

MAINE STATE LEGISLATURE

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STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 1987

VOLUME 1 OF 2



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STATE DEPARTMENT OF AUDIT
Augusta, Maine 04333

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 1987

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STATE OF MAINE
DEPARTMENT OF AUDIT
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Auditor's Report on Combined Financial Statements

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

We have examined the component unit financial statements of the State of Maine oversight unit as of and for the year ended June 30, 1987, as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the Division of Community Services, which represent less than one percent of the assets and revenues of the general and special revenue fund types. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for the Division of Community Services, is based solely upon the report of the other auditors.

The financial statements referred to above include only the financial activities of the oversight unit. Financial activities of other component units that form the reporting entity are not included.

The State does not have complete financial records to support the amounts included in its General Fixed Assets Account Group. Accordingly, we were unable to examine sufficient evidential matter to support such amounts.


As more fully described in note 1C to the financial statements, the state does not record certain accruals and payables as required by generally accepted accounting principles.

As described in note 9, the state has underaccrued the cost of its retirement plan. The cumulative amount of the underaccrual cannot be estimated.

As more fully described in note 15, the state is a defendant in numerous lawsuits. The state's legal counsel is unable to determine the potential outcome of several of these lawsuits. No adjustment has been made to record the effects of the ultimate settlement of these lawsuits.

In our opinion, except for the effects on the financial statements of not recording certain transactions in accordance with generally accepted accounting principles as described in the third preceding paragraph and subject to the effects on the financial statements of such adjustment, if any, as might have been required had the ultimate outcome of the various lawsuits referred to in the second preceding paragraph been known, and except for the effects on

the financial statements of such adjustments, if any, as might have been required had the amount of the underaccrued pension costs described in the preceding paragraph been known, the component unit financial statements referred to above present fairly the financial position of the State of Maine, oversight unit, at June 30, 1987 and the results of its operations and the changes in financial position of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. For the reason discussed in the third paragraph, we do not express an opinion on the General Fixed Assets Account Group.

 CPA
Rodney L. Scribner, CPA
State Auditor

August 8, 1988

State of Maine
Combined Balance Sheet - All Fund Types and Account Groups
(Dollars in Thousands)
June 30, 1987

| Assets | Governmental Fund Types | | | | | Proprietary Fund Types | | Fiduciary Fund Types | Account Groups | | Total (Memorandum Only) |
|---|-------------------------|-----------------|-----------------------------|-----------------|---------------------|------------------------|---------------------|----------------------|-----------------------------|-------------------|-------------------------------|
| | Special Revenue | | Other Special Revenue | Debt Service | Capital Projects | Enterprise | Internal Service | Trust and Agency | General | General | |
| | General | Highway | | | | | | | Fixed Assets (unaudited) | Long-Term Debt | |
| Equity in treasurer's cash pool | \$138,785 | \$31,041 | \$ 65,156 | \$3,031 | \$44,052 | \$11,937 | \$11,257 | \$ 62,966 | \$ | \$ | \$ 368,225 |
| Demand cash | | | | | | | | 1,541 | | | 1,541 |
| Cash with fiscal agent | | | | 682 | | | | | | | 682 |
| Cash other | 112 | 25 | 21 | | | 157 | 1 | 6,557 | | | 6,873 |
| Deposits with U.S. Treasury | | | | | | | | 115,375 | | | 115,375 |
| Investments (note 4) | | | | | 26,230 | 1 | | 1,215,327 | | | 1,241,558 |
| Receivables (net of allowances for uncollectibles) (note 1E) | | | | | | | | | | | |
| Taxes (note 5) | 24,972 | 3,055 | 10,894 | | | | | | | | 38,921 |
| Accounts | 6,169 | 90 | 558 | | | 668 | 77 | 4,416 | | | 11,978 |
| Federal (note 6) | | | 15,327 | | | | | | | | 15,327 |
| Block grant (note 6) | | | 20,510 | | | | | | | | 20,510 |
| Notes | | | | | | 998 | | | | | 998 |
| Loan | | | 8,330 | | | 1,421 | | | | | 9,751 |
| Credit cards | | | | | | 125 | | | | | 125 |
| Accrued interest | | | | | | | | 7,531 | | | 7,531 |
| Due from other funds | 408 | 386 | 5,215 | | | 36 | 5,447 | | | | 11,492 |
| Due from federal government | | | | | | | | 245 | | | 245 |
| Working capital advances to other funds | 4,361 | 13,182 | | | | | | | | | 17,543 |
| Advances from Highway Fund | 191 | | | | | | | | | | 191 |
| Advances to other funds - | | | | | | | | | | | |
| General Fund | | | 311 | | | | | | | | 311 |
| Highway Fund | | | 367 | | | | | | | | 367 |
| Inventories | 1,788 | | 250 | | | 9,587 | 6,243 | 37 | | | 17,905 |
| Prepaid expenses | 147 | 717 | 186 | | | 157 | 45 | 414 | | | 1,666 |
| Annuity for prize winners | | | | | | 660 | | | | | 660 |
| Land, buildings and equipment | | | | | | 38,920 | 46,850 | 534 | 273,130 | | 359,434 |
| Accumulated depreciation | | | | | | (7,503) | (29,985) | (119) | | | (37,607) |
| Amount available in debt service funds | | | | | | | | | | 3,031 | 3,031 |
| Amount to be provided for retirement of general long-term debt | | | | | | | | | | 302,044 | 302,044 |
| Total Assets | \$176,933 | \$48,496 | \$127,125 | \$3,713 | \$70,262 | \$57,164 | \$39,935 | \$1,414,824 | \$273,130 | \$305,075 | \$2,516,677 |

(Continued)

State of Maine
Combined Balance Sheet - All Fund Types and Account Groups (Continued)

| Liabilities and Fund Equity | Governmental Fund Types | | | | | Proprietary Fund Types | | Fiduciary Fund Types | Account Groups | | Total |
|--|-------------------------|---------|-----------------------|--------------|------------------|------------------------|------------------|----------------------|--------------------------|----------------|-------------------|
| | Special Revenue | | | Debt Service | Capital Projects | Enterprise | Internal Service | Trust and Agency | General | General | (Memorandum Only) |
| | General | Highway | Other Special Revenue | | | | | | Fixed Assets (unaudited) | Long-Term Debt | |
| Liabilities: | | | | | | | | | | | |
| Cash overdraft | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ 28,841 | \$ | \$ | \$ 28,841 |
| Accounts payable | 13,847 | 4,772 | 8,353 | | | 6,762 | 3,487 | 8,384 | | | 45,605 |
| Accrued payable | 10,521 | 4,331 | 3,180 | | 28,307 | | 378 | | | | 46,717 |
| Other liabilities | 5,016 | 27 | 239 | | | 662 | 3,497 | 36,928 | | | 46,369 |
| Due to other funds | 8,231 | 1,503 | 1,059 | | | 963 | 317 | 168 | | | 12,241 |
| Due to federal government | | | 735 | | | | | | | | 735 |
| Due to inmate; student guardianship accounts | | | | | | | | 1,401 | | | 1,401 |
| Deferred revenue | | | 16,061 | | | 346 | | | | | 16,407 |
| Working capital advances payable | | | 165 | | | 3,985 | 13,393 | | | | 17,543 |
| Matured bonds payable | | | | 305 | | | | | | | 305 |
| Matured interest payable | | | | 377 | | | | | | | 377 |
| Bonds payable (note 13) | | | | | | | | | | 305,075 | 305,075 |
| Total Liabilities | 37,615 | 10,633 | 29,792 | 682 | 28,307 | 12,718 | 21,072 | 75,722 | - | 305,075 | 521,616 |
| Fund Equity: | | | | | | | | | | | |
| Contributed capital | | | | | | 61,811 | 4,819 | | | | 66,630 |
| Inventory in general fixed assets | | | | | | | | | 273,130 | | 273,130 |
| Retained earnings (deficit) (note 2) | | | | | | (18,025) | 13,682 | | | | (4,343) |
| Fund Balances: (note 1E) | | | | | | | | | | | |
| Reserved for encumbrances | 10,270 | 2,310 | 31,104 | | 17,301 | | 166 | | | | 61,151 |
| Reserved for other purposes | 14,821 | 408 | 4,182 | | | | | 1,333,550 | | | 1,352,961 |
| Reserved for working capital advances | 4,361 | 13,182 | | | | | 574 | | | | 18,117 |
| Reserved for group life insurance | | | | | | | | 4,952 | | | 4,952 |
| Reserved for tax adjustments (note 16) | 73 | | | | | | | | | | 73 |
| Reserved for annuity prize winners | | | | | | 660 | | | | | 660 |
| Reserved for inventory | 1,788 | | 250 | | | | | | | | 2,038 |
| Reserved for Portland terminal | | 274 | | | | | | | | | 274 |
| Rainy Day Fund | 25,000 | | | | | | | | | | 25,000 |

