>	<u>-</u>	<u>66,476</u>
Total Liabilities	<u>795,638</u>	<u>67,841</u>	<u>894,390</u>	<u>80,465</u>	<u>3,436</u>	<u>1,841,770</u>
Fund Balances:						
Reserved						
Continuing Appropriations	129,659	56,899	54,850	234,885	161	476,454
Debt Service	3,896	1,928	-	-	-	5,824
Capital Projects	-	-	-	-	32,266	32,266
Permanent Trusts	-	-	-	-	11,274	11,274
Other	44,241	80	-	8,441	59,473	112,235
Unreserved	<u>(355,427)</u>	<u>(49,195)</u>	<u>(32,660)</u>	<u>14,707</u>	<u>-</u>	<u>(422,575)</u>
Total Fund Balances	<u>(177,631)</u>	<u>9,712</u>	<u>22,190</u>	<u>258,033</u>	<u>103,174</u>	<u>215,478</u>
Total Liabilities and Fund Balances	<u>\$ 618,007</u>	<u>\$ 77,553</u>	<u>\$ 916,580</u>	<u>\$ 338,498</u>	<u>\$ 106,610</u>	<u>\$ 2,057,248</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, 2006  
(Expressed in Thousands)

Total fund balances for governmental funds		\$ 215,478
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.	3,810,306	
Less: Accumulated depreciation	<u>(168,835)</u>	3,641,471
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	(467,550)	
Interest Payable Related to Long-term Financing	(5,244)	
Certificates of Participation and Other Financing Arrangements	(14,063)	
Pledged Future Revenues	(46,268)	
Compensated Absences	(37,938)	
Pension Obligation	<u>(18,050)</u>	(589,113)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		222,791
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.		(38,094)
Net assets of governmental activities		<u>\$ 3,452,533</u>

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, 2006  
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	\$ 2,926,835	\$ 224,196	\$ -	\$ 193,772	\$ -	\$ 3,344,803
Assessments and Other Revenue	105,371	92,413	-	92,671	-	290,455
Federal Grants and Reimbursements	17,334	-	2,604,476	3,544	-	2,625,354
Service Charges	41,395	7,138	296	86,986	-	135,815
Investment Income	12,299	2,076	654	4,033	5,078	24,140
Miscellaneous Revenue	14,993	3,995	5,688	91,124	-	115,800
Total Revenues	<u>3,118,227</u>	<u>329,818</u>	<u>2,611,114</u>	<u>472,130</u>	<u>5,078</u>	<u>6,536,367</u>
<b>Expenditures</b>						
Current:						
Governmental Support & Operations	327,529	34,364	9,347	148,336	9,886	529,462
Economic Development & Workforce Training	45,324	-	86,407	24,195	6,400	162,326
Education	1,283,214	-	187,941	8,364	31,143	1,510,662
Health and Human Services	1,097,456	-	2,026,258	239,283	1,167	3,364,164
Business Licensing & Regulation	-	-	955	55,109	-	56,064
Natural Resources Development & Protection	70,878	32	39,892	75,269	5,541	191,612
Justice and Protection	227,588	35,576	70,802	27,616	812	362,394
Arts, Heritage & Cultural Enrichment	8,504	-	2,573	896	682	12,655
Transportation Safety & Development	178	316,559	208,776	36,405	12,396	574,314
Debt Service:						
Principal Payments	57,985	13,950	3,155	-	-	75,090
Interest Payments	15,263	2,007	1,728	-	-	18,998
Total Expenditures	<u>3,133,919</u>	<u>402,488</u>	<u>2,637,834</u>	<u>615,473</u>	<u>68,027</u>	<u>6,857,741</u>
Revenues over (under) Expenditures	<u>(15,692)</u>	<u>(72,670)</u>	<u>(26,720)</u>	<u>(143,343)</u>	<u>(62,949)</u>	<u>(321,374)</u>
Other Financing Sources (Uses):						
Transfer from Other Funds	90,912	1,751	31,471	157,929	676	282,739
Transfer to Other Funds	(164,923)	(3,586)	(13,801)	(49,064)	(4,131)	(235,505)
Other	666	1,134	-	8,927	-	10,727
Proceeds from Pledged Future Revenues	-	-	-	22,111	-	22,111
Bonds Issued	-	-	-	-	52,390	52,390
Net Other Finance Sources (Uses)	<u>(73,345)</u>	<u>(701)</u>	<u>17,670</u>	<u>139,903</u>	<u>48,935</u>	<u>132,462</u>
Revenues and Other Sources over (under) Expenditures and Other Uses	<u>(89,037)</u>	<u>(73,371)</u>	<u>(9,050)</u>	<u>(3,440)</u>	<u>(14,014)</u>	<u>(188,912)</u>
Fund Balances at Beginning of Year (As Restated)	<u>(88,594)</u>	<u>83,083</u>	<u>31,240</u>	<u>261,473</u>	<u>117,188</u>	<u>404,390</u>
Fund Balances at End of Year	<u>\$ (177,631)</u>	<u>\$ 9,712</u>	<u>\$ 22,190</u>	<u>\$ 258,033</u>	<u>\$ 103,174</u>	<u>\$ 215,478</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, 2006  
(Expressed in Thousands)

Net change in fund balances - total governmental funds	\$	(188,912)
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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	273,884	
Donated land	17,352	
Transfer of capital assets to STAR fund, net	(31,212)	
Depreciation expense	(23,209)	236,815

The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(217)
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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	(52,390)	
Proceeds from other financing arrangements	(1,800)	
Repayment of bond principal	71,935	
Repayment of other financing debt	10,972	
Accrued interest	(1,714)	27,003

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	16,186	
Pledged future revenues	3,155	
Claims payable	107,305	
Compensated absences	(3,686)	122,960

Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		(50,753)
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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.		98,064
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Changes in net assets of governmental activities	\$	244,960
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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 113.

Combining fund statements for the internal service funds, whose combined totals are presented on these statements, begin on page 121.

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

June 30, 2006  
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	
<b>Assets</b>					
Current Assets:					
Equity in Treasurer's Cash Pool	\$ -	\$ -	\$ 22,237	\$ 22,237	\$ 167,874
Cash and Short-Term Investments	-	-	757	757	3
Cash with Fiscal Agent	-	-	-	-	2,940
Restricted Assets:					
Restricted Deposits and Investments	449,748	-	-	449,748	2,610
Inventories	-	-	810	810	4,364
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	14,595
Other Receivable	28,239	-	25,296	53,535	7,833
Due from Other Funds	26	-	6,786	6,812	16,588
Other Current Assets	-	-	444	444	1,212
Total Current Assets	478,013	-	56,330	534,343	218,019
Noncurrent Assets:					
Equity in Treasurer's Cash Pool	-	-	1,452	1,452	10,960
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	171,620
Capital Assets - Net of Depreciation	-	-	79,030	79,030	108,663
Total Noncurrent Assets	-	-	80,482	80,482	291,243
Total Assets	478,013	-	136,812	614,825	509,262
<b>Liabilities</b>					
Current Liabilities:					
Accounts Payable	928	-	4,192	5,120	21,239
Accrued Payroll	-	-	1,151	1,151	2,864
Due to Other Governments	-	-	-	-	136
Due to Other Funds	-	1	11,265	11,266	5,906
Current Portion of Long-Term Obligations:					
Certificates of Participation and Other Financing Arrangements	-	-	-	-	5,138
Revenue Bonds Payable	-	-	-	-	14,595
Obligations Under Capital Leases	-	-	-	-	6,154
Claims Payable	-	-	-	-	24,177
Compensated Absences	-	-	135	135	669
Deferred Revenue	-	12,500	1,930	14,430	487
Other Accrued Liabilities	253	-	14,896	15,149	2,481
Total Current Liabilities	1,181	12,501	33,569	47,251	83,846
Long-Term Liabilities:					
Working Capital Advances Payable	-	-	-	-	111
Deferred Revenue	-	87,500	-	87,500	1,033
Certificates of Participation and Other Financing Arrangements	-	-	-	-	17,380
Revenue Bonds Payable	-	-	-	-	171,620
Obligations Under Capital Leases	-	-	-	-	33,937
Claims Payable	-	-	-	-	48,804
Compensated Absences	-	-	-	-	2,720
Total Long-Term Liabilities	-	87,500	-	87,500	275,605
Total Liabilities	1,181	100,001	33,569	134,751	359,451
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	-	-	79,030	79,030	55,254
Restricted for:					
Unemployment Compensation	476,832	-	-	476,832	-
Other Purposes	-	-	-	-	45
Unrestricted	-	(100,001)	24,213	(75,788)	94,512
Total Net Assets	\$ 476,832	\$ (100,001)	\$ 103,243	480,074	\$ 149,811
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.				1,690	
Net Assets of Business-Type Activities				\$ 481,764	

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

**STATE OF MAINE**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	
<b>Operating Revenues:</b>					
Charges for Services	\$ -	\$ 25	\$ 332,546	\$ 332,571	\$ 412,630
Assessments	102,608	-	1,345	103,953	-
Miscellaneous Revenues	3	-	907	910	1,486
Total Operating Revenues	102,611	25	334,798	437,434	414,116
<b>Operating Expenses:</b>					
General Operations	-	-	301,194	301,194	299,520
Depreciation	-	-	3,452	3,452	15,114
Claims/Fees Expense	103,867	-	-	103,867	9,127
Other Operating Expenses	-	-	-	-	320
Total Operating Expenses	103,867	-	304,646	408,513	324,081
Operating Income (Loss)	(1,256)	25	30,152	28,921	90,035
<b>Nonoperating Revenues (Expenses):</b>					
Investment Revenue (Expense) - net	20,663	-	-	20,663	5,241
Interest Expense	-	-	-	-	(16,155)
Other Nonoperating Revenues (Expenses)- net	-	12,500	(393)	12,107	(604)
Total Nonoperating Revenues (Expenses)	20,663	12,500	(393)	32,770	(11,518)
Income (Loss) Before Capital Contributions, Transfers and Special Items	19,407	12,525	29,759	61,691	78,517
<b>Capital Contributions, Transfers and Special Items:</b>					
Capital Contributions from (to) Other Funds	-	-	448	448	3,417
Transfers from (to) Other Funds	(2,113)	(26)	(49,569)	(51,708)	14,267
Special Items	-	-	31,787	31,787	-
Total Capital Contributions, Transfers In (Out) and Special Items	(2,113)	(26)	(17,334)	(19,473)	17,684
Change in Net Assets	17,294	12,499	12,425	42,218	96,201
Total Net Assets - Beginning of Year	459,538	(112,500)	90,818		53,610
Total Net Assets - End of Year	\$ 476,832	\$ (100,001)	\$ 103,243		\$ 149,811
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				1,492	
Changes in Business-Type Net Assets				\$ 43,710	

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

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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	
<b>Cash Flows from Operating Activities</b>					
Receipts from Customers and Users	\$ 105,490	\$ 25	\$ 327,144	\$ 432,659	\$ 438,778
Payments of Benefits	(104,881)	-	-	(104,881)	-
Payments to Prize Winners	-	-	(144,416)	(144,416)	-
Payments to Suppliers	-	1	(116,232)	(116,231)	(311,840)
Payments to Employees	-	-	(34,018)	(34,018)	(39,009)
Net Cash Provided (Used) by Operating Activities	609	26	32,478	33,113	87,929
<b>Cash Flows from Noncapital Financing Activities</b>					
Operating Transfers in	-	-	3,653	3,653	1,127
Operating Transfers out	(2,113)	(26)	(53,222)	(55,361)	13,140
Net Cash Provided (Used) by Noncapital Financing Activities	(2,113)	(26)	(49,569)	(51,708)	14,267
<b>Cash Flows from Capital and Related Financing Activities</b>					
Payments for Acquisition of Capital Assets	-	-	(286)	(286)	(30,144)
Proceeds from Financing Arrangements	-	-	-	-	24,190
Principal and Interest Paid on Financing Arrangements	-	-	-	-	(38,719)
Proceeds from Sale of Capital Assets	-	-	(9)	(9)	-
Net Cash Provided (Used) by Capital Financing Activities	-	-	(295)	(295)	(44,673)
<b>Cash Flows from Investing Activities</b>					
Interest Revenue	20,663	-	(384)	20,279	5,241
Net Cash Provided (Used) by Investing Activities	20,663	-	(384)	20,279	5,241
Net Increase (Decrease) in Cash/Cash Equivalents	19,159	-	(17,770)	1,389	62,764
Cash/Cash Equivalents - Beginning of Year	430,589	-	42,216	472,805	121,623
Cash/Cash Equivalents - End of Year	\$ 449,748	\$ -	\$ 24,446	\$ 474,194	\$ 184,387
<b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities</b>					
Operating Income (Loss)	\$ (1,256)	\$ 25	\$ 30,152	\$ 28,921	\$ 90,035
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>					
Depreciation Expense	-	-	3,452	3,452	15,114
Decrease (Increase) in Assets					
Accounts Receivable	2,897	-	(4,353)	(1,456)	20,398
Interfund Balances	(18)	1	(2,935)	(2,952)	(30,067)
Inventories	-	-	29	29	(424)
Increase (Decrease) in Liabilities					
Accounts Payable	235	-	566	801	(1,912)
Accrued Payroll Expenses	-	-	(84)	(84)	1,168
Change in Compensated Absences	-	-	(248)	(248)	1,860
Other Accruals	(1,249)	-	5,899	4,650	(8,243)
Total Adjustments	1,865	1	2,326	4,192	(2,106)
Net Cash Provided (Used) by Operating Activities	\$ 609	\$ 26	\$ 32,478	\$ 33,113	\$ 87,929
<b>Non Cash Investing, Capital and Financing Activities</b>					
Property Leased, Accrued, or Acquired	-	-	-	-	4,093
Contributed Capital Assets	-	-	448	448	3,417
Decrease of deferred revenue from the sale of liquor operations	-	12,500	-	12,500	-
Special term - Transfer of assets to STAR fund	-	-	31,787	31,787	-

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 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 NextGen College Investing Plan and Maine Health & Higher Educational Facilities Authority, a 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 129.

# STATE OF MAINE

## STATEMENT OF FIDUCIARY NET ASSETS

### FIDUCIARY FUNDS

June 30, 2006  
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
<b>Assets</b>			
Equity in Treasurer's Cash Pool	\$ -	\$ 1,118	\$ 5,605
Cash and Short-Term Investments	171,671	85,069	99
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	28,716	-	-
Loans to Institutions	-	1,090,623	-
Interest and Dividends	28,758	682	-
Due from Brokers for Securities Sold	11,265	-	-
Other	-	888	-
Investments at Fair Value:			
Debt Securities	3,358,480	-	-
Equity Securities	2,446,948	-	-
Common/Collective Trusts	3,570,959	-	-
Restricted Deposits & Investments	-	104,929	-
Other	6,037	134,471	-
Securities Lending Collateral	2,673,921	-	-
Due from other funds	-	5,182	-
Investments Held on Behalf of Others	-	3,988,760	62,774
Capital Assets - Net of Depreciation	3,644	3,379	-
Other Assets	-	19,826	300
Total Assets	<u>12,300,399</u>	<u>5,434,927</u>	<u>68,778</u>
<b>Liabilities</b>			
Accounts Payable	1,096	5,366	164
Due to Other Governments	-	1,513	-
Due to Brokers for Securities Purchased	24,752	-	-
Agency Liabilities	-	-	68,614
Obligations Under Securities Lending	2,673,921	-	-
Bonds Payable	-	1,208,025	-
Deferred Revenue	-	774	-
Other Accrued Liabilities	<u>27,847</u>	<u>26,802</u>	<u>-</u>
Total Liabilities	<u>2,727,616</u>	<u>1,242,480</u>	<u>68,778</u>
<b>Net Assets</b>			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	<u>9,572,783</u>	<u>4,192,447</u>	<u>-</u>
Total Net Assets	<u>\$ 9,572,783</u>	<u>\$ 4,192,447</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, 2006  
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	\$ 153,031	\$ 1,919,484
State and Local Agencies	322,117	-
Investment Income:		
Net Increase (Decrease) in the Fair Value of Investments	518,542	210,464
Capital Gains Distributions from Investments	-	65,811
Interest and Dividends	166,834	95,389
Less Investment Expense:		
Investment Activity Expense	19,283	-
Cost of Securities Lending	909	-
Net Investment Income	665,184	371,664
Bond and Note Proceeds	-	242,769
Received from Institutions	-	95,409
Miscellaneous Revenues	-	21,530
Total Additions	1,140,332	2,650,856
Deductions:		
Benefits Paid to Participants or Beneficiaries	511,197	1,432,171
Construction and Program Costs	-	72,885
Bond Refunding and Refinancing Escrows	-	83,799
Principal Payments on Bonds	-	43,096
Interest Expense	-	54,295
Refunds and Withdrawals	18,940	4,308
Administrative Expenses	9,675	48,455
Transfers Out	-	9,793
Total Deductions	539,812	1,748,802
Net Increase (Decrease)	600,520	902,054
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	8,972,263	3,290,393
End of Year	\$ 9,572,783	\$ 4,192,447

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.

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 Center for the Deaf and Hard of Hearing (formerly 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.

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.

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 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 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.

Maine Technology Institute was established to encourage, promote, stimulate and support research and development activity.

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, 2006  
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Loring Development Authority	Maine Community College System	Maine Educational Center for the Deaf and Hard of Hearing
<b>Assets</b>					
Current Assets:					
Equity in Treasurer's Cash Pool	\$ -	\$ 41,310	\$ -	\$ 2,566	\$ -
Cash and Cash Equivalents	2,454	4,552	799	10	566
Cash with Fiscal Agent	-	-	-	-	-
Investments	-	100,320	-	20,988	-
Inventories	-	-	-	1,192	-
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	-	35	-	-
Other Receivables	51	2,472	185	3,509	18
Due from Other Funds	-	-	-	-	-
Due from Other Governments	-	1,226	-	-	-
Due from Primary Government	1,468	-	647	632	-
Loans receivable from primary government	-	-	-	-	-
Other Current Assets	82	1,984	55	523	1
Total Current Assets	4,055	151,864	1,721	29,420	585
Noncurrent Assets:					
Equity in Treasurer's Cash Pool	-	2,696	-	167	-
Assets Held in Trust	-	-	-	-	3
Restricted Deposits and Investments	-	-	-	585	-
Investments	-	-	-	5,604	698
Receivables, Net of Current Portion:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	117,559	1,134	-	-
Other Receivables	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Due from Primary Government	-	-	-	-	-
Loans receivable from primary government	-	-	-	-	-
Capital Assets - Net of Depreciation	646	1,763	68,515	88,657	223
Other Noncurrent Assets	-	-	-	-	-
Total Noncurrent Assets	646	122,018	69,649	95,013	924
Total Assets	4,701	273,882	71,370	124,433	1,509
<b>Liabilities</b>					
Current Liabilities:					
Accounts Payable	2,092	1,568	78	1,022	237
Accrued Payroll	130	-	-	-	665
Compensated Absences	389	-	39	1,623	134
Due to Other Governments	-	-	3	-	-
Due to Primary Government	618	-	772	-	145
Amounts Held under State & Federal Loan Programs	-	-	-	-	-
Undistributed Grants and Administrative Funds	-	9,472	-	-	-
Allowances for Losses on Insured Commercial Loans	-	6,273	-	-	-
Bonds Payable	-	53	-	-	-
Obligations under Capital Leases	11	-	-	1,000	-
Accrued Interest Payable	-	538	-	-	-
Deferred Revenue	82	1,681	86	1,355	-
Other Current Liabilities	-	48	254	7,056	3
Total Current Liabilities	3,322	19,633	1,232	12,056	1,184
Long-Term Liabilities:					
Due to Other Governments	-	1,108	-	-	-
Amounts Held under State & Federal Loan Programs	-	42,945	-	-	-
Bonds Payable	-	175,330	-	-	-
Obligations under Capital Leases	32	-	-	3,490	-
Deferred Revenue	-	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-	-
Total Long-Term Liabilities	32	219,383	-	3,490	-
Total Liabilities	3,354	239,016	1,232	15,546	1,184
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	603	1,762	68,287	84,752	223
Restricted	577	456	-	14,709	545
Unrestricted	167	32,648	1,851	9,426	(443)
Total Net Assets	\$ 1,347	\$ 34,866	\$ 70,138	\$ 108,887	\$ 325

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

Maine Educational Loan Authority	Maine Maritime Academy	Maine Municipal Bond Bank	Maine Port Authority	Maine State Housing Authority	Maine Technology Institute	Northern New England Passenger Rail Authority	University of Maine System	Totals
\$ -	\$ 785	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,610	\$ 94,271
7,875	636	288	1,380	4,150	8,245	705	8,431	40,091
-	-	-	-	-	2,201	-	-	2,201
-	4,601	18,671	-	384,860	80	-	76,362	605,882
-	486	-	-	-	-	26	-	1,704
5,645	240	-	-	23,582	-	-	-	29,467
-	-	-	-	6	-	-	489	530
1,778	493	1,558	4	15,116	2	140	18,476	43,802
-	-	-	-	-	-	-	10,511	10,511
-	-	117,835	-	3,427	66	210	15,876	138,640
-	-	-	-	-	-	-	-	2,747
-	-	3,915	-	-	-	-	-	3,915
150	982	27,795	-	-	-	948	5,757	38,277
15,448	8,223	170,062	1,384	431,141	10,594	2,029	185,512	1,012,038
-	51	-	-	-	-	-	3,238	6,152
-	-	-	-	-	2,407	-	-	2,410
-	2,624	263,221	-	266,587	-	2,314	61,128	596,459
29,285	11,271	-	-	146,859	-	-	255,230	448,947
57,172	2,487	-	-	1,064,366	62	-	-	1,124,087
-	-	-	654	1,102	-	-	41,114	161,563
343	254	-	-	-	-	-	4,946	5,543
-	-	1,090,344	-	-	-	-	(18)	1,090,326
-	-	-	-	-	-	-	2,495	2,495
-	-	42,353	-	-	-	-	-	42,353
-	19,061	847	17,988	1,531	11	1,086	519,273	719,601
898	5,132	6,067	-	3,156	-	-	19,217	34,470
87,698	40,880	1,402,832	18,642	1,483,601	2,480	3,400	906,623	4,234,406
103,146	49,103	1,572,894	20,026	1,914,742	13,074	5,429	1,092,135	5,246,444
186	2,237	375	519	35,248	157	67	18,283	62,069
-	-	-	-	-	-	-	-	795
-	-	-	-	-	-	11	-	2,196
154	-	468	-	3,419	-	-	-	4,044
-	-	-	-	-	-	-	117	1,652
-	-	30,155	-	-	-	-	-	30,155
-	-	-	-	-	-	-	-	9,472
-	-	-	-	-	-	-	-	6,273
-	119	97,593	-	133,410	-	-	6,382	237,557
-	-	-	-	-	4	-	223	1,238
271	-	8,693	-	8,273	-	-	-	17,775
282	164	4,288	-	30,160	9,259	-	17,964	65,321
-	165	-	-	-	2,407	-	27,771	37,704
893	2,685	141,572	519	210,510	11,827	78	70,740	476,251
1,099	1,710	3,163	-	-	-	-	-	7,080
-	-	-	-	-	-	-	-	42,945
97,361	2,503	983,368	-	1,433,685	-	-	190,190	2,882,437
-	-	-	-	-	4	-	364	3,890
774	-	-	-	-	-	-	-	774
-	-	-	-	-	-	-	79,083	79,083
99,234	4,213	986,531	-	1,433,685	4	-	269,637	3,016,209
100,127	6,898	1,128,103	519	1,644,195	11,831	78	340,377	3,492,460
-	16,494	-	17,988	1,531	-	1,085	379,235	571,960
2,211	17,016	391,665	487	252,739	-	3,106	297,977	981,488
808	8,695	53,126	1,032	16,277	1,243	1,160	74,546	200,536
\$ 3,019	\$ 42,205	\$ 444,791	\$ 19,507	\$ 270,547	\$ 1,243	\$ 5,351	\$ 751,758	\$1,753,984

