STATE OF MAINE

SINGLE AUDIT REPORT
OMB Circular A-133
Fiscal Year Ending June 30, 2012

Department of Audit
Pola A. Buckley, CPA, CISA
State Auditor

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012

Table of Contents

Table of Contents – Continued

Table of Contents – Continued

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENT FINDINGS

INDEXES TO FEDERAL PROGRAM FINDINGS

FEDERAL FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS


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Letter of Transmittal

Senator Justin L. Alfond
President of the Senate

Representative Mark W. Eves
Speaker of the House of Representatives

The Honorable Paul R. LePage
Governor of Maine

I am pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2012. This audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Our audit complies with 5 MRSA §243 and is a prerequisite for the receipt of federal financial assistance, which was $3.2 billion during fiscal year 2012.

This document contains the following reports and schedules:

- Independent Auditor's Report
- Basic Financial Statements, Management's Discussion and Analysis, Notes to Financial Statements, and Required Supplementary Information
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards
- Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Financial Statement Findings
- Indexes to Federal Program Findings
- Federal Findings, Questioned Costs and Corrective Action Plan
- Summary Schedule of Prior Audit Findings

On behalf of the Maine Department of Audit, I thank employees throughout Maine government who have assisted us during our audit. I know that we all work to improve financial reporting and accountability for our citizens and our State.

Please contact me if you have questions or comments about the 2012 Single Audit of the State of Maine.

Respectfully submitted,

Pola Buckley

Pola A. Buckley
State Auditor

March 28, 2013

STATE OF MAINE
EXECUTIVE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2012

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2012

EXECUTIVE SUMMARY

The Department of Audit performs an annual financial and compliance audit, the Single Audit of the State of Maine, in order to comply with federal and State requirements. Our audit included 24 major federal programs representing 97% of the $3.3 billion in federal assistance that the State expended. The Single Audit Report consists of various audit reports along with related financial statement and federal audit findings and recommendations.

Independent Auditor's Report

We rendered an unqualified opinion on the State's basic financial statements which means that the financial report is presented fairly in all material respects in accordance with generally accepted accounting principles.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

We reported on internal control over financial reporting and did not identify any deficiencies in internal control that we considered to be material weaknesses. A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees to prevent, or detect and correct financial statement misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies such that there is a reasonable possibility that a material misstatement of the State's financial statements would not be prevented, or detected and corrected on a timely basis. We did detect one significant deficiency over financial reporting for the Employment Security Fund (Unemployment Insurance). This finding is identified as 12-0308-01.

As part of obtaining reasonable assurance about whether the State's financial statements were not materially misstated, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The results of our tests disclosed no instances of noncompliance that were required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance with program requirements

We issued three audit findings that resulted in qualifications of our opinions on compliance with program requirements for three federal programs because of material noncompliance. The remaining 21 federal programs complied in all material respects with program requirements.

Internal control over compliance

We identified 36 deficiencies in internal control over compliance. A *deficiency* exists when the operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program, on a timely basis.

Thirty-three deficiencies were considered to be *significant deficiencies* in internal control over compliance. A *significant deficiency* exists when there is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Three deficiencies were considered to be *material weaknesses* in internal control. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs includes the audit findings and managements' responses and plans for corrective action for addressing the audit findings. The audit findings also include a total of $915 thousand of *known questioned costs* and three other audit findings for which the *questioned costs* could not be determined. *Questioned costs* are amounts of federal financial assistance that we believe were not spent in accordance with program requirements. The federal government may or may not disallow these costs and could result in reimbursements from the State to the federal government.

STATE OF MAINE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

INDEX TO FINANCIAL INFORMATION

General Purpose Financial Statements of the State of Maine
For the Year Ended June 30, 2012

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POLA A. BUCKLEY, CPA, CISA
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

To Justin L. Alfond, President of the Senate
Mark W. Eves, Speaker of the House of Representatives

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, ConnectME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and University of Maine System. We also did not audit the financial statements of the NextGen College Investing Plan. These financial statements reflect the following percentages of total assets and net assets or fund balance of the indicated opinion unit:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Net Assets/Fund Balance
Aggregate Discretely Presented Component Units	100%	100%
Aggregate Remaining Fund Information	94%	96%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinions, insofar as they relate to the amounts included for these entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages B5 – B17, and budgetary comparison schedules and related notes, State Retirement Plan and Other Post-Employment Benefits Plans, Information About Infrastructure Assets Reported Using the Modified Approach, included on pages B98 – B108, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor
Maine Department of Audit

December 21, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of Maine's annual financial report presents the State's discussion and analysis of financial performance during the year ended June 30, 2012. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net assets increased by 1.8 percent from the previous fiscal year. Net assets of Governmental Activities increased by $74.3 million, while net assets of Business-type Activities increased by $9.1 million. The State's assets exceeded its liabilities by $4.7 billion at the close of fiscal year 2012. Component units reported net assets of $2.7 billion, an increase of $254.6 million (10.3 percent) from the previous year.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $244.4 million, a decrease of $80.1 million from the previous year. The General Fund's total fund balance was a negative $349.9 million, a decline of $113.6 million from the previous year. The Highway Fund total fund balance was $36.1 million, an improvement of $4.3 million from the prior year.

- The proprietary funds reported net assets at year end of $632.3 million, a decrease of $2.3 million from the previous year. This decrease is due to several factors: an increase in the Alcoholic Beverages Fund of $12.5 million, an increase in the Statewide Radio & Network Systems Fund of $5.7 million, offset by a decrease in the Retiree Health Insurance Fund of $6.1 million and a decrease in the Transportation Facilities Fund of $7.4 million.

Long-term Debt:

- The State's liability for general obligation bonds decreased by $48.1 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $49.3 million in bonds and made principal payments of $97.4 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 7.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State of Maine's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Change in Accounting Principles

Governmental Accounting Standards Board (GASB) Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs became effective for the State for the year ended June 30, 2012 when the State acquired and became responsible for the closure and postclosure monitoring costs of the Dolby Landfills. This Statement established accounting and financial reporting for municipal solid waste landfill (MSWLF) closure and postclosure care costs. The fiscal year 2011 Condensed Statement of Net Assets has been restated to reflect related changes for comparison purposes.

Government-wide Statements

The government-wide statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets are an indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both government-wide statements report three activities:

Governmental activities - Most basic services, such as health & human services, education, governmental support & operations, justice & protection, and transportation are included in this category. The Legislature, Judiciary and the general operations of the Executive departments fall within the Governmental Activities. Income taxes, sales and use taxes, and State and federal grants finance most of these activities.

Business-type activities - The State charges fees to customers to help cover all or most of the costs of certain services it provides. Operating costs not covered by customer fees are subsidized by the General Fund. Lottery tickets, transportation services, and the State's unemployment compensation services are examples of business-type activities.

Component units - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" two component units, the Maine Governmental Facilities Authority (MGFA) and Child Development Services (CDS) with Governmental Activities as described above. Maine reports 18 other component units (7 major and 11 non-major) as discretely presented component units of the State, and one component unit is reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

Government-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting. The following summarizes the impact of the transition from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements but are included on government-wide statements

- Certain tax revenues that are earned, but not available, are reported as revenues in the Governmental Activities, but are reported as deferred revenue on the governmental fund statements

- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements

- Internal service funds are reported as Governmental Activities, but reported as proprietary funds in the fund financial statements

- Governmental fund long-term liabilities, such as certificates of participation, pension obligations, compensated absences, bonds and notes payable, and others appear as liabilities only in the government-wide statements

- Capital outlay spending results in capital assets on the government-wide statements, but is recorded as expenditures on the governmental fund statements

- Proceeds from bonds, notes and other long-term financing arrangements result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements

- Net asset balances are allocated as follows:

  Net Assets Invested in Capital Assets, Net of Related Debt; are capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction or improvement of those assets.

  Restricted Net Assets are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation; and

  Unrestricted Net Assets are net assets that do not meet any of the above restrictions.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds. Funds are fiscal and accounting entities with self-balancing sets of accounts that the State uses to keep track of specific revenue sources and spending for particular purposes. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different measurement focuses and bases of accounting.

Governmental funds: Most of the basic services are included in governmental funds, which generally focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the State. The governmental fund statements focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. These funds are reported using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Because this information does not encompass the additional long-term focus of the government-wide statements, a separate reconciliation provides additional information that explains the relationship (or differences) between them. The governmental funds consist of the General Fund, special revenue, capital projects, and permanent funds.

Proprietary funds: When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) apply the accrual basis of accounting utilized by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services to the State's other programs and activities – such as the State's Postal, Printing & Supply Fund. Internal service funds are reported as Governmental Activities on the government-wide statements.

Fiduciary funds: The State is the trustee or fiduciary for assets that belong to others. The State is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These funds include pension and other employee benefit trusts administered by the Maine Public Employees Retirement System, a component unit, private-purpose trusts, and agency funds. Fiduciary funds are reported using the accrual basis of accounting. The State excludes these activities from the government-wide financial statements because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the government-wide and fund financial statements.

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the General Fund and major special revenue funds. Also included are notes and a reconciliation of fund balance from the budgetary basis to fund balance determined according to generally accepted accounting principles. This section also includes schedules of funding progress for certain pension and other post-employment benefit trust funds and condition and maintenance data regarding certain portions of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements. Budgetary comparison schedules by agency are also included for the general fund, the highway fund, federal funds, and other special revenue fund.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by 1.8 percent to $4.7 billion at June 30, 2012, as detailed in Tables A-1 and A-2.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other noncurrent assets	$ 1,911,603	$ 1,911,307	$ 350,609	$ 353,854	$ 2,262,212	$ 2,265,161
Capital assets	5,085,498	4,862,331	152,763	146,357	5,238,261	5,008,688
Total Assets	**6,997,101**	**6,773,638**	**503,372**	**500,211**	**7,500,473**	**7,273,849**
Current liabilities	1,424,285	1,307,641	37,185	32,967	1,461,470	1,340,608
Long-term liabilities	1,281,137	1,248,658	17,117	27,223	1,298,254	1,275,881
Total Liabilities	**2,705,422**	**2,556,299**	**54,302**	**60,190**	**2,759,724**	**2,616,489**
Net assets (deficit):						
Invested in capital assets, net of related debt	4,408,377	4,165,760 *	152,763	146,357	4,561,140	4,312,117 *
Restricted	534,806	496,261 *	295,632	300,287	830,438	796,548 *
Unrestricted (deficit)	(651,504)	(444,682) *	675	(6,623)	(650,829)	(451,305) *
Total Net Assets	**$ 4,291,679**	**$4,217,339**	**$ 449,070**	**$ 440,021**	**$ 4,740,749**	**$4,657,360**

* As Restated

Changes in Net Assets

The State's fiscal year 2012 revenues totaled $7.8 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 44.5 percent and 40.6 percent, respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $7.7 billion for the year 2012. (See Table A-2) These expenses are predominantly (69.5 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 5.9 percent of total costs. Total net assets increased by $83.4 million.

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

	Governmental Activities 2012	Governmental Activities 2011	Business-type Activities 2012	Business-type Activities 2011	Total Primary Government 2012	Total Primary Government 2011
Revenues						
Program Revenues:						
Charges for Services	$ 488,832	$ 490,069 *	$ 540,924	$ 535,349	$ 1,029,756	$ 1,025,418 *
Operating Grants/Contributions	3,160,241	3,389,193 *	7,823	11,253	3,168,064	3,400,446 *
General Revenues:						
Taxes	3,472,588	3,435,859	-	-	3,472,588	3,435,859
Other	130,091	172,641 *	-	-	130,091	172,641 *
Total Revenues	7,251,752	7,487,762	548,747	546,602	7,800,499	8,034,364
Expenses						
Governmental Activities:						
Governmental Support	456,622	448,917			456,622	448,917
Education	1,610,095	1,741,685 *			1,610,095	1,741,685 *
Health & Human Services	3,750,402	3,522,341			3,750,402	3,522,341
Justice & Protection	401,740	415,450			401,740	415,450
Transportation Safety	376,689	371,374			376,689	371,374
Other	591,281	659,947			591,281	659,947
Interest	45,551	43,202			45,551	43,202
Business-Type Activities:						
Employment Security			187,703	203,693	187,703	203,693
Lottery			176,837	167,956	176,837	167,956
Military Equip. Maint.			35,058	44,765	35,058	44,765
Dirigo Health			56,702	47,980	56,702	47,980
Other			28,430	31,390	28,430	31,390
Total Expenses	7,232,380	7,202,916	484,730	495,784	7,717,110	7,698,700
Excess (Deficiency) before Special Items and Transfers	19,372	284,846	64,017	50,818	83,389	335,664
Special Items	-	(36,931)	-	(7,086)	-	(44,017)
Transfers	54,968	(13,016)	(54,968)	13,016	-	-
Increase (Decrease) in Net Assets	74,340	234,899	9,049	56,748	83,389	291,647
Net Assets, beginning of year	4,217,339	3,982,440 *	440,021	383,273	4,657,360	4,365,713 *
Ending Net Assets	$ 4,291,679	$ 4,217,339	$ 449,070	$ 440,021	$ 4,740,749	$ 4,657,360

*as restated

Governmental Activities

Revenues for the State's Governmental Activities totaled $7.3 billion while total expenses equaled $7.2 billion. The increase in net assets for Governmental Activities was $74.3 million in 2012, resulting mainly from transfers from the State's Business-type activities discussed below. Additionally, program revenues were insufficient to cover program expenses. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes. Tax revenue increased by $36.7 million from the prior year; however, net expenses supported by tax revenue increased by approximately $260.2 million. Furthermore, the State's Business-type Activities transferred $65.0 million (net) to the Governmental Activities, which included statutorily required profit transfers. However, offsetting these profit transfers were contributions totaling $10.0 million from the Governmental Activities to purchase capital assets that are recorded in the Business-type activities.