(Continued)

State of Maine
Combined Balance Sheet - All Fund Types and Account Groups (Continued)

| | Governmental Fund Types | | | | | Proprietary Fund Types | Fiduciary Fund Types | Account Groups | | Total (Memorandum Only) | | |
|--|-------------------------|-----------------|-----------------------------|-----------------|---------------------|---------------------------|-------------------------|-----------------------------|-------------------------------------|-------------------------------|--------------------|-----------|
| | Special Revenue | | Other Special Revenue | Debt Service | Capital Projects | | | Enterprise | Internal Service | | General | General |
| | General | Highway | | | | | | | | | Fixed Assets | Long-Term |
| | | | | | | | | | | | (unaudited) | Debt |
| <u>Liabilities and Fund Equity (Cont'd.)</u> | <u>General</u> | <u>Highway</u> | <u>Revenue</u> | <u>Service</u> | <u>Projects</u> | <u>Enterprise</u> | <u>Service</u> | <u>Trust and Agency</u> | <u>Fixed Assets (unaudited)</u> | <u>Long-Term Debt</u> | | |
| Fund Balances: (Cont'd.) | | | | | | | | | | | | |
| Unreserved: | | | | | | | | | | | | |
| Designated for subsequent year expenditures | \$ 25,695 | \$12,794 | \$ | \$ | \$24,674 | \$ | \$ | \$ | \$ | \$ | \$ 63,163 | |
| Designated for debt service | | | | 3,031 | | | | | | | 3,031 | |
| Undesignated + UNRESERVED | <u>57,310</u> | <u>8,895</u> | <u>61,797</u> | <u> </u> | <u> </u> | <u> </u> | <u>(378)</u> | <u>600</u> | <u> </u> | <u> </u> | <u>128,224</u> | |
| Total Fund Equity | <u>139,318</u> | <u>37,863</u> | <u>97,333</u> | <u>3,031</u> | <u>41,975</u> | <u>44,446</u> | <u>18,863</u> | <u>1,339,102</u> | <u>273,130</u> | <u>-</u> | <u>1,995,061</u> | |
| Total Liabilities and Fund Equity | <u>\$176,933</u> | <u>\$48,496</u> | <u>\$127,125</u> | <u>\$3,713</u> | <u>\$70,282</u> | <u>\$57,164</u> | <u>\$39,935</u> | <u>\$1,414,824</u> | <u>\$273,130</u> | <u>\$305,075</u> | <u>\$2,516,677</u> | |

The notes to the financial statements are an integral part of this statement.

State of Maine
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -
 All Governmental Fund Types and Expendable Trust Funds
 (Dollars in Thousands)
 For the Fiscal Year Ended June 30, 1987

| | Governmental Fund Types | | | | | Fiduciary Fund Type Expendable Trust | Total (Memorandum Only) |
|--|-------------------------|-----------|-----------------------------|-----------------|---------------------|---|-------------------------------|
| | General | Highway | Other Special Revenue | Debt Service | Capital Projects | | |
| Revenues: | | | | | | | |
| Taxes, licenses and fees | \$1,029,577 | \$142,349 | \$ 86,463 | \$ | \$ | \$ 84,600 | \$1,342,989 |
| Fines, forfeits and penalties | 15,583 | 717 | 866 | | | | 17,166 |
| Income from investments | 7,415 | 1,143 | 2,471 | 2,877 | 54 | 6,739 | 20,699 |
| Intergovernmental revenue | 1,611 | | 584,804 | | | | 586,415 |
| Revenue from private sources | 887 | | 24,041 | | | | 24,928 |
| Service charges for current services | 19,791 | 7,633 | 16,698 | | | | 44,122 |
| Contributions - | | | | | | | |
| Cities, towns and counties | | | | | | 163,961 | 163,961 |
| University of Maine System and Maine Maritime Academy | | | | | | 138,039 | 138,039 |
| Employees | | | | | | 711 | 711 |
| Other revenues | 7,478 | 1,405 | 5,586 | 2,076 | | 1,724 | 18,269 |
| Total Revenues | 1,082,342 | 153,247 | 720,929 | 4,953 | 54 | 395,774 | 2,357,299 |
| Expenditures: | | | | | | | |
| General government | 88,637 | 15,132 | 98,743 | | 1,633 | 97 | 204,242 |
| Economic development | 18,743 | 105 | 27,181 | | | | 46,029 |
| Education and culture | 555,867 | | 58,451 | | 20,411 | | 634,729 |
| Human services | 314,023 | | 363,544 | | 1,218 | 280,598 | 959,383 |
| Manpower | 2,136 | | 32,996 | | | 52,626 | 87,758 |
| Natural resources | 18,134 | | 24,406 | | 10,607 | | 53,147 |
| Public protection | 13,423 | 15,863 | 11,274 | | | | 40,560 |
| Transportation | 3,067 | 124,055 | 61,330 | | 1,254 | | 189,706 |
| Debt service <i>P+I on P Only?</i> | | | | 57,724 | | | 57,724 |
| Total Expenditures | 1,014,030 | 155,155 | 677,925 | 57,724 | 35,123 | 333,321 | 2,273,278 |
| Excess of Revenues over (under) Expenditures | 68,312 | (1,908) | 43,004 | (52,771) | (35,069) | 62,453 | 84,021 |
| Other Financing Sources (Uses): | | | | | | | |
| Operating transfers (net) | 3,428 | (9,994) | 4,011 | 53,190 | 19,782 | (3,992) | 66,425 |
| Bond proceeds | | 10,000 | | | 18,654 | | 28,654 |
| Total Other Financing Sources (Uses) | 3,428 | 6 | 4,011 | 53,190 | 38,436 | (3,992) | 95,079 |

(Continued)

State of Maine
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -
All Governmental Fund Types and Expendable Trust Funds (Continued)

| | Governmental Fund Types | | | | | Fiduciary Fund Type Expendable Trust | Total (Memorandum Only) |
|---|-------------------------|------------------|-----------------------------|-----------------|---------------------|---|-------------------------------|
| | General | Highway | Other Special Revenue | Debt Service | Capital Projects | | |
| Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Uses | \$ 71,740 | (\$ 1,902) | \$ 47,015 | \$ 419 | \$ 3,367 | \$ 58,461 | \$ 179,100 |
| Fund Balances - July 1 | 78,948 | 45,075 | 66,025 | 2,612 | 39,782 | 154,774 | 387,216 |
| Adjustments to Fund Balance | (5,583) | (5,310) | (15,707) | | (1,174) | (21,103) | (48,877) |
| Residual Equity Transfers | (5,787) | | | | | | (5,787) |
| Fund Balances - June 30 | <u>\$ 139,318</u> | <u>\$ 37,863</u> | <u>\$ 97,333</u> | <u>\$ 3,031</u> | <u>\$41,975</u> | <u>\$192,132</u> | <u>\$ 511,652</u> |

The notes to the financial statements are an integral part of this statement.

State of Maine
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -
 Budget and Actual - General and Special Revenue Fund Types
 (Dollars in Thousands)
 For the Fiscal Year Ended June 30, 1987