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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Loring Development Authority	Maine Community College System	Maine Educational Center for the Deaf and Hard of Hearing
<b>Expenses</b>	\$ 27,801	\$ 29,572	\$ 3,488	\$ 96,422	\$ 6,312
<b>Program Revenues</b>					
Charges for Services	4,558	15,449	1,389	22,277	120
Program Investment Income	53	1,676	-	664	-
Operating Grants and Contributions	22,175	20,179	75	25,455	1
Capital Grants and Contributions	-	-	11	6,386	-
Net Revenue (Expense)	(1,015)	7,732	(2,013)	(41,640)	(6,191)
<b>General Revenues</b>					
Unrestricted Investment Earnings	-	-	95	1,135	33
Non-program Specific Grants, Contributions and Appropriations	-	-	930	43,555	6,097
Miscellaneous Income	170	-	21	1,471	259
Gain (Loss) on Assets Held for Sale	-	-	18	300	3
Total General Revenues	170	-	1,064	46,461	6,392
Change in Net Assets	(845)	7,732	(949)	4,821	201
Net Assets, Beginning of the Year (As Restated)	2,192	27,134	71,087	104,066	124
Net Assets, End of Year	\$ 1,347	\$ 34,866	\$ 70,138	\$ 108,887	\$ 325

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

<u>Maine Educational Loan Authority</u>	<u>Maine Maritime Academy</u>	<u>Maine Municipal Bond Bank</u>	<u>Maine Port Authority</u>	<u>Maine State Housing Authority</u>	<u>Maine Technology Institute</u>	<u>Northern New England Passenger Rail Authority</u>	<u>University of Maine System</u>	<u>Totals</u>
\$ 4,419	\$ 22,891	\$ 69,042	\$ 2,188	\$ 204,397	\$ 8,023	\$ 10,547	\$ 600,012	\$ 1,085,114
3,523	11,768	50,369	125	72,359	49	5,068	242,316	429,370
1,216	904	(3,113)	-	21,032	-	-	-	22,432
-	1,888	4,416	93	126,864	7,724	5,942	182,420	397,232
-	1,421	37,193	505	-	-	975	4,746	51,237
320	(6,910)	19,823	(1,465)	15,858	(250)	1,438	(170,530)	(184,843)
-	261	403	37	509	473	112	9,197	12,255
-	8,327	-	-	-	-	-	206,046	264,955
-	616	924	-	-	148	-	2,821	6,430
-	(20)	-	-	-	-	-	-	301
-	9,184	1,327	37	509	621	112	218,064	283,941
320	2,274	21,150	(1,428)	16,367	371	1,550	47,534	99,098
2,699	39,931	423,641	20,935	254,180	872	3,801	704,224	1,654,886
<u>\$ 3,019</u>	<u>\$ 42,205</u>	<u>\$ 444,791</u>	<u>\$ 19,507</u>	<u>\$ 270,547</u>	<u>\$ 1,243</u>	<u>\$ 5,351</u>	<u>\$ 751,758</u>	<u>\$ 1,753,984</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 benefits the State exclusively, or almost exclusively. 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. Component units that are not material to the State's financial statements have not been included. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. Because of their nature, two of the 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 material discrete and fiduciary 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 Maine Educational Center for the Deaf and Hard of Hearing* 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. In 2006, the School changed its name from Governor Baxter School for the Deaf. 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 six of the Authority's seven commissioners who must be residents of the State. The remaining member must be the Treasurer of State, *ex officio*. 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 Financial

Institutions, *ex officio*; one of whom must be the Commissioner of Health and 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 or eligible borrowers as designated by the Legislature (the "governmental units") within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners. The remaining two members include the Treasurer of State and Superintendent of Financial Institutions who serve as commissioners, *ex officio*.

*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 remaining two commissioners are the Treasurer of State, *ex officio*, and the Director of the Maine State Housing Authority, *ex officio*. 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 267 local municipalities and other public entities in Maine. The Governor appoints four of the Board's eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

*The Maine Technology Institute*, a nonprofit corporation which commenced operations in November 1999, was established to encourage, promote, stimulate, and support research and development activity leading to commercialization of new products and services in the State's technology intensive sectors. The Governor appoints ten of the Board's twelve voting directors. The Commissioner of Economic and Community Development, President of the Maine Community College System and the Chancellor of the University of Maine System are ex officio voting directors.

*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 five of the seven voting members of the Authority. The Commissioner of Transportation and Commissioner of Economic and Community Development are both directors, ex officio.

*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

Maine Educational Center for the Deaf  
and Hard of Hearing  
One 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  
Pleasant Street  
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

Maine Technology Institute  
405 Water St, Ste 300  
Gardiner, ME 04345

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 04401-5106

of net assets reports \$649.3 million of restricted net assets, of which \$31.9 million is restricted by enabling legislation.

**Unrestricted net assets** consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

### 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. The government-wide statement

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.

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 they mature or become due for payment within the period.

## 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. An example is funds for acquisition of public reserved lands.

*Capital Projects Funds* account for the acquisition or construction of major capital assets and other programs financed by 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 \$177 million of Workers' Compensation,

\$41 million of Bureau of Insurance, and \$26 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

### **Restricted Deposits and Investments**

Restricted deposits and investments include: unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Governmental Facilities Authority, a blended component unit that has been independently audited; unspent bond proceeds, and funds 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. Receivables that are due from related providers for interim payments are \$247 million, net of an allowance for uncollectible amounts of \$21.3 million.

### **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 and the amount the General Fund owes the Escheat Fund.

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 operations, 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. The estimate at June 30, 2006 is \$520 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 unmatured 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.

*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 MRSA § 1665, subsection 1, plus the average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee.

This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses

in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits.

The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of, this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

**Budget Stabilization Fund**

The Maine Budget Stabilization Fund, established in 2003 in Chapter 451, Public Laws 2003 to replace the Maine Rainy Day Fund, is a designation included in the negative \$355.4 million unreserved General Fund fund balance 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 third priority before any other transfer, the State Controller is required to transfer 35% 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 2006.

The statutory cap for the fund is 12% 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 2006 actual General Fund revenue, the statutory cap at the close of fiscal year 2006 and during fiscal year 2006 was \$352.2 million. At the close of fiscal year 2006, the balance of the Maine Budget Stabilization Fund was \$79.9 million. No reductions to the Maine Budget Stabilization Fund

balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

**Budget Stabilization  
Fund Activity**  
(Expressed in Thousands)

Balance, beginning of year	\$ 47,071
Increase in fund balance	<u>32,832</u>
Balance, end of year	<u>\$ 79,903</u>

**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, 2006, the legislature approved \$218 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 2006, the State implemented the Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section*. The statement established and modified requirements related to the supplementary information presented in the statistical section of this report. The objectives of statistical section information are to provide financial statement users with additional historical perspectives, context, and detail to assist in using the information in the financial statements.

During fiscal year 2006, the State also implemented the following GASB Statements:

No. 42 – *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

No. 46 – *Net Assets Restricted by Enabling Legislation*

No. 47 – *Accounting for Termination Benefits*

**Changes in Accounting Principle**

The State has made a change in its accrual for incurred but not paid (IBNP) Medicaid claims settlements, which are actuarially estimated. The estimate at June 30, 2006 was \$520 million. Receivables that were due from related providers for interim payments are \$247.4 million, net of an allowance for uncollectible amounts. In fiscal year 2005, these amounts were recorded as a net

liability of \$194 million, as the receivable amount could not be readily determined. In fiscal year 2006, the providers have agreed in theory to amounts owed to the State, and strides are being made in collections. There was no impact on fund balance as a result of this change.

#### **Changes in Classification**

The State recorded certain grants received by the Department of Transportation for \$183.7 million as operating grants and contributions in the current year. In the prior year \$172.6 million had been recorded as capital grants and contributions.

In prior years, the Maine Budget Stabilization Fund was reported as a General Fund fund balance reservation. Since GASB clarified its definition of fund balance reservations, the State reclassified it as part of the designated fund balance which is included in the unreserved fund balance.

#### **Change in Accounting Estimate**

The State has made a change in accounting estimate for allowance for doubtful accounts related to amounts receivable from healthcare providers for audit settlements. Due to many of the accounts being more than one year old, an estimate of \$31 million was

recorded in fiscal year 2006, and none in fiscal year 2005.

#### **Restatement – Primary Government**

The beginning general fund balance was reduced by \$137.3 million to reflect a change in recognizing individual and corporate income taxes and sales and use taxes. Revenues are considered available if collected within 60 days of year-end. The State had reported revenues as available if collected within 12 months of year-end. The change was made to more accurately reflect financial resources available to pay liabilities of the current period. Beginning general fund balance was increased by \$2.3 million for a revenue recognition item. The beginning net assets on the Governmental Activities in the Statement of Net Assets were increased \$23.2 million for assets that should have been capitalized in the prior period.

Beginning net assets in the governmental funds balance sheet, special revenue fund, increased by \$1.6 million to correct errors in reported federal revenue.

#### **Restatement – Component Units**

Beginning net assets on the Statement of Activities increased \$869 thousand with the inclusion of Maine Technology Institute as a reported component unit.

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

Four internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2006. The Workers' Compensation Fund reported a deficit of \$29 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of \$4 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of \$101 thousand because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. The Financial & Personnel Services Fund had a fund balance deficit of \$1.2 million because rates charged were insufficient to cover expenses incurred. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of \$100 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The General Fund shows a deficit fund balance of \$177.6 million at June 30, 2006 and a deficit of \$88.6 million at June 30, 2005, as restated. The change in recognizing incomes, sales, and fuel taxes to 60 days from one year decreased the beginning fund balance by \$137.3 million. Also as a result of the change in revenue recognition, accrued Medicaid liabilities reflect the total amounts owed, but revenues that will finance these amounts are only for 60 days. The Medicaid liabilities are expected to be paid in the ensuing year.

**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 (MRSA). Per 5 MRSA § 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 MRSA § 138. The Treasurer, with the

approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions and the Attorney General, shall invest the funds in securities that are legal investments in accordance with Title 9-B, MRSA. The investments need not be segregated to the separate trusts, but the identity of each trust must be maintained. The Treasurer may enter into custodial care and servicing contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

No amounts exceeding 25% 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, 2006 consisted of:

<b>Primary Government Deposits and Investments</b> <b>(Expressed in Thousands)</b>					
	<b>Governmental</b>	<b>Business-</b>	<b>Private</b>	<b>Agency</b>	
	<b><u>Activities</u></b>	<b><u>Type</u></b>	<b><u>Purpose</u></b>	<b><u>Funds</u></b>	<b><u>Total</u></b>
		<b><u>Activities</u></b>	<b><u>Trusts (1)</u></b>		
Equity in Treasurer's Cash Pool	\$570,088	\$ 23,689	\$ 1,118	\$ 5,605	\$ 600,500
Cash and Cash Equivalents	277	757	-	72	1,106
Cash with Fiscal Agent	21,400	-	-	27	21,427
Investments	70,790	-	10,654	-	81,444
Restricted Equity in Treasurer's Cash Pool	16,858	-	-	-	16,858
Restricted Deposits and Investments	23,802	449,748	-	-	473,550
Investments Held on Behalf of Others	-	-	3,988,760	62,774	4,051,534
Other Assets	-	-	16,287	300	16,587
Total Primary Government	\$703,215	\$474,194	\$4,016,819	\$68,778	\$5,263,006

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, 2006:

	Maturities in Years (Expressed in Thousands)							
	<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>	<u>Fair Value</u>	
<i>Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds</i>								
US Instrumentalities	\$ 63,945	\$ 28,381	\$ -	\$ -	\$ -	\$ -	\$ 92,326	
US Treasury Notes	8,599	8,359	-	-	-	-	16,958	
Repurchase Agreements	25,026	-	-	-	-	-	25,026	
Corporate Notes and Bonds	2,525	1,499	-	-	-	-	4,024	
Commercial Paper	192,208	-	-	-	-	-	192,208	
Certificates of Deposit	11,398		-	-	-	-	11,398	
Money Market	291,387	-	-	-	-	-	291,387	
Cash and Cash Equivalents	-	-	-	-	-	2,145	2,145	
Unemployment Fund Deposits with US Treasury	-	-	-	-	-	449,748	449,748	
<i>Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds</i>								
US Instrumentalities	922	4,930	2,372	1,800	3,931	4	13,959	
US Treasury Notes	6,415	13,930	5,690	7,048	3,640	-	36,723	
Repurchase Agreements	26	-	-	-	-	-	26	
Corporate Notes and Bonds	680	6,994	800	306	1,781	-	10,561	
Other Fixed Income Securities	-	107	199	-	-	-	306	
Commercial Paper	2,116	-	-	-	-	-	2,116	
Certificates of Deposit	125	-	-	-	-	-	125	
Money Market	3,208	-	-	-	-	4,164	7,372	
Cash and Cash Equivalents	-	-	-	-	-	26,827	26,827	
Equities	-	-	-	-	-	52,986	52,986	
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11</u>	<u>11</u>	
	\$ 608,580	\$ 64,200	\$ 9,061	\$ 9,154	\$ 9,352	\$ 535,885	\$ 1,236,232	
NextGen College Investing Plan							3,988,760	
Other Assets							16,587	
Cash with Fiscal Agent							<u>21,427</u>	
Total Primary Government							<u>\$ 5,263,006</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, 2006 is presented below:

Standard & Poor's Credit Rating (Expressed in Thousands)									
	<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>	<u>Total</u>
<i>Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds</i>									
US Instrumentalities	\$ -	\$ -	\$ -	\$ -	\$ 92,326	\$ -	\$ -	\$ -	\$ 92,326
US Treasury Notes	-	-	-	-	16,958	-	-	-	16,958
Corporate Notes and Bonds	-	-	-	2,525	1,499	-	-	-	4,024
Commercial Paper	158,363	-	-	-	-	-	-	33,845	192,208
Money Market	-	-	-	-	-	-	-	291,387	291,387
<i>Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds</i>									
US Instrumentalities	-	-	98	-	4,042	-	-	9,819	13,959
US Treasury Notes	-	-	-	-	36,373	-	-	350	36,723
Corporate Notes and Bonds	-	3,973	895	27	1,757	118	740	3,051	10,561
Commercial Paper	1,743	-	-	-	-	-	-	373	2,116
Money Market	-	-	-	-	-	-	-	7,372	7,372
Other Fixed Income Securities	-	-	180	-	-	-	-	126	306
Total Primary Government	<u>\$ 160,106</u>	<u>\$ 3,973</u>	<u>\$ 1,173</u>	<u>\$ 2,552</u>	<u>\$ 152,955</u>	<u>\$ 118</u>	<u>\$ 740</u>	<u>\$ 346,323</u>	<u>\$ 667,940</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, 2006, more than 5% of the cash pool's investments were in FHLB, Citizens Bank, and TD Banknorth. These investments are \$45.5 million (5.8%), \$205 million (26.3%), and \$174.4 million (22.4%), 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 \$13.7 million invested in non-negotiable certificates of deposit, \$6.9 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, 2006 was \$59.5 million and was comprised of the following investments (in thousands):

U.S. Instrumentalities	\$ 7,794
US Treasury Notes	4,107
Corporate Notes and Bonds	5,049
Other fixed Income Securities	306
Equities	40,411
Cash and Equivalents	1,801
Other	11
Total	<u>\$ 59,479</u>

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to the vendors. During fiscal year 2006, these disbursements, on average, exceeded \$157 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

#### MAINE 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.

*Securities Lending* - 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. All securities and loans can be terminated on demand by either the lender or the borrower.

Cash open collateral is invested in a short-term investment pool, the Global Core Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2006, all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2006 were \$3.1 billion and \$3.1 billion, respectively. These amounts include assets of the State and local participating entities plans.

#### NEXTGEN COLLEGE INVESTING PLAN

The Maine College Savings Program Fund (the Fund) doing business as NextGen College Investing Plan (the Program), was established in accordance

with Title 20-A MRSA §11473, to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a Qualified State Tuition Program under Section 529 of the Internal Revenue Code.

The statute authorizes the Finance Authority of Maine ("FAME") to administer the Program and act as administrator of the Fund. The Fund is held by the Treasurer of the State who invests it under the direction of and with the advice of a seven member Advisory Committee on College Savings, which is chaired by the Treasurer. 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 47 different investment portfolios which are reported at fair value and total \$4 billion at June 30, 2006.

*Custodial Credit Risk* - NextGen, in accordance with its Program Description, primarily invests in open-end mutual funds, which, according to GASB Statement No. 40, do not bear custodial credit risk; hence, the Program's exposure to custodial credit risk arising from its investment in mutual funds is considered to be insignificant.

The Program makes some investments in entities which are not mutual funds including a Guaranteed Investment Contract (GIC) issued by Transamerica Life Insurance Company in the Principal Plus Portfolio. Because an investment in a GIC represents a contractual investment rather than a security, it is not deemed to be subject to custodial credit risk.

The Program also invests in the Cash Allocation Account (the Account), a separate account that was established by FAME. All of the Account investments are held in either the name of the Account or the Account Agent's name, thereby minimizing the custodial credit risk.

*Credit Risk* - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2006 was \$50.9 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, 2006 was \$219.9 million.

*Concentration of Credit Risk* – The Program has not established an investment policy that specifically limits its exposure to concentration of credit risk because the Program principally invests in mutual funds which have been excluded by GASB Statement No. 40 from its concentration of disclosure risk requirements. 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	\$ 50,988
Cash Allocation Account	219,905
Fixed Income Securities	<u>758,970</u>
Total Fair Value	<u>\$1,029,863</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 16 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 \$100.4 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 \$17.5 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	\$ 525,545	\$ 184,233	\$ 1	\$ (190,882)	\$ 518,897
Highway	28,129	2,572	80	(6,505)	24,276
Federal	-	222,156	-	(23,032)	199,124
Other Special Revenue	13,466	71,757	4,952	(5,719)	84,456
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	567,140	480,718	5,033	(226,138)	826,753
Allowance for Uncollectibles	(141,290)	(84,101)	(747)	-	-
Net Receivables	<u>\$ 425,850</u>	<u>\$ 396,617</u>	<u>\$ 4,286</u>		<u>\$ 826,753</u>
<b>Proprietary Funds:</b>					
Employment Security	\$ -	\$ 35,881	\$ -	\$ (7,642)	\$ 28,239
Alcoholic Beverages	-	6	-	(6)	-
Nonmajor Enterprise	-	25,825	-	(529)	25,296
Internal Service	-	7,833	186,215	-	194,048
Total Proprietary Funds	-	69,545	186,215	(8,177)	247,583
Allowance for Uncollectibles	-	(8,177)	-	-	-
Net Receivables	<u>\$ -</u>	<u>\$ 61,368</u>	<u>\$ 186,215</u>		<u>\$ 247,583</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	\$ 2,472	\$ -	\$ 121,121	\$ (3,562)	\$ 120,031
Maine Educational Loan Authority	2,121	64,124	-	(1,307)	64,938
Maine State Housing Authority	15,116	1,098,036	1,201	(10,181)	1,104,172
University of Maine System	25,906	-	42,220	(3,101)	65,025

**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, 2006 were:

**Interfund Receivables**  
(Expressed in Thousands)

<b>Due to Other Funds</b>				
<u><b>Due from Other Funds</b></u>	<u><b>General</b></u>	<u><b>Highway</b></u>	<u><b>Federal Fund</b></u>	<u><b>Other Special Revenue</b></u>
General	\$ -	\$ -	\$ 3,294	\$ -
Highway	-	-	1,494	-
Federal	17,611	9	46	2,082
Other Special Revenue	546	187	459	432
Employment Security		-	26	-
Non-Major Enterprise	2	30	6,716	2
Internal Service	8,732	2,828	2,820	1,259
Fiduciary	<u>5,182</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$32,073</u>	<u>\$3,054</u>	<u>\$14,855</u>	<u>\$3,775</u>

<u><b>Due from Other Funds</b></u>	<u><b>Alcoholic Beverages</b></u>	<u><b>Non-Major Enterprise</b></u>	<u><b>Internal Service</b></u>	<u><b>Total</b></u>
General	\$ 1	\$10,849	\$4,531	\$18,675
Highway	-	-	218	1,712
Federal	-	-	218	19,966
Other Special Revenue		19	351	1,994
Employment Security	-	-	-	26
Non-Major Enterprise			36	6,786
Internal Service	-	397	552	16,588
Fiduciary	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,182</u>
Total	<u>\$ 1</u>	<u>\$11,265</u>	<u>\$5,906</u>	<u>\$70,929</u>

Not included in the table above are the following interfund loans/advances, which are not expected to be repaid within one year. Postal, Printing & Supply (an

internal service fund) owes \$111 thousand to the General Fund for operating capital.

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 2006, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The General Fund transferred \$13.5 million to other funds for the following purposes: \$2.3 million to the Other Special Revenue Fund for the Fund for a Healthy Maine, \$8.8 million to the Federal Fund for federal audit settlements within the Department of Health and Human Services, and \$2.4 million to the Other Special Revenue Fund for the Clean Election fund.

The Other Special Revenue Fund transferred \$7.3 million to the unappropriated surplus of the General Fund.

The Dirigo Health Fund transferred \$1.1 million to the unappropriated surplus of the General Fund.