The users of the State's programs financed $488.8 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $3.2 billion. $3.6 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

Table A-3: Total Sources of Revenues for Governmental Activities for Fiscal Year 2012

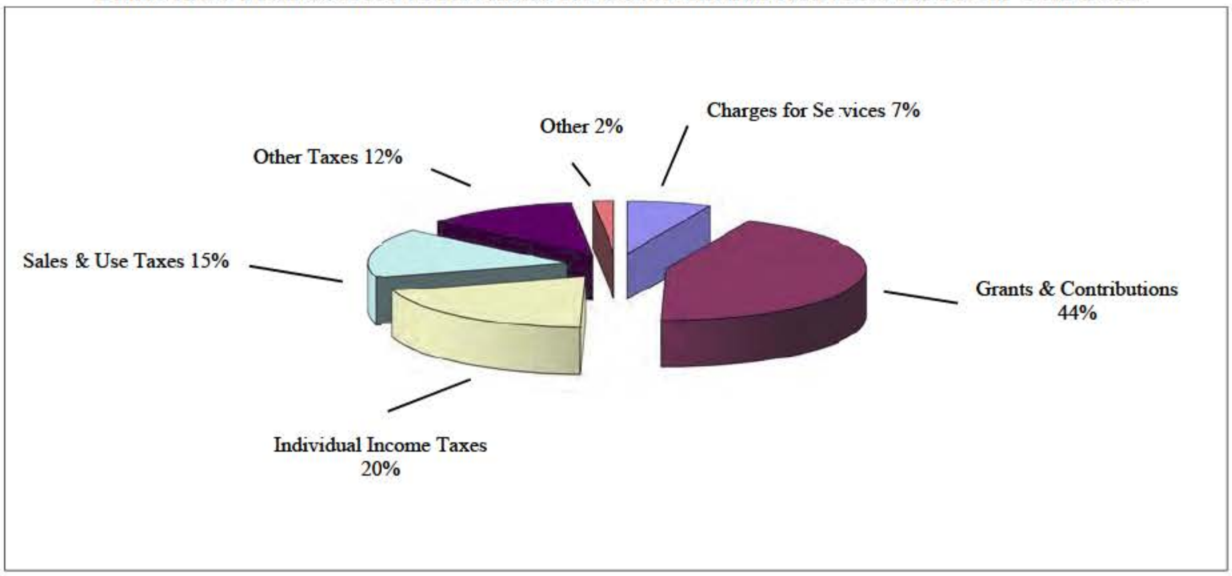
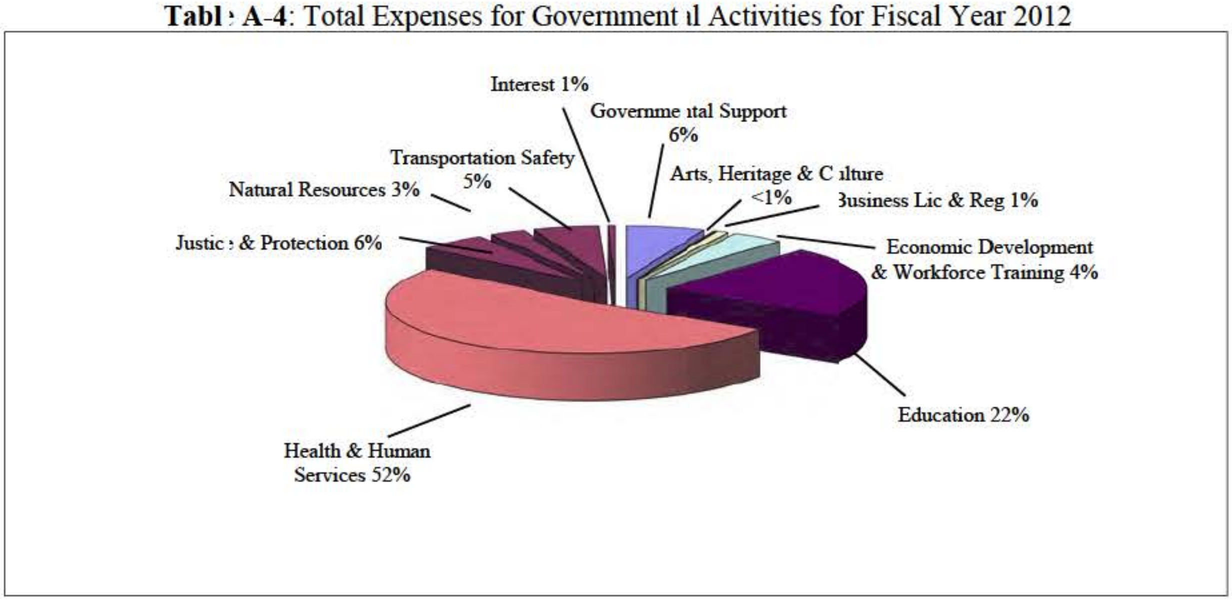


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2012



Business-type Activities

Revenues for the State's Business-type Activities totaled $548.7 million while expenses totaled $484.7 million. The increase in net assets for Business-type Activities was $9.1 million in 2012, due mainly to the deferred recognition of proceeds resulting from the sale of the State's liquor operations.

Table A-5 presents the cost of State Business-type Activities: employment security, alcoholic beverages, lottery, military equipment maintenance, Dirigo Health and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the State's taxpayers by each of these functions.

Table A-5: Net Cost of Business-Type Activities
(Expressed in Thousands)

Category	Total Cost 2012	Total Cost 2011	Net (Cost) Revenue 2012	Net (Cost) Revenue 2011
Employment Security	$ 187,703	$ 203,693	$ (3,235)	$ (19,024)
Alcoholic Beverages	-	-	12,532	12,533
Lottery	176,837	167,956	54,178	50,125
Military Equip. Maint.	35,058	44,765	46	(2,292)
Dirigo Health	56,702	47,980	13,594	23,416
Other	28,430	31,390	(13,098)	(13,940)
Total	$ 484,730	$ 495,784	$ 64,017	$ 50,818

The cost of all Business-type Activities this year was $484.7 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $64.0 million, with the Lottery making up $54.2 million of the total. The State's Business-type Activities transferred $65.0 million (net) to the Governmental Activities, which included statutorily required profit transfers. Additionally, the Governmental Activities contributed $10.0 million to purchase capital assets that are recorded in the Business-type activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Fund	2012	2011	Change
General	$ (349,935)	$ (236,369)	$ (113,566)
Highway	36,109	31,792	4,317
Federal	15,128	24,419	(9,291)
Other Special Revenue	443,250	399,792	43,458
Other Governmental	99,840	104,849 *	(5,009)
Total	$ 244,392	$ 324,483	$ (80,091)

* As restated

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $244.4 million, a decrease of $80.1 million in comparison with the prior year. Of this total amount, $20.9 million (8.5 percent) is classified as non-spendable, either due to its form or legal constraints, and $530.8 million (217.2 percent) is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. Unspent bond proceeds, revenue restricted for transportation, natural resources or other programs are included in restricted fund balance. An additional $38.4 million or 15.7 percent of total fund balance has been committed to specific purposes. Committed amounts cannot be used for any other purpose unless approved by the Legislature. An additional $12.5 million or 5.1 percent of total fund balance has been assigned to specific purposes, as expressed by government's intent. At the end of the current fiscal year, the unassigned fund balance of the General Fund was a deficit of $355.9 million, a decline of $112.3 million.

General Fund expenditures and other uses surpassed General Fund revenues and other sources resulting in a decrease in the fund balance by $113.6 million. While revenues and other sources of the General Fund increased by approximately $10.4 million (0.31 percent) which is mainly attributed to an increase in tax revenue ($63.4 million) offset by a decrease in transfers in from other funds ($45.1 million); General Fund expenditures increased by $146.3 million, led by an increase in expenditures for health and human service of $193.8 million.

The fund balance of the Highway Fund increased $4.3 million from fiscal year 2011, due mainly to the Highway Fund's reimbursement of approximately $15.8 million from the Federal Fund for prior period expenditures that were ultimately approved for federal funding.

Budgetary Highlights

For the 2012 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $3.2 billion, an increase of about $108.5 million from the original legally adopted budget of approximately $3.1 billion. Actual expenditures on a budgetary basis amounted to approximately $74.9 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2013, including the budgeted starting balance for Fiscal Year 2012, there were funds remaining of $26 million to distribute in Fiscal Year 2012. Actual revenues exceeded final budget forecasts by $2.1 million. As a part of the final budget adjustment for Fiscal Year 2012, the Legislature approved net transfers of $25.7 million from the State's Budget Stabilization Fund to unappropriated surplus. Interest earnings netted against the legislatively and statutorily approved transfers decreased the balance in the Fund to $44.8 million as of June 30, 2012. This item is further explained in Note 2 of Notes to the Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2012, the State had roughly $5.2 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2012, the State acquired or constructed more than $417.4 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

Table A-7 - Capital Assets
(Expressed in Thousands)

	Governmental Activities			Business-type Activities		Total Primary Government		
	2012	**2011**		**2012**	**2011**	**2012**	**2011**	
Land	$ 497,893	$ 488,197		$ 58,888	$ 58,888	$ 556,781	$ 547,085	
Buildings	626,202	592,943		9,449	9,449	635,651	602,392	
Equipment	272,567	255,915	*	80,892	67,037	353,459	322,952	*
Improvements	20,843	19,796	*	74,889	63,342	95,732	83,138	*
Software	41,789	9	*	-	-	41,789	9	*
Infrastructure	4,018,966	3,814,466		-	-	4,018,966	3,814,466	
Construction in Progress	48,473	119,419		18,555	32,024	67,028	151,443	
Total Capital Assets	5,526,733	5,290,745		242,673	230,740	5,769,406	5,521,485	
Accumulated Depreciation	441,235	428,414	*	89,910	84,383	531,145	512,797	*
Capital Assets, net	$ 5,085,498	$ 4,862,331		$ 152,763	$ 146,357	$ 5,238,261	$ 5,008,688	

* as restated

Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets – highways and bridges. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Utilization of this approach requires the State to: 1) maintain an asset management system that includes an up-to-date inventory of infrastructure assets; 2) perform condition assessments that use a measurement scale and document that the infrastructure assets are being preserved at or above the condition level established; and 3) estimate the annual amounts that must be expended to preserve and maintain the infrastructure at the condition level established by the State. As long as the State meets these requirements, any additions or improvements to infrastructure are capitalized and all other maintenance and preservation costs are expensed.

Highways and bridges are included in the State's infrastructure. There are 8,828 highway miles or 17,993 lane miles within the State. Bridges have a deck area of 11.8 million square feet among 2,963 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2012, the actual average condition was 75.4. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 79 at June 30, 2012. Preservation costs for fiscal year 2012 totaled $104.7 million compared to estimated preservation costs of $185 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 645, PL 2009, $13.7 million in General fund bonds was spent during FY2012.

Additional information on infrastructure assets can be found in Required Supplementary Information (RSI).

Long-Term Debt

The State Constitution authorizes general obligation long-term borrowing, with 2/3 approval of the Legislature and ratification by a majority of the voters, and general obligation short-term notes, of which the principal may not exceed an amount greater than 10 percent of all moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, or greater than 1 percent of the total valuation of the State of Maine, whichever is the lesser.

At year-end, the State had $1.5 billion in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

Table A-8 - Outstanding Long-Term Debt
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
General Obligation Bonds	$ 472,055	$ 520,230	$ -	$ -	$ 472,055	$ 520,230
Other Long-Term Obligations	1,001,843	917,588 *	4,726	2,283	1,006,569	919,871 *
Total	$ 1,473,898	$ 1,437,818	$ 4,726	$ 2,283	$ 1,478,624	$ 1,440,101

* as restated

During the year, the State reduced outstanding long-term obligations by $97.4 million for outstanding general obligation bonds and $643.4 million for other long-term debt. Also during fiscal year 2012, the State incurred $779.4 million of additional long-term obligations.

Credit Ratings

The State’s credit was rated during fiscal year 2012 by Moody’s Investors Service as Aa2 with a negative outlook and by Standard & Poor’s as AA with a stable outlook.

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

National and state economic indicators suggest little improvement in economic conditions since the State's Consensus Economic Forecasting Committee (CEFC) met in February 2012. Maine's coincident economic activity index was unchanged in the three months ending in August and remains below pre-recession levels. About half the states saw growth over the three months ending in August. Nationwide, consumer sentiment and small business optimism are up over year-ago levels. Personal income in Maine grew 3.0% year-over-year in the first half of 2012, while wage and salary income grew 1.3% over the same period. The Consumer Price Index was 2.0% higher in September 2012 than it was in September 2011.