| | General Fund | | | Special Revenue Funds | | | | | | Totals | | |
|---|--------------|-------------|----------------------------------|-----------------------|-----------|----------------------------------|-------------|-----------|----------------------------------|-------------------|-------------|----------------------------------|
| | | | | Highway Fund | | Other Special Revenue Funds | | | | (Memorandum Only) | | |
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | | | | | | | |
| Taxes, licenses and fees | \$1,008,134 | \$1,030,178 | \$22,044 | \$137,539 | \$142,349 | \$ 4,810 | \$ 96,731 | \$ 86,463 | (\$ 10,268) | \$1,242,404 | \$1,258,990 | \$ 16,586 |
| Fines, forfeits and penalties | 13,940 | 15,583 | 1,643 | 667 | 717 | 50 | 967 | 866 | (101) | 15,574 | 17,166 | 1,592 |
| Income from investments | 6,198 | 7,415 | 1,217 | 1,000 | 1,143 | 143 | 1,530 | 2,471 | 941 | 8,728 | 11,029 | 2,301 |
| Intergovernmental revenue | 1,414 | 1,093 | (321) | 24 | (24) | (24) | 675,298 | 563,612 | (111,686) | 676,736 | 564,705 | (112,031) |
| Revenues from private services | 570 | 887 | 317 | | | | 25,577 | 24,041 | (1,536) | 26,147 | 24,928 | (1,219) |
| Service charges for current services | 22,316 | 19,791 | (2,525) | 7,993 | 7,633 | (360) | 18,422 | 16,698 | (1,724) | 48,731 | 44,122 | (4,609) |
| Other revenues | 7,711 | 7,478 | (233) | 86 | 1,405 | 1,319 | 15,829 | 5,585 | (10,244) | 23,626 | 14,468 | (9,158) |
| Total Revenues | 1,060,283 | 1,082,425 | 22,142 | 147,309 | 153,247 | 5,938 | 834,354 | 699,736 | (134,618) | 2,041,946 | 1,935,408 | (106,538) |
| Expenditures: | | | | | | | | | | | | |
| General government | 129,073 | 121,802 | 7,271 | 14,629 | 15,132 | (503) | 146,199 | 96,490 | 49,709 | 289,901 | 233,424 | 56,477 |
| Economic development | 19,432 | 18,743 | 689 | | 105 | (105) | 29,084 | 27,181 | 1,903 | 48,516 | 46,029 | 2,487 |
| Education and culture | 563,150 | 555,867 | 7,283 | | | | 82,011 | 58,451 | 23,560 | 645,161 | 614,318 | 30,843 |
| Human service | 326,066 | 314,023 | 12,043 | | | | 413,696 | 363,544 | 50,152 | 739,762 | 677,567 | 62,195 |
| Manpower | 2,380 | 2,136 | 244 | | | | 59,140 | 32,996 | 26,144 | 61,520 | 35,132 | 26,388 |
| Natural resources | 19,674 | 18,134 | 1,540 | | | | 35,641 | 24,406 | 11,235 | 55,315 | 42,540 | 12,775 |
| Public protection | 16,845 | 13,423 | 3,422 | 16,247 | 15,863 | 384 | 18,135 | 11,274 | 6,861 | 51,227 | 40,560 | 10,667 |
| Transportation | 4,117 | 3,067 | 1,050 | 160,986 | 124,055 | 36,931 | 88,993 | 61,223 | 27,770 | 254,096 | 188,345 | 65,751 |
| Total Expenditures | 1,080,737 | 1,047,195 | 33,542 | 191,862 | 155,155 | 36,707 | 872,899 | 675,565 | 197,334 | 2,145,498 | 1,877,915 | 267,583 |
| Excess of Revenues over (under) Expenditures | (20,454) | 35,230 | 55,684 | (44,553) | (1,908) | 42,645 | (38,545) | 24,171 | 62,716 | (103,552) | 57,493 | 161,045 |
| Other Financing Sources (Uses): | | | | | | | | | | | | |
| Operating transfers (net) | 48,676 | 42,844 | (5,832) | | (9,994) | (9,994) | 4,992 | 4,011 | (981) | 53,668 | 36,861 | (16,807) |
| Bond proceeds | | | | 9,000 | 10,000 | 1,000 | | | | 9,000 | 10,000 | 1,000 |
| Total Other Financing Sources (Uses) | 48,676 | 42,844 | (5,832) | 9,000 | 6 | (8,994) | 4,992 | 4,011 | (981) | 62,668 | 46,861 | (15,807) |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Uses | 28,222 | 78,074 | 49,852 | (35,553) | (1,902) | 33,651 | (33,553) | 28,182 | 61,735 | (40,884) | 104,354 | 145,238 |
| Fund Balances - July 1 | 42,011 | 73,161 | 31,150 | 30,585 | 45,075 | 14,490 | (26,916) | 66,025 | 92,941 | 45,680 | 184,261 | 138,581 |
| Adjustments to Fund Balance | | (711) | (711) | - | (5,310) | (5,310) | - | (1,217) | (1,217) | - | (7,238) | (7,238) |
| Fund Balances - June 30 (note 3) | \$ 70,233 | \$ 150,524 | \$80,291 | (\$ 4,968) | \$ 37,863 | \$42,831 | (\$ 60,469) | \$ 92,990 | \$153,459 | \$ 4,796 | \$ 281,377 | \$276,581 |

The notes to the financial statements are an integral part of this statement.

State of Maine
 Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balances
 All Proprietary Fund Types and Similar Trust Funds
 (Dollars in Thousands)
 For the Fiscal Year Ended June 30, 1987

| | Proprietary Fund Types | | Fiduciary Fund Types | | Total (Memorandum Only) |
|--|---------------------------|---------------------|-------------------------|------------------|-------------------------------|
| | Enterprise | Internal Service | Nonexpendable Trust | Pension Trust | |
| Operating Revenues: | | | | | |
| Salaries | \$130,136 | \$ 41,637 | \$ 72 | \$ | \$ 130,208 |
| Intergovernmental billings | | | | | 41,637 |
| Fees and licenses | 16,233 | | | | 16,233 |
| Profit and loss sale of securities | | | 1,111 | 92,035 | 93,146 |
| Interest earned (net of amortization of premiums) | | | | 39,422 | 39,422 |
| Contributions plus accrued interest | | | | 75,227 | 75,227 |
| Federal funds | | | | 25,647 | 25,647 |
| Employer contributions - | | | | | |
| From General Fund | | | | 102,454 | 102,454 |
| From Highway Fund | | | | 10,187 | 10,187 |
| From Special Revenue Funds | | | | 11,772 | 11,772 |
| From Other Funds | | | | 2,684 | 2,684 |
| Total Operating Revenues | <u>146,369</u> | <u>41,637</u> | <u>1,183</u> | <u>359,428</u> | <u>548,617</u> |
| Operating Expenses: | | | | | |
| Personal services | 7,468 | 10,389 | | | 17,857 |
| General operating expenses | 7,898 | 9,088 | | 2,709 | 19,695 |
| Depreciation | 834 | 3,646 | | | 4,480 |
| Cost of goods sold | 78,999 | 16,938 | | | 95,937 |
| Refunds of contributions plus interest | | | | 8,624 | 8,624 |
| Interest allowed on individual contributions | | | | 23,286 | 23,286 |
| Health insurance premium - retired state employees | | | | 2,905 | 2,905 |
| Claim and benefit payments | | | | 135,647 | 135,647 |
| Other expenses | | | | 76 | 76 |
| Total Operating Expenses | <u>95,199</u> | <u>40,061</u> | <u>-</u> | <u>173,247</u> | <u>308,507</u> |
| Operating Income | <u>51,170</u> | <u>1,576</u> | <u>1,183</u> | <u>186,181</u> | <u>240,110</u> |
| Nonoperating Revenues (Expenses): | | | | | |
| Other nonoperating revenues (expenses) | (108) | 1,142 | | | 1,034 |
| Interest income | 749 | 727 | | | 1,476 |
| Interest expense | | (74) | | | (74) |
| Total Nonoperating Revenues (Expenses) | <u>641</u> | <u>1,795</u> | <u>-</u> | <u>-</u> | <u>2,436</u> |

(Continued)

State of Maine
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balances (Continued)

| | Proprietary Fund Types | | Fiduciary Fund Types | | Total (Memorandum Only) |
|--|---------------------------|-----------------------------|--------------------------------|--------------------------|-------------------------------|
| | <u>Enterprise</u> | <u>Internal Service</u> | <u>Nonexpendable Trust</u> | <u>Pension Trust</u> | |
| Income before Operating Transfers | \$ 51,811 | \$ 3,371 | \$1,183 | \$ 186,181 | \$ 242,546 |
| Operating Transfers In (Out) | (<u>53,500</u>) | <u>-</u> | <u>-</u> | <u>-</u> | (<u>53,500</u>) |
| Net Income (Loss) | (<u>1,689</u>) | <u>3,371</u> | <u>1,183</u> | <u>186,181</u> | <u>189,046</u> |
| Retained Earnings/Fund Balances - July 1 | (<u>14,335</u>) | <u>10,357</u> | <u>8,103</u> | <u>953,071</u> | <u>957,196</u> |
| Adjustments to Retained Earnings/Fund Balances | (<u>2,001</u>) | (<u>46</u>) | <u>-</u> | (<u>1,568</u>) | (<u>3,615</u>) |
| Retained Earnings/Fund Balances - June 30 (note 2) | (\$ <u>18,025</u>) | <u>\$13,682</u> | <u>\$9,286</u> | <u>\$1,137,684</u> | <u>\$1,142,627</u> |

The notes to the financial statements are an integral part of this statement.