Interfund transfers for the year ended June 30, 2006, 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	\$ -	\$ -	\$ 263	\$28,938	\$ -
Highway	1,751	-	-	-	-
Federal	9,740	-	-	19,591	-
Other Special Revenue	138,188	-	13,518	-	4,131
Other Governmental Funds	676	-	-	-	-
Employment Security	-	-	-	-	-
Non-Major Enterprise	617	3,586	20	218	-
Internal Service	13,951	-	-	317	-
Fiduciary	-	-	-	-	-
Total	<u>\$164,923</u>	<u>\$3,586</u>	<u>\$13,801</u>	<u>\$49,064</u>	<u>\$4,131</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	\$ 26	\$ -	\$51,986	\$ -	\$9,699	\$ 90,912
Highway	-	-	-	-	-	1,751
Federal	-	2,113	27	-	-	31,471
Other Special Revenue	-	-	1,997	1	94	157,929
Other Governmental Funds	-	-	-	-	-	676
Employment Security	-	-	-	-	-	-
Non-Major Enterprise	-	-	244	-	-	4,685
Internal Service	-	-	-	-	-	14,268
Fiduciary	-	-	-	-	-	-
Total	<u>\$ 26</u>	<u>\$2,113</u>	<u>\$54,254</u>	<u>\$ 1</u>	<u>\$9,793</u>	<u>\$301,692</u>

**NOTE 8 - CAPITAL ASSETS**

The following schedule details changes in capital assets activities of the primary government for the fiscal year for the governmental activities and business-type ended June 30, 2006:

**Primary Government - Capital Assets**  
(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	\$ 383,348	\$ 41,795	\$31,074	\$ 394,069
Construction in progress	26,025	16,837	28,335	14,527
Infrastructure	<u>2,636,582</u>	<u>224,940</u>	<u>-</u>	<u>2,861,522</u>
Total capital assets not being depreciated	3,045,955	283,572	59,409	3,270,118
Capital assets being depreciated:				
Buildings	476,315	33,112	2,546	506,881
Equipment	226,825	45,486	18,304	254,007
Improvements other than buildings	<u>25,022</u>	<u>1,834</u>	<u>9,623</u>	<u>17,233</u>
Total capital assets being depreciated	<u>728,162</u>	<u>80,432</u>	<u>30,473</u>	<u>778,121</u>
Less accumulated depreciation for:				
Buildings	115,209	14,931	876	129,264
Equipment	157,675	21,665	12,527	166,813
Improvements other than buildings	<u>9,632</u>	<u>1,727</u>	<u>9,331</u>	<u>2,028</u>
Total accumulated depreciation	<u>282,516</u>	<u>38,323</u>	<u>22,734</u>	<u>298,105</u>
Total capital assets being depreciated net	<u>445,646</u>	<u>42,109</u>	<u>7,739</u>	<u>480,016</u>
Governmental Activities Capital Assets net	<u>\$ 3,491,601</u>	<u>\$ 325,681</u>	<u>\$ 67,148</u>	<u>\$ 3,750,134</u>
<b>Business-Type Activities:</b>				
		<u>Net Additions</u>	<u>Net Deletions</u>	
Capital assets not being depreciated:				
Land	\$ 7,304	\$30,857	\$ -	\$ 38,161
Construction in progress	<u>708</u>	<u>217</u>	<u>-</u>	<u>925</u>
Total capital assets not being depreciated	8,012	31,074	-	39,086
Capital assets being depreciated:				
Buildings	8,747	575	-	9,322
Equipment	19,904	405	89	20,220
Improvements other than buildings	<u>51,410</u>	<u>9,808</u>	<u>-</u>	<u>61,218</u>
Total capital assets being depreciated	<u>80,061</u>	<u>10,788</u>	<u>89</u>	<u>90,760</u>
Less accumulated depreciation	<u>38,112</u>	<u>12,745</u>	<u>41</u>	<u>50,816</u>
Total capital assets being depreciated, net	<u>41,949</u>	<u>(1,957)</u>	<u>48</u>	<u>39,944</u>
Business-Type Activities Capital Assets, net	<u>\$ 49,961</u>	<u>\$29,117</u>	<u>\$ 48</u>	<u>\$ 79,030</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	\$ 71
Business Licensing and Regulation	309
Economic Development and Workforce Training	1,009
Education	249
Governmental Support and Operations	6,237
Health and Human Services	5,216
Justice and Protection	10,004
Natural Resources Development and Protection	4,139
Transportation Safety and Development	<u>11,090</u>
Total Depreciation Expense – Governmental Activities	<u>\$38,324</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 MRSA 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, 2006 may be obtained from the Maine State Retirement System, 46 State House Station, Augusta, ME 04333.

The System provides pension, disability, and survivor benefits to its members and their beneficiaries, 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. These 270 entities each

contract for participation in the System under provisions of relevant statutes.

At June 30, 2006, the membership consisted of:

Active vested and nonvested members	52,282
Terminated vested participants	7,141
Retirees and benefit recipients	<u>32,918</u>
Total	<u>92,341</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 disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

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 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 statements include \$2 billion of assets related to the participating local entities. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

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 11 years remained at June 30, 2006.

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 20% of its General Fund unappropriated surplus to the System at year end. For fiscal 2006, this additional contribution was approximately \$17.5 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 2006 for participating entities are:

<u>State:</u>	
Employees <sup>1</sup>	7.65-8.65%
Employer <sup>1</sup>	15.09-45.94%
<u>Teachers:</u>	
Employees	7.65%
Employer	17.23%
<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 participating local districts (PLDs), on benefit plan options selected by a particular participating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

#### ANNUAL PENSION COST AND NET PENSION OBLIGATION

The State is one of several employers whose employees are System members. The State's net pension obligation shown at the end of the year includes the pension liability related to its employees. It does not include the pension liability related to 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	\$286,439
Interest on net pension obligation	2,739
Adjustment to annual required contribution	(1,925)
Annual pension cost	287,253
Contributions made	303,439
Increase (decrease) in net pension obligation	(16,186)
Net pension obligation beginning of year	34,236
Net pension obligation end of year	<u>\$ 18,050</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>
2006	\$287,253	105.63%	\$18,050
2005	262,874	104.50%	34,236
2004	253,282	107.98%	46,060

The annual required contribution for the current year was determined as part of the June 30, 2006 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 7.75% return on investments, and (b) projected salary increases of 4.75% to 10 % per year, including cost of living. The assumptions include post retirement benefit increases of 3.75% 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 24 year period from June 30, 2004. 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 participating local entity participants in plans administered by the Maine State Retirement System. Employees of the Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, and the Northern New England Passenger Rail Authority are 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 MRSA § 285, and for a portion of the premiums for teachers, as authorized by 20-A MRSA § 13451. Pursuant to 5 MRSA § 285 most retired employees of the Maine Turnpike Authority, Maine Community College System, Maine Maritime Academy, Maine State Retirement System, and Maine Educational Center for the Deaf and Hard of Hearing are eligible to participate in the health plan but are not funded by the State. Specifically excluded (5 MRSA § 285 1-B) are members of the Maine Municipal Association, 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 January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent.

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 45 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, 2006, there were 9,107 retired eligible State employees and 7,081 retired teachers. In fiscal year 2006, the State paid into the Retiree Health Insurance Fund \$71.1 million for retired employees and \$12.0 million for retired teachers. Premium charges paid were \$39.1 million and \$14.1 million, respectively. Overall, Net Assets increased by \$54.2 million to \$61.8 million at June 30, 2006 as a result of an increase in cash of \$22 million, and a decrease in amounts due to other funds of \$30 million. The increase in cash relates to a premium increase in anticipation of the implementation of GASB Statement No. 45. The decrease in amounts due to other funds is due to legislation in fiscal year 2005 that required the transfer of certain excess equity amounts to the General Fund Compensation and Benefit Plan account. This was not required in fiscal year 2006.

Under current accounting standards, GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*, the State has an actuarial accrued liability at June 30, 2006 for postretirement benefits of \$2.6 billion.

The GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. These Statements, which will be implemented by the State for the fiscal year beginning July 1, 2006 and July 1, 2007, respectively, will require that the long-term cost of retirement health care and other obligations for postemployment benefits be determined on an actuarial basis and reported in a manner similar to pension plans. An actuarial study was completed to determine the actuarial accrued liability as of June 30, 2006. The study determined the liability if funded at transition of \$3.2 billion, or \$4.8 billion if not funded at transition. GASB Statement No. 45 does not mandate the prefunding of postemployment benefit liabilities; however, any prefunding of these benefits will help minimize the obligation required to be reported on the financial statements. The Legislature is currently considering the creation of a trust fund and various funding alternatives.

**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, 2006, claims totaled \$1.9 million for retired State employees and \$1.6 million for retired teachers. The number of participants eligible to receive benefits at fiscal year end was 6,996 retired State employees and 5,024 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.

bonds include: adaptive equipment loan programs; environmental cleanup and protection; highway and transportation related projects; agricultural and small business job creation; and acquisition, construction, and renovation of major capital facilities including State parks and historic sites. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues and are repaid in annual installments beginning not more than one year after issuance.

**GENERAL OBLIGATION BONDS**

Programs for which the State issues general obligation

Changes in general obligation bonds of the primary government during fiscal year 2006 were:

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

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
General Obligation Debt:					
General Fund	\$439,110	\$52,390	\$57,915	\$433,585	\$69,280
Special Revenue Fund	47,825	-	13,950	33,875	10,415
Self Liquidating	160	-	70	90	70
Total	<u>\$487,095</u>	<u>\$52,390</u>	<u>\$71,935</u>	<u>\$467,550</u>	<u>\$79,765</u>

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

primary government, from June 30, 2006 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>
2007	\$ 79,765	\$ 18,755	\$ 98,520
2008	70,901	15,529	86,430
2009	62,675	12,626	75,301
2010	56,875	9,910	66,785
2011	51,525	7,409	58,934
2012-2016	<u>145,809</u>	<u>11,864</u>	<u>157,673</u>
Total	<u>\$467,550</u>	<u>\$ 76,093</u>	<u>\$543,643</u>

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2006 are as follows:

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

	<b><u>Fiscal Year Maturities</u></b>				
	<b><u>Amounts Issued</u></b>	<b><u>Outstanding 6/30/2006</u></b>	<b><u>First Year</u></b>	<b><u>Last Year</u></b>	<b><u>Interest Rates</u></b>
General Fund:					
Series 1991	\$109,625	\$ 3,770	1994	2007	5.70% - 8.95%
Series 1997	37,700	2,680	1998	2007	4.875% - 7.125%
Series 1998	54,500	10,410	1999	2008	4.20% - 6.50%
Series 1999	54,385	11,615	2000	2009	4.20% - 6.75%
Series 2000	66,290	22,420	2000	2010	4.875% - 7.75%
Series 2001	22,050	10,525	2002	2011	4.00% - 6.08%
Series 2002	27,610	16,560	2003	2012	3.00% - 5.75%
Series 2003	97,080	67,945	2003	2013	1.50% - 5.00%
Series 2004	117,275	97,745	2005	2014	2.00% - 5.27%
Series 2005	137,525	137,525	2006	2015	2.00% - 5.27%
Series 2006	52,390	<u>52,390</u>	2007	2016	4.00% - 5.51%
Total General Fund		<u>\$ 433,585</u>			
Special Revenue Fund:					
Series 1991	26,500	\$ 1,865	1994	2007	5.70% - 7.875%
Series 1997	5,000	500	1998	2007	4.30% - 5.00%
Series 1998	30,000	6,000	1999	2008	4.00% - 5.25%
Series 1999	16,900	5,070	2000	2009	4.00% - 5.50%
Series 2001	19,225	9,600	2002	2011	4.00% - 5.00%
Series 2004	13,000	<u>10,840</u>	2005	2014	2.00% - 4.00%
Total Special Revenue		<u>\$ 33,875</u>			
Self Liquidating:					
Maine Veteran's Home	1,700	<u>\$90</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, 2006, general obligations bonds authorized and unissued totaled \$97.1 million.

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

The State included \$186.2 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; 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 \$263.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2006, the Authority issued the Series 2005 Bonds, which totaled \$8.9 million at an interest rate between 4% - 5%. At June 30, 2006, there were approximately \$79.9 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, 2006:

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

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
MGFA Revenue Bonds	\$ 189,570	\$ 8,890	\$ 12,245	\$ 186,215	\$ 14,595
COP's and Other Financing Arrangements	36,865	17,100	17,384	36,581	11,003
Compensated Absences	40,246	5,811	4,731	41,326	669
Claims Payable	185,463	88,898	201,380	72,981	24,177
Capital Leases	39,905	6,019	5,833	40,091	6,154
Pledged Future Revenues	49,423	-	3,155	46,268	3,915
Net Pension Obligation	<u>34,236</u>	<u>-</u>	<u>16,186</u>	<u>18,050</u>	<u>-</u>
Total Governmental Activities	<u>\$ 575,708</u>	<u>\$ 126,718</u>	<u>\$ 260,914</u>	<u>\$ 441,512</u>	<u>\$ 60,513</u>
<b>Business-Type Activities:</b>					
Compensated Absences	\$ 383	\$ -	\$ 248	\$ 135	\$ 135
Total Business-Type Activities	<u>\$ 383</u>	<u>\$ -</u>	<u>\$ 248</u>	<u>\$ 135</u>	<u>\$ 135</u>

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

government, from June 30, 2006 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</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 5,864	\$ 472	\$ 6,336	\$ 19,734	\$ 8,638	\$ 28,372
2008	3,833	309	4,142	20,955	8,610	29,564
2009	2,065	164	2,229	20,634	7,272	27,906
2010	1,010	84	1,094	18,911	6,417	25,329
2011	630	46	676	14,150	5,669	19,819
2012 - 2016	660	17	677	65,115	19,736	84,851
2017 - 2021	-	-	-	46,890	5,562	52,452
2022 - 2026	-	-	-	2,345	124	2,469
Total	<u>\$14,062</u>	<u>\$1,091</u>	<u>\$15,153</u>	<u>\$208,734</u>	<u>\$62,029</u>	<u>\$270,763</u>

#### SHORT TERM OBLIGATIONS

The State of Maine issued and retired \$124 million in Tax Anticipation Notes and \$46.2 million in Bond Anticipation Notes during fiscal year 2006. Short term obligations are used to meet temporary cash flow operating needs. At June 30, 2006 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, 2006, the lease agreements outstanding totaled \$1.7 million.

#### PLEDGED FUTURE REVENUES

On December 16, 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 \$900 thousand. The bonds payable bear interest rates from 2.5% to 5%, 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 \$175 million. Total federal transportation funds received in federal fiscal year 2006 were \$167 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, 2006 capital assets include \$63.7 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of \$27.6 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, 2006:

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

<b>Fiscal Year</b>	<b>Capital Leases</b>	<b>Operating Leases</b>
2007	\$ 6,154	\$ 1,328
2008	5,866	1,003
2009	5,454	819
2010	5,034	483
2011	4,779	320
2012-2016	16,291	1,143
2017-2021	6,080	378
2022-2026	205	-
2027-2030	40	-
Total Minimum Payments	49,903	<u>\$ 5,474</u>
Less: Amount Representing Interest	<u>9,812</u>	
Present Value of Future Minimum Payments	<u>\$ 40,091</u>	

#### **MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS**

MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for 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**

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 ABSENCES**

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 - 3.90%	175,383	2003 - 2035
Maine Municipal Bond Bank	1.0 - 10.25%	1,080,961	1991 - 2036
Maine Educational Loan Authority	3.16 - 3.20%	97,361	2009 - 2039
Maine State Housing Authority	1.80 - 6.45%	1,567,095	2006 - 2039
University of Maine System	2.0 - 5.75%	196,572	2000 - 2035

#### Fiduciary Component Units Bonds Outstanding

(Expressed in Thousands)

Maine Health & Higher Educational Facilities Authority	2.0 - 7.3%	1,208,025	1988 - 2043
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Between December 29, 2005 and May 18, 2006, the Maine Health and Higher Educational Facilities Authority issued \$136.7 million in Series 2005B, 2006B, 2006C, and 2006D bonds with an average interest rate of 4.04%, 4.81%, 3.51%, and 3.50% respectively, a portion of which was used to refund \$77.9 million of outstanding bonds. Approximately \$751 thousand in issuance costs were paid. Total interest payments over the next 8 to 20 years were reduced by approximately \$8.3 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, 2006, there were approximately \$68 million of advance refunded bonds remaining outstanding.

On November 3, 2005, the University of Maine System issued 2005 Series A Revenue Bonds, \$9.2 million of which was used to advance refund \$8.8 million of outstanding bonds. The refunding resulted in a deferred amount on refunding of \$580 thousand, of which the unamortized balance was \$530 thousand as of June 30, 2006. Total interest payments over the next 26 years were reduced by \$550 thousand, and an economic gain of \$400 thousand was obtained. At June 30, 2006, \$8.7 million of advance refunded bonds remained outstanding.

Debt service principal maturities for outstanding bonds of the discretely presented component units, from June 30, 2006 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>
2007	\$ 53	\$ 98,510	\$ -	\$ 133,515	\$ 6,318	\$ 38,596
2008	53	97,999	-	36,695	7,017	43,659
2009	54	93,003	-	39,230	6,916	45,115
2010	54	88,786	11,615	40,135	7,292	45,755
2011	55	86,370	-	308,662	7,585	47,365
2012-2016	283	329,986	-	191,575	66,078	265,520
2017-2021	298	201,238	-	236,495	29,174	253,765
2022-2026	237	84,275	-	201,030	25,520	240,100
2027-2031	-	2,620	46,500	202,160	24,095	164,295
2032-2036	175,000	2,495	10,000	125,545	14,590	57,475
2037-2041	-	55	30,000	68,475	-	5,070
2042-2046	-	-	-	-	-	1,310
2047-2051	-	-	-	-	-	-
Net unamortized premium						
Or (deferred amount)	(704)	(4,376)	(754)	(16,422)	1,987	-
Total Principal Payments	<u>\$175,383</u>	<u>\$1,080,961</u>	<u>\$97,361</u>	<u>\$1,567,095</u>	<u>\$196,572</u>	<u>\$1,208,025</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, 2006. 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, 2006 and 2005, the present value of the claims payable for the State's self-insurance plan was estimated at \$3.2 million and \$3.5 million, respectively. The actuary calculated this based on a 1.75 percent yield on investments.



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

	<u>2006</u>	<u>2005</u>
Liability at Beginning of Year	\$3,547	\$3,547
Current Year Claims and		
Changes in Estimates	1,424	1,415
Claims Payments	<u>1,781</u>	<u>1,415</u>
Liability at End of Year	<u>\$3,190</u>	<u>\$3,547</u>

As of June 30, 2006, fund assets of \$18.4 million exceeded fund liabilities of \$3.7 million by \$14.7 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, 2006.

#### **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 \$783 thousand for the fiscal year ended June 30, 2006.

#### **C. WORKERS' COMPENSATION**

Workers' Compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation.

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal

doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The balance of claims liabilities as of June 30, 2006:

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

	<u>2006</u>	<u>2005</u>
Liability at Beginning of Year	\$ 53,343	\$ 61,839
Current Year Claims and		
Changes in Estimates	8,955	1,329
Claims Payments	<u>8,955</u>	<u>9,825</u>
Liability at End of Year	<u>\$ 53,343</u>	<u>\$ 53,343</u>

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 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 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 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, 2006, the State recorded a receivable of \$5.2 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 \$16.4 million. Changes in the Employee Health

Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2006 follows (in thousands):

	<u>Employee Health Fund</u>	<u>Retiree Health Fund</u>
Liability at Beginning of Year	\$ 14,288	\$ 6,980
Current Year Claims and Changes in Estimates	90,731	41,715
Claims Payments	<u>94,465</u>	<u>42,801</u>
Liability at End of Year	<u>\$ 10,554</u>	<u>\$ 5,894</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 2006, 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	\$ 41,846
Noncurrent Assets	<u>110,793</u>
Total Assets	<u>\$152,639</u>
Current Liabilities	\$ 27,224
Long-term Liabilities	<u>112,488</u>
Total Liabilities	<u>139,712</u>
Designated Prize Reserves	4,096
Unrealized Gain on Investments Held for Installment Prize Obligations	<u>8,831</u>
Total Net Assets	<u>12,927</u>
Total Liabilities and Net Assets	<u>\$152,639</u>
Total Revenue	\$ 65,794
Total Expenses	44,753
Allocation to Member States	21,041
Change in Unrealized Gain on Investments Held for Resale	<u>(10,985)</u>
Change in Net Assets	<u>\$ (10,985)</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 2006, 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	\$ 185,611
Investments in US Government Securities	42,036
US Government Securities Held for Prize Annuities	800,387
Due from Party Lotteries	24,551
Other Assets	<u>1,594</u>
Total Assets	<u>\$1,054,179</u>
Amount Held for Future Prizes	\$ 228,196
Grand Prize Annuities Payable	822,072
Other Liabilities	<u>3,699</u>
	1,053,967
Net Assets, Unrestricted	<u>212</u>
Total Liabilities and Net Assets	<u>\$1,054,179</u>
Total Revenue	\$ 2,694
Total Expenses	<u>2,708</u>
Excess (deficit) of revenue over expenses	(14)
Net assets, beginning	<u>226</u>
Net assets, ending	<u>\$ 212</u>

**NOTE 14 - RELATED PARTY TRANSACTIONS**

**PRIMARY GOVERNMENT**

Title 20 MRSA § 11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings

Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education.

The program has been designed to comply with the requirements for treatment as a “Qualified State Tuition Program” under Section 529 of the Internal Revenue Code.

By statute, 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 \$4 billion in net assets at June 30, 2006, which have been recorded in an Agency Fund on the financial statements of the State.

General Obligation Bonds of the State include \$90 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 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 2006, the State paid \$13.5 million for these services; \$6 million from the General Fund and \$7.5 million from the Federal Fund. At June 30, 2006, the State owed \$474 thousand to this vendor.

The State of Maine pays a local company as a provider of services to individuals with developmental disabilities. The Executive Director of the company also serves as a member of the House in the Maine Legislature. During fiscal year 2006, the State paid \$14 million for these services; \$5.2 million from the General Fund and \$8.8 million from the Federal Fund. No monies were owed to this vendor at June 30, 2006.

The State of Maine entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Public Lands and the Bureau of Parks and Recreation. These agreements outline each entity’s responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority’s responsibilities are generally to manage the Reserve

consistent with the Wells National Estuarine Research Reserve Management Plan dated May 1991.

#### COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, \$216.6 million; Child Development Services, \$18.1 million; Maine Community College System, \$54.2 million; Maine Municipal Bond Bank, \$19.8 million; Finance Authority of Maine, \$14.5 million; Maine Maritime Academy, \$7.6 million; Maine State Housing Authority, \$20.3 million; Maine Technology Institute, \$7.9 million; Loring Development Authority, \$1.2 million; and the Maine Educational Center for the Deaf and Hard of Hearing, \$6.3 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total \$32.7 million at June 30, 2006, 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 2006, the State expended \$1.6 million to FAME for State revolving loan funds.

Title 20-A MRSA 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 2006, FAME paid approximately \$5.7 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 contributed the use of land and buildings to the Maine Educational Center for the Deaf and Hard of Hearing, 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 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, 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 2006.

## 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.

*Paul and Robert Dyer v. State of Maine, Department of Transportation.* The Dyers were awarded approximately \$447 thousand by the State Claims Board in connection with the taking of property in Waldo County for the new Penobscot Narrows Bridge. They are seeking approximately \$1.3 million in damages.