The price of crude oil (West Texas Intermediate) remained fairly steady in the third quarter of 2012 around $92 per barrel. Home sales in Maine increased in six of the seven months since January 2012. Month-over-month, housing permits in Maine grew 33% in August. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) increased by 3.1% year-over-year in the second quarter of 2012. Mortgage delinquency rates remain well above pre-recession levels but below peak crisis levels. The foreclosure rate in Maine increased in the second quarter of 2012 and remains well above pre-recession levels.

Uncertainty stemming from the "fiscal cliff" has continued to restrain economic growth in recent months. The "fiscal cliff" is a major fiscal tightening that includes the expiry of the Bush tax cuts, the payroll tax cut, emergency unemployment insurance benefits, and depreciation incentives as well as the sequester spending cuts, for a cliff estimated to be worth 3.0% of GDP nationally. Given the severe impact to the economy if a solution is not successfully reached, the CEFC will reevaluate their forecast in the first quarter of calendar year 2013 in response to actual policy decisions at the federal level.

Wage and salary employment growth was revised upwards slightly for 2012 and slightly downwards for 2013-2015 to reflect more robust current-year employment growth and longer-term structural workforce challenges, respectively. Personal income growth was revised upwards for 2012 in part to reflect the stronger employment growth and in 2013 to reflect increased dividends, interest and rent income, while 2014 and 2015 were revised downwards. Inflation, as measured by the Consumer Price Index (CPI), was revised upwards for 2012 and downwards for 2013-2015.

General Fund revenues slowed in FY12 because of the slow national economic recovery. Growth is projected to be flat or negative in FY13 and FY14 because of significant tax reductions enacted by the Legislature during the last two legislative sessions. Revenue growth is projected to return to a more moderate pace of 3.5% once the tax cuts are fully implemented.

At June 30, 2012, the deficit in the State of Maine's Unassigned Fund Balance Account in the General Fund has increased to $355.9 million (from a deficit unassigned balance of $243.6 for fiscal year 2011). This increase is primarily due the State using a one-day borrowing from the Other Special Revenue Fund to balance the budget which totaled $91 million in fiscal year 2012.

There are several factors that adversely affect our General Fund Balance Sheet that we should strive to improve over the next several years. The largest cause for the current condition is the Medicaid liabilities for amounts owed to hospitals and the incurred but not paid liability that accrues at the end of each fiscal year which currently total $720.4 million of which the General Fund portion is $263.7 and the budgetary one-day borrowing used to balance the budget. This combined with the lack of significant reserves weakens the General Fund equity position.

Other factors that have a significant impact on the State's Financial Statements compiled and issued in accordance with Generally Accepted Accounting Principles as applicable to governments include such factors as accruing tax revenues for budgetary purposes and for financial statement purposes without accruing the offsetting liabilities for budgetary purposes and the increase in the demand for appropriations whose balances carry from year to year which results in a lack funds accruing to the Unassigned Fund Balance of the General Fund.

These items together, conspire to cause the State of Maine’s General Fund to be subjected to lack of liquidity each year and an inability to adequately manage its Balance Sheet within existing resources.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the finances of the State and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

State of Maine
Office of the State Controller
14 State House Station
Augusta, ME 04333-0014
(207)-626-8420
financialreporting@maine.gov

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2012
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 250,306	$ 16,626	$ 266,932	$ 68,900
Cash and Cash Equivalents	2,473	1,901	4,374	111,009
Cash with Fiscal Agent	151,337	-	151,337	-
Investments	73,281	-	73,281	624,607
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	20,918	-	20,918	-
Restricted Deposits and Investments	3,694	269,597	273,291	44,573
Inventories	6,060	2,497	8,557	3,480
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	371,716	-	371,716	-
Loans Receivable	5,538	-	5,538	105,128
Notes Receivable	-	-	-	3,621
Other Receivables	222,501	56,696	279,197	95,986
Internal Balances	5,421	(5,421)	-	-
Due from Other Governments	530,978	-	530,978	165,703
Due from Primary Government	-	-	-	16,214
Loans receivable from primary government	-	-	-	24,086
Due from Component Units	48,663	-	48,663	-
Other Current Assets	4,385	1,875	6,260	42,989
Total Current Assets	1,697,271	343,771	2,041,042	1,306,296
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	103,103	6,838	109,941	28,340
Assets Held in Trust	-	-	-	2
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	8,456	-	8,456	-
Restricted Deposits and Investments	-	-	-	587,580
Investments	-	-	-	488,741
Receivables, Net of Current Portion:				
Taxes Receivable	92,659	-	92,659	-
Loans Receivable	-	-	-	2,589,794
Notes Receivable	-	-	-	69,781
Other Receivables	860	-	860	17,932
Due from Other Governments	7,494	-	7,494	1,416,602
Loans receivable from primary government	-	-	-	304,045
Due From Primary Government	-	-	-	1,487
Other Noncurrent Assets	-	-	-	63,916
Post-Employment Benefit Asset	1,760	-	1,760	9,783
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	4,565,332	77,443	4,642,775	552,623
Buildings, Equipment and Other Depreciable Assets	961,401	165,230	1,126,631	1,571,948
Less: Accumulated Depreciation	(441,235)	(89,910)	(531,145)	(580,336)
Capital Assets, Net of Accumulated Depreciation	5,085,498	152,763	5,238,261	1,544,235
Total Noncurrent Assets	5,299,830	159,601	5,459,431	7,122,238
Total Assets	$ 6,997,101	$ 503,372	$ 7,500,473	$ 8,428,534

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

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Liabilities				
Current Liabilities:				
Accounts Payable	$ 901,319	$ 8,673	$ 909,992	$ 105,688
Accrued Payroll	41,037	1,420	42,457	3,561
Tax Refunds Payable	167,260	-	167,260	-
Due to Component Units	16,342	-	16,342	-
Due to Primary Government	-	-	-	48,663
Undistributed Grants and Administrative Funds	-	-	-	10,693
Allowances for Losses on Insured Commercial Loans	-	-	-	12,235
Current Portion of Long-Term Obligations:				
Compensated Absences	4,430	109	4,539	2,184
Due to Other Governments	76,062	-	76,062	3,713
Amounts Held under State & Federal Loan Programs	-	-	-	48,423
Claims Payable	25,767	-	25,767	-
Bonds and Notes Payable	102,330	-	102,330	177,122
Notes Payable	-	-	-	1,469
Revenue Bonds Payable	18,245	-	18,245	55,603
Obligations under Capital Leases	5,324	-	5,324	350
Certificates of Participation and Other Financing Arrangements	26,323	-	26,323	-
Loans Payable to Component Unit	24,085	-	24,085	-
Accrued Interest Payable	6,866	-	6,866	45,899
Deferred Revenue	1,133	12,790	13,923	55,794
Other Current Liabilities	7,762	14,193	21,955	57,835
Total Current Liabilities	1,424,285	37,185	1,461,470	629,232
Long-Term Liabilities:				
Compensated Absences	37,624	1,480	39,104	-
Due to Component Units	1,359	-	1,359	-
Due to Other Governments	-	-	-	4,830
Amounts Held under State & Federal Loan Programs	-	-	-	44,017
Claims Payable	38,556	-	38,556	-
Bonds and Notes Payable	369,725	-	369,725	3,614,182
Notes Payable	-	-	-	25,162
Revenue Bonds Payable	169,620	-	169,620	1,209,783
Obligations under Capital Leases	24,454	-	24,454	5,948
Certificates of Participation and Other Financing Arrangements	25,774	-	25,774	-
Loans Payable to Component Unit	304,046	-	304,046	-
Deferred Revenue	12,384	12,500	24,884	31,315
Pension Obligation	2,010	-	2,010	-
Other Post-Employment Benefit Obligation	266,705	3,137	269,842	-
Pollution Remediation and Landfill Obligations	28,880	-	28,880	-
Other Noncurrent Liabilities	-	-	-	138,742
Total Long-Term Liabilities	1,281,137	17,117	1,298,254	5,073,979
Total Liabilities	2,705,422	54,302	2,759,724	5,703,211
Net Assets				
Invested in Capital Assets, Net of Related Debt	4,408,377	152,763	4,561,140	948,600
Restricted:				
Transportation Purposes	190,642	-	190,642	-
Business Licensing & Regulation	67,374	-	67,374	-
Justice and Protection	5,966	-	5,966	-
Natural Resources	41,803	-	41,803	-
Health and Human Services	28,430	-	28,430	-
Capital Projects	26,735	-	26,735	-
Government Support & Operations	90,740	-	90,740	-
Unemployment Compensation	-	295,632	295,632	-
Other Purposes	7,816	-	7,816	1,158,825
Funds Held as Permanent Investments:				
Expendable	58,972	-	58,972	-
Nonexpendable	16,328	-	16,328	213,124
Unrestricted	(651,504)	675	(650,829)	404,774
Total Net Assets	$ 4,291,679	$ 449,070	$ 4,740,749	$ 2,725,323

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
Governmental Support & Operations	$ 456,622	$ 80,534	$ 43,617	$ -
Arts, Heritage & Cultural Enrichment	11,507	1,006	2,939	-
Business Licensing & Regulation	68,697	75,633	(1,116)	-
Economic Development & Workforce Training	302,614	7,175	215,720	-
Education	1,610,095	6,897	198,560	-
Health & Human Services	3,750,402	20,018	2,348,167	-
Justice & Protection	401,740	86,583	59,700	-
Natural Resources Development & Protection	208,463	93,991	53,043	-
Transportation Safety & Development	376,689	116,995	239,611	-
Interest Expense	45,551	-	-	-
Total Governmental Activities	7,232,380	488,832	3,160,241	-
Business-Type Activities:				
Employment Security	187,703	176,645	7,823	-
Alcoholic Beverages	-	12,532	-	-
Lottery	176,837	231,015	-	-
Transportation	9,310	4,692	-	-
Ferry Services	11,458	4,695	-	-
Military Equipment Maintenance	35,058	35,104	-	-
Dirigo Health	56,702	70,296	-	-
Other	7,662	5,945	-	-
Total Business-Type Activities	484,730	540,924	7,823	-
Total Primary Government	$ 7,717,110	$ 1,029,756	$ 3,168,064	$ -
Component Units				
Finance Authority of Maine	37,575	12,644	22,352	-
Maine Community College System	127,768	16,672	63,942	31,098
Maine Health & Higher Educational Facilities Authority	53,443	49,411	8,944	-
Maine Municipal Bond Bank	81,049	65,370	17,905	27,393
Maine State Housing Authority	267,551	81,488	189,736	-
Maine Turnpike Authority	89,562	107,543	-	-
University of Maine System	684,277	298,670	177,297	19,695
All Other Non-Major Component Units	156,836	41,501	74,424	144,647
Total Component Units	$ 1,498,061	$ 673,299	$ 554,600	$ 222,833

General Revenues:
- Taxes:
  - Corporate
  - Individual Income
  - Fuel
  - Property
  - Sales & Use
  - Other
- Unrestricted Investment Earnings
- Non-Program Specific Grants, Contributions & Appropriations
- Miscellaneous Income
- Loss on Assets Held for Sale
- Tobacco Settlement

Transfers - Internal Activities
- Total General Revenues and Transfers
  - Change in Net Assets

Net Assets - Beginning (As Restated)
Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (332,471)	$ -	$ (332,471)	$ -
(7,562)	-	(7,562)	-
5,820	-	5,820	-
(79,719)	-	(79,719)	-
(1,404,638)	-	(1,404,638)	-
(1,382,217)	-	(1,382,217)	-
(255,457)	-	(255,457)	-
(61,429)	-	(61,429)	-
(20,083)	-	(20,083)	-
(45,551)	-	(45,551)	-
(3,583,307)	-	(3,583,307)	-
-	(3,235)	(3,235)	-
-	12,532	12,532	-
-	54,178	54,178	-
-	(4,618)	(4,618)	-
-	(6,763)	(6,763)	-
-	46	46	-
-	13,594	13,594	-
-	(1,717)	(1,717)	-
-	64,017	64,017	-
$ (3,583,307)	$ 64,017	$ (3,519,290)	$ -
-	-	-	(2,579)
-	-	-	(16,056)
-	-	-	4,912
-	-	-	29,619
-	-	-	3,673
-	-	-	17,981
-	-	-	(188,615)
-	-	-	103,736
$ -	$ -	$ -	$ (47,329)
334,818	-	334,818	-
1,459,039	-	1,459,039	-
245,815	-	245,815	-
45,902	-	45,902	-
1,113,952	-	1,113,952	-
273,062	-	273,062	-
2,543	-	2,543	6,632
-	-	-	291,765
76,360	-	76,360	3,572
-	-	-	(28)
51,188	-	51,188	-
54,968	(54,968)	-	-
3,657,647	(54,968)	3,602,679	301,941
74,340	9,049	83,389	254,612
4,217,339	440,021	4,657,360	2,470,711
$ 4,291,679	$ 449,070	$ 4,740,749	$ 2,725,323