State of Maine
 Combined Statement of Changes in Financial Position
 All Proprietary Fund Types and Similar Trust Funds
 (Dollars in Thousands)
 For the Fiscal Year Ended June 30, 1987

| | Proprietary Fund Types | | Fiduciary Fund Types | | Total (Memorandum Only) |
|---|------------------------|---------------------|------------------------|------------------|-------------------------------|
| | Enterprise | Internal Service | Nonexpendable Trust | Pension Trust | |
| Sources of Working Capital: | | | | | |
| Operations - | | | | | |
| Net income | (\$ 1,689) | \$3,371 | \$1,183 | \$186,181 | \$189,046 |
| Items not requiring (providing) working capital: | | | | | |
| Depreciation | <u>834</u> | <u>3,646</u> | <u> </u> | <u> </u> | <u>4,480</u> |
| Working Capital Provided by Operations | (855) | 7,017 | 1,183 | 186,181 | 193,526 |
| Transferred from governmental funds | 2,029 | 278 | | | 2,307 |
| Other | <u>3,130</u> | (257) | <u> </u> | <u> </u> | <u>2,873</u> |
| Total Sources of Working Capital | <u>4,304</u> | <u>7,038</u> | <u>1,183</u> | <u>186,181</u> | <u>198,706</u> |
| Uses of Working Capital: | | | | | |
| Acquisition of property, plant, and equipment | <u>270</u> | <u>7,666</u> | | | <u>7,936</u> |
| Net Increase (Decrease) in Working Capital | <u>\$ 4,034</u> | <u>(\$ 628)</u> | <u>\$1,183</u> | <u>\$186,181</u> | <u>\$190,770</u> |
| Elements of Net Increase (Decrease) in Working Capital: | | | | | |
| Cash | \$ 3,264 | \$ 377 | \$ 102 | \$ 28,842 | \$ 32,585 |
| Accounts receivable (net of allowances for uncollectibles) | 730 | 22 | 1,081 | 1,584 | 3,417 |
| Investments | | | | 149,653 | 149,653 |
| Inventories | 2,842 | 1,946 | | | 4,788 |
| Other assets | 735 | 3,097 | | 171 | 4,003 |
| Accounts payable | (2,649) | (1,952) | | 6,271 | 1,670 |
| Due to other funds | | | | 20 | 20 |
| Working capital advances payable | | (600) | | | (600) |
| Other current liabilities | (888) | (3,518) | | (360) | (4,766) |
| Net Increase (Decrease) in Working Capital | <u>\$ 4,034</u> | <u>(\$ 628)</u> | <u>\$1,183</u> | <u>\$186,181</u> | <u>\$190,770</u> |

The notes to the financial statements are an integral part of this statement.

State of Maine

Notes to Financial Statements

June 30, 1987

1. Summary of Organizational Structure and Significant Accounting Policies

A. Scope of Reporting Entity

For financial reporting purposes, in conformity with generally accepted accounting principles (GAAP), the state should include all funds, agencies, boards, commissions and authorities over which the state's executive or legislative branches exercise oversight responsibility. Oversight responsibility of the state was determined on the basis of budget adoption, funding, outstanding debt secured by revenues or general obligations of the state, authority to appoint an organization's governing board, and the organization's scope of service and financing relationship to the state.

Based on the foregoing criteria, the following entities are part of the state's operations but have been excluded from the state's oversight unit financial statements:

- o Board of Overseers of the Bar
- o Finance Authority of Maine
- o Maine Health/Higher Education Facilities Authority
- o Maine Maritime Academy
- o Maine Municipal Bond Bank
- o Maine School Building Authority
- o Maine Insurance Guaranty Association
- o Maine State Housing Authority
- o Maine Turnpike Authority
- o Maine Veterans Home
- o University of Maine System

Also meeting the criteria for inclusion as a component unit is the Maine Vocational Technical Institute System, established in April 1986. Results of the operation of its six campuses are included in the financial statements of the state at June 30, 1987, however, Administrative System office revenues and expenditures of \$718,000 and \$634,000 respectively, are not included as they maintain their own accounting records.

B. Basis of Presentation - Fund Accounting

The accompanying financial statements of the state present the financial position of the various fund types and account groups, the results of operations of the various fund types and the changes in financial position of the proprietary and fiduciary funds. The

accounts of the state are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund categories, fund types, and account groups are utilized by the state:

Governmental Funds:

General Fund - Accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the state's major operating fund.

Special Revenue Funds - Account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes. The state maintains the following special revenue fund classifications:

Highway Fund - to account for revenues derived from registration of motor vehicles, operators' licenses, gasoline tax, and other dedicated revenues (except for federal matching funds and bond proceeds used for capital projects). This fund is allocated by the legislature for the operation of the Department of Transportation to construct and maintain highways and bridges, other programs and a portion of the state police administration.

Other Special Revenue Funds - to account for various special purpose funds which have been established on a self-supporting basis. Revenues are generated by taxes, licenses, fees and federal matching funds and grants.

Capital Projects Fund - Accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The state also includes in this fund type proceeds from bond issues for uses other than major capital facilities.

Debt Service Fund - Accounts for the accumulation of resources, principally transfers from other funds, for the payment of general long-term debt principal and interest.

Proprietary Funds:

Enterprise Funds - Account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Internal Service Funds - Account for the financing of goods or services provided by one department or agency to other departments or agencies of the state, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds:

Trust and Agency Funds - Account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

Account Groups:

General Fixed Assets Account Group (unaudited) - Accounts for all general fixed assets acquired or constructed for use by the state in the conduct of its activities, except those accounted for in proprietary and trust funds.

General Long-Term Debt Account Group - Accounts for all long-term liabilities of the state, except those accounted for in Proprietary Funds or Nonexpendable Trust Funds.

Total Columns on Combined Statements:

Total columns on combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles.

C. Basis of Accounting

Governmental fund revenues and expenditures are recognized on the modified accrual basis. Under the modified accrual basis applied in accordance with generally accepted accounting principles, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Self-assessed taxes, principally income, sales and use taxes are recorded as revenues when reported to the state.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the state; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Proprietary fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Fiduciary fund revenues and expenses (or expenditures) are recognized on the basis consistent with the fund's accounting measurement objective. Nonexpendable trust and pension trust funds are accounted for on the accrual basis; expendable trust funds are accounted for on the modified accrual basis. Agency fund assets and liabilities are accounted for on the modified accrual basis.

In certain respects, the state's accounting practices differ from generally accepted accounting principles. At June 30, 1987, material differences were as follows:

Payroll expenditures are recorded as paid rather than at the time services are rendered.

Certain non-payroll obligations are recorded as encumbrances and reservations of fund balances (appropriations carried forward) rather than as accounts payable.

Certain federal revenues are recorded at time of receipt rather than at the time the expenditure to be reimbursed is made.

The liability for accumulated compensated absences payable in subsequent fiscal years from Governmental Funds and Fiduciary Funds of the State of Maine is not accrued because the amount of such obligation cannot be reasonably estimated. Certain Proprietary Funds accrue a liability for compensated absences in the fiscal year earned.

D. Budgetary Process

The budgeted appropriations are prepared on a biennial basis based on department commissioners' recommendations to the Governor. The legislature has final approval over appropriations. Only the legislature can make additional appropriations. Interdepartmental transfers require approval of the Governor.

Budgets are prepared on a cash basis, except that sales and income taxes are accrued when the tax return is received and recorded.

Unencumbered appropriations in the General Fund generally lapse at year end, unless specific carry forward legislation is approved.

Budgetary control is maintained at the account level at which appropriations or allocations are approved by the legislature.

E. Assets, Liabilities and Fund Equity

Equity in Treasurer's Cash Pool

The Treasurer's Cash Pool, comprised primarily of short-term certificates of deposit, repurchase agreements, U.S. Treasury Bills and U.S. Treasury Notes, is stated at cost which approximates market value.

Investments

Investments are stated at cost or fair market value at date of acquisition.

Deposits with United States Treasury

The federal government requires that unemployment tax receipts be deposited with the United States Treasury. Funds are drawn down as benefits are paid.

Accounts and Notes Receivable

Taxes receivable, accounts receivable and loans/notes receivable are stated as net of reserves on the Combined Balance Sheet dated June 30, 1987. At June 30, 1987, reserves for these accounts were approximately \$10.2 million, \$5.1 million, and \$1.2 million respectively.

Inventories

Inventories in the Proprietary Funds are stated at the lower of cost (determined on either the moving weighted average or first-in, first-out methods) or market. Inventories consist primarily of merchandise for resale and supplies. Inventories of the governmental funds are recorded on the purchases method.

Fixed Assets

Fixed assets (including public domain) are valued at historical cost or estimated fair value on the date donated. Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, including drainage and sewerage systems, are capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

Land, Buildings and Equipment--Proprietary Funds

Land, buildings and equipment are recorded at cost. Depreciation is computed on the straight-line method in a manner intended to amortize the cost of assets over their estimated useful lives.

Expenditures which materially increase values, change capacities or extend useful lives are capitalized. Repairs and maintenance are charged to operations as incurred.

Donated assets are recorded at their market value on the date donated.