*Goodall Hospital v. Harvey.* This suit was filed on November 20, 2006. Plaintiff hospital alleges that the Department of Health and Human Services has refused or failed to pay the hospital's 2005 fiscal year bills for services to Medicaid recipients. The case is worth slightly over \$2 million, approximately \$666 thousand of State dollars. The potential for expenditure is moderate.

*E.I. Dupont De Nemours & Company v. State Tax Assessor.* This case involves corporate income tax, interest and penalties assessed against Dupont for years 1999 – 2001 in the amount of approximately \$1 million. The potential for expenditure is moderate.

*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.

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 have come to an agreement where the State will use any unobligated funds to repay the balance at the end of each fiscal year. The State has not accrued a liability for the estimated disallowance at June 30, 2006.

#### **MUNICIPAL SOLID WASTE LANDFILLS**

Title 38 MRSA §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for landfill remediation projects totaled \$121.8 thousand for fiscal year 2006.

During the 2006 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills except the Commissioner may make grants or payments up to 30%, 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 2006 fiscal year, the State expended \$121.8 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 \$18.2 million. This consists of approximately \$12.2 million for State-owned facilities and approximately \$6 million for the State's share, under a cost sharing arrangement, for municipal facilities.

#### **POLLUTION ABATEMENT PROGRAM**

Title 38 MRSA § 411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2006 fiscal year, \$2.2 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2006, amounts encumbered for pollution abatement projects totaled \$200 thousand; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled \$1.2 million. At June 30, 2006, DEP estimated the total cost (federal, State, and local) of future projects to be \$389 million.

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

The State has been identified as a potentially responsible party at two hazardous wastes clean-up sites in Maine. These are located in Plymouth and Brooksville. The remedy for the Plymouth site has been identified in concept but the final cost has yet to be determined. The Brooksville site is presently under investigation but no remedy has been identified.

#### **GROUND WATER OIL CLEAN-UP FUND**

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA § 569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for 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, 2006 there were 318 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 53.86% of the annual payments. As of June 30, 2006, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled \$827.8 million.

At June 30, 2006, the Department of Transportation had contractual commitments of approximately \$73.1 million for construction of various highway projects. The State's share of that amount is expected to be approximately \$12.2 million. Of these amounts, \$3.4 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

#### TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and five jurisdictions entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM's) to recover smoking-related Medicaid costs. In this out-of-court settlement, the PM's agreed to pay \$206 billion to the states and jurisdictions. In return, the states agreed to relinquish claims to further damages resulting from Medicaid costs.

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 below.

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 are contingent on the passage and enforcement of a State statute imposing economic conditions on the Non-participating manufactures (NPM's). The NPM adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's prove that they lost market share to the NPM's because of their need to make MSA payments, and if they prove Maine did not diligently enforce its statutes concerning NPM escrow, then the Participating Manufacturers may "adjust" or lower their annual payment pursuant to the MSA. This

NPM adjustment may be sought each year. For the year 2003, the adjustment sought was 18%.

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 (now named The Maine Educational Center for the Deaf and Hard of Hearing) 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 § 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 fiscal year 2005. During fiscal year 2006, \$7.3 million was appropriated from the General Fund surplus to pay claims totaling \$7.3 million. As of June 30, 2006, the Authority paid claims of \$19.3 million. The Authority is no longer in operation as of June 2006.

#### DIRIGO HEALTH AGENCY

##### Experience Modification Program

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 Health Agency. Terms of the outcome sharing are detailed in the contractual agreement between the Dirigo Health Agency and Anthem.

Claims for calendar year 2006 will not be finalized until July 1, 2007, when a six month run-out period elapses. Due to limited claims and experience data for DirigoChoice members for 2006, 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 2006 totaled \$6.4 million.

#### Savings Offset Payment

Title 24-A MRSA § 6913 established the Savings Offset Payment (SOP) within the Dirigo Health Fund where it uses the SOP as a source of revenue to pay for the activities of the Maine Quality Forum and to subsidize the purchase of health coverage. Each year the Board of Directors of Dirigo Health Agency determines the aggregate measurable cost savings to health care providers in this State as a result of the operation of Dirigo Health. Upon approval of the cost savings amount by the Superintendent of Insurance, the Board determines a savings offset amount to be paid by health insurance carriers, employee benefit excess insurance carriers and third party administrators. The Board calculates the savings offset payment as a percentage of paid claims.

The State Superintendent of Insurance determined that \$43.7 million was saved by insurance companies because of Dirigo Health. The Board established a percentage of .02408 to be applied to claims paid by insurance companies. The savings was affirmed by the State Superior Court, but is now being appealed to the State Supreme Court. As of June 30, 2006, Dirigo Health has collected \$3.5 million of this assessment. The total amount receivable cannot be measured as Dirigo Health does not know the paid claims amounts on which the assessment will be applied.

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

In State fiscal years 2004, 2005, and 2006, 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.

#### **ESCHEAT PROPERTY**

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds \$500 thousand at fiscal year end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2006, the Fund included \$16.3 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2006 of approximately \$124.3 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2006, the amount reported in the Fund for claimant liability is \$22 million. The General Fund shows a \$5.2 million payable to the Escheat Fund.

#### **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, 2006, HUD completed refinancings for ten institutions which, at the time they were refinanced, had combined bond-related loans and advances due MHHEFA of approximately \$48.4 million. As part of the refinancing completed by HUD, MHHEFA agreed to issue 8% subordinated notes receivable to these ten institutions from its operating fund. These notes totaled \$7.8 million at June 30, 2006, 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 \$918 thousand from the operating fund as of June 30, 2006 to other financially troubled institutions, with combined loan amounts due the Authority of approximately \$11.9 million at June 30, 2006, including loans of \$10 million reserved at June 30, 2006. 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, 2006, loans outstanding pursuant to these authorizations are \$28.7 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, 2006.

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, 2006.

#### 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 *	\$ 1,176,195	\$ 99,152	no limit	22 MRSA § 2075
Finance Authority of Maine	40,628	2,378	\$574,715	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	1,085,337	121,570	no limit	30-A MRSA §6006
Maine Educational Loan Authority	32,115	1,285	50,000	20-A MRSA §11424
Maine State Housing Authority	1,216,930	109,428	2,150,000	30-A MRSA §4906
Total	<u>\$3,551,205</u>	<u>\$ 333,813</u>		

\* MHHEFA is reported in fiduciary fund financial statements.

**NOTE 16 - SUBSEQUENT EVENTS****PRIMARY GOVERNMENT**

On July 20, October 1, 2006, and January 12, 2007, the State issued \$40.3 million, \$10.3 million, and \$4.7 million, respectively, of Bond Anticipation Notes that mature on June 8, 2007.

On July 31, 2006, the State issued \$10 million of Certificates of Participation (COP's), with an interest rate of 4.46%, and a maturity date in 2013, for the purpose of developing a statewide communications system. On August 28, 2006, the State issued \$2.4 million of COP's, with an interest rate of 4.291%, and with a maturity date in 2012, and \$1.2 million with an interest rate of 4.532%, and a maturity date in 2017, both for the purpose of financing the upgrade of the State's correctional facilities. On September 22, 2006, the State issued \$19.2 million of COP's with a maturity of 2010 and an interest rate of 5.37%, for the State's laptop program. On February 28, 2007, the State issued \$800 thousand of COP's maturing on August 1, 2009, with an interest rate of 4%, for the accounting system upgrade and \$14 million of COP's maturing on September 1, 2013, with an interest rate of 3.85%, for Maine Revenue Services computer system.

Public Law 2005 Chapter 636 established the Retired County and Municipal Law Enforcement Officers and Municipal Firefighters Health Insurance Program to provide health insurance coverage to retired county and municipal law enforcement officers and retired municipal firefighters. Beginning July 1, 2007, the State shall provide a premium subsidy of 45% to enrollees. The impact of this program on the State's OPEB liability, required by GASB Statement No. 45, has not been determined.

**COMPONENT UNITS**

On February 1, 2006 the Maine State Housing Authority (MSHA) redeemed \$79 million of its 2005 Series A and B General Housing Draw Down bonds, with variable interest rates maturing in 2010. In January and February, 2006, MSHA issued a total of \$18 million 2005 Series A and B General Housing Draw Down bonds at par, with variable interest rates maturing in 2010.

In January and February 2006, MSHA redeemed a total of \$32.2 million of various series of its Mortgage Purchase Program bonds at par. The bonds carried interest rates from 3.65% to 6.1%, and maturities from 2006 to 2037. In March 2006, MSHA committed to redeem an additional \$13.6 million of Mortgage Purchase Program bonds at par. On March 14, 2006, MSHA issued \$125 million of various series of its Mortgage Purchase Program bonds. These bonds carry interest rates ranging from 3.3% to 4.85%, with maturities from 2017 to 2036.

In accordance with the Higher Education Loan Purchase Program, the Finance Authority of Maine purchased FFELP student loan portfolios totaling approximately \$9 million, \$92 thousand, and \$24 million in July 2006.

On September 7, 2006, the Maine Community College System (MCCS) issued \$24.3 million of revenue bonds through the Maine Health and Higher Education Facilities Authority (MHHEFA) with an interest rate of 4.7% and a final maturity of July 2036. Approximately \$23.2 million will be used for construction of new residence halls at three colleges.

**NOTE 17 – SPECIAL ITEMS**

Chapter 457 PL 2005 established the State Transit, Aviation and Rail Transportation (STAR) Fund to support purchasing, operating, maintaining, improving, repairing, constructing, and managing the State's

transportation buildings, structures and improvements, and equipment. During 2006, the Airport fund transferred \$4 million in assets and the Highway Fund transferred \$31.2 million in assets to the STAR fund.

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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, 2006  
(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	\$ 2,556,608	\$ 2,739,523	\$ 2,813,763	\$ 74,240	\$ 229,661	226,777	\$ 221,578	\$ (5,199)
Assessments and Other	95,778	100,386	101,387	1,001	89,736	93,544	93,839	295
Federal Grants	26,660	23,477	20,066	(3,411)	-	-	-	-
Service Charges	36,232	41,740	41,395	(345)	7,293	7,293	7,138	(155)
Income from Investments	6,047	6,364	10,377	4,013	1,556	1,300	1,834	534
Miscellaneous Revenue	4,314	7,638	(67,753)	(75,391)	516	405	821	416
<b>Total Revenues</b>	<u>2,725,639</u>	<u>2,919,128</u>	<u>2,919,235</u>	<u>107</u>	<u>328,762</u>	<u>329,319</u>	<u>325,210</u>	<u>(4,109)</u>
<b>Expenditures</b>								
Governmental Support and Operations	250,979	253,967	228,571	25,396	35,201	35,386	34,304	1,082
Economic Development & Workforce Training	42,997	48,187	45,361	2,826	-	-	-	-
Education	1,153,241	1,286,445	1,277,692	8,753	-	-	-	-
Health and Human Services	946,482	1,038,472	970,178	68,294	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	71,527	73,138	70,525	2,613	42	41	33	8
Justice and Protection	231,137	232,614	227,565	5,049	37,285	37,191	35,453	1,738
Arts, Heritage & Cultural Enrichment	8,651	8,482	8,433	49	-	-	-	-
Transportation Safety & Development	4,179	266	188	78	265,138	354,505	245,456	109,049
<b>Total Expenditures</b>	<u>2,709,193</u>	<u>2,941,571</u>	<u>2,828,513</u>	<u>113,058</u>	<u>337,666</u>	<u>427,123</u>	<u>315,246</u>	<u>111,877</u>
<b>Revenues Over (Under) Expenditures</b>	<u>16,446</u>	<u>(22,443)</u>	<u>90,722</u>	<u>113,165</u>	<u>(8,904)</u>	<u>(97,804)</u>	<u>9,964</u>	<u>107,768</u>
<b>Other Financing Sources (Uses)</b>								
Operating Transfers Net	(53,473)	(61,858)	(36,510)	25,348	1,665	1,665	(1)	(1,666)
Proceeds from Pledged Future Revenues								
<b>Net Other Financing Sources (Uses)</b>	<u>(53,473)</u>	<u>(61,858)</u>	<u>(36,510)</u>	<u>25,348</u>	<u>1,665</u>	<u>1,665</u>	<u>(1)</u>	<u>(1,666)</u>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<u>\$ (37,027)</u>	<u>\$ (84,301)</u>	<u>\$ 54,212</u>	<u>\$ 138,513</u>	<u>\$ (7,239)</u>	<u>\$ (96,139)</u>	<u>\$ 9,963</u>	<u>\$ 106,102</u>
Fund Balances at Beginning of Year			232,274				119,196	
Fund Balances at End of Year			<u>\$ 286,486</u>				<u>\$ 129,159</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
\$ -	\$ -	\$ -	\$ -	\$ 152,023	\$ 153,170	\$ 171,346	\$ 18,176
-	-	-	-	108,956	109,847	93,667	(16,180)
2,506,450	2,829,216	2,858,339	29,123	16,933	20,296	3,544	(16,752)
-	12	296	284	179,587	183,976	132,307	(51,669)
7,989	-	654	654	2,093	2,085	4,033	1,948
(7,087)	8,180	4,421	(3,759)	185,800	199,275	52,272	(147,003)
<u>2,507,352</u>	<u>2,837,408</u>	<u>2,863,710</u>	<u>26,302</u>	<u>645,392</u>	<u>668,649</u>	<u>457,169</u>	<u>(211,480)</u>
10,277	24,814	8,521	16,293	149,017	154,182	145,715	8,467
138,968	143,033	85,247	57,786	23,718	32,717	25,628	7,089
181,259	201,275	182,374	18,901	5,156	7,132	4,237	2,895
1,867,083	2,091,545	2,226,518	(134,973)	418,029	433,558	275,961	157,597
994	1,477	989	488	61,417	69,312	54,218	15,094
38,395	58,057	38,005	20,052	97,966	110,433	72,771	37,662
134,252	147,146	119,565	27,581	30,255	35,100	26,909	8,191
3,020	3,241	2,488	753	1,306	1,306	884	422
199,183	227,183	199,714	27,469	35,040	41,699	34,685	7,014
<u>2,573,431</u>	<u>2,897,771</u>	<u>2,863,421</u>	<u>34,350</u>	<u>821,904</u>	<u>885,439</u>	<u>641,008</u>	<u>244,431</u>
(66,079)	(60,363)	289	60,652	(176,512)	(216,790)	(183,839)	32,951
2,507,352	(7,264)	15,485	22,749	173,515	170,279	141,615	(28,664)
						22,111	22,111
<u>2,507,352</u>	<u>(7,264)</u>	<u>15,485</u>	<u>22,749</u>	<u>173,515</u>	<u>170,279</u>	<u>163,726</u>	<u>(6,553)</u>
<u>\$ 2,441,273</u>	<u>\$ (67,627)</u>	<u>\$ 15,774</u>	<u>\$ 83,401</u>	<u>\$ (2,997)</u>	<u>\$ (46,511)</u>	<u>\$ (20,113)</u>	<u>\$ 26,398</u>
		<u>6,967</u>				<u>268,586</u>	
		<u>\$ 22,741</u>				<u>\$ 248,473</u>	



## Required Supplementary Information - Budgetary Reporting

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

Fiscal Year Ended June 30, 2006  
(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	\$ 286,486	\$ 129,159	\$ 22,741	\$ 248,473
<b>Basis Differences</b>				
Revenue Accruals/Adjustments:				
Taxes Receivable	200,222	827	-	11,038
Intergovernmental Receivables	-	-	432,273	-
Other Receivables	106,096	2,413	198,746	58,263
Due from Component Units	-			
Due from Other Funds	13,767	16,342	26,063	26,942
Other Assets	3,299	-	1,680	-
Deferred Revenues	(195,953)	(7,510)	(1,685)	(22,757)
Total Revenue Accruals/Adjustments	<u>127,431</u>	<u>12,072</u>	<u>657,077</u>	<u>73,486</u>
Expenditure Accruals/Adjustments:				
Accounts Payable	(392,881)	(47,452)	(631,694)	(32,124)
Due to Component Units	(2,235)	(40)	(4,364)	(4,542)
Bonds Issued	-	-	-	-
Accrued Liabilities	(34,358)	(8,970)	(6,715)	(6,276)
Taxes Payable	(130,001)			
Due to Other Funds	(32,073)	(75,057)	(14,855)	(20,984)
Total Expenditure Accruals/Adjustments	<u>(591,548)</u>	<u>(131,519)</u>	<u>(657,628)</u>	<u>(63,926)</u>
Fund Balances - GAAP Basis	<u>\$ (177,631)</u>	<u>\$ 9,712</u>	<u>\$ 22,190</u>	<u>\$ 258,033</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, 2006, the legislature approved \$218 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 2006-2007, 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 29, 2005, 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 March 29, 2006, 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 schedules on pages 135 through 143 depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds.

## Required Supplementary Information – State Retirement Plan

### 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, 2006	7,556,514,663	10,598,346,071	3,041,831,408	71.3%	1,546,315,522	196.7%
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%

### Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2006	286,438,610	303,438,610	105.9%
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%

<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, 2006	1,974,083,999	1,759,072,188	(215,011,811)	112.2%	326,272,608	-65.9%
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%

### Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2006	8,449,017	8,577,898	101.5%
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%

## **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 (PLD) as well as combined amounts for State employees, teachers, judicial and legislative employees. Employees of participating local districts are not considered state 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, 2006 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 11 years remained at June 30, 2006.

The IUUAL of PLD’s are amortized over periods established for each PLD separately. During fiscal years 2006 and 2005, various PLD’s contributed approximately \$128,881 and \$6,800 to decrease their initial unpooled unfunded actuarial liability, respectively. The Consolidated Plan has no Pooled Unfunded Actuarial Liability.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2006 follows:

Investment Return – 7.75% per annum, compounded annually; changed from 8% used at June 30, 2005.

Salary Increases – 4.75% to 10% per year; changed from 5.5% to 9.5% used at June 30, 2005.

Mortality Rates – Active State employee members and active participating local district members, non-disabled State employee retirees and non-disabled participating local district members – UP 1994 Tables; Active teacher members and non-disabled teacher retirees – 85% of UP 1994 Tables; All recipients of disability benefits – RPA 1994 Table for pre-1995 Disabilities.

Post Retirement Benefit Increases – 3.75% per annum; changed from 4% used at June 30, 2005.

### **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 employers and employees. Assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 2006 and 2005, the net assets held in trust for group life insurance benefits were \$43.5 million and \$41.8 million, respectively. At June 30, 2006 and 2005, the plan had actuarially determined liabilities of \$129.8 and \$127 million, respectively.

## 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 8,836 highway miles or 17,952 lane miles of roads and 2,967 bridges having a total deck area of 11.5 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
2006	75.0	77.0
2005	79.3	77.0
2004	78.2	77.0

### **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
2007	\$ 61	\$ -
2006	52	51.1
2005	48	46.1
2004	30	35.3
2003	36	34.3
2002	-	41.4

**Transportation Bonds**

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amounts authorized by Chapter 33, P&S 2003 and Chapter 38, P&S 2001, none was spent during fiscal year 2006.



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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, 2006  
(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	\$ 113	\$ 1	\$ -	\$ 114
Investments	59,516	-	11,274	70,790
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	-	12,893	-	12,893
Restricted Deposits and Investments	-	21,192	-	21,192
Due from Component Units	-	772	-	772
Total Current Assets	<u>59,629</u>	<u>34,858</u>	<u>11,274</u>	<u>105,761</u>
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	7	1	-	8
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	-	841	-	841
Total Noncurrent Assets	<u>7</u>	<u>842</u>	<u>-</u>	<u>849</u>
Total Assets	<u>\$ 59,636</u>	<u>\$ 35,700</u>	<u>\$ 11,274</u>	<u>\$ 106,610</u>
<b>Liabilities and Fund Balances</b>				
Current Liabilities:				
Accounts Payable	\$ -	\$ 939	\$ -	\$ 939
Due to Component Units	-	2,495	-	2,495
Other Accrued Liabilities	2	-	-	2
Total Current Liabilities	<u>2</u>	<u>3,434</u>	<u>-</u>	<u>3,436</u>
Total Liabilities	<u>2</u>	<u>3,434</u>	<u>-</u>	<u>3,436</u>
Fund Balances:				
Reserved				
Continuing Appropriations	161	-	-	161
Capital Projects	-	32,266	-	32,266
Permanent Trusts	-	-	11,274	11,274
Other	59,473	-	-	59,473
Total Fund Balances	<u>59,634</u>	<u>32,266</u>	<u>11,274</u>	<u>103,174</u>
Total Liabilities and Fund Balances	<u>\$ 59,636</u>	<u>\$ 35,700</u>	<u>\$ 11,274</u>	<u>\$ 106,610</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, 2006  
(Expressed in Thousands)

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent Funds</u>	<u>Totals Other Governmental Funds</u>
Revenues:				
Investment Income	\$ 4,879	\$ -	\$ 199	\$ 5,078
Total Revenues	<u>4,879</u>	<u>-</u>	<u>199</u>	<u>5,078</u>
Expenditures:				
Governmental Support & Operations	130	9,756	-	9,886
Economic Development & Workforce Training	-	6,400	-	6,400
Education	-	31,143	-	31,143
Health and Human Services	-	1,167	-	1,167
Natural Resources Development & Protection	-	5,541	-	5,541
Justice and Protection	-	812	-	812
Arts, Heritage, and Cultural Enrichment	-	682	-	682
Transportation, Safety & Development	-	12,396	-	12,396
Total Expenditures	<u>130</u>	<u>67,897</u>	<u>-</u>	<u>68,027</u>
Revenue over (under) Expenditures	<u>4,749</u>	<u>(67,897)</u>	<u>199</u>	<u>(62,949)</u>
Other Financing Sources (Uses):				
Transfers from Other Funds	-	676	-	676
Transfers to Other Funds	(1,959)	(2,000)	(172)	(4,131)
Bonds Issued	-	52,390	-	52,390
Net Other Finance Sources (Uses)	<u>(1,959)</u>	<u>51,066</u>	<u>(172)</u>	<u>48,935</u>
Revenue and Other Sources over (under) Expenditures and Other Uses	<u>2,790</u>	<u>(16,831)</u>	<u>27</u>	<u>(14,014)</u>
Fund Balances at Beginning of Year	<u>56,844</u>	<u>49,097</u>	<u>11,247</u>	<u>117,188</u>
Fund Balances at End of Year	<u>\$ 59,634</u>	<u>\$ 32,266</u>	<u>\$ 11,274</u>	<u>\$ 103,174</u>



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# NON-MAJOR GOVERNMENTAL FUNDS

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## Special Revenue Funds

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, 2006  
(Expressed in Thousands)