DIRIGO
MAINE

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2012
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ 8,895	$ 40,385	$ 8,670	$ 134,376	$ 2,019	$ 194,345
Cash and Short-Term Investments	120	116	1	43	2,190	2,470
Cash with Fiscal Agent	1,066	1,016	-	134,602	-	136,684
Investments	-	-	-	-	73,281	73,281
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	360	-	-	-	29,014	29,374
Inventories	1,413	-	483	-	-	1,896
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	426,523	27,167	-	10,685	-	464,375
Loans Receivable	1	27	-	5,510	-	5,538
Other Receivable	75,951	3,609	72,573	67,211	39	219,383
Due from Other Funds	14,463	7,173	1,415	120,350	214	143,615
Due from Other Governments	-	-	530,530	-	-	530,530
Due from Component Units	3,000	-	-	45,547	116	48,663
Other Assets	1,803	45	372	561	43	2,824
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 533,706	$ 79,538	$ 614,044	$ 518,885	$ 106,916	$ 1,853,089
Liabilities and Fund Balances						
Accounts Payable	$ 294,556	$ 24,938	$ 499,221	$ 25,543	$ 3,817	$ 848,075
Accrued Payroll	16,746	6,673	4,795	8,050	979	37,243
Tax Refunds Payable	167,252	8	-	-	-	167,260
Due to Other Governments	3,792	-	70,539	-	-	74,331
Due to Other Funds	159,085	3,180	12,425	4,683	19	179,392
Due to Component Units	1,864	7	8,174	2,346	1,585	13,976
Compensated Absences	-	-	-	-	350	350
Deferred Revenue	235,827	8,623	2,214	32,126	7	278,797
Other Accrued Liabilities	4,519	-	1,548	2,887	319	9,273
Total Liabilities	883,641	43,429	598,916	75,635	7,076	1,608,697
Fund Balances:						
Nonspendable:						
Permanent Fund Principal	-	-	-	-	16,328	16,328
Inventories and Prepaid tems	2,965	45	855	633	30	4,528
Restricted	2,989	36,064	14,273	391,692	85,782	530,800
Committed	-	-	-	38,436	-	38,436
Assigned	-	-	-	12,489	-	12,489
Unassigned	(355,889)	-	-	-	(2,300)	(358,189)
Total Fund Balances	(349,935)	36,109	15,128	443,250	99,840	244,392
Total Liabilities and Fund Balances	$ 533,706	$ 79,538	$ 614,044	$ 518,885	$ 106,916	$ 1,853,089

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

STATE OF MAINE
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2012
(Expressed in Thousands)

Total fund balances for governmental funds		$ 244,392
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	5,173,912	
Less: Accumulated depreciation	(244,193)	4,929,719
Other Post-Employment Benefit Assets are not financial resources		1,760
Pollution Remediation Receivable		4,371
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:		
Bonds Payable	(659,920)	
Interest Payable Related to Long-term Financing	(4,541)	
Certificates of Participation and Other Financing Arrangements	(13,144)	
Capital Leases	(68)	
Other accrued	(9)	
Loans Payable to Component Unit	(328,131)	
Compensated Absences	(37,695)	
Pension Obligation	(2,010)	
Other Post-Employment Benefit Obligation	(266,705)	
Pollution Remediation Obligation and Landfill Post Closure Liability	(28,880)	(1,341,103)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		269,290
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		183,250
Net assets of governmental activities		$ 4,291,679

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

STATE OF MAINE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	$ 2,990,353	$ 219,540	$ -	$ 260,032	$ -	$ 3,469,925
Assessments and Other Revenue	103,292	90,494	1	138,075	-	331,862
Federal Grants and Reimbursements	3,377	-	3,147,893	10,789	-	3,162,059
Service Charges	49,008	6,124	451	90,408	1,388	147,379
Investment Income (Loss)	1,413	141	18	423	(696)	1,299
Miscellaneous Revenue	17,047	693	393	108,852	342	127,327
Total Revenues	3,164,490	316,992	3,148,756	608,579	1,034	7,239,851
Expenditures						
Current:						
Governmental Support & Operations	255,191	2,726	14,027	136,662	124	408,730
Economic Development & Workforce Training	33,561	-	220,193	30,867	17,206	301,827
Education	1,335,736	-	227,257	12,563	41,431	1,616,987
Health and Human Services	1,126,805	-	2,345,952	298,077	265	3,771,099
Business Licensing & Regulation	-	-	390	65,486	-	65,876
Natural Resources Development & Protection	65,332	33	50,915	83,142	4,931	204,353
Justice and Protection	253,226	27,761	59,164	42,972	-	383,123
Arts, Heritage & Cultural Enrichment	7,117	-	2,880	901	83	10,981
Transportation Safety & Development	-	280,767	199,323	84,664	1,786	566,540
Debt Service:						
Principal Payments	98,340	16,385	10,770	9,370	21	134,886
Interest Payments	21,714	5,406	4,208	8,805	-	40,133
Capital Outlay	-	-	-	-	25,729	25,729
Total Expenditures	3,197,022	333,078	3,135,079	773,509	91,576	7,530,264
Revenue over (under) Expenditures	(32,532)	(16,086)	13,677	(164,930)	(90,542)	(290,413)
Other Financing Sources (Uses):						
Transfer from Other Funds	134,722	29,328	19,676	207,960	34,449	426,135
Transfer to Other Funds	(216,827)	(9,954)	(42,644)	(91,769)	(4,742)	(365,936)
COP's and Other	1,071	1,029	-	471	54	2,625
Loan Proceeds from Component Units	-	-	-	58,726	-	58,726
Bonds Issued	-	-	-	33,000	49,265	82,265
Premium on Bonds Issued	-	-	-	-	6,507	6,507
Net Other Finance Sources (Uses)	(81,034)	20,403	(22,968)	208,388	85,533	210,322
Net Change in Fund Balances	(113,566)	4,317	(9,291)	43,458	(5,009)	(80,091)
Fund Balances at Beginning of Year (As Restated)	(236,369)	31,792	24,419	399,792	104,849	324,483
Fund Balances at End of Year	$ (349,935)	$ 36,109	$ 15,128	$ 443,250	$ 99,840	$ 244,392

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

STATE OF MAINE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2012
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$	(80,091)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:			
Capital outlay	244,809		
Depreciation expense	(21,583)		223,226
The net effect of various transac ions involving capital assets (ie. sales, trade ins and contribu ions) is to increase net assets.			(30)
Post-employment benefit asset funding, net			1,460
Pollu ion Remediation Receivable			(14,624)
The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Assets. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Assets. This is he amount that proceeds exceed repayments:			
Bond proceeds	(82,265)		
Proceeds from other financing arrangements	(2,571)		
Loan proceeds from component unit	(58,726)		
Repayment of bond principal	114,725		
Repayment of other financing debt	14,091		
Repayment of pledged revenue principal	21,514		
Accrued interest	505		7,273
Certain expenditures are reported in the funds. However, hey either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from he Statement of Ac ivities as follows:			
Pension obligation	18		
Other post-employment benefit obligation	(76,083)		
Pollution remediation obliga ion	18,157		
Claims payable	4		
Compensated absences	4,320		(53,584)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.			1,990
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in he Statement of Ac ivities.			(11,280)
Changes in net assets of governmental activi ies		$	74,340

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

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2012
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ -	$ 16,626	$ 16,626	$ 112,706
Cash and Short-Term Investments	1,145	756	1,901	3
Cash with Fiscal Agent	-	-	-	14,653
Restricted Assets:				
Restricted Deposits and Investments	269,597	-	269,597	3,694
Inventories	-	2,497	2,497	4,164
Receivables, Net of Allowance for Uncollec ibles:				
Other Receivable	31,466	25,230	56,696	463
Due from Other Funds	24	270	294	19,468
Other Current Assets	-	1,875	1,875	1,561
Total Current Assets	302,232	47,254	349,486	156,712
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	6,838	6,838	46,358
Capital Assets - Net of Depreciation	-	152,763	152,763	155,779
Total Noncurrent Assets	-	159,601	159,601	202,137
Total Assets	302,232	206,855	509,087	358,849
Liabilities				
Current Liabilities:				
Accounts Payable	5,935	2,738	8,673	23,049
Accrued Payroll	-	1,420	1,420	3,794
Due to Other Funds	-	5,239	5,239	6,286
Due to Component Units	-	-	-	3,725
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	14,906
Obligations Under Capital Leases	-	-	-	5,298
Claims Payable	-	-	-	25,767
Compensated Absences	-	109	109	271
Deferred Revenue	-	12,790	12,790	646
Other Accrued Liabilities	665	13,528	14,193	805
Total Current Liabilities	6,600	35,824	42,424	84,547
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Deferred Revenue	-	12,500	12,500	664
Certificates of Participation and Other Financing Arrangements	-	-	-	24,047
Obligations Under Capital Leases	-	-	-	24,412
Claims Payable	-	-	-	38,556
Compensated Absences	-	1,480	1,480	3,738
Other Post-Employment Benefit Obligation	-	3,137	3,137	-
Total Long-Term Liabilities	-	17,117	17,117	91,528
Total Liabilities	6,600	52,941	59,541	176,075
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	152,763	152,763	108,776
Restricted for:				
Unemployment Compensation	295,632	-	295,632	-
Other Purposes	-	-	-	39
Unrestricted	-	1,151	1,151	73,959
Total Net Assets	$ 295,632	$ 153,914	$ 449,546	$ 182,774
Amounts reported for business-type ac ivities in the government-wide Statement of Ac ivities are different due to elimination of the State's internal business-type activites			(476)	
			$ 449,070	

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

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

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Operating Revenues				
Charges for Services	$ -	$ 348,479	$ 348,479	$ 397,856
Assessments	176,645	1,717	178,362	-
Miscellaneous Revenues	-	547	547	553
Total Operating Revenues	176,645	350,743	527,388	398,409
Operating Expenses				
General Operations	-	288,587	288,587	370,464
Depreciation	-	8,290	8,290	20,079
Claims/Fees Expense	187,703	-	187,703	12,822
Other Operating Expenses	-	-	-	755
Total Operating Expenses	187,703	296,877	484,580	404,120
Operating Income (Loss)	(11,058)	53,866	42,808	(5,711)
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	7,823	-	7,823	1,244
Interest Expense	-	-	-	(7,283)
Other Nonoperating Revenues (Expenses) - net	-	13,536	13,536	(5,987)
Total Nonoperating Revenues (Expenses)	7,823	13,536	21,359	(12,026)
Income (Loss) Before Capital Contributions and Transfers	(3,235)	67,402	64,167	(17,737)
Capital Contributions and Transfers				
Capital Contributions from (to) Other Funds	-	10,003	10,003	1,417
Transfers from Other Funds	-	7,713	7,713	9,221
Transfers to Other Funds	(1,420)	(71,264)	(72,684)	(4,331)
Total Capital Contributions and Transfers In (Out)	(1,420)	(53,548)	(54,968)	6,307
Change in Net Assets	(4,655)	13,854	9,199	(11,430)
Total Net Assets - Beginning of Year	300,287	140,060	440,347	194,204
Total Net Assets - End of Year	$ 295,632	$ 153,914		$ 182,774
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			(150)	
Changes in Business-Types Net Assets			$ 9,049	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2012
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds Major Employment Security	Non-Major Other Enterprise	Totals	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 180,441	$ 351,146	$ 531,587	$ 399,569
Payments of Benefits	(182,866)	-	(182,866)	-
Payments to Prize Winners	-	(144,018)	(144,018)	-
Payments to Suppliers	-	(113,289)	(113,289)	(296,398)
Payments to Employees	-	(26,176)	(26,176)	(70,176)
Net Cash Provided (Used) by Operating Activities	(2 425)	67 663	65 238	32 995
Cash Flows from Noncapital Financing Activities				
Transfers from Other Funds	-	7,712	7,712	9,221
Transfers to Other Funds	(1,420)	(71,263)	(72,683)	(4,331)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,420)	(63,551)	(64,971)	4,890
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(4,694)	(4,694)	(23,853)
Proceeds from Financing Arrangements	-	-	-	4,600
Principal and Interest Paid on Financing Arrangements	-	-	-	(24,843)
Proceeds from Sale of Capital Assets	-	970	970	-
Net Cash Provided (Used) by Capital Financing Activities	-	(3,724)	(3,724)	(44,096)
Cash Flows from Investing Activities				
Interest Revenue	7,823	67	7,890	1,244
Net Cash Provided (Used) by Investing Activities	7,823	67	7,890	1,244
Net Increase (Decrease) in Cash/Cash Equivalents	3,978	455	4,433	(4,967)
Cash/Cash Equivalents - Beginning of Year	266,764	23,765	290,529	182,381
Cash/Cash Equivalents - End of Year	$ 270,742	$ 24,220	$ 294,962	$ 177,414
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (11,058)	$ 53,866	$ 42,808	$ (5,711)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	8,290	8,290	20,079
Decrease (Increase) in Assets:				
Accounts Receivable	3,807	403	4,210	64
Interfund Balances	(11)	3,113	3,102	1,548
Inventories	-	(110)	(110)	(709)
Other Assets	-	-	-	266
Increase (Decrease) in Liabilities:				
Accounts Payable	5,062	(26)	5,036	14,788
Accrued Payroll Expenses	-	336	336	1,026
Due to Other Governments	-	-	-	(3)
Change in Compensated Absences	-	707	707	(419)
Other Accruals	(225)	1,084	859	2,066
Total Adjustments	8,633	13,797	22,430	38,706
Net Cash Provided (Used) by Operating Activities	$ (2 425)	$ 67 663	$ 65 238	$ 32 995
Non Cash Investing, Capital and Financing Activities				
Property Leased, Accrued, or Acquired	-	-	-	1,401
Contributed Capital Assets	-	10,003	10,003	1,417
Decrease of Deferred Revenue from the Sale of Liquor Operations	-	12,500	12,500	-