Encumbrances and Appropriations Carried

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the Governmental Funds. Unexpended appropriation balances of the Governmental Funds are available for subsequent expenditure to the extent that encumbrances have been established by the end of the fiscal year. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Fund Balance Reserves and Designations

The state's fund balance reserves represent those portions of fund balance (1) not available for expenditure or (2) legally segregated for a specific future use. The General Fund and Highway Fund amounts are primarily for working capital and contingencies. The amount recorded in the trust and agency funds is primarily for future unemployment benefits.

F. Other Accounting Policies

Property Tax Revenue

Property taxes levied for the current year are "available" and are, therefore, recognized as revenue, even though collectible in the period subsequent to the levy. The state's property tax collection record shows that most of the property taxes due are collected during the year of levy.

Vacation and Sick Leave

The state accounts for vacation leave payments to employees on a cash basis, rather than accruing a liability when the obligation is incurred as required by generally accepted accounting principles. Employees do not vest in sick time; therefore, expense for sick time is recorded when paid.

2. Stewardship, Compliance and Accountability

Several enterprise funds have accumulated deficits aggregating approximately \$18 million at June 30, 1987. These deficits are covered by working capital advances from the General Fund and Special Revenue Funds and additional advances will be made as necessary.

3. Budget/GAAP Differences

The state does not prepare its budget in accordance with generally accepted accounting principles (GAAP). The cumulative effect on fund balances due to differences between the state's revenues and expenditures presented on a budgetary basis of accounting in Exhibit 3 and GAAP basis as presented in Exhibit 2 for the fiscal year ended June 30, 1987 are as follows:

(Dollars in Thousands)

| | General <u>Fund</u> | Highway <u>Fund</u> | Other Special Revenue <u>Funds</u> |
|--------------------------|------------------------|------------------------|---|
| Fund balance (Exhibit 3) | \$150,524 | \$37,863 | \$ 92,990 |
| Accrued payroll | (10,521) | | (3,180) |
| Accounts payable | (5,056) | | (2,106) |
| Accounts receivable | 2,581 | | 9,378 |
| Inventory | <u>1,788</u> | <u> </u> | <u>250</u> |
| Fund balance (Exhibit 2) | <u>\$139,318</u> | <u>\$37,863</u> | <u>\$ 97,333</u> |

4. Deposits and Investments

The following information is provided as required by the Governmental Accounting Standards Board's Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Authority for State of Maine deposits and investments: The deposit and investment policies of the State of Maine's Treasury Department are governed by Title 5 §135 et. seq. of the Maine Revised Statutes Annotated. State of Maine deposits must be held in depositories organized under the laws of this state or depositories located in this state not to exceed an amount equal to 25% of the capital, surplus and undivided profits of such depository unless fully secured by the pledge of certain securities as collateral or fully covered by insurance. Money in excess of that necessary to meet current obligations may be invested in: bonds, notes, certificates of indebtedness or other obligations of the United States which mature not more than 24 months from the date of investment, or in repurchase agreements secured by obligations of the United States which mature within the succeeding 24 months, prime commercial paper, tax-exempt obligations or bankers' acceptances. The Treasurer may also participate in the securities loan market by lending state-owned bonds, notes or other certificates of indebtedness of the Federal Government if fully collateralized by treasury bills or cash. In addition, the State Treasurer may invest up to \$4 million in lending institutions at a 2% lower-than-market yield, providing these financial institutions lend operating funds (equal to the amount on deposit) to agricultural enterprises in this state at 2% interest rate reductions.

In some cases, deposits and investment policies of certain component units are established by governing councils or boards, to whom such responsibility has been delegated by statute; however, all deposits, investments and repurchase agreements of State of Maine component units are specifically authorized by law.

In accordance with applicable statutory authority, the State Employee's Retirement System and Group Life Insurance Program have invested in common stocks, bonds, fixed income and convertible securities, mortgages and real estate.

Investments: The State of Maine categorizes investments according to the level of credit risk assumed by the state. Category 1 includes investments that are insured, registered or held by the state's agent in the state's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the state's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the state's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interest in mutual funds and investment pools in which the Maine State Retirement System and the deferred compensation plan participates. The following summary identifies the level of credit risk assumed by the state and the total carrying amount and market value of state investments.

(Dollars in Thousands)

| | Carrying Amount | | | | Market Value |
|---|-----------------|-------------|------------|-------------|--------------|
| | Category 1 | Category 2 | Category 3 | Total | |
| Repurchase agreements | \$ | \$ 13,907 | \$12,323 | \$ 26,230 | \$ 26,230 |
| U.S. Government and agency obligations | 2,301 | | 12,142 | 14,443 | 14,585 |
| Money market accounts | | | 237 | 237 | 237 |
| Mortgage loans | | | 274 | 274 | 274 |
| State and municipal bonds | | | 1,765 | 1,765 | 1,765 |
| Corporate bonds and notes | 1,746 | | 3,160 | 4,906 | 4,542 |
| Convertible bonds | 574 | | | 574 | 636 |
| Corporate stocks | 2,838 | | 43 | 2,881 | 7,806 |
| Convertible stocks | 220 | | | 220 | 243 |
| Other investments | | 62 | | 62 | 62 |
| Subtotal | 7,679 | 13,969 | 29,943 | 51,591 | 56,379 |
| Add amounts for Maine State Retirement System: | | | | | |
| Bonds | | 588,908 | | 588,908 | 603,084 |
| Common stocks | | 401,714 | | 401,714 | 565,400 |
| Totals | \$7,679 | \$1,004,591 | \$29,943 | 1,042,213 | 1,224,863 |
| Add amounts not categorized because securities are not used as evidence of the investments: | | | | | |
| Investment pools in which the Maine State Retirement System Participates: | | | | | |
| Mortgages | | | | 65 | 65 |
| Commingled funds | | | | 162,628 | 188,200 |
| Real estate | | | | 1,762 | 1,762 |
| Investment pools in which the deferred compensation plan participates: | | | | | |
| Life insurance | | | | 34,891 | 34,891 |
| Total Investments | | | | \$1,241,559 | \$1,449,781 |

5. Property Taxes

Property taxes are assessed by the State Tax Assessor on properties located in the unorganized territories of Maine. Such taxes are levied on July 15th of the fiscal year in which they are due. Property taxes are due on October 1 and formal collection procedures begin on November 1. Unpaid property taxes become a lien on March 1 of the following calendar year (the same fiscal year as the original date of levy).

6. Due from Other Governments - Grants Receivable

Federal and block grant receivables represent categorical grants comprised of, for the most part, health and welfare and transportation programs in the amount of \$15.3 million and federal block grant awards not yet drawn down in the amount of \$20.5 million.

7. Joint Ventures

The State of Maine has entered into a compact with the State of Vermont and the State of New Hampshire subject to the following terms and conditions (not all inclusive): Tri-State Lottery tickets are sold in each of the party states and processed in a central area (Vermont). Fifty percent of the gross sales from each state are aggregated in a common prize pool and operating costs are charged proportionally, according to sales, to the party states. Remaining revenues, after such charges, are kept by the respective party states.

The governing body of this compact, the Tri-State Lottery Commission is comprised of one member from each of the party states. Commission members are appointed by and serve at the pleasure of their respective party state. The commission elects a chairman from among its members annually. The commission exercises control over budgeting and financing policies.

As of and for the year ended June 30, 1987, the following selected financial information was included in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance of the Tri-State Lottery Commission:

(Dollars in Thousands)

| | |
|--|----------|
| Total Assets | \$41,221 |
| Total Liabilities | 40,118 |
| Fund Balance | 1,103 |
| Total Revenues | 73,913 |
| Total Expenditures | 45,674 |
| Allocation of funds to member states | 27,821 |
| Net Increase/Decrease in Fund Balance | 418 |

Included in liabilities is approximately \$39.3 million for prizes payable. These have been provided for primarily through the purchase of annuity contracts.