	<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	\$ -	\$ 113	\$ 113
Investments	59,479	37	59,516
Total Current Assets	<u>59,479</u>	<u>150</u>	<u>59,629</u>
Noncurrent Assets:			
Equity in Treasurer's Cash Pool	-	7	7
Total Noncurrent Assets	<u>-</u>	<u>7</u>	<u>7</u>
Total Assets	<u>\$ 59,479</u>	<u>\$ 157</u>	<u>\$ 59,636</u>
<b>Liabilities and Fund Balances</b>			
Current Liabilities:			
Other Accrued Liabilities	\$ -	\$ 2	\$ 2
Total Current Liabilities	<u>-</u>	<u>2</u>	<u>2</u>
Total Liabilities	<u>-</u>	<u>2</u>	<u>2</u>
Fund Balances:			
Reserved			
Continuing Appropriations	-	161	161
Other	59,479	(6)	59,473
Total Fund Balances	<u>59,479</u>	<u>155</u>	<u>59,634</u>
Total Liabilities and Fund Balances	<u>\$ 59,479</u>	<u>\$ 157</u>	<u>\$ 59,636</u>

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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	<b>Baxter Park</b>	<b>Revenue on Permanent Funds</b>	<b>Totals Special Revenue Funds</b>
<b>Revenues:</b>			
Investment Income	\$ 4,531	\$ 348	\$ 4,879
Total Revenues	<u>4,531</u>	<u>348</u>	<u>4,879</u>
<b>Expenditures:</b>			
General Government	-	130	130
Total Expenditures	<u>-</u>	<u>130</u>	<u>130</u>
Revenue over (under) Expenditures	<u>4,531</u>	<u>218</u>	<u>4,749</u>
Other Financing Sources (Uses):			
Transfer to Other Funds	<u>(1,735)</u>	<u>(224)</u>	<u>(1,959)</u>
Net Other Finance Sources (Uses)	<u>(1,735)</u>	<u>(224)</u>	<u>(1,959)</u>
Revenues and Other Sources over (under) Expenditures and Other Uses	<u>2,796</u>	<u>(6)</u>	<u>2,790</u>
Fund Balances at Beginning of Year	<u>56,683</u>	<u>161</u>	<u>56,844</u>
Fund Balances at End of Year	<u><u>\$ 59,479</u></u>	<u><u>\$ 155</u></u>	<u><u>\$ 59,634</u></u>

# STATE OF MAINE

## BALANCE SHEET

### NON-MAJOR CAPITAL PROJECTS FUND

June 30, 2006  
(Expressed in Thousands)

	<b>General Bond Fund</b>
<b>Assets</b>	
Current Assets:	
Equity in Treasurer's Cash Pool	\$ 1
Restricted Assets:	
Restricted Equity in Treasurer's Cash Pool	12,893
Due from Component Units	772
Total Current Assets	<u>13,666</u>
Noncurrent Assets:	
Equity in Treasurer's Cash Pool	1
Restricted Assets:	
Restricted Equity in Treasurer's Cash Pool	841
Restricted Deposits and Investments	21,192
Total Noncurrent Assets	<u>22,034</u>
Total Assets	<u><u>\$ 35,700</u></u>
<b>Liabilities and Fund Balances</b>	
Current Liabilities:	
Accounts Payable	\$ 939
Due to Component Units	2,495
Total Current Liabilities	<u>3,434</u>
Total Liabilities	<u>3,434</u>
Fund Balances:	
Reserved	
Capital Projects	<u>32,266</u>
Total Fund Balances	<u>32,266</u>
Total Liabilities and Fund Balances	<u><u>\$ 35,700</u></u>



# STATE OF MAINE

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

### NON-MAJOR CAPITAL PROJECTS FUND

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	<u>General Bond Fund</u>
<b>Revenues</b>	\$ -
<b>Expenditures:</b>	
Governmental Support & Operations	9,756
Economic Development & Workforce Training	6,400
Education	31,143
Health and Human Services	1,167
Natural Resources Development & Protection	5,541
Justice and Protection	812
Arts, Heritage & Cultural Enrichment	682
Transportation, Safety & Development	12,396
Total Expenditures	<u>67,897</u>
Revenue over (under) Expenditures	<u>(67,897)</u>
<b>Other Financing Sources (Uses):</b>	
Transfers from Other Funds	676
Transfers to Other Funds	(2,000)
Bonds Issued	52,390
Net Other Finance Sources (Uses)	<u>51,066</u>
Revenues and Other Sources over (under)	
Expenditures and Other Uses	<u>(16,831)</u>
Fund Balances at Beginning of Year	<u>49,097</u>
Fund Balances at End of Year	<u>\$ 32,266</u>

# STATE OF MAINE

## COMBINING BALANCE SHEET

### NON-MAJOR PERMANENT FUNDS

June 30, 2006  
(Expressed in Thousands)

	<u>Baxter Trust</u>	<u>Other Trusts</u>	<u>Totals Permanent Funds</u>
<b>Assets</b>			
Investments	\$ 4,716	\$ 6,558	\$ 11,274
Total Assets	<u>\$ 4,716</u>	<u>\$ 6,558</u>	<u>\$ 11,274</u>
<b>Fund Balances</b>			
Reserved:			
Permanent Trusts	<u>\$ 4,716</u>	<u>\$ 6,558</u>	<u>\$ 11,274</u>

# STATE OF MAINE

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

### NON-MAJOR PERMANENT FUNDS

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	<u>Baxter Trust</u>	<u>Other Trusts</u>	<u>Totals Permanent Funds</u>
<b>Revenues:</b>			
Investment Income	\$ 99	\$ 100	\$ 199
Total Revenues	<u>99</u>	<u>100</u>	<u>199</u>
<b>Expenditures</b>			
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over Expenditures	<u>99</u>	<u>100</u>	<u>199</u>
Transfers to Other Funds	<u>-</u>	<u>(172)</u>	<u>(172)</u>
Net Other Finance Sources (Uses)	<u>-</u>	<u>(172)</u>	<u>(172)</u>
Revenues and Other Sources over (under) Expenditures and Other Uses	<u>99</u>	<u>(72)</u>	<u>27</u>
Fund Balances at Beginning of Year	<u>4,617</u>	<u>6,630</u>	<u>11,247</u>
Fund Balances at End of Year	<u><u>\$ 4,716</u></u>	<u><u>\$ 6,558</u></u>	<u><u>\$ 11,274</u></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.

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 Transit, Aviation and Rail Transportation Fund- This fund was established to support purchasing, operating, maintaining, improving, repairing, constructing and management of transportation buildings, structures and improvements, and equipment.

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

June 30, 2006  
(Expressed in Thousands)

	<b>Lottery</b>	<b>Maine Military Authority</b>	<b>Seed Potato</b>	<b>Airport</b>
<b>Assets</b>				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ -	\$ -	\$ 47	\$ -
Cash and Short-Term Investments	750	-	1	-
Inventories	-	-	1	-
Receivables, Net of Allowance for Uncollectibles:				
Other Receivable	19,386	3,420	42	-
Due from Other Funds	-	6,740	-	3
Other Current Assets	124	11	1	-
Total Current Assets	<u>20,260</u>	<u>10,171</u>	<u>92</u>	<u>3</u>
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	-	3	-
Capital Assets - Net of Depreciation	11	2,013	615	-
Total Noncurrent Assets	<u>11</u>	<u>2,013</u>	<u>618</u>	<u>-</u>
Total Assets	<u>20,271</u>	<u>12,184</u>	<u>710</u>	<u>3</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable	1,187	2,171	-	-
Accrued Payroll	59	732	20	-
Due to Other Funds	3,612	4,980	2	-
Current Portion of Long-Term Obligations:				
Compensated Absences	135	-	-	-
Deferred Revenue	372	-	-	-
Other Accrued Liabilities	14,576	214	106	-
Total Current Liabilities	<u>19,941</u>	<u>8,097</u>	<u>128</u>	<u>-</u>
Total Liabilities	<u>19,941</u>	<u>8,097</u>	<u>128</u>	<u>-</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	11	2,013	615	-
Unrestricted	<u>319</u>	<u>2,074</u>	<u>(33)</u>	<u>3</u>
Total Net Assets	<u>\$ 330</u>	<u>\$ 4,087</u>	<u>\$ 582</u>	<u>\$ 3</u>

						Totals
Marine Ports	Ferry Service	Prison Industries	Dirigo Health	Transit, Aviation, & Rail Transportation	Other Enterprise Funds	
\$ 846	\$ 175	\$ 131	\$ 20,309	\$ 729	\$ 22,237	
-	3	3	-	-	757	
-	262	547	-	-	810	
205	122	77	1,336	708	25,296	
-	15	26	-	2	6,786	
-	-	-	308	-	444	
<u>1,051</u>	<u>577</u>	<u>784</u>	<u>21,953</u>	<u>1,439</u>	<u>56,330</u>	
55	12	8	1,326	48	1,452	
21,398	19,624	15	-	35,354	79,030	
<u>21,453</u>	<u>19,636</u>	<u>23</u>	<u>1,326</u>	<u>35,402</u>	<u>80,482</u>	
<u>22,504</u>	<u>20,213</u>	<u>807</u>	<u>23,279</u>	<u>36,841</u>	<u>136,812</u>	
-	151	-	675	8	4,192	
-	277	14	44	5	1,151	
-	20	-	2,651	-	11,265	
-	-	-	-	-	135	
-	-	-	1,558	-	1,930	
-	-	-	-	-	14,896	
<u>-</u>	<u>448</u>	<u>14</u>	<u>4,928</u>	<u>13</u>	<u>33,569</u>	
<u>-</u>	<u>448</u>	<u>14</u>	<u>4,928</u>	<u>13</u>	<u>33,569</u>	
21,398	19,624	15	-	35,354	79,030	
<u>1,106</u>	<u>141</u>	<u>778</u>	<u>18,351</u>	<u>1,474</u>	<u>24,213</u>	
<u>\$ 22,504</u>	<u>\$ 19,765</u>	<u>\$ 793</u>	<u>\$ 18,351</u>	<u>\$ 36,828</u>	<u>\$ 103,243</u>	

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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	<b>Lottery</b>	<b>Maine Military Authority</b>	<b>Seed Potato</b>	<b>Airport</b>
<b>Operating Revenues</b>				
Charges for Services	\$ 230,835	\$ 70,239	\$ 199	\$ 33
Assessments	-	-	-	-
Miscellaneous Revenues	-	221	9	-
Total Operating Revenues	230,835	70,460	208	33
<b>Operating Expenses</b>				
General Operations	179,622	64,266	594	22
Depreciation	6	171	17	-
Total Operating Expenses	179,628	64,437	611	22
Operating Income (Loss)	51,207	6,023	(403)	11
<b>Nonoperating Revenues (Expenses)</b>				
Other Nonoperating Revenues (Expenses)- net	127	(609)	3	(6)
Total Nonoperating Revenues (Expenses)	127	(609)	3	(6)
Income (Loss) Before Capital Contributions, Transfers and Special Items	51,334	5,414	(400)	5
<b>Capital Contributions, Transfers and Special Items</b>				
Capital Contributions from Other Funds	-	-	-	-
Transfers from (to) Other Funds	(51,556)	(12)	316	(184)
Special Items	-	-	-	(3,972)
Total Capital Contributions, Transfers In (Out) and Special Items	(51,556)	(12)	316	(4,156)
Change in Net Assets	(222)	5,402	(84)	(4,151)
Total Net Assets - Beginning of Year	552	(1,315)	666	4,154
Total Net Assets - End of Year	\$ 330	\$ 4,087	\$ 582	\$ 3



					<b>Totals</b>
<b>Marine Ports</b>	<b>Ferry Service</b>	<b>Prison Industries</b>	<b>Dirigo Health</b>	<b>Transit, Aviation, &amp; Rail Transportation</b>	<b>Other Enterprise Funds</b>
\$ 47	\$ 3,452	\$ 1,558	\$ 25,886	\$ 297	\$ 332,546
-	-	-	-	1,345	1,345
-	-	-	-	677	907
47	3,452	1,558	25,886	2,319	334,798
36	6,763	1,575	47,122	1,194	301,194
1,342	1,436	5	-	475	3,452
1,378	8,199	1,580	47,122	1,669	304,646
(1,331)	(4,747)	(22)	(21,236)	650	30,152
40	12	13	-	27	(393)
40	12	13	-	27	(393)
(1,291)	(4,735)	(9)	(21,236)	677	29,759
-	448	-	-	-	448
-	3,586	(32)	(2,079)	392	(49,569)
-	-	-	-	35,759	31,787
-	4,034	(32)	(2,079)	36,151	(17,334)
(1,291)	(701)	(41)	(23,315)	36,828	12,425
23,795	20,466	834	41,666	-	90,818
<u>\$ 22,504</u>	<u>\$ 19,765</u>	<u>\$ 793</u>	<u>\$ 18,351</u>	<u>\$ 36,828</u>	<u>\$ 103,243</u>

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

Fiscal Year Ended June 30, 2006  
(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	\$ 230,349	\$ 65,302	\$ 263	\$ 30
Payments to Prize Winners	(144,416)	-	-	-
Payments to Suppliers	(32,927)	(38,596)	(103)	(98)
Payments to Employees	(1,584)	(25,827)	(432)	-
Net Cash Provided (Used) by Operating Activities	<u>51,422</u>	<u>879</u>	<u>(272)</u>	<u>(68)</u>
Operating Transfers in	231	20		(184)
Operating Transfers out	(51,787)	(32)	316	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(51,556)</u>	<u>(12)</u>	<u>316</u>	<u>(184)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Payments for Acquisition of Capital Assets	-	(258)	3	44
Proceeds from Sale of Capital Assets	-	-	-	(9)
Net Cash Provided (Used) by Capital Financing Activities	<u>-</u>	<u>(258)</u>	<u>3</u>	<u>35</u>
<b>Cash Flows from Investing Activities</b>				
Interest Revenue	<u>127</u>	<u>(609)</u>	<u>3</u>	<u>3</u>
Net Cash Provided (Used) by Investing Activities	<u>127</u>	<u>(609)</u>	<u>3</u>	<u>3</u>
Net Increase (Decrease) in Cash/Cash Equivalents	(7)	-	50	(214)
Cash/Cash Equivalents - Beginning of Year	<u>757</u>	<u>-</u>	<u>1</u>	<u>214</u>
Cash/Cash Equivalents - End of Year	<u>\$ 750</u>	<u>\$ -</u>	<u>\$ 51</u>	<u>\$ -</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities</b>				
Operating Income (Loss)	<u>\$ 51,207</u>	<u>\$ 6,023</u>	<u>\$ (403)</u>	<u>\$ 11</u>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>				
Depreciation Expense	6	171	17	-
Decrease (Increase) in Assets & Liabilities:				
Accounts Receivable	(486)	(1,877)	55	-
Interfund Balances	(1,528)	(3,505)	(21)	(3)
Inventories	-	-	-	-
Accounts Payable	45	63	-	(76)
Accrued Payroll Expenses	9	(132)	5	-
Change in Compensated Absences	24	(71)	-	-
Other Accruals	2,145	207	75	-
Total Adjustments	<u>215</u>	<u>(5,144)</u>	<u>131</u>	<u>(79)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 51,422</u>	<u>\$ 879</u>	<u>\$ (272)</u>	<u>\$ (68)</u>
<b>Non Cash Investing, Capital and Financing Activities</b>				
Contributed Capital Assets	-	-	-	-
Special Item - Transfer of assets to STAR fund	-	-	-	(3,972)

<u>Marine Ports</u>	<u>Ferry Service</u>	<u>Prison Industries</u>	<u>Dirigo Health</u>	<u>Transit, Aviation, &amp; Rail Transportation</u>	<u>Totals Other Enterprise Funds</u>
\$ 47	\$ 3,481	\$ 1,492	\$ 24,569	\$ 1,611	\$ 327,144
-	-	-	-	-	(144,416)
(36)	(2,344)	(1,381)	(39,682)	(1,065)	(116,232)
-	(4,607)	(206)	(1,244)	(118)	(34,018)
11	(3,470)	(95)	(16,357)	428	32,478
-	3,586	-	-	-	3,653
-	-	(32)	(2,079)	392	(53,222)
-	3,586	(32)	(2,079)	392	(49,569)
-	(5)	-	-	(70)	(286)
-	-	-	-	-	(9)
-	(5)	-	-	(70)	(295)
40	12	13	-	27	(384)
40	12	13	-	27	(384)
51	123	(114)	(18,436)	777	(17,770)
850	67	256	40,071	-	42,216
\$ 901	\$ 190	\$ 142	\$ 21,635	\$ 777	\$ 24,446
\$ (1,331)	\$ (4,747)	\$ (22)	\$ (21,236)	\$ 650	\$ 30,152
1,342	1,436	5	-	475	3,452
-	30	(50)	(1,317)	(708)	(4,353)
-	6	(33)	2,151	(2)	(2,935)
-	(5)	34	-	-	29
-	(15)	(26)	567	8	566
-	26	(3)	6	5	(84)
-	(201)	-	-	-	(248)
-	-	-	3,472	-	5,899
1,342	1,277	(73)	4,879	(222)	2,326
\$ 11	\$ (3,470)	\$ (95)	\$ (16,357)	\$ 428	\$ 32,478
-	448	-	-	-	448
-	-	-	-	35,759	31,787



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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.

*Financial and Personnel Services Fund* – This fund accounts for centralized services provided by the Department of Administrative and Financial Services. Services provided include personnel administration, employee relations, budget management, general administration, and accounting.

*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, 2006  
(Expressed in Thousands)

	Motor Transport Service	Postal, Printing & Supply	Information Services	Risk Management	Workers' Compensation
<b>Assets</b>					
Current Assets:					
Equity in Treasurer's Cash Pool	\$ 3,796	\$ -	\$ -	\$ 16,762	\$ 22,200
Cash and Short-Term Investments	1	1	-	-	-
Cash with Fiscal Agent	46	-	2,406	-	-
Restricted Assets:					
Restricted Deposits and Investments	-	-	-	-	-
Inventories	3,440	877	-	-	-
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	-
Other Receivable	381	71	46	17	-
Due from Other Funds	485	3,457	10,372	233	739
Other Current Assets	-	70	325	300	474
Total Current Assets	8,149	4,476	13,149	17,312	23,413
Noncurrent Assets:					
Equity in Treasurer's Cash Pool	248	-	-	1,095	1,449
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	-
Capital Assets - Net of Depreciation	40,990	14	17,841	-	-
Total Noncurrent Assets	41,238	14	17,841	1,095	1,449
Total Assets	49,387	4,490	30,990	18,407	24,862
<b>Liabilities</b>					
Current Liabilities:					
Accounts Payable	1,677	2,370	4,378	6	358
Accrued Payroll	641	94	1,411	12	35
Due to Other Governments	-	-	-	-	-
Due to Other Funds	53	1,854	960	77	38
Current Portion of Long-Term Obligations:					
Certificates of Participation and Other Financing Arrangements	1,656	-	234	-	-
Revenue Bonds Payable	-	-	-	-	-
Obligations Under Capital Leases	-	-	-	-	-
Claims Payable	-	-	-	-	7,729
Compensated Absences	51	162	204	27	42
Deferred Revenue	-	-	3	433	-
Other Accrued Liabilities	37	-	251	-	-
Total Current Liabilities	4,115	4,480	7,441	555	8,202
Long-Term Liabilities:					
Working Capital Advances Payable	-	111	-	-	-
Deferred Revenue	-	-	-	-	-
Certificates of Participation and Other Financing Arrangements	2,764	-	9,241	-	-
Revenue Bonds Payable	-	-	-	-	-
Obligations Under Capital Leases	-	-	-	-	-
Claims Payable	-	-	-	3,190	45,614
Compensated Absences	413	-	1,666	-	-
Total Long-Term Liabilities	3,177	111	10,907	3,190	45,614
Total Liabilities	7,292	4,591	18,348	3,745	53,816
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	36,570	14	17,566	-	-
Restricted for:					
Other Purposes	-	-	-	-	-
Unrestricted	5,525	(115)	(4,924)	14,662	(28,954)
Total Net Assets	\$ 42,095	\$ (101)	\$ 12,642	\$ 14,662	\$ (28,954)

Central Fleet Management	Leased Space	Revenue Services	Retiree Health Insurance	Employee Health Insurance	Statewide Radio & Network System	Financial & Personnel Services	Governmental Facilities Authority	Totals Internal Service Funds
\$ -	\$ 24	\$ 209	\$ 62,548	\$ 62,245	\$ 1	\$ 89	\$ -	\$ 167,874
1	-	-	-	-	-	-	-	3
488	-	-	-	-	-	-	-	2,940
-	-	-	-	-	-	-	2,610	2,610
47	-	-	-	-	-	-	-	4,364
-	-	-	-	-	-	-	14,595	14,595
17	-	-	1,154	4,092	-	-	2,055	7,833
1,052	135	-	-	-	-	115	-	16,588
-	-	-	5	8	-	-	30	1,212
1,605	159	209	63,707	66,345	1	204	19,290	218,019
-	2	14	4,083	4,063	-	6	-	10,960
-	-	-	-	-	-	-	171,620	171,620
13,700	36,118	-	-	-	-	-	-	108,663
13,700	36,120	14	4,083	4,063	-	6	171,620	291,243
15,305	36,279	223	67,790	70,408	1	210	190,910	509,262
128	175	-	98	12,035	-	5	9	21,239
30	8	-	-	29	-	604	-	2,864
-	-	-	-	-	-	-	136	136
1,584	22	-	-	1,221	-	97	-	5,906
3,248	-	-	-	-	-	-	-	5,138
-	-	-	-	-	-	-	14,595	14,595
-	6,154	-	-	-	-	-	-	6,154
-	-	-	5,894	10,554	-	-	-	24,177
32	20	-	-	52	-	79	-	669
-	-	-	-	-	-	-	51	487
77	-	-	-	-	-	-	2,116	2,481
5,099	6,379	-	5,992	23,891	-	785	16,907	83,846
-	-	-	-	-	-	-	-	111
-	-	-	-	-	-	-	1,033	1,033
5,375	-	-	-	-	-	-	-	17,380
-	-	-	-	-	-	-	171,620	171,620
-	33,937	-	-	-	-	-	-	33,937
-	-	-	-	-	-	-	-	48,804
-	-	-	-	-	-	641	-	2,720
5,375	33,937	-	-	-	-	641	172,653	275,605
10,474	40,316	-	5,992	23,891	-	1,426	189,560	359,451
5,077	(3,973)	-	-	-	-	-	-	55,254
-	-	-	-	-	-	-	45	45
(246)	(64)	223	61,798	46,517	1	(1,216)	1,305	94,512
\$ 4,831	\$ (4,037)	\$ 223	\$ 61,798	\$ 46,517	\$ 1	\$ (1,216)	\$ 1,350	\$ 149,811