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

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2012
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 1,632	$ 13,574
Cash and Short-Term Investments	61,168	-	27
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	6,000	-	-
Interest and Dividends	4,818	4,176	-
Due from Brokers for Securities Sold	74,942	12,525	-
Other	28,075	-	-
Investments at Fair Value:			
Debt Securities	972	-	-
Equity Securities	3,637,612	-	-
Common/Collective Trusts	6,971,761	-	-
Foreign Governments and Agencies	-	-	11
Other	-	11,501	-
Securities Lending Collateral	812,174	-	-
Due from Other Funds	-	30,195	-
Investments Held on Behalf of Others	-	6,013,272	70,180
Capital Assets - Net of Depreciation	10,849	-	-
Other Assets	-	3,887	3,243
Total Assets	11,608,371	6,077,188	87,035
Liabilities			
Accounts Payable	5,715	3,847	1
Due to Other Funds	-	6	2,649
Due to Brokers for Securities Purchased	-	12,525	-
Agency Liabilities	-	-	84,341
Obligations Under Securities Lending	812,174	-	-
Other Accrued Liabilities	23,615	-	44
Total Liabilities	841,504	16,378	87,035
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	10,766,867	6,060,810	-
Total Net Assets	$ 10,766,867	$ 6,060,810	$ -

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

STATE OF MAINE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 161,692	$1,726,338
State and Local Agencies	355,405	-
Investment Income (Loss):		
Net Increase (Decrease) in the Fair Value of Investments	(22,850)	(217,829)
Capital Gains Distributions from Investments	-	41,162
Interest and Dividends	100,784	114,018
Securities Lending Income	1,709	-
Less Investment Expense:		
Investment Activity Expense	24,338	-
Securities Lending Expense	(740)	-
Net Investment Income (Loss)	56,045	(62,649)
Miscellaneous Revenues	-	7,295
Transfers In	-	671
Total Additions	573,142	1,671,655
Deductions:		
Benefits Paid to Participants or Beneficiaries	802,018	1,587,162
Refunds and Withdrawals	45,201	-
Administrative Expenses	10,027	46,140
Claims Processing Expense	722	-
Transfers Out	-	784
Total Deductions	857,968	1,634,086
Net Increase (Decrease)	(284,826)	37,569
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	11,051,693	6,023,241
End of Year	$ 10,766,867	$6,060,810

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

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2012
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority	Maine Municipal Bond Bank
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 19,667	$ 14,880	$ 3,567	$ -
Cash and Cash Equivalents	5,500	4,214	4,414	64
Investments	47,184	36,240	34,531	19,103
Restricted Assets:				
Restricted Deposits and Investments	-	-	-	-
Inventories	-	1,321	-	-
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	55,390	-
Notes Receivable	-	-	-	-
Other Receivables	692	11,790	43	877
Due from Other Governments	275	-	-	142,457
Due from Primary Government	-	1,142	-	-
Loans Receivable from Primary Government	-	-	-	24,086
Other Current Assets	1,908	2,524	845	30,183
Total Current Assets	75,226	72,111	98,790	216,770
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	8,090	6,120	1,467	-
Assets Held in Trust	-	-	-	-
Restricted Assets:				
Restricted Deposits and Investments	-	1,614	154,952	362,393
Investments	-	12,548	-	-
Receivables, Net of Current Portion:				
Loans Receivable	-	-	1,089,721	-
Notes Receivable	25,127	-	-	-
Other Receivables	-	4,350	206	-
Due from Other Governments	-	-	-	1,416,602
Due from Primary Government	-	-	-	-
Loans Receivable from Primary Government	-	-	-	304,045
Post-Employment Benefit Asset	-	9,783	-	-
Capital Assets - Net of Depreciation	1,798	151,201	-	667
Other Noncurrent Assets	-	227	-	1,495
Total Noncurrent Assets	35,015	185,843	1,246,346	2,085,202
Total Assets	110,241	257,954	1,345,136	2,301,972
Liabilities				
Current Liabilities:				
Accounts Payable	1,311	4,290	84	516
Accrued Payroll	-	-	-	-
Compensated Absences	-	1,905	-	-
Due to Other Governments	-	-	-	2,627
Due to Primary Government	3,000	-	-	45,547
Amounts Held under State & Federal Loan Programs	-	-	-	48,423
Undistributed Grants and Administrative Funds	10,489	-	-	204
Allowances for Losses on Insured Commercial Loans	12,235	-	-	-
Bonds Payable	806	-	55,450	134,609
Notes Payable	-	600	-	-
Obligations under Capital Leases	-	-	-	-
Accrued Interest Payable	-	-	24,278	13,393
Deferred Revenue	1,311	1,208	2,621	82
Other Current Liabilities	3	8,722	-	-
Total Current Liabilities	29,155	16,725	82,433	245,401
Long-Term Liabilities:				
Due to Other Governments	-	-	319	838
Amounts Held under State & Federal Loan Programs	44,017	-	-	-
Bonds Payable	707	-	1,208,015	1,436,408
Notes Payable	-	23,973	-	-
Obligations under Capital Leases	-	2,180	-	-
Deferred Revenue	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-
Total Long-Term Liabilities	44,724	26,153	1,208,334	1,437,246
Total Liabilities	73,879	42,878	1,290,767	1,682,647
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,798	126,289	-	667
Restricted	16,576	45,500	33,637	539,552
Unrestricted	17,988	43,287	20,732	79,106
Total Net Assets	$ 36,362	$ 215,076	$ 54,369	$ 619,325

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

Maine State Housing Authority	Maine Turnpike Authority	University of Maine System	Non-Major Component Units	Totals
$ -	$ -	$ 29,782	$ 1,004	$ 68,900
1,128	6,068	1,365	88,256	111,009
276,221	-	205,945	5,383	624,607
-	27,367	-	17,206	44,573
-	1,462	-	697	3,480
31,089	-	-	18,649	105,128
2	-	63	3,556	3,621
25,932	3,554	43,363	9,735	95,986
7,797	-	11,895	3,279	165,703
-	-	9,713	5,359	16,214
-	-	-	-	24,086
-	1,174	5,106	1,249	42,989
342,169	39,625	307,232	154,373	1,306,296
-	-	12,250	413	28,340
-	-	-	2	2
-	42,332	10,191	16,098	587,580
145,326	-	312,863	18,004	488,741
1,376,149	-	-	123,924	2,589,794
335	-	40,140	4,179	69,781
2,214	1	8,114	3,047	17,932
-	-	-	-	1,416,602
-	-	1,359	128	1,487
-	-	-	-	304,045
-	-	-	-	9,783
2,810	472,125	683,862	231,772	1,544,235
35,713	22,309	2,052	2,120	63,916
1,562,547	536,767	1,070,831	399,687	7,122,238
1,904,716	576,392	1,378,063	554,060	8,428,534
56,254	8,308	18,052	16,873	105,688
-	3,274	-	287	3,561
-	-	-	279	2,184
256	-	-	830	3,713
-	-	-	116	48,663
-	-	-	-	48,423
-	-	-	-	10,693
-	-	-	-	12,235
9,905	13,855	10,331	7,769	232,725
-	-	-	869	1,469
-	-	339	11	350
7,537	-	-	691	45,899
4,216	6,030	12,300	28,026	55,794
-	9,970	38,469	671	57,835
78,168	41,437	79,491	56,422	629,232
1,963	-	-	1,710	4,830
-	-	-	-	44,017
1,444,805	383,201	180,286	170,543	4,823,965
-	-	-	1,189	25,162
-	-	3,754	14	5,948
27,918	-	-	3,397	31,315
29,649	10,889	98,099	105	138,742
1,504,335	394,090	282,139	176,958	5,073,979
1,582,503	435,527	361,630	233,380	5,703,211
2,810	100,640	500,595	215,801	948,600
305,877	31,945	329,367	69,495	1,371,949
13,526	8,280	186,471	35,384	404,774
$ 322,213	$ 140,865	$ 1,016,433	$ 320,680	$ 2,725,323

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority	Maine Municipal Bond Bank
Expenses	$ 37,575	$ 127,768	$ 53,443	$ 81,049
Program Revenues				
Charges for Services	12,644	16,672	49,411	65,370
Program Investment Income	308	791	8,944	17,411
Operating Grants and Contributions	22,044	63,151	-	494
Capital Grants and Contributions	-	31,098	-	27,393
Net Revenue (Expense)	(2,579)	(16,056)	4,912	29,619
General Revenues				
Unrestricted Investment Earnings	518	1,143	72	66
Non-program Specific Grants, Contributions and Appropriations	-	55,638	-	-
Miscellaneous Income	42	1,471	139	1,179
Gain (Loss) on Assets Held for Sale	-	-	-	-
Total General Revenues	560	58,252	211	1,245
Change in Net Assets	(2,019)	42,196	5,123	30,864
Net Assets, Beginning of the Year (as restated)	38,381	172,880	49,246	588,461
Net Assets, End of Year	$ 36,362	$ 215,076	$ 54,369	$ 619,325

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

Maine State Housing Authority	Maine Turnpike Authority	University of Maine System	Non-Major Component Units	Totals
$ 267,551	$ 89,562	$ 684,277	$ 156,836	$1,498,061
81,488	107,543	298,670	41,501	673,299
6,152	-	-	102	33,708
183,584	-	177,297	74,322	520,892
-	-	19,695	144,647	222,833
3,673	17,981	(188,615)	103,736	(47,329)
9	(201)	4,596	429	6,632
-	-	218,357	17,770	291,765
-	-	-	741	3,572
-	-	(34)	6	(28)
9	(201)	222,919	18,946	301,941
3,682	17,780	34,304	122,682	254,612
318,531	123,085	982,129	197,998	2,470,711
$ 322,213	$ 140,865	$1,016,433	$ 320,680	$2,725,323

INDEX
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine (the State) have been prepared under guidelines established by generally accepted accounting principles (GAAP) as mandated by the Governmental Accounting Standards Board (GASB).

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

A. REPORTING ENTITY

For financial reporting purposes, the State of Maine's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, organizations, agencies, boards, commissions and authorities. Component units are legally separate organizations for which the State is financially accountable. Component units can also be legally separate, tax exempt entities that raise and hold economic resources for the direct benefit of a governmental unit.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The State is financially accountable for those entities for which it appoints a voting majority of the governing board and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government or if the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement No. 14*, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, a few of the component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

Blended Component Units – Blended component units are entities that are legally separate from the State, but provide services entirely, or almost entirely to the State or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it. The State reports two blended component units.

The Maine Governmental Facilities Authority (MGFA) is a legally separate organization that has its board appointed by the primary government and provides services entirely, or almost entirely, to the State. Its purpose includes assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. In their separately issued financial statements, MGFA records a lease receivable from the State and a liability for bonds issued. However, in accordance with GASBS 14, capital leases that exist between the State and MGFA are not recorded as leases in this report. The assets associated with these leases are reported in the government-wide statements along with the related debt. The corresponding debt service activity is recorded in the Governmental Funds. MGFA financial activity associated with servicing the debt is reported in an internal service fund. Therefore, the State reports MGFA's balances and transactions as though they were part of the primary government, using the blending method.

Child Development Services (CDS) is a legally separate organization, which ensures the provision of child find activities, early intervention services and free, appropriate public education services to eligible children. Prior to fiscal year 2012, CDS had been reported as a non-major discrete component unit. Legislation enacted on April 13, 2012, Public Law Chapter 655, Part OO-4, altered the State's management and operational responsibility with this component unit. The State's Education Commissioner now appoints and supervises the CDS director. Therefore, the State reports CDS balances and transactions as though they were a non-major special revenue fund.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. Component units that are not material to the State's financial statements have been excluded. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government.

The State is able to impose its will upon these discretely presented component units:

The Maine Community College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the System include the activity of seven colleges, the central administrative office, the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

The Maine Turnpike Authority (MTA) constructs, maintains and operates a turnpike at such a location approved by the State Highway Commission and to issue turnpike revenue bonds payable solely from revenues of the Authority. The Governor appoints MTA's board of directors. As a result of substantive legislative changes made in 2011, the State's relationship to MTA changed. The former related organization is now reported as a discrete component unit. See Note 3. The Authority's fiscal year ends December 31.

The University of Maine System is the State University governed by a single Board of Trustees appointed by the Governor. The combined financial statements of the System include the activity of seven universities, eleven centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

There is a financial burden/benefit relationship between these entities and the State:

The Finance Authority of Maine provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, and the Occupational Safety Program Fund Board. Additionally, the Authority administers the Maine College Savings Program. Net assets of the program, NextGen College Investing Plan, are included in the State's fiduciary fund financial statements. The Governor appoints the fifteen voting members of the Authority.