8. Fixed Assets

Fixed assets in the General Fixed Assets Account Group, Enterprise Funds and Internal Service Funds consist of the following:

(Dollars in Thousands)

| | General Fixed Assets Account <u>Group</u> (unaudited) | Enterprise <u>Funds</u> | Internal Service <u>Funds</u> |
|-------------------------------|--|----------------------------|-------------------------------------|
| Land | \$ 26,984 | \$ 782 | \$ 243 |
| Buildings and Improvements | 159,484 | 9,757 | 3,449 |
| Equipment & Fixtures | <u>86,661</u> | <u>28,381</u> | <u>43,159</u> |
| | 273,130 | 38,920 | 46,851 |
| Less accumulated depreciation | <u> </u> | <u>7,503</u> | <u>29,985</u> |
| | <u>\$273,130</u> | <u>\$31,417</u> | <u>\$16,866</u> |

Depreciation is not provided for in the General Fixed Assets Account Group. Depreciation of fixed assets in the Proprietary Funds is provided on the straight-line basis over their estimated useful lives which are as follows:

| <u>Asset</u> | <u>Life</u> <u>(Years)</u> |
|----------------------------|-------------------------------|
| Buildings and Improvements | 10-40 |
| Equipment and Fixtures | 2-5 |

A summary of changes in the General Fixed Assets Account Group is as follows (unaudited):

(Dollars in Thousands)

| | <u>Balance</u> <u>6/30/86</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>6/30/87</u> |
|-------------------------------------|----------------------------------|------------------|------------------|----------------------------------|
| General Fixed Assets (unaudited) | \$255,560 | \$22,099 | \$4,530 | <u>\$273,130</u> |

9. Pension Systems and Obligations

The State of Maine has contributory defined benefit pension plans covering substantially all state employees, public school teachers and the employees of 262 political subdivisions. The Maine State Retirement System covers employees of political subdivisions, public school teachers and state employees (except as members of the judiciary and legislature who are covered under the Judicial and Legislative Retirement Systems).

Maine State Retirement System

As of June 30, 1987, membership consisted of 43,956 active members, including: 19,479 teachers; 15,216 state employees; and 9,261 employees of participating local districts. In addition, there were 25,197 inactive accounts representing deposits by former members who have terminated service and whose contributions have been left on deposit with the system.

The system provides retirement, death and disability benefits. Employees who retire at age 60 are entitled to an unreduced annual retirement benefit. Certain law enforcement officers, liquor inspectors and airplane pilots employed before 9/1/84 may retire at younger ages.

The general annual benefit is 2% of the member's average final compensation multiplied by years of membership service, reduced for retirement before age 60.

Law enforcement personnel employed before 9/1/84 are entitled to a benefit of 50% of the member's average final compensation plus 2% for each year of service in excess of 20.

Covered employees are required to contribute to the system at a rate of 6.5% of earnable compensation. A contribution rate of 7.5% is required of the previously mentioned law enforcement personnel who are entitled to increased benefits. Employer contributions (17.32% in fiscal year 1987) are based upon an actuarially determined percentage of gross pay that is necessary to provide the system with assets sufficient to meet the benefits to be paid to system members.

The aggregate entry age normal method is used to determine costs. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial reserve (UAR) rate. The actuarial valuation of June 30, 1987 is applicable to the financial statements as presented. Significant actuarial assumptions used include (a) a rate of return on investments of 8%, (b) projected salary increases of 6% per year, (c) projected cost-of-living increases of 4% per year, and (d) a retirement age of 60. The present value of accumulated plan benefit increased by \$86.7 million due to changes in actuarial assumptions of June 30, 1987.

The actuarially determined contribution included the following*:
(Dollars in Thousands)

| | <u>Amount</u> | <u>% of Current Covered Payroll</u> |
|---|---------------|---|
| Employer normal cost | \$43,887 | 6.38 |
| Amortization of unfunded actuarial reserve | 75,943 | 11.04 |

* Excludes participating local districts and Pre-7/1/24 teachers

Investments of the Maine State Retirement System are valued at cost for financial reporting purposes. Market values of system investments are as follows: (Dollars in Thousands)

| | |
|--------------------|-----------|
| Bonds | \$363,009 |
| Cash equivalents | 220,945 |
| Stocks | 565,340 |
| Commingled funds | 188,208 |
| Mortgages | 65 |
| Land and Buildings | 1,762 |

The accumulated plan benefit information as of June 30, 1987 is as follows: (Dollars in Thousands)

Present value of accrued benefits

Vested benefits:

| | |
|-------------------|-------------|
| Retired employees | \$1,179,677 |
|-------------------|-------------|

| | |
|--|--------|
| Employees terminated with vested rights | 13,745 |
|--|--------|

Nonvested benefits:

| | |
|------------------|----------------|
| Active employees | <u>815,696</u> |
|------------------|----------------|

| | |
|---|------------------|
| Total present value of accrued benefits | <u>2,009,118</u> |
|---|------------------|

| | |
|--|----------------|
| Net assets available for pension benefit obligations (market value) | <u>823,762</u> |
|--|----------------|

| | |
|--|--------------------|
| Unfunded present value of accrued benefits | <u>\$1,185,356</u> |
|--|--------------------|

Actuarial present value of projected benefits

Active employees:

| | |
|-----------------|------------|
| Current accrued | \$ 815,696 |
|-----------------|------------|

| | |
|-----------------|-----------|
| Future accruals | 1,632,764 |
|-----------------|-----------|

| | |
|----------------------|------------------|
| Inactive employees** | <u>1,193,422</u> |
|----------------------|------------------|

| | |
|---|------------------|
| Total actuarial present value of credited projected benefits | <u>3,641,882</u> |
|---|------------------|

| | |
|--|---------|
| Net assets available for pension benefit obligation (actuarial value) | 792,904 |
|--|---------|

| | |
|----------------------|----------------|
| Future contributions | <u>865,616</u> |
|----------------------|----------------|

| | |
|--|--------------------|
| Unfunded actuarial present value of credited projected benefits | <u>\$1,983,362</u> |
|--|--------------------|

** Includes retirees and terminated vested participants

Based upon the actuarial valuation of the state's portion of the retirement plan as of June 30, 1987, the state's consulting actuary concluded that past assumptions with respect to future benefit payments were not adequate. Furthermore, it appears that the state's contribution to the plan for years prior to and including the year ended June 30, 1987 were not sufficient to fund the normal cost of the plan. The cumulative amount of the underaccrual at June 30, 1987 is unavailable. Since the amount of the underaccrual will be paid off at some future date the amount should be reflected as a liability in the general long-term debt account group. No estimate of the underaccrual has been recorded at June 30, 1987.

Maine Judicial Retirement system

As of June 30, 1987, membership consisted of 48 active employees, 2 retired members and 2 vested but inactive members.

The system provides retirement, death and disability benefits. Employees who retire at age 60 are entitled to an unreduced annual retirement benefit.

The general annual benefit is the sum of (1) 2% of average final compensation multiplied by years of membership service and creditable service transferred from the Retirement System, and (2) 75% of 11/30/84 salary for the position held at retirement, pro-rated for service less than 10 years. The benefit is reduced for retirement before age 60.

Covered employees are required to contribute to the system at a rate of 6.5% of earnable compensation for service prior to attainment of age 71. Employer contributions (69.21% in fiscal year 1987) are based upon an actuarially determined percentage of gross pay that is necessary to provide the system with assets sufficient to meet the benefits to be paid to system members; this rate is necessary because contributions were not made until December 1, 1984 (the date of establishment of the system).

The aggregate entry age normal method is used to determine costs. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial reserve (UAR) rate. The actuarial valuation of June 30, 1987 is applicable to the financial statements as presented. Significant actuarial assumptions used include (a) a rate of return on investments of 8%, (b) projected salary increases of 6% per year, (c) projected cost-of-living increases of 4% per year, and (d) a retirement age of 60.

The actuarially determined contribution included the following:
(Dollars in Thousands)

| | <u>Amount</u> | <u>% of Current Covered Payroll</u> |
|---|---------------|---|
| Employer normal cost | \$1,056 | 32.36 |
| Amortization of unfunded actuarial reserve | 533 | 16.32 |

Investments of the Maine Judicial Retirement System are valued at cost for financial reporting purposes and are combined with those of the Maine State Retirement System. The amount due the Judicial system from the State system as of June 30, 1987 was \$2.5 million.

The accumulated plan benefit information as of June 30, 1987 is as follows: (Dollars in Thousands)

| | |
|---|----------|
| Unfunded present value of accrued benefits | \$ 8,920 |
| Unfunded actuarial present value of credited projected benefits | 12,595 |

Maine Legislative Retirement System

As of June 30, 1987, membership consisted of 53 active employees.

The system provides retirement, death and disability benefits. Employees who retire at age 60 are entitled to an unreduced annual retirement benefit.

The general annual benefit is 2% of average final compensation multiplied by years of creditable service, reduced for retirement before age 60.

Covered employees are required to contribute to the system at a rate of 4% of earnable compensation. Employer contributions (16.9% in fiscal year 1987) are based upon an actuarially determined percentage of gross pay that is necessary to provide the system with assets sufficient to meet the benefits to be paid to system members.

The aggregate entry age normal method is used to determine costs. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial reserve (UAR) rate. The actuarial valuation of June 30, 1987 is applicable to the financial statements as presented. Significant actuarial assumptions used include (a) a rate of return on investments of 8%, (b) projected salary increases of 6% per year, (c) projected cost-of-living increases of 4% per year, and (d) a retirement age of 60.