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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	Motor Transport Service	Postal, Printing & Supply	Information Services	Risk Management	Workers' Compensation
<b>Operating Revenues</b>					
Charges for Services	\$ 27,040	\$ 45,722	\$ 43,006	\$ 4,251	\$ 15,929
Miscellaneous Revenues	-	-	-	4	35
Total Operating Revenues	27,040	45,722	43,006	4,255	15,964
<b>Operating Expenses</b>					
General Operations	25,204	46,492	38,069	3,340	2,240
Depreciation	5,990	10	2,254	-	-
Claims/Fees Expense	-	-	-	165	8,962
Other Operating Expenses	-	-	-	-	-
Total Operating Expenses	31,194	46,502	40,323	3,505	11,202
Operating Income (Loss)	(4,154)	(780)	2,683	750	4,762
<b>Nonoperating Revenues (Expenses)</b>					
Investment Revenue (Expense) - net	309	-	74	760	973
Interest Expense	(216)	-	(155)	-	(2)
Other Nonoperating Revenues (Expenses)- net	(237)	-	1	-	-
Total Nonoperating Revenues (Expenses)	(144)	-	(80)	760	971
Income (Loss) Before Capital Contributions, Transfers and Special Items	(4,298)	(780)	2,603	1,510	5,733
<b>Capital Contributions, Transfers and Special Items</b>					
Capital Contributions from Other Funds	3,417	-	-	-	-
Transfers from (to) Other Funds	-	-	-	809	-
Total Capital Contributions, Transfers In (Out) and Special Items	3,417	-	-	809	-
Change in Net Assets	(881)	(780)	2,603	2,319	5,733
Total Net Assets - Beginning of Year	42,976	679	10,039	12,343	(34,687)
Total Net Assets - End of Year	\$ 42,095	\$ (101)	\$ 12,642	\$ 14,662	\$ (28,954)



Central Fleet Management	Leased Space	Revenue Services	Retiree Health Insurance	Employee Health Insurance	Statewide Radio & Network Systems	Financial & Personnel Services	Governmental Facilities Authority	Totals Internal Service Funds
\$ 8,291	\$ 21,046	\$ 137	\$ 83,440	\$ 147,187	\$ 183	\$ 7,564	\$ 8,834	\$ 412,630
-	-	-	8	97	896	435	11	1,486
8,291	21,046	137	83,448	147,284	1,079	7,999	8,845	414,116
5,192	9,404	470	44,313	113,966	1,098	9,532	200	299,520
2,229	4,631	-	-	-	-	-	-	15,114
-	-	-	-	-	-	-	-	9,127
-	-	-	-	-	-	-	320	320
7,421	14,035	470	44,313	113,966	1,098	9,532	520	324,081
870	7,011	(333)	39,135	33,318	(19)	(1,533)	8,325	90,035
-	30	26	1,964	989	-	-	116	5,241
(208)	(7,273)	-	-	-	-	-	(8,301)	(16,155)
(368)	-	-	-	-	-	-	-	(604)
(576)	(7,243)	26	1,964	989	-	-	(8,185)	(11,518)
294	(232)	(307)	41,099	34,307	(19)	(1,533)	140	78,517
-	-	-	-	-	-	-	-	3,417
-	-	-	13,141	-	-	317	-	14,267
-	-	-	13,141	-	-	317	-	17,684
294	(232)	(307)	54,240	34,307	(19)	(1,216)	140	96,201
4,537	(3,805)	530	7,558	12,210	20	-	1,210	53,610
\$ 4,831	\$ (4,037)	\$ 223	\$ 61,798	\$ 46,517	\$ 1	\$ (1,216)	\$ 1,350	\$ 149,811

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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	Motor Transport Service	Postal, Printing & Supply	Information Services	Risk Management	Workers' Compensation
<b>Cash Flows from Operating Activities</b>					
Receipts from Customers and Users	\$ 27,820	\$ 45,155	\$ 39,954	\$ 4,899	\$ 16,017
Payments to Suppliers	(13,405)	(42,677)	(20,545)	(3,361)	(10,491)
Payments to Employees	(11,335)	(2,478)	(15,559)	(329)	(926)
Net Cash Provided (Used) by Operating Activities	3 080	-	3 850	1 209	4 600
<b>Cash Flows from Noncapital Financing Activities</b>					
Operating Transfers In	-	-	-	810	-
Operating Transfers Out	-	-	-	(1)	-
Net Cash Provided (Used) by Noncapital Financing Activities	-	-	-	809	-
<b>Cash Flows from Capital and Related Financing Activities</b>					
Payments for Acquisition of Capital Assets	(9,812)	-	(16,121)	-	-
Proceeds From Financing Arrangements	2,000	-	9,200	-	-
Principal and Interest Paid on Financing Arrangements	(2,156)	-	(875)	-	(2)
Net Cash Provided (Used) by Capital Financing Activities	(9,968)	-	(7,796)	-	(2)
<b>Cash Flows from Investing Activities</b>					
Interest Revenue	309	-	74	760	973
Net Cash Provided (Used) by Investing Activities	309	-	74	760	973
Net Increase (Decrease) in Cash/Cash Equivalents	(6,579)	-	(3,872)	2,778	5,571
Cash/Cash Equivalents - Beginning of Year	10,670	1	6,278	15,079	18,078
Cash/Cash Equivalents - End of Year	\$ 4,091	\$ 1	\$ 2,406	\$ 17,857	\$ 23,649
<b>Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities</b>					
Operating Income (Loss)	\$ (4,154)	\$ (780)	\$ 2,683	\$ 750	\$ 4,762
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>					
Depreciation Expense	5,990	10	2,254	-	-
Decrease (Increase) in Assets					
Accounts Receivable	1,280	(636)	(3,331)	683	63
Interfund Balances	(10)	477	873	28	(36)
Inventories	(501)	89	-	-	-
Increase (Decrease) in Liabilities					
Accounts Payable	451	805	(1,354)	6	(176)
Accrued Payroll Expenses	30	16	1,014	1	(3)
Change in Compensated Absences	(13)	39	1,192	8	-
Other Accruals	7	(20)	519	(267)	(10)
Total Adjustments	7 234	780	1 167	459	(162)
Net Cash Provided (Used) by Operating Activities	\$ 3,080	\$ -	\$ 3,850	\$ 1,209	\$ 4,600
<b>Non Cash Investing, Capital and Financing Activities</b>					
Property Leased, Accrued, or Acquired	-	-	-	-	-
Contributed Capital Assets	3,417	-	-	-	-

Central Fleet Management	Leased Space	Revenue Services	Retiree Health Insurance	Employee Health Insurance	Statewide Radio & Network System	Financial & Personnel Services	Governmental Facilities Authority	Totals Internal Service Funds
\$ 8,228 (3,772) (728)	\$ 21,052 (9,139) (196)	\$ 137 (470) -	\$ 93,782 (84,440) -	\$ 160,457 (119,677) (750)	\$ 1,079 (1,098) -	\$ 7,884 (1,398) (6,708)	\$ 12,314 (1,367) -	\$ 438,778 (311,840) (39,009)
3 728	11 717	(333)	9 342	40 030	(19)	(222)	10 947	87 929
-	-	-	-	-	-	317	-	1,127
-	-	-	13 141	-	-	-	-	13 140
-	-	-	13,141	-	-	317	-	14,267
(3,670)	(541)	-	-	-	-	-	-	(30,144)
4,100	-	-	-	-	-	-	8,890	24,190
(3,960)	(11,180)	-	-	-	-	-	(20,546)	(38,719)
(3,530)	(11,721)	-	-	-	-	-	(11,656)	(44,673)
-	30	26	1,964	989	-	-	116	5,241
-	30	26	1,964	989	-	-	116	5,241
198	26	(307)	24,447	41,019	(19)	95	(593)	62,764
291	-	530	42,184	25,289	20	-	3,203	121,623
\$ 489	\$ 26	\$ 223	\$ 66,631	\$ 66,308	\$ 1	\$ 95	\$ 2,610	\$ 184,387
\$ 870	\$ 7,011	\$ (333)	\$ 39,135	\$ 33,318	\$ (19)	\$ (1,533)	\$ 8,325	\$ 90,035
2,229	4,631	-	-	-	-	-	-	15,114
(51)	6	-	5,833	13,167	-	(115)	3,499	20,398
781	(21)	-	(30,081)	(2,214)	-	-	136	(30,067)
(12)	-	-	-	-	-	-	-	(424)
(103)	71	-	(328)	(535)	-	5	(754)	(1,912)
2	2	-	-	9	-	97	-	1,168
-	17	-	-	13	-	604	-	1,860
12	-	-	(5,217)	(3,728)	-	720	(259)	(8,243)
2 858	4 706	-	(29 793)	6 712	-	1 311	2 622	(2 106)
\$ 3,728	\$ 11,717	\$ (333)	\$ 9,342	\$ 40,030	\$ (19)	\$ (222)	\$ 10,947	\$ 87,929
-	4,093	-	-	-	-	-	-	4,093
-	-	-	-	-	-	-	-	3,417



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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.

The State presents 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, these external entities are

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.

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.

## 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, 2006  
(Expressed in Thousands)

							Totals
	Abandoned Property	Revenue on Private Purpose Trusts	Lands Reserved	Permanent School	Maine Health & Higher Educational Facilities Authority	NextGen College Investing Plan	Private Purpose Trusts
<b>Assets</b>							
Equity in Treasurer's Cash Pool	\$ 503	\$ 52	\$ 563	\$ -	\$ -	\$ -	\$ 1,118
Cash and Short-Term Investments	-	-	-	-	85,069	-	85,069
Investments at Fair Value:							
Restricted Deposits and Investments	-	-	-	-	104,929	-	104,929
Other	-	19	8,018	2,617	123,817	-	134,471
Investments Held on Behalf of Others	-	-	-	-	-	3,988,760	3,988,760
Receivables, Net of Allowance for Uncollectibles:							
Loans to Institutions	-	-	-	-	1,090,623	-	1,090,623
Interest and Dividends	-	-	-	-	16	666	682
Other Receivables	-	-	-	-	888	-	888
Due from Other Funds	5,182	-	-	-	-	-	5,182
Capital Assets - Net of Depreciation	-	-	-	-	3,379	-	3,379
Other Assets	16,287	-	-	-	3,539	-	19,826
Total Assets	<u>21,972</u>	<u>71</u>	<u>8,581</u>	<u>2,617</u>	<u>1,412,260</u>	<u>3,989,426</u>	<u>5,434,927</u>
<b>Liabilities</b>							
Accounts Payable	3	-	-	-	2,950	2,413	5,366
Due to Other Governments	-	-	-	-	1,513	-	1,513
Bonds Payable	-	-	-	-	1,208,025	-	1,208,025
Deferred Revenue	-	-	-	-	774	-	774
Other Accrued Liabilities	-	1	-	-	26,801	-	26,802
Total Liabilities	<u>3</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>1,240,063</u>	<u>2,413</u>	<u>1,242,480</u>
<b>Net Assets</b>							
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	<u>21,969</u>	<u>70</u>	<u>8,581</u>	<u>2,617</u>	<u>172,197</u>	<u>3,987,013</u>	<u>4,192,447</u>
Total Net Assets	<u>\$ 21,969</u>	<u>\$ 70</u>	<u>\$ 8,581</u>	<u>\$ 2,617</u>	<u>\$ 172,197</u>	<u>\$ 3,987,013</u>	<u>\$ 4,192,447</u>

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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

							<b>Totals</b>
	<b>Abandoned Property</b>	<b>Revenue on Private Purpose Trusts</b>	<b>Lands Reserved</b>	<b>Permanent School</b>	<b>Maine Health &amp; Higher Educational Facilities Authority</b>	<b>NextGen College Investing Plan</b>	<b>Private Purpose Trusts</b>
<b>Additions:</b>							
Contributions:							
Members	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,919,484	\$ 1,919,484
Investment Income:							
Net Increase in the Fair Value of Investments	-	-	(113)	(48)	(616)	211,241	210,464
Capital Gains Distributions from Investments	-	-	-	-	-	65,811	65,811
Interest and Dividends	459	149	212	73	11,603	82,893	95,389
Net Investment Income	459	149	99	25	10,987	359,945	371,664
Bond and Note Proceeds	-	-	-	-	242,769	-	242,769
Received from Institutions	-	-	-	-	95,409	-	95,409
Miscellaneous Revenues	10,526	-	-	-	11,004	-	21,530
Total Additions	10,985	149	99	25	360,169	2,279,429	2,650,856
<b>Deductions:</b>							
Benefits Paid to Participants or Beneficiaries	297	55	-	-	-	1,431,819	1,432,171
Construction and Program Costs	-	-	-	-	72,885	-	72,885
Bond Refunding and Refinancing Escrows	-	-	-	-	83,799	-	83,799
Principal Payments on Bonds	-	-	-	-	43,096	-	43,096
Interest Expense	-	-	-	-	54,295	-	54,295
Refunds and Withdrawals	-	-	-	-	4,308	-	4,308
Administrative Expenses	-	-	-	-	19,410	29,045	48,455
Transfers Out	9,699	94	-	-	-	-	9,793
Total Deductions	9,996	149	-	-	277,793	1,460,864	1,748,802
Net Increase (Decrease)	989	-	99	25	82,376	818,565	902,054
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes: Beginning of Year	20,980	70	8,482	2,592	89,821	3,168,448	3,290,393
End of Year	\$ 21,969	\$ 70	\$ 8,581	\$ 2,617	\$ 172,197	\$ 3,987,013	\$ 4,192,447

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

June 30, 2006  
(Expressed in Thousands)

	<b>Payroll Withholding</b>	<b>Private Trusts</b>	<b>Other Agency</b>	<b>Treasurer's Agency</b>	<b>Totals Agency Funds</b>
<b>Assets</b>					
Equity in Treasurer's Cash Pool	\$ 149	\$ 3,438	\$ 2,018	\$ -	\$ 5,605
Cash and Short-Term Investments	-	-	-	72	72
Cash with Fiscal Agent	-	27	-	-	27
Investments Held on Behalf of Others	-	60,539	2,235	-	62,774
Other Assets	-	300	-	-	300
Total Assets	<u>\$ 149</u>	<u>\$ 64,304</u>	<u>\$ 4,253</u>	<u>\$ 72</u>	<u>\$ 68,778</u>
<b>Liabilities</b>					
Accounts Payable	\$ 149	\$ -	\$ 15	\$ -	\$ 164
Agency Liabilities	-	64,304	4,238	72	68,614
Total Liabilities	<u>\$ 149</u>	<u>\$ 64,304</u>	<u>\$ 4,253</u>	<u>\$ 72</u>	<u>\$ 68,778</u>



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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	Balance			Balance
	July 1, 2005	Additions	Deductions	June 30, 2006
<b>Payroll Withholding</b>				
<b>Assets</b>				
Cash, Short-term Investments & Equity in Treasurer's Cash Pool	\$ 28	\$ 254,423	\$ 254,302	\$ 149
Total Assets	\$ 28	\$ 254,423	\$ 254,302	\$ 149
<b>Liabilities</b>				
Accounts Payable & Other Accrued Liabilities Due to Other Funds	\$ 28	\$ 414,680	\$ 414,559	\$ 149
Total Liabilities	\$ 28	\$ 414,680	\$ 414,559	\$ 149
<b>Private Trusts</b>				
<b>Assets</b>				
Cash, Short-term Investments & Equity in Treasurer's Cash Pool	\$ 4,371	\$ 5,479	\$ 6,385	\$ 3,465
Other Assets	290	12	2	300
Investments Held on Behalf of Others	57,225	834,233	830,919	60,539
Total Assets	\$ 61,886	\$ 839,724	\$ 837,306	\$ 64,304
<b>Liabilities</b>				
Accounts Payable & Other Accrued Liabilities Agency Liabilities	\$ -	\$ 628	\$ 628	\$ -
Total Liabilities	\$ 61,886	\$ 794,513	\$ 792,095	\$ 64,304
<b>Other Agency</b>				
<b>Assets</b>				
Cash, Short-term Investments & Equity in Treasurer's Cash Pool	\$ 1,241	\$ 9,611	\$ 6,599	\$ 4,253
Total Assets	\$ 1,241	\$ 9,611	\$ 6,599	\$ 4,253
<b>Liabilities</b>				
Accounts Payable & Other Accrued Liabilities Agency Liabilities	\$ 12	\$ 6,580	\$ 6,577	\$ 15
Total Liabilities	\$ 1,229	\$ 12,600	\$ 9,591	\$ 4,238
<b>Treasurer's Agency</b>				
<b>Assets</b>				
Cash, Short-term Investments & Equity in Treasurer's Cash Pool	\$ 13	\$ 300,071	\$ 300,012	\$ 72
Total Assets	\$ 13	\$ 300,071	\$ 300,012	\$ 72
<b>Liabilities</b>				
Agency Liabilities	\$ 13	\$ 300,687	\$ 300,628	\$ 72
Total Liabilities	\$ 13	\$ 300,687	\$ 300,628	\$ 72
<b>Totals - All Agency Funds</b>				
<b>Assets</b>				
Cash, Short-term Investments & Equity in Treasurer's Cash Pool	\$ 5,653	\$ 569,584	\$ 567,298	\$ 7,939
Investments Held on Behalf of Others	57,225	834,233	830,919	60,539
Other Assets	290	12	2	300
Total Assets	\$ 63,168	\$ 1,403,829	\$ 1,398,219	\$ 68,778
<b>Liabilities</b>				
Accounts Payable & Other Accrued Liabilities Agency Liabilities Due to Other Funds	\$ 40	\$ 421,888	\$ 421,764	\$ 164
Total Liabilities	\$ 63,128	\$ 1,107,800	\$ 1,102,314	\$ 68,614
Total Liabilities	\$ 63,168	\$ 1,529,688	\$ 1,524,078	\$ 68,778



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# **BUDGETARY COMPARISON SCHEDULES BY AGENCY**

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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Department of Administrative and Financial Services</b>			
Administrative Services	\$ 12,924	\$ 12,173	\$ 751
Employee Relations	769	763	6
Financial Services	89,251	85,778	3,473
Human Resources	1,211	1,191	20
Financial and Personnel Services	439	439	-
Purchasing	660	643	17
	<u>105,254</u>	<u>100,987</u>	<u>4,267</u>
<b>Department of Agriculture</b>	<u>7,675</u>	<u>7,320</u>	<u>355</u>
<b>Attorney General</b>	<u>14,903</u>	<u>14,869</u>	<u>34</u>
<b>Department of Audit</b>	<u>1,407</u>	<u>1,405</u>	<u>2</u>
<b>Department of Corrections</b>			
Corrections	43,007	39,693	3,314
Maine State Prison	36,286	36,157	129
Maine Correctional Center	20,851	20,804	47
Dowd Correctional Facility	5,375	5,360	15
Charleston Correctional Facility	16,088	15,985	103
Long Creek Youth Development Center	14,414	14,305	109
	<u>136,021</u>	<u>132,304</u>	<u>3,717</u>
<b>Department of Conservation</b>	<u>24,211</u>	<u>23,523</u>	<u>688</u>
<b>Department of Economic and Community Development</b>	<u>13,120</u>	<u>12,610</u>	<u>510</u>
<b>Department of Environmental Protection</b>	<u>7,112</u>	<u>6,653</u>	<u>459</u>
<b>Department of Human Services</b>			
Human Services	750,400	693,225	57,175
Behavioral and Developmental Services	249,457	240,650	8,807
Augusta Mental Health Institute	11,691	10,846	845
Dorothea Dix Psychiatric Center	10,873	9,933	940
Office of Substance Abuse	11,904	11,390	514
Freeport Towne Square	966	963	3
Elizabeth Levinson Center	2,978	2,967	11
	<u>1,038,269</u>	<u>969,974</u>	<u>68,295</u>
<b>Department of Labor</b>			
Labor	16,017	13,707	2,310
Labor Relations Board	465	458	7
	<u>16,482</u>	<u>14,165</u>	<u>2,317</u>
<b>Department of Transportation</b>			
Transportation	157	83	74
Air Transportation	60	60	-
Rail/Van Pool	49	45	4
	<u>266</u>	<u>188</u>	<u>78</u>
<b>Defense, Veterans and Emergency Management</b>	<u>5,428</u>	<u>5,103</u>	<u>325</u>
<b>Department of Education</b>			
Education	1,033,913	1,026,845	7,068
Education - Unorganized Territory	12,166	10,532	1,634
	<u>1,046,079</u>	<u>1,037,377</u>	<u>8,702</u>
<b>General Government</b>			
Office of the Governor	2,899	2,869	30
State Planning	2,517	2,174	343
Ombudsman Program	127	127	-
	<u>5,543</u>	<u>5,170</u>	<u>373</u>

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Department of Inland Fisheries and Wildlife</b>	\$ 24,048	\$ 23,196	\$ 852
<b>Judicial Department</b>	55,427	55,019	408
<b>Legislative Department</b>			
Legislative	22,575	20,915	1,660
Law and Legislative Reference Library	1,550	1,318	232
Statehouse Preservation and Maintenance	1,800	1,664	136
Program Evaluation and Government Accountability	924	719	205
	<u>26,849</u>	<u>24,616</u>	<u>2,233</u>
<b>Department of Marine Resources</b>	9,373	9,166	207
<b>Department of Public Safety</b>	20,034	19,471	563
<b>Secretary of State</b>			
Secretary of State	2,523	2,482	41
Archives Services	892	888	4
	<u>3,415</u>	<u>3,370</u>	<u>45</u>
<b>Treasurer of State</b>	80,061	80,003	58
<b>Other Agencies</b>			
Museum	1,620	1,619	1
Maine State Cultural Affairs Council	160	128	32
Maine Historic Preservation Commission	314	308	6
Library	3,256	3,251	5
Maine Humanities Council	67	67	-
Finance Authority of Maine	12,999	12,999	-
Centers for Innovation	149	149	-
Com. On Governmental Ethics and Election Practices	133	119	14
Maine Indian Tribal State Council	34	34	-
Board of Property Tax Review	130	112	18
Maine Municipal Bond Bank	83	83	-
Maine State Retirement System	1,313	1,313	-
Human Rights Commission	496	495	1
Saco River Corridor Commission	55	55	-
Atlantic Salmon Commission	596	543	53
NE International Water Pollution Control Commission	10	10	-
Atlantic States Marine Fisheries Commission	34	34	-
St. Croix International Waterway	25	25	-
Maine Public Broadcasting Corporation	2,241	2,241	-
Maine State Housing Authority	5,438	5,438	-
Governor Baxter School for the Deaf	6,200	6,200	-
Baxter Compensation Authority	7,258	7,258	-
Board of Education	150	99	51
Maine Historical Society	55	55	-
Foundation for Blood Research	66	66	-
Pine Tree Legal	304	304	-
Maine Community College System	43,318	43,318	-
Maine Maritime Academy	7,549	7,549	-
University of Maine	183,148	183,148	-
Arts and Humanities Administration	769	764	5
Disability Rights Center	71	71	-
Maine Hospice Counsel	66	66	-
	<u>278,107</u>	<u>277,921</u>	<u>186</u>
<b>Grand Total</b>	\$ <u>2,919,084</u>	\$ <u>2,824,410</u>	\$ <u>94,674</u>