Maine Health & Higher Educational Facilities Authority (MHHEFA) – MHHEFA assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction and equipping of their facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, may also finance student loan programs of institutions of higher education. MHHEFA consists of twelve members, four of whom serve *ex officio* and must be the Superintendent of Financial Institutions, the Commissioner of Health and Human Services, the Commissioner of Education, and the Treasurer of State. The remaining eight members must be residents of the State appointed by the Governor.

The Maine Municipal Bond Bank issues bonds on behalf of counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations or eligible borrowers as designated by the

Legislature (the "governmental units") within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners. The remaining two members include the Treasurer of State and Superintendent of Financial Institutions who serve as commissioners, *ex officio*.

Maine State Housing Authority issues bonds to purchase notes and mortgages on residential units, both single and multi-family, for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as an agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collecting and disbursing federal rent subsidies for low income housing. The Governor appoints five of the Authority's seven commissioners. The remaining two commissioners are the Treasurer of State and the Director of the Maine State Housing Authority, both of whom serve *ex officio*. The Authority's fiscal year ends on December 31.

The State's financial statements also include a fiduciary component unit:

Maine Public Employees Retirement System administers an agent-multiple employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 293 local municipalities and other public entities in Maine. The Governor appoints four of the Board's eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

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

Finance Authority of Maine 5 Community Dr. PO Box 949 Augusta, ME 04332	Maine Health and Higher Ed. Facilities Authority PO Box 2268 Augusta, ME 04338	Maine Public Employees Retirement System 46 State House Station Augusta, ME 04333	Maine Turnpike Authority 2360 Congress Street Portland, ME 04102
Maine Community College System 323 State Street Augusta, ME 04330	Maine Municipal Bond Bank PO Box 2268 Augusta, ME 04338	Maine State Housing Authority 89 State House Station 353 Water Street Augusta, ME 04330	University of Maine System 16 Central Street Bangor, ME 04401

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing board of the Maine Veteran's Home. The primary government has no material accountability for this organization beyond making board appointments.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements
The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $830.4 million of restricted net assets, of which $112.0 million is restricted by enabling legislation.

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

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Measurement Focus and Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with a GASB pronouncement. The FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the governmental funds when they become susceptible to accrual, generally when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues available if they are collected within 60 days of the end of the fiscal year.

Significant revenues susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Property taxes are recognized as revenue in the year for which they are levied, provided the “available” criterion is met.

The State Tax Assessor levies taxes on properties located in the unorganized territory of Maine by August 1 of each year, and on telecommunications personal properties statewide by May 30 of each year. Unorganized territory property taxes are due on October 1 and telecommunications personal property taxes are due on August 15. Formal collection procedures begin on November 1, and unpaid property taxes become a lien no later than March 15 of the fiscal year for which they are levied.

Expenditures are generally recorded when a liability is incurred. However, expenditures related to claims and judgments, debt service and compensated absences are recorded only when payment is due and payable.

Financial Statement Presentation

The State reports the following major governmental funds:

The *General Fund* is the State’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The *Highway Fund* accounts for the regulation, construction and maintenance of State highways and bridges and is funded by motor fuel taxes, motor vehicle license and registration fees, special State appropriations, and other charges.

The *Federal Fund* accounts for grants and other financial assistance received from the federal government, including federal block grants, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally restricted to expenditures for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal Funds. Examples of the most significant types of revenue sources include: Fund for a Healthy Maine (tobacco settlement revenue), State municipal revenue sharing, hospital and service provider taxes, and oil transfer fees.

The State reports the following major enterprise fund:

The *Maine Employment Security Fund* receives contributions from employers and provides unemployment compensation benefits to eligible unemployed workers.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. An example is funds for acquisition of public reserved lands.

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

Permanent Trust Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. An example is the Baxter State Park Fund.

Proprietary Fund Types:

Enterprise Funds report the activities for which fees are charged to external users for goods or services, such as the unemployment compensation program, lottery operations and transportation services.

Internal Service Funds provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include printing and mailing services, supplies warehousing, information technology, fleet management, risk management, health-related benefits, and financing for acquisition and construction of governmental facilities.

Fiduciary Fund Types:

Pension (and Other Employee Benefit) Trust Funds report resources that are required to be held in trust for members and beneficiaries of the State's pension, death and disability benefit plans. These resources are managed by the Maine Public Employees Retirement System (MPERS). The fund also reports resources that are required to be held in trust for members and beneficiaries of the State's retiree healthcare benefits. The investment trust, managed by the Maine Public Employees Retirement System, holds the long-term investments of the trust. The trustees of the Other Employee Benefit Trust Fund are the State Controller and State Treasurer.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include Abandoned Property, Public Reserved Lands, Permanent School funds and NextGen College Investing Plan.

Agency Funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples include amounts held for payroll withholdings, inmate and student guardianship accounts.

D. FISCAL YEAR-ENDS

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

E. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCE

Equity in Treasurer's Cash Pool

The State pools cash and cash equivalents for a variety of State agencies and public sector entities. The pooled balances are reported at fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. The Treasurer's Cash Pool has the general characteristics of a demand deposit account and is comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations, certificates of deposit, and corporate bonds.

For component units that participate in the cash pool, equity is shown at fair value.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. On the Statement of Cash Flows, the amount reported as "Cash and Cash Equivalents" is equal to the total of the amounts reported on the Statement of Net Assets as "Equity in Treasurer's

Cash Pool," "Cash and Cash Equivalents," "Cash with Fiscal Agent," "Restricted Equity in Treasurer's Cash Pool," and "Restricted Deposits and Investments."

Cash with Fiscal Agent
Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds, the unspent proceeds of bonds and Certificates of Participation, as well as unspent funds of the Maine Biological Research Board being held by the State.

Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

Investments Held on Behalf of Others
These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. Generally, these investments are reported at fair value or at amortized cost which approximates fair value. The State also holds $116 million of Workers' Compensation, $51 million of Bureau of Insurance, and $26 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

Restricted Deposits and Investments
Restricted deposits and investments include: unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Governmental Facilities Authority, a blended component unit that has been independently audited; unspent bond proceeds, and funds invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine.

Inventories
The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Undistributed vaccines and food commodities are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when food stamps are used (EBT cards), and when vaccines and food commodities are issued. Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost.

Inventories included in the component unit column are stated at the lower of cost or market (using the first-in, first-out method).

Receivables
Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units' column arise in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

Interfund Transactions and Balances
Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that transactions between funds were not completed as of June 30, interfund receivables and

payables have been recorded in the fund financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Long-term loans made by one fund to another are classified as "Working Capital Advances Receivable" and "Working Capital Advances Payable." In the fund financial statements, advances receivable are offset by nonspendable fund balance designations indicating that the long-term loans do not constitute expendable financial resources.

Due from/to Primary Government/Component Units

Numerous transactions are made between the primary government and component units to finance operations, provide services, acquire or construct assets, or repay bonds. To the extent that transactions between funds were not completed as of June 30, "Due from Primary Government" and "Due to Component Unit" receivables and payables have been recorded. Two component units have December 31 year ends, therefore the "due to" and "due from" amounts may differ.

Due from/to Other Governments

Due from/to Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other health and human services programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units' column represents amounts receivable for grants, bond repayment and retirement benefits. Due to Other Governments primarily consist of amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers.

Capital Assets

Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $100 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and proprietary fund equipment is capitalized $5 thousand or more. Governmental and proprietary fund software is capitalized at $1 million or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

In the government-wide statements, most capital assets are depreciated on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for software, buildings and improvements, and 2-25 years for equipment. The State uses the modified approach for reporting its significant infrastructure assets. As long as the State maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Capital assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for non-road structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them. The Maine Turnpike Authority (MTA) uses the modified approach for reporting its significant infrastructure assets. As long as MTA maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported.

Accounts Payable
Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate recorded at June 30, 2012 is $227 million. The actuarial range of reasonable estimate is a low of $227 million to a high of $247 million.

Tax Refunds Payable
The amount of collected or accrued tax revenues that will be refunded is estimated and accrued as a General Fund liability.

Claims Payable
Claims payable represent workers' compensation, retiree health, employee health, and other claims payable, including actual claims submitted and actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

Compensated Employee Absences
In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as a long-term liability as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2012 but paid after the fiscal year end is also reported in the funds. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

Deferred Revenue
In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. Deferred revenue reported in the General Fund relates to sales and income taxes. Deferred revenue in the Federal Fund consists primarily of food commodities not yet issued. Deferred revenue in the Alcoholic Beverages Fund comprises the proceeds from the sale of the State's liquor operations.

Loans Payable to Component Unit
In the Statement of Net Assets, the amount of bond proceeds received by a component unit for unmatured GARVEE and TransCap bond proceeds is called "Loans Payable to Component Unit." The offsetting receivables are classified as "Loans Receivable from Primary Government."

Long-Term Obligations
In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term obligations are recorded as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Net Assets/Fund Balances
The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balances" on governmental fund statements.

Fund Balance Restrictions
Fund balances for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

The State reported the following fund balance restrictions:

Nonspendable Fund Balance **-** indicates items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless those proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted Fund Balances – include balances that are legally restricted for specific purposes due to constraints that are either externally imposed by creditors, grantors, contributors, or imposed by law through a constitutional provision or enabling legislation.

Committed Fund Balances – indicates assets can be used only for specific purposes pursuant to constraints imposed by a formal action of the Maine Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the legislature, creating, modifying, or rescinding an appropriation.

Assigned Fund Balances – include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. Legislative assignments include formal actions passed into law that lapse. Maine statute also set forth powers and duties of management. Assignments also include decisions made by management, including encumbrances. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

Unassigned Fund Balance – is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

F. REVENUES AND EXPENDITURES/EXPENSES

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., governmental support & operations, education, health & human services, etc.). Additionally, revenues are classified between program and general revenues. Program revenues include: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

The State's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, the State's policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

In the governmental fund financial statements, expenditures are reported by function. Capital outlay expenditures for real property or infrastructure (e.g. highways) are included with expenditures by function.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. general operations and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating, capital contributions, transfers or special items.

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Appropriation Limits
The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in Title 5 Maine Revised Statutes Annotated (MRSA) § 1665, subsection 1, plus the average forecasted inflation rate. “Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee.

This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits.

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

Budget Stabilization Fund
The Maine Budget Stabilization Fund, a fund designation established under Title 5 MRSA C. 142, is included in the negative $356 million unassigned General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. Per Public Law 2011, Chapter 380, Part RRR $4.0 million was transferred from General Fund unappropriated surplus to the Budget Stabilization Fund. Per Public Law 2011, Chapter 380, Part JJJJ, $29.7 million was transferred from the Budget Stabilization Fund to the General Fund unappropriated surplus. Additionally, $1.2 million was transferred to general purpose aid for local schools within the Department of Education in accordance with Title 5 MRSA C.142 Section 1532.

The statutory cap for the fund is 12 percent of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2012 actual General Fund revenue, the statutory cap at the close of fiscal year 2012 and during fiscal year 2012 was $361.9 million. At the close of fiscal year 2012, the balance of the Maine Budget Stabilization Fund was $44.8 million. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

Budget Stabilization Fund Activity
(Expressed in Thousands)

Balance, beginning of year	$	71,414
Decrease in fund balance		(26,605)
Balance, end of year	$	44,809

Budget and Budgetary Expenditures
The gross unified budget bills and budget document encompass resources from the General Fund, Highway Fund, Federal Expenditures Fund, Federal Block Grant Fund, Other Special Revenue Fund, internal service funds and enterprise funds. Separate gross unified budget bills must be submitted for the General Fund and the Highway Fund. All funds except trust and agency funds, bond funds and costs of goods sold expenditures in internal service funds and enterprise funds are subject to legislative allocation. The biennial budget sets forth proposed expenditures for the administration, operation and maintenance of the departments and agencies of the State Government; all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year. Within this structure, budgetary control by agency is maintained at the program and line category level. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers.

Except in specific instances, only the Legislature may transfer appropriations between departments. Changes in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budgets or separate pieces of legislation. For the year ended June 30, 2012, the Legislature increased appropriations to the General Fund by $86.6 million.

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

Governmental Fund Balances – Restricted, Committed and Assigned
The State's fund balances represent: (1) restricted purposes, which include balances legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature; (3) assigned purposes, which includes balances that are constrained by government's intent to be used for specific purposes, but are neither restricted or committed. A summary of the nature and purpose of these fund balance types at June 30, 2012 are as follows:

Governmental Fund Balances
(Expressed in Thousands)

	Restricted	Committed	Assigned
General Fund:			
Natural Resources Development & Protection	$ 2,989	$ -	$ -
Total	$ 2,989	$ -	$ -
Highway Fund:			
Transportation Safety & Development	$ 31,943	$ -	$ -
Justice and Protection	3,743	-	-
Governmental Support & Operations	375	-	-
Natural Resources Development & Protection	3	-	-
Total	$ 36,064	$ -	$ -
Federal Fund:			
Governmental Support & Operations	$ 5,108	$ -	$ -
Health and Human Services	9,165	-	-
Justice and Protection	-	-	-
Natural Resources Development & Protection	-	-	-
Total	$ 14,273	$ -	$ -
Other Special Revenue Fund:			
Arts, Heritage & Cultural Enrichment	$ 160	$ 10	$ 4
Business Licensing & Regulation	68,388	991	371
Economic Development & Workforce Training	6,927	4,417	1,174
Education	903	20	7
Governmental Support & Operations	85,421	17,407	35
Health and Human Services	21,301	10,597	9,650
Justice and Protection	3,992	1,719	765
Natural Resources Development & Protection	40,112	3,133	430
Transportation Safety & Development	164,488	142	53
Total	$ 391,692	$ 38,436	$ 12,489
Other Governmental Funds:			
Capital Projects	$ 26,735	$ -	$ -
Natural Resources Development & Protection	58,814	-	-
Education	75	-	-
Other	158	-	-
Total	$ 85,782	$ -	$ -

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
Governmental Accounting Standards Board (GASB) Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs became effective for the State for the year ended June 30, 2012 when the State acquired and became responsible for the closure and postclosure monitoring costs of the Dolby Landfills. This Statement established accounting and financial reporting for municipal solid waste landfill (MSWLF) closure and postclosure care costs. As a result of applying this Statement, the State's beginning net assets have been restated. Beginning net assets for Governmental Activities were reduced by $7.4 million.