The actuarially determined contribution included the following:
(Dollars in Thousands)

| | <u>Amount</u> | <u>% of Current Covered Payroll</u> |
|--|---------------|-------------------------------------|
| Employer normal cost | \$49 | 10.34 |
| Amortization of unfunded actuarial reserve | 0 | 0 |

Investments of the Maine Legislative Retirement System are valued at cost for financial reporting purposes and are combined with those of the Maine State Retirement System. The amount due the Legislative system from the State system as of June 30, 1987 was \$160 thousand.

As of June 30, 1987 there were no unfunded liabilities relating to Legislative retirement benefits.

10. Other Employee Benefits

Postretirement Health Care Benefits: In addition to providing pension benefits, the State of Maine provides certain health care benefits for many retired employees. Basic benefits cover hospital and physicians' services as well as major medical expenses. Additional benefit provisions include care of mental health conditions, alcoholism and substance abuse. These benefits are provided through insurance companies whose premiums are based on an experience rating determined by past claims activity. Premium payments are made by the Maine State Retirement System using funds generated from current contributions and return on investments. The State of Maine recognizes the cost of providing these benefits as incurred, which totaled \$2.9 million for the fiscal year ended June 30, 1987.

Postretirement Life Insurance Benefits: In addition to providing pension and health care benefits, the State of Maine provides certain life insurance benefits for retired employees who participated in the group life insurance program as active employees. Benefits are paid by the State on a scaled distribution based on the number of years of employee's participation. Payments of claims are made by the Maine State Retirement System using funds generated from premiums paid by employees while in active status and by the state after retirement for employees who participated for 10 continuous years prior to retirement. The State of Maine recognizes the cost of providing these benefits as claims are paid to beneficiaries, the total of which was \$1.3 million for the fiscal year ended June 30, 1987.

Deferred Compensation Plan: The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the state's general creditors. Participants' rights under the plan are equal to those of general creditors of the state in an amount equal to the fair market value of the deferred account for each participant.

In the past, the plan assets have been used for no purpose other than to pay benefits. The state believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

11. Construction and Other Significant Commitments

The state is responsible for funding a portion of local governments' school construction and renovation costs. As of June 30, 1987, these commitments totaled approximately \$285.4 million payable over 20 years.

12. Lease Commitments:

The state has commitments for various leases of office and storage space which extend for terms of one to twenty years. The state expects that these leases will be renewed or replaced by similar leases. In general, these leases contain nonassignability clauses and escalation clauses in addition to predetermined rent increases. These escalation clauses permit rental payments to be adjusted if any of the following costs for the premises are in excess of the amounts of such costs for the original lease year: real estate taxes, lessor's costs for utilities or lessor's cost for insurance. Lease commitments for the next five years under noncancelable leases are as follows:

(Dollars in Thousands)

| <u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u> | <u>Minimum</u> <u>Lease Payments</u> |
|--|---|
| 1988 | \$4,009 |
| 1989 | 3,680 |
| 1990 | 2,876 |
| 1991 | 2,002 |
| 1992 | 978 |

Rental expense for the year ended June 30, 1987 was approximately \$4.1 million.

Capital leases for computer equipment are accounted for as equipment in the Combined Balance Sheet. Future minimum lease payments for the next five years are as follows:

(Dollars in Thousands)

| <u>Year Ended</u> <u>June 30,</u> | <u>Present Value</u> <u>of Future</u> <u>Minimum Lease</u> <u>Payments</u> |
|--------------------------------------|---|
| 1988 | \$1,183 |
| 1989 | 1,044 |
| 1990 | 487 |
| 1991 | - |
| 1992 | - |
| Total Minimum Lease Payments | \$2,714 |

13. Bonds and Notes Payable

General obligation bonds are backed by the full faith and credit of the state and must be repaid in annual installments beginning not more than one year after issuance of such bonds. Changes in general obligation bonds outstanding for the year ended June 30, 1987 are as follows:

(Dollars in Thousands)

| | Outstanding July 1, <u>1986</u> | <u>Additions</u> | <u>Reductions</u> | Outstanding June 30, <u>1987</u> |
|--|---------------------------------------|------------------|-------------------|--|
| General purposes (4.0-11.2%) | \$177,110 | \$32,990 | \$26,110 | \$183,990 |
| Highway and bridges (1.5-11.3%) | 91,240 | 10,000 | 8,875 | 92,365 |
| College, university and veterans home facilities (3.0-11.3%) | 21,480 | | 1,260 | 20,220 |
| Bond anticipation notes (4.3-4.7%) | <u>3,100</u> | <u>8,500</u> | <u>3,100</u> | <u>8,500</u> |
| | <u>\$292,930</u> | <u>\$51,490</u> | <u>\$39,345</u> | <u>\$305,075</u> |

Bond anticipation notes are issued by the state in anticipation of the proceeds of voter-authorized bond issue.

The annual requirements to amortize all bonds outstanding as of June 30, 1987 are as follows:

(Dollars in Thousands)

| | <u>Principal</u> | <u>Interest</u> |
|-------------|------------------|------------------|
| 1988 | \$ 47,070 | \$ 19,989 |
| 1989 | 35,055 | 17,246 |
| 1990 | 31,630 | 14,935 |
| 1991 - 1995 | 120,095 | 46,867 |
| 1996 - 2000 | 51,095 | 16,256 |
| 2001 - 2005 | 19,685 | 2,720 |
| 2006 - 2010 | <u>445</u> | <u>15</u> |
| | <u>\$305,075</u> | <u>\$118,028</u> |

At June 30, 1987, the state has approximately \$182 million of authorized debt not issued. Its use is restricted by various laws relating to its authorization.

In November 1987, approximately \$92 million in additional general long-term bonds was approved by voters in a referendum election. Also, in December of 1987, the state issued \$50.3 million in general obligation bonds to be repaid over ten years.

14. Segment Information for Enterprise Funds

The state maintains enterprise funds which provide various goods and services and are classified for segment reporting as follows:

Bureau of Alcoholic Beverages

The sale of alcoholic beverages is controlled through state operated stores or licensed agents. Net income is transferred to the General Fund.

Maine State Lottery

The Lottery operates the daily "numbers games" and participates in the Tri-State Lottery which began operations during the fiscal year ending June 30, 1986. Net income is transferred to the General Fund.

Department of Transportation Services

This department operates the Augusta Airport, marine ports and ferry services in the mid-coastal region of the state.

Other Enterprise Funds

Other enterprise funds consist of numerous entities which are financed and operated in a manner similar to private business, and include the following enterprises:

- Prison Industries
- Community Industrial Building Fund
- Potato Marketing Improvements and Seed Potato Board Funds
- State Forest Nursery
- State Osteopathic Loan Fund.

Financial segment information as of and for the year ended June 30, 1987 for the state's enterprise funds is as follows:

State of Maine
Segment Information for Enterprise Funds, Continued
(Dollars in Thousands)

| | <u>Bureau of Alcoholic Beverages</u> | <u>Maine State Lottery</u> | <u>Department of Transportation Services</u> | <u>Other Enterprise Funds</u> | <u>Total Enterprise Funds</u> |
|--------------------------------|--|------------------------------------|--|---------------------------------------|---------------------------------------|
| Operating revenues | \$70,798 | \$58,892 | | 446 | 130,136 |
| Depreciation expense | 87 | 19 | 701 | 27 | 834 |
| Operating income (loss) | 35,303 | 18,028 | (2,263) | 102 | 51,170 |
| Operating transfers in (out) | (35,294) | (18,206) | | | (53,500) |
| Tax revenues | 14,629 | | 1,096 | 508 | 16,233 |
| Net income (loss) | 9 | 4 | (2,137) | 435 | (1,689) |
| Capital contributions | 302 | | 54,019 | 7,490 | 61,811 |
| Property, plant and equipment: | | | | | |
| Additions | | | 325 | 24 | 349 |
| Deletions | 93 | 20 | | 2 | 115 |
| Net working capital | 3,136 | 883 | 4,294 | 8,041 | 16,354 |
| Total assets | 9,457 | 3,045 | 33,866 | 10,796 | 57,164 |
| Total equity | 311 | 664 | 33,745 | 9,726 | 44,446 |

15. Commitments and Contingencies

Litigation: The State of Maine and its officers are defendants in various lawsuits. Legal counsel for the state and its various agencies have reviewed the status of pending litigation and are unable to determine the amount of probable loss to the state. Accordingly, no provision has been made in the accompanying financial statements for any losses which may arise from the ultimate settlement of these claims or lawsuits.