**STATE OF MAINE**  
**BUDGETARY COMPARISON SCHEDULE**  
**HIGHWAY FUND EXPENDITURES BY AGENCY**

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b><i>Department of Administrative and Financial Services</i></b>			
Administrative Services	\$ 2,522	\$ 2,414	\$ 108
Financial Services	476	423	53
	<u>2,998</u>	<u>2,837</u>	<u>161</u>
<b><i>Department of Environmental Protection</i></b>	<u>41</u>	<u>33</u>	<u>8</u>
<b><i>Legislative Department</i></b>			
Program Evaluation and Government Accountability	<u>100</u>	<u>1</u>	<u>99</u>
<b><i>Department of Transportation</i></b>			
Transportation	353,851	300,504	53,347
Rail/Van Pool	654	654	-
	<u>354,505</u>	<u>301,158</u>	<u>53,347</u>
<b><i>Department of Public Safety</i></b>	<u>37,191</u>	<u>35,453</u>	<u>1,738</u>
<b><i>Secretary of State</i></b>			
Motor Vehicles	<u>32,288</u>	<u>31,466</u>	<u>822</u>
<b><i>Grand Total</i></b>	<u>\$ 427,123</u>	<u>\$ 370,948</u>	<u>\$ 56,175</u>

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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Department of Administrative and Financial Services</b>			
Administrative Services	\$ 295	\$ 172	\$ 123
Bureau of Information Services	205	15	190
Financial Services	5	1	4
Financial and Personnel Services	487	239	248
State Employee Health Commission	122	-	122
	<u>1,114</u>	<u>427</u>	<u>687</u>
<b>Department of Agriculture</b>	<u>5,005</u>	<u>2,998</u>	<u>2,007</u>
<b>Attorney General</b>	<u>5,205</u>	<u>4,148</u>	<u>1,057</u>
<b>Department of Corrections</b>			
Corrections	6,889	3,072	3,817
Maine State Prison	20	4	16
Maine Correctional Center	86	52	34
Dowd Correctional Facility	51	4	47
Charleston Correctional Facility	251	154	97
Long Creek Youth Development Center	479	167	312
	<u>7,776</u>	<u>3,453</u>	<u>4,323</u>
<b>Department of Conservation</b>	<u>16,961</u>	<u>10,627</u>	<u>6,334</u>
<b>Department of Economic and Community Development</b>	<u>37,958</u>	<u>19,167</u>	<u>18,791</u>
<b>Department of Environmental Protection</b>	<u>15,827</u>	<u>10,892</u>	<u>4,935</u>
<b>Department of Human Services</b>			
Human Services	2,053,829	1,698,770	355,059
Behavioral and Developmental Services	18,701	7,307	11,394
Dorothea Dix Psychiatric Center	38	-	38
Office of Substance Abuse	18,978	13,059	5,919
	<u>2,091,546</u>	<u>1,719,136</u>	<u>372,410</u>
<b>Department of Labor</b>	<u>105,076</u>	<u>66,080</u>	<u>38,996</u>
<b>Department of Transportation</b>			
Transportation	222,659	203,136	19,523
Air Transportation	2,973	1,029	1,944
Ferry Service/Ports and Marine	753	464	289
Rail/Van Pool	798	-	798
	<u>227,183</u>	<u>204,629</u>	<u>22,554</u>
<b>Defense, Veterans and Emergency Management</b>	<u>118,015</u>	<u>100,339</u>	<u>17,676</u>
<b>Department of Education</b>			
Education	200,486	181,951	18,535
Education - Unorganized Territory	536	423	113
	<u>201,022</u>	<u>182,374</u>	<u>18,648</u>
<b>General Government</b>			
Office of the Governor	1,681	449	1,232
State Planning	6,065	3,482	2,583
Ombudsman Program	29	29	-
	<u>7,775</u>	<u>3,960</u>	<u>3,815</u>
<b>Department of Inland Fisheries and Wildlife</b>	<u>13,408</u>	<u>9,052</u>	<u>4,356</u>
<b>Judicial Department</b>	<u>4,163</u>	<u>3,483</u>	<u>680</u>
<b>Department of Marine Resources</b>	<u>4,922</u>	<u>2,941</u>	<u>1,981</u>
<b>Department of Professional and Financial Regulation</b>			
Professional and Financial Regulation	<u>56</u>	<u>31</u>	<u>25</u>
<b>Department of Public Safety</b>	<u>11,540</u>	<u>7,776</u>	<u>3,764</u>



	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Public Utilities Commission</b>	\$ 1,422	\$ 958	\$ 464
<b>Secretary of State</b>			
Secretary of State	15,233	3,856	11,377
Motor Vehicles	485	102	383
Archives Services	153	143	10
	<u>15,871</u>	<u>4,101</u>	<u>11,770</u>
<b>Treasurer of State</b>	<u>54</u>	<u>34</u>	<u>20</u>
<b>Other Agencies</b>			
Arts and Humanities Administration	861	685	176
Atlantic Salmon Commission	1,933	1,496	437
Human Rights Commission	445	367	78
Library	1,341	1,055	286
Maine Historic Preservation Commission	702	601	101
Museum	337	147	190
University of Maine	253	-	253
	<u>5,872</u>	<u>4,351</u>	<u>1,521</u>
<b>Grand Total</b>	<u>\$ 2,897,771</u>	<u>\$ 2,360,957</u>	<u>\$ 536,814</u>

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

Fiscal Year Ended June 30, 2006  
(Expressed in Thousands)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Department of Administrative and Financial Services</b>			
Administrative Services	\$ 1,281	\$ 390	\$ 891
Financial Services	15,527	12,662	2,865
Human Resources	621	402	219
Financial and Personnel Services	986	977	9
State Employee Health Commission	1,200	229	971
	<u>19,615</u>	<u>14,660</u>	<u>4,955</u>
<b>Department of Agriculture</b>	<u>20,977</u>	<u>15,918</u>	<u>5,059</u>
<b>Attorney General</b>	<u>8,655</u>	<u>7,418</u>	<u>1,237</u>
<b>Department of Audit</b>	<u>1,500</u>	<u>1,252</u>	<u>248</u>
<b>Department of Corrections</b>			
Corrections	1,459	620	839
Maine State Prison	188	104	84
Maine Correctional Center	662	528	134
Downeast Correctional Facility	151	58	93
Charleston Correctional Facility	467	218	249
Long Creek Youth Development Center	38	12	26
	<u>2,965</u>	<u>1,540</u>	<u>1,425</u>
<b>Department of Conservation</b>	<u>21,421</u>	<u>13,342</u>	<u>8,079</u>
<b>Department of Economic and Community Development</b>	<u>10,886</u>	<u>8,208</u>	<u>2,678</u>
<b>Department of Environmental Protection</b>			
Environmental Protection	50,738	33,070	17,668
A.C.E. Service Center	425	423	2
	<u>51,163</u>	<u>33,493</u>	<u>17,670</u>
<b>Department of Human Services</b>			
Human Services	367,236	290,486	76,750
Behavioral and Developmental Services	21,077	17,459	3,618
Riverview Psychiatric Center	20,284	18,739	1,545
Dorothea Dix Psychiatric Center	16,670	15,026	1,644
Office of Substance Abuse	6,311	5,689	622
Freeport Towne Square	87	64	23
	<u>431,665</u>	<u>347,463</u>	<u>84,202</u>
<b>Department of Labor</b>			
Labor	6,522	3,459	3,063
Labor Relations Board	99	75	24
	<u>6,621</u>	<u>3,534</u>	<u>3,087</u>
<b>Department of Transportation</b>			
Transportation	39,914	33,755	6,159
Air Transportation	219	25	194
Rail/Van Pool	1,566	905	661
	<u>41,699</u>	<u>34,685</u>	<u>7,014</u>
<b>Defense, Veterans and Emergency Management</b>	<u>4,742</u>	<u>2,187</u>	<u>2,555</u>
<b>Department of Education</b>			
Education	4,281	1,880	2,401
Education - Unorganized Territory	8	-	8
	<u>4,289</u>	<u>1,880</u>	<u>2,409</u>
<b>General Government</b>			
Office of the Governor	216	91	125
State Planning	2,487	1,491	996
Public Advocate	2,338	1,970	368
	<u>5,041</u>	<u>3,552</u>	<u>1,489</u>
<b>Department of Inland Fisheries and Wildlife</b>	<u>7,421</u>	<u>3,380</u>	<u>4,041</u>

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Judicial Department</b>	\$ 4,026	\$ 3,277	\$ 749
<b>Legislative Department</b>			
Legislative	77	30	47
<b>Department of Marine Resources</b>	6,102	3,677	2,425
<b>Department of Professional and Financial Regulation</b>			
Professional and Financial Regulation	23,655	18,378	5,277
Board of Dental Examiners	336	313	23
Board of Nursing	801	683	118
Board of Optometry	59	48	11
Board of Osteopathic Examination and Registration	292	280	12
Board of Professional Engineers	232	186	46
Board of Registration in Medicine	1,307	1,200	107
	26,682	21,088	5,594
<b>Department of Public Safety</b>	14,687	12,487	2,200
<b>Public Utilities Commission</b>	31,341	22,357	8,984
<b>Secretary of State</b>			
Secretary of State	820	312	508
Motor Vehicles	1,165	1,135	30
Archives Services	60	25	35
	2,045	1,472	573
<b>Treasurer of State</b>	121,439	121,391	48
<b>Other Agencies</b>			
Arts and Humanities Administration	105	39	66
Atlantic Salmon Commission	105	28	77
Baxter Compensation Authority	384	337	47
Baxter State Park Authority	3,127	2,879	248
Board of Water System Operators	84	19	65
Com. On Governmental Ethics and Election Practices	6,418	4,993	1,425
Dirigo Health	180	-	180
Finance Authority of Maine	490	490	-
Harness Racing Promotion Board	188	138	50
Human Rights Commission	24	-	24
Library	316	307	9
Lobster Promotion Council	480	390	90
Maine Community College System	1,309	1,110	199
Maine Consumer Choice Health Plan	1		1
Maine Health Data Organization	1,610	1,322	288
Maine Historic Preservation Commission	596	369	227
Maine Potato Board	1,383	735	648
Maine State Cultural Affairs Council	66	9	57
Maine State Housing Authority	11,120	11,120	-
Mine Children's Trust Incorporated	102	28	74
Museum	224	161	63
Saco River Corridor Commission	34	34	-
University of Maine	1,533	1,246	287
Worker's Compensation Board	8,951	8,803	148
Wild Blueberry Commission of Maine	1,550	1,013	537
	40,380	35,570	4,810
<b>Grand Total</b>	\$ 885,439	\$ 713,861	\$ 171,579



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# STATISTICAL SECTION

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## STATISTICAL SECTION NARRATIVE AND TABLE OF CONTENTS

This part of the State of Maine's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

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#### FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the State's financial performance and fiscal health have changed over time. The schedules presented from an entity wide perspective only include FY2002 and forward, coinciding with the implementation of GASB Statement No. 34. Fund perspective schedules are presented for the last five years, except where noted. Schedules included are:

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# SCHEDULE 1

## STATE OF MAINE NET ASSETS BY ACTIVITIES

Last Five Fiscal Years  
(Expressed in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Primary Government</b>					
<b>Governmental Activities</b>					
Invested in Capital Assets, Net of Related Debt	\$ 3,347,672	\$ 3,061,098	\$ 2,878,596	\$ 2,628,197	\$ 2,424,949
Restricted	172,449	290,385	214,026	184,809	242,976
Unrestricted	<u>(67,588)</u>	<u>(171,074)</u>	<u>(37,519)</u>	<u>(123,477)</u>	<u>5,887</u>
Total Governmental Activities Net Assets	<u>\$ 3,452,533</u>	<u>\$ 3,180,409</u>	<u>\$ 3,055,103</u>	<u>\$ 2,689,529</u>	<u>\$ 2,673,812</u>
<b>Business-Type Activities</b>					
Invested in Capital Assets, Net of Related Debt	\$ 79,030	\$ 49,961	\$ 51,434	\$ 72,375	\$ 53,679
Restricted	476,832	459,538	450,475	459,127	464,862
Unrestricted	<u>(74,098)</u>	<u>(71,445)</u>	<u>(71,419)</u>	<u>2,179</u>	<u>6,798</u>
Total Business-Type Activities Net Assets	<u>\$ 481,764</u>	<u>\$ 438,054</u>	<u>\$ 430,490</u>	<u>\$ 533,681</u>	<u>\$ 525,339</u>
<b>Total Primary Government</b>					
Invested in Capital Assets, Net of Related Debt	\$ 3,426,702	\$ 3,111,059	\$ 2,930,030	\$ 2,700,572	\$ 2,478,628
Restricted	649,281	749,923	664,501	643,936	707,838
Unrestricted	<u>(141,686)</u>	<u>(242,519)</u>	<u>(108,938)</u>	<u>(121,298)</u>	<u>12,685</u>
Total Primary Government Activities Net Assets	<u>\$ 3,934,297</u>	<u>\$ 3,618,463</u>	<u>\$ 3,485,593</u>	<u>\$ 3,223,210</u>	<u>\$ 3,199,151</u>

**SOURCE:** State of Maine Comprehensive Annual Financial Reporting System. Accrual basis of accounting.

## SCHEDULE 2

### STATE OF MAINE CHANGES IN NET ASSETS

Last Five Fiscal Years  
(Expressed in Thousands)

	2006	2005	2004	2003	2002
<b>Expenses</b>					
Governmental Activities:					
Governmental Support & Operations	\$ 530,008	\$ 480,837	\$ 469,682	\$ 403,505	\$ 432,206
Arts, Heritage & Cultural Enrichment	12,191	13,273	12,498	13,012	-
Business Licensing & Regulation	53,547	49,553	46,249	34,447	-
Economic Development & Workforce Training	160,093	171,092	191,868	206,586	131,285
Education	1,494,438	1,412,524	1,357,080	1,340,614	1,323,259
Health & Human Services	3,167,521	3,051,822	2,775,008	2,522,643	2,367,786
Labor	-	-	-	-	92,544
Justice & Protection	340,281	322,072	297,619	301,575	108,742
Natural Resources Development & Protection	166,358	171,307	166,167	163,606	132,858
Transportation, Safety & Development	322,438	246,837	203,968	240,286	240,869
Interest Expense	36,873	32,530	31,324	32,120	24,576
Total Governmental Activities	<u>6,283,748</u>	<u>5,951,847</u>	<u>5,551,463</u>	<u>5,258,394</u>	<u>4,854,125</u>
Business-Type Activities:					
Employment Security	103,867	113,642	118,965	124,452	123,606
Alcoholic Beverages	-	7	61,958	59,412	56,896
Lottery	179,628	161,691	146,214	125,641	120,520
Airport	22	892	819	-	-
Marine Ports	1,378	1,829	1,415	-	-
Ferry Services	6,707	7,876	7,296	-	-
Military Equipment Maintenance	65,013	50,908	25,923	-	-
Dirigo Health	47,122	13,587	-	-	-
Other	3,860	2,107	2,107	11,918	13,990
Total Business-Type Activities	<u>407,597</u>	<u>352,539</u>	<u>364,697</u>	<u>321,423</u>	<u>315,012</u>
Total Primary Government Expenses	<u>6,691,345</u>	<u>6,304,386</u>	<u>5,916,160</u>	<u>5,579,817</u>	<u>5,169,137</u>
<b>Program Revenues</b>					
Governmental Activities:					
Charges for Services:					
Governmental Support & Operations	71,507	67,067	148,707	46,501	65,882
Arts, Heritage & Cultural Enrichment	920	816	1,308	712	-
Business Licensing & Regulation	65,588	51,374	54,920	35,159	-
Economic Development & Workforce Training	2,966	3,355	2,242	3,552	54,042
Education	8,605	1,362	924	465	2,062
Health & Human Services	15,097	13,649	14,722	57,627	10,606
Justice & Protection	75,035	63,274	63,475	52,009	17,625
Natural Resources Development & Protection	76,921	72,450	78,870	75,312	54,921
Transportation, Safety & Development	95,394	97,172	9,919	104,780	96,457
Operating Grants and Contributions	2,536,857	2,324,723	2,265,857	1,952,069	1,666,512
Capital Grants and Contributions	24,268	174,140	200,754	164,927	152,029
Total Governmental Activities Program Revenues	<u>2,973,158</u>	<u>2,869,382</u>	<u>2,841,698</u>	<u>2,493,113</u>	<u>2,120,136</u>
Business-Type Activities:					
Employment Security	102,611	100,136	86,143	119,327	146,297
Alcoholic Beverages	12,525	12,582	89,087	85,985	81,620
Lottery	230,962	211,965	188,671	166,903	159,133
Airport	27	125	147	-	-
Marine Ports	87	427	14	-	-
Ferry Services	3,464	3,642	3,168	-	-
Military Equipment Maintenance	70,427	46,476	27,336	-	-
Dirigo Health	25,886	5,216	-	-	-
Other	4,128	2,178	1,878	5,340	4,456
Operating Grants and Contributions	20,663	23,915	25,927	-	34,321
Capital Grants and Contributions	-	194	1,771	9,000	2,048
Total Business-Type Activities Program Revenues	<u>470,780</u>	<u>406,856</u>	<u>424,142</u>	<u>386,555</u>	<u>427,875</u>
<b>Net (Expense)/Revenue</b>					
Governmental Activities	(3,310,590)	(3,082,465)	(2,709,765)	(2,765,281)	(2,733,989)
Business-Type Activities	<u>63,183</u>	<u>54,317</u>	<u>59,445</u>	<u>65,132</u>	<u>112,863</u>
Total Primary Governmental Net (Expense)/Revenue	<u>(3,247,407)</u>	<u>(3,028,148)</u>	<u>(2,650,320)</u>	<u>(2,700,149)</u>	<u>(2,621,126)</u>



	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>General Revenues and Other Changes in Net Assets:</b>					
Governmental Activities:					
Taxes:					
Corporate	\$ 305,872	\$ 244,842	\$ 216,366	\$ 182,554	\$ 158,493
Individual Income	1,403,790	1,296,606	1,149,109	1,095,143	1,043,312
Fuel	177,904	176,020	166,174	161,534	149,193
Property	53,272	50,962	28,412	38,179	35,546
Sales & Use	1,156,201	1,049,890	1,086,049	1,012,552	976,618
Other	263,506	223,326	117,168	90,769	63,111
Unrestricted Investment Earnings	28,881	20,650	17,049	8,521	8,944
Miscellaneous Income	104,272	92,851	124,043	119,825	81,981
Loss on Assets Held for Sale	(217)	(112)	(3,035)	-	-
Tobacco Settlement	41,573	50,006	49,018	43,587	112,125
Special Items	(31,212)	30,881	75,000	-	-
Transfers - Internal Activities	51,708	50,211	68,132	56,790	69,636
Total Governmental Activities	<u>3,555,550</u>	<u>3,286,133</u>	<u>3,093,485</u>	<u>2,809,454</u>	<u>2,698,959</u>
Business-Type Activities:					
Miscellaneous Income	448	-	-	-	-
Loss on Assets Held for Sale	-	-	-	-	1,093
Special Items	31,787	(50,000)	(85,703)	-	-
Transfers - Internal Activities	(51,708)	(50,211)	(68,132)	(56,790)	(69,636)
Total Business-Type Activities	<u>(19,473)</u>	<u>(100,211)</u>	<u>(153,835)</u>	<u>(56,790)</u>	<u>(68,543)</u>
Total Primary Government	<u>3,536,077</u>	<u>3,185,922</u>	<u>2,939,650</u>	<u>2,752,664</u>	<u>2,630,416</u>
<b>Change in Net Assets</b>					
Governmental Activities	244,960	203,668	383,720	44,173	(35,030)
Business-Type Activities	<u>43,710</u>	<u>(45,894)</u>	<u>(94,390)</u>	<u>8,342</u>	<u>44,320</u>
Total Change in Net Assets - Primary Government	<u>\$ 288,670</u>	<u>\$ 157,774</u>	<u>\$ 289,330</u>	<u>\$ 52,515</u>	<u>\$ 9,290</u>

**SOURCE:** State of Maine Comprehensive Annual Financial Reporting System. Accrual basis of accounting.

**SCHEDULE 3**

**STATE OF MAINE**  
**FUND BALANCES, GOVERNMENTAL FUNDS**

Last Five Fiscal Years  
(Expressed in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General Fund					
Reserved	\$ 177,796	\$ 192,684	\$ 122,440	\$ 60,946	\$ 156,495
Unreserved	<u>(355,427)</u>	<u>(146,328)</u>	<u>(124,706)</u>	<u>(81,361)</u>	<u>(136,169)</u>
Total General Fund	<u>\$ (177,631)</u>	<u>\$ 46,356</u>	<u>\$ (2,266)</u>	<u>\$ (20,415)</u>	<u>\$ 20,326</u>
<hr/>					
All Other Governmental Funds					
Reserved	\$ 460,257	\$ 521,984	\$ 487,506	\$ 449,667	\$ 553,836
Unreserved	<u>(67,148)</u>	<u>(30,605)</u>	<u>(38,886)</u>	<u>(80,578)</u>	<u>(64,812)</u>
Total All Other Governmental Funds	<u>\$ 393,109</u>	<u>\$ 491,379</u>	<u>\$ 448,620</u>	<u>\$ 369,089</u>	<u>\$ 489,024</u>
<hr/>					
Total Governmental Fund Balances	<u>\$ 215,478</u>	<u>\$ 537,735</u>	<u>\$ 446,354</u>	<u>\$ 348,674</u>	<u>\$ 509,350</u>

**SOURCE:** State of Maine Comprehensive Annual Financial Reporting System. Modified accrual basis of accounting.

# SCHEDULE 4

## STATE OF MAINE REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) GOVERNMENTAL FUNDS

Last Five Fiscal Years  
(Expressed in Thousands)

	2006	2005	2004	2003	2002
<b>Revenues:</b>					
Taxes	\$ 3,344,803	\$ 3,035,988	\$ 2,764,684	\$ 2,585,456	\$ 2,417,458
Assessments and Other Revenue	290,455	256,690	260,225	212,339	212,777
Federal Grants and Reimbursements	2,625,354	2,500,523	2,461,204	2,169,919	1,837,347
Service Charges	135,815	119,996	131,871	128,148	141,584
Investment Income	24,140	16,740	15,247	6,396	6,422
Miscellaneous Revenue	115,800	130,609	148,537	165,242	91,321
Total Revenues	<u>6,536,367</u>	<u>6,060,546</u>	<u>5,781,768</u>	<u>5,267,500</u>	<u>4,706,909</u>
<b>Expenditures</b>					
Current:					
Governmental Support & Operations	529,462	461,645	474,173	383,432	481,855
Economic Development & Workforce Training	162,326	173,919	194,379	207,732	133,320
Education	1,510,662	1,425,244	1,367,414	1,327,936	1,325,259
Health and Human Services	3,364,164	3,097,852	2,830,069	2,597,851	2,443,949
Labor	-	-	-	-	92,191
Business Licensing & Regulation	56,064	50,883	47,702	35,282	-
Natural Resources Development & Protection	191,612	184,171	200,428	175,348	136,601
Justice and Protection	362,394	346,849	303,659	323,326	109,022
Arts, Heritage & Cultural Enrichment	12,655	13,471	12,715	13,074	-
Transportation Safety & Development	574,314	469,978	458,679	456,482	393,985
Debt Service:					
Principal Payments	75,090	66,790	72,325	85,165	87,605
Interest Payments	18,998	15,972	15,480	16,957	20,779
Total Expenditures	<u>6,857,741</u>	<u>6,306,774</u>	<u>5,977,023</u>	<u>5,622,585</u>	<u>5,224,566</u>
Revenue over (under) Expenditures	<u>(321,374)</u>	<u>(246,228)</u>	<u>(195,255)</u>	<u>(355,085)</u>	<u>(517,657)</u>
Other Financing Sources (Uses):					
Transfer from Other Funds	282,739	342,965	434,934	376,005	291,483
Transfer to Other Funds	(235,505)	(288,865)	(349,799)	(323,827)	(213,817)
Other	10,727	6,061	11,246	10,546	-
Proceeds from Pledged Future Revenues	22,111	49,423	-	-	-
Bonds Issued	52,390	140,025	133,815	103,580	32,610
Net Other Finance Sources (Uses)	<u>132,462</u>	<u>249,609</u>	<u>230,196</u>	<u>166,304</u>	<u>110,276</u>
Special Items:					
Return of Excess Equity from Retiree Health Insurance Fund	-	105,711	-	-	-
Refund to Federal Government Resulting from Excess Equity Distribution	-	(19,119)	-	-	-
Purchase of Landfill	-	-	(26,000)	-	-
Sale of Landfill Capacity	-	-	26,000	-	-
Proceeds from Sale of Liquor Operating Rights	-	50,000	75,000	-	-
Net Special Items	<u>-</u>	<u>136,592</u>	<u>75,000</u>	<u>-</u>	<u>-</u>
Revenues and Other Sources over (under) Expenditures and Other Uses	<u>\$ (188,912)</u>	<u>\$ 139,973</u>	<u>\$ 109,941</u>	<u>\$ (188,781)</u>	<u>\$ (407,381)</u>

Debt Service as a Percentage of NonCapital Expenditures	1.42%	1.37%	1.55%	1.91%	2.18%
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**SOURCE:** State of Maine Comprehensive Annual Financial Reporting System. Modified accrual basis of accounting.