During fiscal year 2012, statute changes necessitated that an entity (CDS) that had once been reported as a discretely presented component unit to be reported as a blended component unit of the State. Accordingly, beginning fund balance for the non-major governmental funds decreased by $4.3 million and beginning net assets for the governmental activities decreased by $3.7 million.

Additional statute changes required that an entity (Maine Turnpike Authority) that had once been reported as a related party to be reported as a discretely presented component unit of the State. This required that beginning net assets for the component units to be increased by $123.1 million.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Three internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2012. The Workers' Compensation Fund reported a deficit of $14.5 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $3.8 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $1.9 million because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of $25 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The General Fund shows a deficit fund balance of $349.9 million at June 30, 2012. This deficit is primarily due to the full recognition of the State's share of Medicaid liabilities at fiscal year end, which are funded throughout the year with the aforementioned tax revenue. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under Governmental Accounting Standards Board (GASB) Statement No. 33. Per GASB 33, revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

The Child Development Services Special Revenue Fund shows a deficit of $2.2 million. This deficit has accumulated through operating losses dating back to the year ended June 30, 2008.

NOTE 5 - DEPOSITS AND INVESTMENTS

Title 5 MRSA § 135 governs the deposit and investment policies of the State of Maine Office of the Treasurer. The Treasurer may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State and any national bank or federal savings and loan association located in the State.

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. The Treasurer may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and the consent of the Governor.

Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 36 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 months; prime commercial paper; tax-exempt obligations; corporate bonds rated “AAA” that mature within 36 months from the date of investment; banker’s acceptances; and “no-load” shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares maintain a constant share price. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by Title 5 MRSA § 138. The Treasurer, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions and the Attorney General, shall invest the funds in securities that are legal investments in accordance with Title 9-B MRSA. The investments need not be segregated to the separate trusts, but the identity of each trust must be maintained. The Treasurer may enter into custodial care and servicing contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

No amounts exceeding 25 percent of the capital, surplus, and undivided profits of any trust company or national bank or 25 percent of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any one institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

With assistance from the Finance Authority of Maine, the Treasurer participates in a restricted deposit program to encourage banks to provide loans at two percent below market rate. The Treasurer may invest up to $8 million in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. $4 million of this program are earmarked for loans to agricultural enterprises and the other $4 million are designated for commercial entities.

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2012:

Primary Government Deposits and Investments
(Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Private Purpose Trusts	Agency Funds	Total
Equity in Treasurer's Cash Pool	$ 353,409	$ 23,464	$ 1,632	$ 13,574	$ 392,079
Cash and Cash Equivalents	2,473	1,901	-	27	4,401
Cash with Fiscal Agent	151,337	-	-	-	151,337
Investments	73,281	-	11,501	-	84,782
Restricted Equity in Treasurer's Cash Pool	29,374	-	-	-	29,374
Restricted Deposits and Investments	3,694	269,597	-	11	273,302
Investments Held on Behalf of Others	-	-	6,013,272	70,180	6,083,452
Other Assets	-	-	-	-	-
Total Primary Government	$ 613,568	$ 294,962	$ 6,026,405	$ 83,792	$ 7,018,727

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In general, the State holds securities to maturity. All debt securities are reported at full-term.

The following table provides the segmented time distribution of the Primary Government's investments at June 30, 2012:

Maturities in Years
(Expressed in Thousands)

	Less than 1	**1 - 5**	**6 - 10**	**11 - 20**	**More than 20**	**No Maturity**	**Fair Value**
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	$ 8,319	$ 140,310	$ -	$ -	$ -	$ -	$ 148,629
US Treasury Notes	-	7,673	-	-	-	-	7,673
Repurchase Agreements	45,742	-	-	-	-	-	45,742
Corporate Notes and Bonds	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	473	4,274	-	-	-	-	4,747
Money Market	-	-	-	-	-	-	-
Cash and Cash Equivalents	-	-	-	-	-	207,562	207,562
Unemployment Fund							
Deposits with US Treasury	-	-	-	-	-	269,597	269,597
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	255	5,879	130	232	971	-	7,467
US Treasury Notes	3,069	7,674	4,650	10,913	-	1,400	27,706
Repurchase Agreements	1,712	-	-	-	-	-	1,712
Corporate Notes and Bonds	3,239	3,515	865	197	1,258	5,978	15,052
Other Fixed Income							
Securities	9,514	89	5,643	-	-	-	15,246
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	10,808	14	-	-	-	-	10,822
Money Market	-	-	-	-	-	1,090	1,090
Cash and Cash Equivalents	-	-	-	-	-	23,951	23,951
Equities	-	-	-	-	-	41,511	41,511
Other	-	-	-	-	-	25,611	25,611
	$ 83,131	$ 169,428	$ 11,288	$ 11,342	$ 2,229	$ 576,700	$ 854,118
NextGen College Investing Plan							6,013,272
Other Assets							-
Cash with Fiscal Agent							151,337
Total Primary Government							$ 7,018,727

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. The State's investment policy limits its investments to those with high credit quality made by or with the advice and upon the due diligence of the State's independent investment advisor. The State limits credit risk in its trusts by ensuring that at least 85 percent of the debt securities are rated A or better.

The Primary Government's total investments by credit quality rating as of June 30, 2012 are presented below:

	Standard & Poor's Credit Rating (Expressed in Thousands)								
	A1	A	AA	AA+	AAA	BB	BBB	Not Rated	Total
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	$ -	$ -	$ 148,629	$ -	$ -	$ -	$ -	$ -	$ 148,629
US Treasury Notes	-	-	7,673	-	-	-	-	-	7,673
Corporate Notes and Bonds	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	-	5,528	-	-	-	-	1,939	7,467
US Treasury Notes	-	-	1,133	-	-	-	-	26,574	27,707
Corporate Notes and Bonds	-	852	188	-	39	20	611	13,648	15,358
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Other Fixed Income Securities	-	-	-	-	5,727	-	-	9,519	15,246
Total Primary Government	$ -	$852	$163,151	$ -	$ 5,766	$ 20	$ 611	$51,680	$ 222,080

Concentration of Credit Risk –Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than 10 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2012, there were no investments that exceeded five percent of the Treasurer's Cash Pool.

Custodial Credit Risk - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's $6.2 million invested in non-negotiable certificates of deposit, none exceeded the FDIC insured amounts for the institutions at which they were held. The

State does not have a policy regarding custodial credit risk for its trusts. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name.

The fair value of the trust's investments as of June 30, 2012 was $58.7 million and was comprised of the following:

U.S. Instrumentalities	$ 1,232
US Treasury Notes	846
Corporate Notes and Bonds	1,710
Other Fixed Income Securities	9,603
Equities	41,205
Cash and Equivalents	1,135
Other	3,005
Total	$ 58,736

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2012 these disbursements, on average, exceeded $134.1 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Maine Public Employees Retirement System (the System) makes investments in a combination of equities, fixed income securities, infrastructure, private equity, real estate, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy.

Derivative Securities – Derivative financial instruments are financial contracts whose value depends on the value of one or more underlying assets, reference rates or financial indices. They include futures, forwards, options, and swap contracts. The System's investments in derivative securities only have nominal exposure to custodial credit risk. Credit risk is managed, in the case of exchange-traded derivatives, by the execution of trades through a clearinghouse and, in the case of over-the-counter transactions, by managers' due diligence assessment and approval of counterparties. Market risk is managed by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and are monitored by the Chief Investment Officer.

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. The System's fixed income managers invest in CMOs and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. At June 30, 2012, no balances of the System's CMO and Asset-Backed Security holdings were outstanding. The System also invests in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities.

Securities Lending - The System has also entered into agreements for securities lending transactions, which are collateralized in an amount generally valued at 102 percent (105 percent for international securities) of the market value of the securities loaned. All securities and loans can be terminated on demand by either the lender or the borrower.

Cash open collateral is invested in a short-term investment pool, the Core Limited Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2012 all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB

Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2012 was $812.2 million and $792.2 million, respectively.

The following table details the System's derivative investments at June 30, 2012:

(Expressed in Thousands)

	2012 Changes in Fair Value	Fair Value at June 30, 2012		Notional
		Classification	Amount	
Futures:				
Equity Index Futures Contracts	$ 1,181	OSIC*	$ 1,455	$ 56,417

*OSIC = Obligations to settle investment contracts

NEXTGEN COLLEGE INVESTING PLAN

The Maine College Savings Program Fund (the Fund) doing business as NextGen College Investing Plan (the Program), was established in accordance with Title 20-A MRSA §11473, to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a Qualified State Tuition Program under Section 529 of the Internal Revenue Code.

The statute authorizes the Finance Authority of Maine ("FAME") to administer the Program and act as administrator of the Fund. The Fund is held by the Treasurer of the State who invests it under the direction of and with the advice of a seven member Advisory Committee on College Savings, which is chaired by the Treasurer. See Note 16 for additional information. FAME and the Treasurer have selected Merrill Lynch as the Program Manager. The Program is reported as a private purpose trust fund in the financial statements of the State.

NextGen's investments are comprised of 59 different investment portfolios which are reported at fair value and total $6.0 billion at June 30, 2012.

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

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

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

Credit Risk - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2012 was $262.7 million.

The assets of the Account are invested in a portfolio of high-quality, short-term money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, other short-term debt securities issued by U.S. and foreign entities, and repurchase agreements. In addition, the Account invests in certificates of deposit issued by Maine financial institutions in accordance with instructions from FAME and the Treasurer. All Maine Certificate of Deposit's are FDIC insured or fully collateralized. The value of the Account at June 30, 2012 was $271.7 million.

Concentration of Credit Risk – The Program has not established an investment policy that specifically limits its exposure to concentration of credit risk because the Program principally invests in mutual funds which have been excluded by GASB Statement No. 40 from its concentration of disclosure risk requirements.

Interest Rate Risk – The Program has not established an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account all invest in securities that are subject to interest rate risk.

Market values of the above-mentioned investments are presented below (in thousands):

	Fair Value
Principal Plus Portfolio	$ 262,698
Cash Allocation Account	271,747
Fixed Income Securities	1,826,891
Total Fair Value	$2,361,336

COMPONENT UNITS

Generally, component unit investment policies authorize investments in obligations of U.S. Treasury and Agency Securities, repurchase agreements, corporate bonds, certificates of deposit and money market funds. Some component units may invest in stocks, bonds, fixed income securities, mutual funds, commingled mutual funds and index funds, guaranteed investment contracts, real estate and other investment securities.

Certain component units also invest in the Treasurer's Cash Pool and comprise approximately 20 percent of pool assets. The component units reported their participation as either Cash and Cash Equivalents or Investments on their financial statements. The State reclassified $97.2 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes $4.7 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements as invested in the Treasurer's Cash Pool.

NOTE 6 - RECEIVABLES

Receivable balances are segregated by type, and presented in the fund financial statements net of allowance for uncollectibles. The following tables disaggregate amounts considered to be uncollectible by fund and type of receivable as of the close of the fiscal year:

Primary Government – Receivables
(Expressed in Thousands)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$554,720	$124,608	$1	($176,854)	$502,475
Highway	31,396	3,630	27	(4,250)	30,803
Federal	-	102,605	-	(30,032)	72,573
Other Special Revenue	11,278	77,401	5,510	(10,783)	83,406
Other Governmental Funds	-	39	-	-	39
Total Governmental Funds	597,394	308,283	5,538	(221,919)	689,296
Allowance for Uncollectibles	(133,019)	(88,900)	-		
Net Receivables	$464,375	$219,383	$5,538		$689,296
Proprietary Funds:					
Employment Security	$ -	$50,641	$ -	($19,175)	$31,466
Nonmajor Enterprise	-	26,304	-	(1,074)	25,230
Internal Service	-	463	-	-	463
Total Proprietary Funds	-	77,408	-	(20,249)	57,159
Allowance for Uncollectibles	-	(20,249)	-		
Net Receivables	$ -	$ 57,159	$ -		$57,159

Component Units – Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$692	$ -	$31,145	($6,018)	$25,819
Maine Community College System	17,326	-	-	(1,186)	16,140
Maine Health and Educational Facilities Authority	676	1,145,111	-	(427)	1,145,360
Maine Municipal Bond Bank	877	-	-	-	877
Maine State Housing Authority	28,146	1,418,484	364	(11,273)	1,435,721
Maine Turnpike Authority	3,555	-	-	-	3,555
University of Maine System	56,600	-	41,585	(6,505)	91,680

NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivables and payables represent amounts owed to one State fund by another, for goods sold or services received, or for borrowings to eliminate negative balances in the Treasurer's Cash Pool.