Federal Grants: The state participates in a number of federal assisted grant programs. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the state. The audits of all these programs for or including the year ended June 30, 1986, have not yet been completed. Accordingly, the state's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time. The state is, however, currently involved in administrative proceedings, with certain Federal agencies, contesting various disallowances related to Federal Assistance Programs, totaling approximately \$1.9 million. State's management believes ultimate disallowances, if any, will not have a material effect on the financial statements.

Student Loan Guarantees: The Maine State Board of Education (MSBA), guarantees educational loans made by private lenders to certain resident students. Total outstanding guarantees issued by MSBA approximated \$300 million at June 30, 1987. The U. S. Department of Education reinsures losses under these guarantees up to 100% until losses are in excess of 5% or 9% of the total loans in repayment status, then the reinsurance rate decreases to 90% and 80%, respectively.

Other Contingencies: The state is guaranteeing the obligations of the Finance Authority of Maine and the Maine School Building Authority which totaled approximately \$142.7 million at June 30, 1987.

The state has a reserve fund restoration commitment with the Maine Municipal Bond Bank and the Maine State Housing Authority. The required reserves for these two entities are calculated based on total debt outstanding. As of June 30, 1987, the total outstanding debt of these two agencies approximated \$1 billion.

In addition, the state has a moral obligation to guarantee the debt of the Maine Health and Higher Education Facilities Authority and the Maine Turnpike Authority. This debt totals approximately \$279 million.

Workers' Compensation: The unfunded liability for the self-insured workers' compensation program of the State of Maine has been estimated to be between \$27 million and \$42 million. The lower end of the range is based on case reserves established by the firm which provided claims processing services for the state. The higher end of the range is based on a percentage of fiscal year 1987 claims expenditures; the percentage having been determined by an average payout pattern on past claims.

Contingent Gains: Costs approximating \$1.7 million, associated with the Guaranteed Student Loan Program, were questioned by federal auditors and subsequently repaid by the State of Maine. These questioned costs appear to have been repaid in error. While the ultimate resolution of these costs is not known, some recovery may be possible. Accordingly, no provision has been made in the accompanying financial statements for any recovery which may arise from the ultimate resolution of these questioned costs. Further information on the amounts questioned is included in the Schedule of Compliance Findings and Questioned Costs (Schedule D).

16. Subsequent Events

In October, 1987, the New York Stock Exchange suffered a decline which adversely affected the market value of the state's marketable equity securities maintained in various trust accounts. The investments in these funds consist of mutual funds, stocks and bonds. The Maine State Retirement System also suffered a decline in the market value of their stocks, bonds and investment pools. The following is a summary of the balances of these investment portfolios at June 30, 1987 and December 31, 1987: (Dollars in Thousands)

| | June 30, 1987 | December 31, 1987 |
|-------------------------------|---------------|-------------------|
| State Investment Balances: | | |
| At cost | \$ 9,667 | \$ 9,926 |
| At market value | 9,960 | 9,289 |
| Ratio of market value to cost | 1.03 | .94 |
| Maine State Retirement System | | |
| Investment Balances: | | |
| At cost | 1,370,231 | 1,287,877 |
| At market value | 1,576,690 | 1,325,961 |
| Ratio of market value to cost | 1.15 | 1.03 |

In October, 1987, the state transferred \$16.5 million from the unappropriated surplus of the General Fund to the Tax Adjustment Reserve Fund in accordance with statutory provisions to avoid a tax windfall. The amount transferred was attributable to an increase in individual income tax (\$13 million) and corporate income tax (\$3.5 million) collections resulting from conformity to the Internal Revenue Code of 1986 for fiscal year 1987.

As a result of a staffing shortage and poor record-keeping, the Augusta Mental Health Institute (AMHI) was determined ineligible for Medicare insurance by the Health Care Finance Administration in May, 1988. If corrective action is taken by the state, AMHI may be eligible for renewed funding within six months of the date they were originally deemed ineligible.

On April 27, 1988, Ch. 788 P.L. authorized the transfer of \$23 million from the Rainy Day Fund Program to the General Fund to provide funds for appropriation to the Department of Educational and Cultural Services (DECS) and the Maine State Retirement System (MSRS). These appropriations would be made to ensure the fiscal soundness of the MSRS due to the amount of teacher retirement benefits to be paid for which DECS had not previously made sufficient contributions.

On May 11, 1988, Ch. 865 P.L. authorized the deappropriation of \$1.4 million from the Rainy Day Fund Program to the General Fund (\$1.3 million) and the Local Government Fund (\$.1 million) to reimburse these funds for revenue losses incurred in 1988 as a result of legislation exempting certain leased aircraft placed in service in 1984 from sales tax.

On April 28, 1988, Ch. 807 P.L. created the Maine Educational Loan Authority to provide financial assistance for higher education for residents and inhabitants of the state. The Authority is authorized to issue bonds in its own name and lend the proceeds of such bonds to borrowers, institutions or both, to finance the cost of attendance. The bonds do not constitute a liability of or a pledge of the faith and credit of the State of Maine.

On July 13, 1988, the Department of Transportation, Motor Transport Service entered into an agreement, through Merrill/Norstar Bank, to issue \$12.5 million in certificates of participation. The proceeds of such certificates are being used to finance the lease/purchase of various vehicle pool and highway maintenance equipment. Repayment of the obligation to Merrill/Norstar will be financed from revenues generated by equipment rental charges to the Highway Fund and various other state agencies' funds through fiscal year 1993. This obligation is secured by the leased/purchased equipment and is due and payable not later than December 30, 1993.

In January, 1988, the Board of Trustees of the Maine State Retirement System voted to change the amortization period for the system's unfunded liability from 25 to 30 years. This change could reduce the state's annual payment to the system by \$10 to \$12 million.

On June 1, 1988; the state approved a contract with Price Waterhouse for development and implementation of statewide payroll, personnel, accounting, purchasing and budget preparation systems. The cost of this contract is approximately \$6 million to be paid from the General Fund as follows: \$.5 million in fiscal year 1988, \$2.5 million in fiscal year 1989 and the balance to be subject to future funding.

During December 1987, the State of Maine issued \$50.3 million of general obligation bonds to mature according to the following schedule:

(Dollars in Thousands)

| <u>Year</u> | <u>Highway</u> | <u>Interest Rate</u> | <u>General Purposes</u> | <u>Interest Rate</u> | <u>Total</u> |
|-------------|----------------|--------------------------|-----------------------------|--------------------------|-----------------|
| 1988 | \$ 500 | 8.00 | \$ 6,400 | 8.00 | \$ 6,900 |
| 1989 | 500 | 8.00 | 6,400 | 8.00 | 6,900 |
| 1990 | 500 | 6.00 | 6,400 | 6.00 | 6,900 |
| 1991 | 500 | 6.00 | 6,400 | 6.00 | 6,900 |
| 1992 | 500 | 6.00 | 6,400 | 6.00 | 6,900 |
| 1993 | 500 | 6.00 | 2,700 | 6.00 | 3,200 |
| 1994 | 500 | 6.20 | 2,700 | 6.20 | 3,200 |
| 1995 | 500 | 6.20 | 2,700 | 6.20 | 3,200 |
| 1996 | 500 | 6.50 | 2,700 | 6.50 | 3,200 |
| 1997 | <u>500</u> | 6.50 | <u>2,470</u> | 6.50 | <u>2,970</u> |
| TOTALS | <u>\$5,000</u> | | <u>\$45,270</u> | | <u>\$50,270</u> |

The proceeds of the bonds will be used to finance Highway and Bridge Improvements (\$5,000,000); Construction of School Facilities (\$5,000,000); Various Municipal Sewage Treatment Projects (\$9,500,000); Hazardous Waste Disposal Projects (\$2,235,000); Various Water Supply System Projects (\$800,000); Correctional Facilities (\$10,035,000); Asbestos Removal (\$5,000,000); University of Maine (\$7,700,000); Inland Fish and Wildlife (\$4,000,000); and Mental and Health Building Construction (\$1,000,000).

All of the bonds are full faith and credit obligations of the state.

The highway bonds are payable in the first instance from moneys irrevocably set aside in the State Highway Fund for payment of the Highway Bonds. The State Highway Fund receives all motor vehicle and motor vehicle fuel related revenues of the state.

Discontinued Operations

The State of Maine expects to discontinue its involvement in the operations of the Maine State Forest Nursery by the end of October 1988. The state is currently negotiating terms to lease the nursery to a private party. Assets of the nursery, on the balance sheet at June 30, 1987, consist of various cash and cash equivalents, receivables, land, buildings and equipment with a value of \$365,000 (net of reserves for uncollectibles and accumulated depreciation). Liabilities of the nursery included various accounts payable, advance sales of nursery stock and due to other funds for working capital advances aggregating \$208,000. Net income shown on the operating statement of the nursery for fiscal year 1987 was \$33,000.