# SCHEDULE 5

## STATE OF MAINE REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) GENERAL FUND

Last Five Fiscal Years  
(Expressed in Thousands)

	2006	2005	2004	2003	2002
<b>Revenues:</b>					
Taxes	\$ 2,926,835	\$ 2,653,628	\$ 2,453,800	\$ 2,307,439	\$ 2,173,345
Assessments and Other Revenue	105,371	88,514	81,852	62,010	61,685
Federal Grants and Reimbursements	17,334	28,894	25,230	25,580	21,578
Service Charges	41,395	38,351	44,049	35,356	41,111
Investment Income	12,299	6,877	5,837	2,346	3,830
Miscellaneous Revenue	14,993	12,437	45,008	5,660	457
Total Revenues	<u>3,118,227</u>	<u>2,828,701</u>	<u>2,655,776</u>	<u>2,438,391</u>	<u>2,302,006</u>
<b>Expenditures</b>					
Current:					
Governmental Support & Operations	327,529	270,370	263,839	172,344	277,640
Economic Development & Workforce Training	45,324	42,278	47,095	54,292	61,348
Education	1,283,214	1,201,008	1,144,907	1,143,982	1,157,639
Health and Human Services	1,097,456	957,371	777,074	813,105	927,868
Labor	-	-	-	-	14,729
Business Licensing & Regulation	-	3	-	37	-
Natural Resources Development & Protection	70,878	67,310	66,692	67,315	51,439
Juvenile Justice and Protection	227,588	220,141	203,360	202,653	24,941
Arts, Heritage & Cultural Enrichment	8,504	8,521	8,352	9,017	-
Transportation Safety & Development	178	831	3,338	1,603	9,308
Debt Service:					
Principal Payments	57,985	53,510	56,310	63,950	64,305
Interest Payments	15,263	12,541	12,458	12,953	15,479
Total Expenditures	<u>3,133,919</u>	<u>2,833,884</u>	<u>2,583,425</u>	<u>2,541,251</u>	<u>2,604,696</u>
Revenue over (under) Expenditures	<u>(15,692)</u>	<u>(5,183)</u>	<u>72,351</u>	<u>(102,860)</u>	<u>(302,690)</u>
<b>Other Financing Sources (Uses):</b>					
Transfer from Other Funds	90,912	101,813	127,525	197,119	128,126
Transfer to Other Funds	(164,923)	(168,173)	(238,637)	(135,000)	(124,836)
Other	666	-	-	-	-
Bonds Issued	-	1,681	2,335	-	-
Net Other Finance Sources (Uses)	<u>(73,345)</u>	<u>(64,679)</u>	<u>(108,777)</u>	<u>62,119</u>	<u>3,290</u>
<b>Special Items:</b>					
Return of Excess Equity from Retiree Health Insurance Fund	-	68,484	-	-	-
Purchase of Landfill	-	-	(26,000)	-	-
Sale of Landfill Capacity	-	-	26,000	-	-
Proceeds from Sale of Liquor Operating Rights	-	50,000	75,000	-	-
Net Special Items	<u>-</u>	<u>118,484</u>	<u>75,000</u>	<u>-</u>	<u>-</u>
Revenues and Other Sources over (under) Expenditures and Other Uses	<u>\$ (89,037)</u>	<u>\$ 48,622</u>	<u>\$ 38,574</u>	<u>\$ (40,741)</u>	<u>\$ (299,400)</u>

Debt Service as a Percentage of NonCapital Expenditures	2.6%	2.6%	3.0%	3.4%	3.4%
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SOURCE: State of Maine Comprehensive Annual Financial Reporting System. Modified accrual basis of accounting.

# SCHEDULE 6

## STATE OF MAINE INDIVIDUAL INCOME TAX AND TAX RATES ON TAXABLE INCOME

Last Five Calendar Years  
(Expressed in Millions)

	2005	2004	2003	2002	2001
Individual Income Tax Liability	\$ 1,286,375	\$ 1,200,138	\$ 1,079,587	\$ 1,020,675	\$ 1,016,073
Personal Income	\$ 41,300,331	\$ 39,510,398	\$ 37,281,183	\$ 35,998,489	\$ 35,107,104
Average Effective Tax Rate	3.1%	3.0%	2.9%	2.8%	2.9%

Tax Rates on the Portion of Taxable Income in Ranges <sup>1</sup>				
<b>Tax Year 2005</b>				
Tax Rate	2.0%	4.5%	7.0%	8.5%
Income Bracket	\$0 - \$4,450	\$4,450 - \$8,850	\$8,850 - \$17,700	\$17,700+
<b>Tax Year 2004</b>				
Tax Rate	2.0%	4.5%	7.0%	8.5%
Income Bracket	\$0 - \$4,350	\$4,350 - \$8,650	\$8,650 - \$17,350	\$17,350+
<b>Tax Year 2003</b>				
Tax Rate	2.0%	4.5%	7.0%	8.5%
Income Bracket	\$0 - \$4,250	\$4,250 - \$8,450	\$8,450 - \$16,950	\$16,950+
<b>Tax Year 2002</b>				
Tax Rate	2.0%	4.5%	7.0%	8.5%
Income Bracket	\$0 - \$4,200	\$4,200 - \$8,350	\$8,350 - \$16,700	\$16,700+
<b>Tax Year 2001</b>				
Tax Rate	2.0%	4.5%	7.0%	8.5%
Income Bracket	\$0 - \$4,150	\$4,150 - \$8,250	\$8,250 - \$16,500	\$16,500+

Individual income tax brackets are indexed for inflation beginning in tax year 2003.

<sup>1</sup> Amounts shown are for single and married filing separate returns. For joint filers double the income amounts, for head of household filers multiply the brackets by 1.5.

**STATE OF MAINE  
INDIVIDUAL INCOME TAX FILERS AND TAX  
LIABILITY BY MAINE ADJUSTED GROSS INCOME**

(Tax Liability Expressed in Millions)

<i>Tax Year 2000</i>					<i>Tax Year 2004</i>				
<u>Income Level</u>	<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Tax Liability</u>	<u>Percentage of Total</u>	<u>Income Level</u>	<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Tax Liability</u>	<u>Percentage of Total</u>
Less Than or Equal to Zero	5,186	0.8%	\$ 0.01	0.0%	Less Than or Equal to Zero	8,205	1.3%	\$ 0.10	0.0%
\$0 - \$10,000	122,157	19.5%	1.38	0.1%	\$0 - \$10,000	114,036	17.9%	1.08	0.1%
\$10,000 - \$20,000	121,639	19.4%	19.22	1.8%	\$10,000 - \$20,000	112,199	17.6%	16.21	1.3%
\$20,000 - \$30,000	100,323	16.0%	55.57	5.1%	\$20,000 - \$30,000	98,084	15.4%	51.61	4.3%
\$30,000 - \$50,000	124,257	19.8%	154.93	14.2%	\$30,000 - \$50,000	126,055	19.8%	158.86	13.2%
\$50,000 - \$75,000	81,593	13.0%	202.87	18.6%	\$50,000 - \$75,000	87,593	13.7%	220.24	18.3%
\$75,000 - \$100,000	33,419	5.3%	135.26	12.4%	\$75,000 - \$100,000	41,821	6.6%	172.85	14.4%
\$100,000 - \$200,000	26,288	4.2%	180.25	16.5%	\$100,000 - \$200,000	34,463	5.4%	237.74	19.8%
\$200,000 or More	11,884	1.9%	340.49	31.2%	\$200,000 or More	14,737	2.3%	344.48	28.6%
Total	626,746	100.0%	\$ 1,089.97	100.0%	Total	637,193	100.0%	\$ 1,203.16	100.0%

**SOURCE:** Maine Revenue Services.

## SCHEDULE 8

### STATE OF MAINE SALES AND USE TAX RATES AND REVENUES BY SOURCE

Last Five Calendar Years

	2005	2004	2003	2002	2001
Business Operating	\$ 1,974,352	\$ 1,875,710	\$ 1,714,115	\$ 1,611,253	\$ 1,731,182
Building Supply	2,464,352	2,344,687	2,013,655	1,846,797	1,738,224
Food Store	1,343,160	1,278,427	1,253,829	1,215,792	1,182,825
General Merchandise	2,986,708	3,001,887	2,897,803	2,795,288	2,668,766
Other Retail	1,824,692	1,708,180	1,587,861	1,497,463	1,458,366
Auto/Transportation	3,695,730	3,744,219	3,698,571	3,519,874	3,446,679
Restaurant/Lodging	2,319,463	2,238,980	2,146,647	2,093,837	2,010,496
Total	<u>\$ 16,608,457</u>	<u>\$ 16,192,090</u>	<u>\$ 15,312,481</u>	<u>\$ 14,580,304</u>	<u>\$ 14,236,538</u>

Sales and Use Tax Rates:

					1/1/01 repeal snack tax;
General Sales & Use	5%	5%	5%	5%	7/1/00 - 5%
Prepared Food/Restaurant	7%	7%	7%	7%	7%
Short-term Auto Rental	10%	10%	10%	10%	10%

**SOURCE:** Maine Revenue Services.

## SCHEDULE 9

### STATE OF MAINE CALCULATION OF LEGAL DEBT MARGIN FOR THE TEN YEARS ENDED JUNE 30, 2006

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, for the years presented below, which were subject to the Constitutional limitations.\*

All other general long-term bonds outstanding at June 30, for the years presented below, were issued pursuant to properly ratified legislation.

Calculations of temporary loans made during the year, yet paid back prior to year end are (Dollar Amounts Expressed in Thousands):

Year	Temporary Loans Outstanding During the Year*	Total Governmental Funds Revenue	% of Total Governmental Funds Revenue	10% of Total Governmental Funds Revenue Limit Amount	Total Valuation	% of Total Valuation	1% of Total Valuation Limit Amount
2006	\$169,852	\$6,366,819	2.67%	\$636,682	\$133,628,600	.13%	\$1,336,286
2005	\$332,850	\$6,114,226	5.44%	\$611,423	\$118,038,020	.28%	\$1,180,380
2004	\$405,275	\$5,902,866	6.87%	\$590,287	\$104,219,950	.39%	\$1,042,200
2003	\$347,080	\$5,114,543	6.79%	\$511,454	\$94,034,050	.37%	\$940,341
2002	\$27,610	\$4,808,789	.57%	\$480,879	\$84,874,550	.03%	\$848,746
2001	\$5,000	\$4,608,742	.11%	\$460,874	\$78,389,400	.01%	\$783,894
2000	\$9,694	\$4,604,954	.21%	\$460,495	\$74,260,000	.02%	\$742,600
1999	\$33,695	\$4,257,340	.79%	\$425,734	\$71,779,350	.05%	\$717,794
1998	\$33,500	\$4,168,141	.80%	\$416,814	\$69,691,900	.05%	\$696,919
1997	\$161,525	\$3,756,558	4.30%	\$375,656	\$68,286,600	.24%	\$682,866



# SCHEDULE 10

## STATE OF MAINE RATIOS OF OUTSTANDING DEBT BY TYPE

Last Five Fiscal Years  
(Expressed in Thousands, Except Per Capita)

	2006	2005	2004	2003	2002
<b>Governmental Activities Debt</b>					
General Obligation Bonds	\$ 467,550	\$ 487,095	\$ 416,360	\$ 358,410	\$ 346,495
MGFA Revenue Bonds	186,215	189,570	197,950	196,383	191,646
COPS and Other Financing Arrangements	36,581	36,865	45,346	48,658	22,626
Obligations Under Capital Leases	40,091	39,905	40,137	34,916	34,105
Pledged Future Revenues <sup>1</sup>	46,268	49,423	-	-	-
Total Governmental Activities Debt	<u>776,705</u>	<u>802,858</u>	<u>699,793</u>	<u>638,367</u>	<u>594,872</u>
<b>Business-Type Activities Debt</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Primary Government Debt</b>	<u>\$ 776,705</u>	<u>\$ 802,858</u>	<u>\$ 699,793</u>	<u>\$ 638,367</u>	<u>\$ 594,872</u>
<b>Debt Ratios</b>					
Ratio of Total Debt to Personal Income <sup>2</sup>	1.8%	1.9%	1.8%	1.7%	1.7%
Per Capita <sup>3</sup>	\$ 582	\$ 606	\$ 532	\$ 489	\$ 459
<b>Net General Obligation Bonded Debt</b>					
Gross Bonded Debt	\$ 653,765	\$ 676,665	\$ 614,310	\$ 554,793	\$ 538,141
Less: Debt Service Funds	5,824	11,657	12,002	12,343	12,681
Net Bonded Debt	<u>\$ 647,941</u>	<u>\$ 665,008</u>	<u>\$ 602,308</u>	<u>\$ 542,450</u>	<u>\$ 525,460</u>
Ratio of Net Bonded Debt to Estimated Property Value	0.6%	0.7%	0.7%	0.7%	0.7%
Per Capita <sup>3</sup>	\$ 486	\$ 502	\$ 458	\$ 415	\$ 406

<sup>1</sup> Federal revenues associated with constructing certain highway projects are pledged as "Loans Receivable from Primary Government". These Pledged Future Revenues offset the unspent proceeds of the GARVEE bonds received by a component unit.

<sup>2</sup> Personal income data can be found in Schedule 12.

<sup>3</sup> Population data can be found in Schedule 12.

**SCHEDULE 11****STATE OF MAINE  
PLEDGED FUTURE REVENUE COVERAGE**

Last Five Fiscal Years

	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Grant Anticipation Revenue Vehicle (GARVEE) Bonds					
Federal Aid Revenues	\$ 167,405,491	\$ 174,988,696	N/A	N/A	N/A
Annual Debt Service	\$ 366,480	\$ 4,866,781	N/A	N/A	N/A
Debt Service Coverage	0.22%	2.78%	N/A	N/A	N/A

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.

**SOURCE:** Department of Transportation.

**SCHEDULE 12****STATE OF MAINE  
DEMOGRAPHIC INFORMATION**

Last Five Fiscal Years

	2006	2005	2004	2003	2002
Maine:					
Population (in thousands) <sup>1</sup>	1,334	1,322	1,315	1,308	1,297
Total Personal Income (in thousands) <sup>2</sup>	42,819	41,300	39,510	37,281	35,998
Per Capita Personal Income <sup>1</sup>	32,098	31,252	30,046	28,497	27,756
Unemployment Rate <sup>3</sup>	4.4%	4.6%	4.3%	4.9%	4.2%
United States:					
Population (in thousands) <sup>4</sup>	299,103	296,410	293,657	290,850	287,985
Total Personal Income (in thousands) <sup>1</sup>	10,882,821	10,251,639	9,705,504	9,157,257	8,872,871
Per Capita Personal Income <sup>1</sup>	36,385	34,586	33,050	31,484	30,810
Unemployment Rate <sup>3</sup>	4.6%	5.0%	5.6%	6.3%	5.8%

<sup>1</sup> Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce through 2005.  
Maine State Planning Office Projection for 2006.

<sup>2</sup> Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce.

<sup>3</sup> Local Area Unemployment Statistics Information and Analysis, Bureau of Labor Statistics, U.S. Department of Labor

<sup>4</sup> Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce through 2005  
U.S. Census Bureau for 2006.

**SCHEDULE 13**

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

Last Five Fiscal Years

Company	Ranking				
	2006	2005	2004	2003	2002
Hannaford Brothers Company.....	1	1	1	1	1
Wal Mart Associates, Inc.....	2	2	2	3	3
L.L. Bean, Inc.....	3	5	5	4	4
Maine Medical Center.....	4	4	4	5	5
Bath Iron Works Corporation.....	5	3	3	2	2
Shaw's Supermarkets.....	6	6	7	8	8
Eastern Maine Medical Center.....	7	7	9	10	9
UNUM PROVIDENT Corp.....	8	8	8	7	7
Banknorth N.A.....	9	10	10	12	12
MaineGeneral Medical Center - Augusta.....	10	11	11	13	11
MBNA Marketing Systems, Inc.....	11	9	6	6	6
International Paper Co.....	12	12	12	11	10
Home Depot USA, Inc.....	13	13	13	19	24
Central Maine Medical Center.....	14	14	14	21	22
Pratt & Whitney Aircraft Group.....	15	15	15	16	13
Mercy Hospital.....	16	16	16	N/A	21
S. D. Warren.....	17	17	23	22	17
Rite Aid of Maine, Inc.....	18	18	17	23	20
Jackson Laboratory.....	19	19	20	24	25
Verizon New England, Inc.....	20	21	21	17	15
Central Maine Power Co.....	21	20	22	20	16
Aroostook Medical Center.....	22	25	N/A	N/A	N/A
Anthem Health Systems.....	23	22	18	18	14
Rumford Paper Company.....	24	N/A	N/A	N/A	N/A
Bowdoin College.....	25	N/A	N/A	N/A	N/A
Irving Oil Corporation.....	N/A	23	19	N/A	N/A
Mead Oxford Corp.....	N/A	24	24	N/A	23
Attendant Services, Inc.....	N/A	N/A	25	N/A	N/A
University of Maine at Orono.....	N/A	N/A	N/A	9	N/A
University of Southern Maine.....	N/A	N/A	N/A	14	N/A
Maine Community College Systems.....	N/A	N/A	N/A	15	N/A
Cianbro Corporation.....	N/A	N/A	N/A	25	N/A
Great Northern Paper, Inc.....	N/A	N/A	N/A	N/A	18
Fairchild Semiconductor Corporation.....	N/A	N/A	N/A	N/A	19

**SOURCE:** Maine State Department of Labor.

**SCHEDULE 14**

**STATE OF MAINE**  
**SCHEDULE OF STATE GOVERNMENT FULL TIME EQUIVALENT EMPLOYEES**  
**BY POLICY AREA**

Last Five Fiscal Years

	2006	2005	2004	2003	2002
Governmental Support & Operations	1,970.0	1,696.3	1,754.3	2,531.9	2,497.9
Economic Development & Workforce Training	828.5	892.5	892.5	834.6	819.7
Education	219.4	215.0	215.0	343.7	442.8
Health and Human Services	3,889.9	4,025.5	4,047.5	5,483.2	5,412.2
Labor	-	-	-	851.0	851.0
Business Licensing & Regulation	420.2	417.2	417.2	-	-
Natural Resources Development & Protection	1,353.7	1,615.3	1,620.8	1,294.4	1,287.7
Justice and Protection	2,925.7	2,969.7	2,971.2	840.5	1,022.5
Arts, Heritage & Cultural Enrichment	107.4	109.5	109.5	-	-
Transportation Safety & Development	2,343.9	2,390.5	2,390.5	2,390.5	2,390.5
Total Full Time Equivalents	14,058.7	14,331.5	14,418.5	14,569.8	14,724.3

Note: Statutory agency realignment among policy areas occurred in 2003.

**SOURCE:** Maine Bureau of Budget.

**SCHEDULE 15**

**STATE OF MAINE**  
**OPERATING INDICATORS AND CAPITAL INFORMATION**

Fiscal Year Ended June 30, 2006

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Operating Indicators by Function:	
Business Licensing & Regulation	
Number of licenses issued	124,543
Education	
Students enrolled in the free/reduced lunch program	69,125
Economic Development & Workforce Training	
Unemployed persons	32,100
Governmental Support & Operations	
Return on investments	4.10%
Number of lottery tickets sold <sup>1</sup>	229
Health and Human Services	
Percentage of population enrolled in MaineCare <sup>2</sup>	26%
Number of TANF cases <sup>3</sup>	12,821
Number of clients served by Dirigo Health	18,067
Justice and Protection	
Number of adult inmates	2,078
Number of juvenile inmates	275
Number of guard troops	3,131
Number of cases tried in the court system	281,006
Natural Resources and Development	
Number of park passes purchased	9,016
Number of visitors to State parks	2,083,310
Number of hunting and fishing licenses sold <sup>4</sup>	350,547
Transportation Safety & Development	
Number of construction projects	195

<sup>1</sup> In millions

<sup>2</sup> Based on the average enrollees over the fiscal year.

<sup>3</sup> Based on the average number of cases over the fiscal year.

<sup>4</sup> Calendar year based.

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Capital Assets by Function:

Governmental Support & Operations

Vehicles in the motor pool	1,675
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Health and Human Services

Number of regional offices	16
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Justice and Protection

Number of correctional facilities	8
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Number of armories	17
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Number of State police barracks	8
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Number of patrol cars	521
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Number of courts	56
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Natural Resources and Development

Total acreage of State parks	99,935
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Number of State park buildings	519
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Number of warden's vehicles and marine patrol watercraft	664
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Transportation Safety & Development

Number of DOT vehicles and equipment	1,163
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Number of regional DOT active buildings	647
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