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2012 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 1,348	$ -	$ -
Highway	1	1	7,171	-	-
Federal	16	1	106	1,292	-
Other Special Revenue	119,924	85	143	140	19
Other Governmental	214	-	-	-	-
Employment Security	-	-	24	-	-
Non-Major Enterprise	143	124	1	2	-
Internal Service	8,592	2,969	3,632	3,249	-
Fiduciary	30,195	-	-	-	-
Total	$ 159,085	$ 3,180	$ 12,425	$ 4,683	$ 19

Due from Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 4,989	$ 5,479	$ 2,647	$ 14,463
Highway	-	-	-	-	7,173
Federal	-	-	-	-	1,415
Other Special Revenue	-	9	30	-	120,350
Other Governmental	-	-	-	-	214
Employment Security	-	-	-	-	24
Non-Major Enterprise	-	-	-	-	270
Internal Service	-	241	777	8	19,468
Fiduciary	-	-	-	-	30,195
Total	$ -	$ 5,239	$ 6,286	$ 2,655	$ 193,572

Not included in the table above are interfund loans/advances, which are not expected to be repaid within one year. Postal, Printing & Supply (an internal service fund) owes $111 thousand to the General Fund for operating capital.

Included in the Due to/Due from other funds is $15 million due to the Other Special Revenue Fund related to the General Fund's negative cash position in the Treasurer's Cash Pool. This type of temporary loan is typical; cash is frequently borrowed and returned depending on cash flow needs. Additionally, $91 million due to the Other Special Revenue Fund from the General Fund relates to the interfund borrowing authorized in Public Law 2011, Chapter 655, Part DDD-1.

Transfers are made in accordance with statutory authority. Significant transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the funds required to pay debt service as principal and interest payments come due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

During fiscal year 2012, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers.

The Dirigo Health Fund transferred $10.5 million to the Department of Health and Human Services, Other Special Revenue Fund.

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 4,810	$ 73,745	$ -
Highway	1,979	-	25,011	1,803	-
Federal	2,120	-	-	15,627	-
Other Special Revenue	171,895	5,300	9,984	-	2,549
Other Governmental Funds	32,927	-	-	-	1,522
Employment Security	-	-	-	-	-
Non-Major Enterprise	3,197	3,949	70	356	-
Internal Service	4,709	705	2,769	237	-
Fiduciary	-	-	-	1	671
Total	$ 216,827	$ 9,954	$ 42,644	$ 91,769	$ 4,742

	Transferred From				
Transferred To	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 53,817	$ 2,350	$ -	$ 134,722
Highway	-	-	535	-	29,328
Federal	1,420	-	509	-	19,676
Other Special Revenue	-	17,262	180	790	207,960
Other Governmental Funds	-	-	-	-	34,449
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	-	141	-	7,713
Internal Service	-	185	616	-	9,221
Fiduciary	-	-	-	-	672
Total	$ 1,420	$ 71,264	$ 4,331	$ 790	$ 443,741

NOTE 8 - CAPITAL ASSETS

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2012:

Primary Government – Capital Assets
(Expressed in Thousands)

	Beginning Balance (Restated)	Increases and Other Additions	Decreases and Other Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 488,197	$ 9,996	$ 300	$ 497,893
Construction in progress	119,419	36,198	107,144	48,473
Infrastructure	3,814,466	204,500	-	4,018,966
Total capital assets not being depreciated	4,422,082	250,694	107,444	4,565,332
Capital assets being depreciated:				
Buildings	592,943	49,745	16,487	626,201
Equipment	255,915	19,679	19,966	255,628
Improvements other than buildings	19,796	1,051	4	20,843
Software	9	58,720	-	58,729
Total capital assets being depreciated	868,663	129,195	36,457	961,401
Less accumulated depreciation for:				
Buildings	239,590	19,723	9,592	249,721
Equipment	175,869	16,206	19,248	172,827
Improvements other than buildings	12,951	1,108	1	14,058
Software	4	4,625	-	4,629
Total accumulated depreciation	428,414	41,662	28,841	441,235
Total capital assets being depreciated, net	440,249	87,533	7,616	520,166
Governmental Activities Capital Assets, net	$ 4,862,331	$ 338,227	$ 115,060	$ 5,085,498

	Beginning Balance	Net Additions	Net Deletions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 58,888	$ -	$ -	$ 58,888
Construction in progress	32,024	7,109	20,578	18,555
Total capital assets not being depreciated	90,912	7,109	20,578	77,443
Capital assets being depreciated:				
Buildings	9,449	-	-	9,449
Equipment	67,037	18,815	4,960	80,892
Improvements other than buildings	63,342	11,547	-	74,889
Total capital assets being depreciated	139,828	30,362	4,960	165,230
Less accumulated depreciation for:				
Buildings	5,920	251	-	6,171
Equipment	49,603	5,863	2,763	52,703
Improvements other than buildings	28,860	2,176	-	31,036
Total accumulated depreciation	84,383	8,290	2,763	89,910
Total capital assets being depreciated, net	55,445	22,072	2,197	75,320
Business-Type Activities Capital Assets, net	$ 146,357	$ 29,181	$ 22,775	$ 152,763

During the fiscal year, depreciation expense was charged to the following functions in the governmental activities column of the Statement of Activities for the primary government:

Governmental Activities – Depreciation Expense
(Expressed in Thousands)

	Amount
Governmental Activities:	
Arts, Heritage and Cultural Enrichment	$ 16
Business Licensing and Regulation	429
Economic Development and Workforce Training	1,180
Education	621
Governmental Support and Operations	5,829
Health and Human Services	8,161
Justice and Protection	10,835
Natural Resources Development and Protection	3,156
Transportation Safety and Development	11,435
Total Depreciation Expense – Governmental Activities	$ 41,662

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTIONS

The Maine Public Employees Retirement System, formerly named the Maine State Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423, and 425. The System provides pension, disability, and death benefits to its members, which includes employees of the State, public school employees (defined by Maine law as teachers and for whom the State is the employer for retirement contribution and benefit purposes, or SETP) and employees of 293 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2012 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Maine Public Employees Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering an agent, multiple-employer plan for financial reporting purposes. The statements include $2.1 billion of assets related to the PLD's. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

The total funds managed by the System are constitutionally restricted and held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan.

The System administers three defined contribution plans for employees of PLD's that elect to participate. At June 30, 2012, there were 57 employers participating in these plans. The 817 participants individually direct the $16.5 million in net assets covered by the plans.

The System also provides group life insurance under a plan administered by a third party insurance company and invests long-term assets for the Retiree Health Insurance Post-Employment Benefits Investment Trust Fund. Note 10 provides for further disclosure.

Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting. Pension contributions are recognized as additions in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized when earned. Contributions to defined contribution plans are recognized in the period they are contributed. Pension benefits and contributions and premium refunds are recognized as deductions when due and payable in accordance with Statutes. Benefits payable incurred but not reported are reflected as other liabilities. Distributions from defined contribution plans are recognized in the period the disbursement is made.

Investments

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

Contribution Information

Membership in each defined benefit plan consisted of the following at June 30, 2012:

	State Employees and Teachers Plan	Consolidated Plan for PLD
Active vested and nonvested members	39,594	10,800
Terminated vested participants	6,378	1,220
Retirees and benefit recipients	30,689	7,719
Total	76,661	19,739
Number of participating employers/sponsors	1	293

Contributions from members and employers and earnings from investments fund retirement benefits. Employer contributions and investment earnings fund disability and death benefits. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by biennial actuarial valuations.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 5 percent.

STATE EMPLOYEES AND TEACHERS PENSION PLAN SPECIFICS

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

PARTICIPATING LOCAL DISTRICTS PLAN SPECIFICS

In the event that a PLD withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The PLD remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members; and for those active employees, whether or not vested, who remain contributing System members.

SPECIAL FUNDING SITUATION – TEACHERS DEFINED BENEFIT PENSION PLAN

The State is legally responsible for contributions to the Teacher Group that covers retirees of other governmental entities. The State is the sole "employer" contributor for the teachers; and, therefore, is acting as the employer.

FUNDED STATUS AND FUNDING PROGRESS – DEFINED BENEFIT PENSION PLANS

The funded status of each plan as of June 30, 2012, the most recent biennial actuarial valuation date, is as follows:

(Expressed in Thousands)

Plans	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
SETP	8,939,788	11,605,891	2,666,103	77.0%	1,727,667	154.3%
PLD's	2,136,653	2,405,708	269,055	88.8%	476,244	56.5%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. Additional information as of the latest actuarial valuation date follows:

	SETP	**PLD's**
Valuation date	June 30, 2012	June 30, 2012
Actuarial cost method	Entry age	Entry age
Version	Individual	Individual
Amortization method	Level percent closed	Level dollar open
Remaining amortization period	16 [1]	15
Asset valuation method	3 - Year smoothed market	3 - Year smoothed market
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	3.50%	3.50% - 9.50%
Includes inflation at	3.50%	3.50%
Cost of living adjustments	2.55%	3.12%
Most recent review of plan experience:	2011	2011
Former actuarial assumptions:		
Version of actuarial cost method	New entrant	New entrant
Retirement assumption	lowered to reflect the closing of the retirement window for early retiree health coverage	

[1] The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period In 2000, the amortization period was reduced to a 19-year period from June 30, 2000 In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028 The contribution rate in effect for 2010 was determined by the 2008 valuation, and reflects the relengthened amortization period The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 5 years remained at June 30, 2012

CONTRIBUTION RATES – DEFINED BENEFIT PENSION PLANS

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

In order to reduce any unfunded pension liability for State employees and teachers under Title 5 MRSA § 1536, the State is required to remit 20 percent of its General Fund unappropriated surplus to the System at year-end. For fiscal 2012, no amount was owed.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 2012 for participating entities:

State	
Employees [1]	7.65 - 8.65%
Employer [1]	23.47 - 101.26%
Teachers	
Employees	7.65%
Employer	23.94%
Participating Local Entities	
Employees [1]	3.0 - 8.0%
Employer [1]	2.4 - 10.2%

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees and/or, in the case of participating local districts (PLDs), on benefit plan options selected by a particular participating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

ANNUAL PENSION COST AND NET PENSION OBLIGATION

The State is one of several employers whose employees are System members. The State's net pension obligation shown at the end of the year includes the pension liability related to its employees. It does not include the pension liability related to PLD's. The State's annual pension cost and net pension obligation to the System for the current year were:

Net Pension Obligation
(Expressed in Thousands)

Annual required contribution	$ 252,830
Interest on net pension obligation	147
Adjustment to annual required contribution	(165)
Annual pension cost	252,812
Contributions made	252,830
Increase (decrease) in net pension obligation	(18)
Net pension obligation beginning of year	2,028
Net pension obligation end of year	$ 2,010

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2012	$ 252,812	100.01%	$ 2,010
2011	328,127	101.77%	2,028
2010	318,171	103.47%	7,845

Employer contributions met actuarially determined contribution requirements.

COMPONENT UNIT PARTICIPANTS

The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine Public Employees Retirement System have defined benefit pension plans. All are participating local entity participants in plans administered by the Maine Public Employees Retirement System. For financial reporting purposes, employees of the Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, and the Northern New England Passenger Rail Authority are combined with State employees for retirement benefit purposes and are included in the pension disclosures of the State.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

POST RETIREMENT HEALTHCARE PLANS

The State sponsors and contributes to two defined benefit healthcare plans: a sole employer plan for its employees, and county and municipal law enforcement officers and firefighters (First Responders). Each plan provides medical benefits to eligible retired employees and beneficiaries. Statute prescribes what portion of health insurance costs are funded by the State. The State also agreed to fund a set percentage of retiree healthcare costs for teachers. Statute prescribes what portion of health insurance costs are funded by the State.

The State of Maine funds post retirement health care benefits for most retired State employees and legislators, as authorized by Title 5 MRSA § 285, and for a portion of the premiums for teachers, as authorized by Title 20-A MRSA § 13451. Pursuant to Title 5 MRSA § 285 most retired employees of the Maine Turnpike Authority, Maine Community College System, Maine Maritime Academy, Maine Public Employees Retirement System, and Maine Educational Center for the Deaf and Hard of Hearing are eligible to participate in the health plan but are not funded by the State. Specifically excluded (Title 5 MRSA § 285 1-B) are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities and their instrumentalities, except as provided in subsection 11-A. Title 5 MRSA § 286-M included retired county or municipal law enforcement officers and municipal firefighters, as defined in subsection 286-M, who participate in an employer-sponsored retirement plan and, prior to July 1, 2007 were enrolled in a self-insured health benefits plan offered by the employing county or municipality.

The State pays 100 percent of post retirement health insurance premiums for state employee retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Per Title 5 MRSA § 285 paragraphs 2 and 3, coverage depends upon terms and conditions contained in collective bargaining agreements with the State Health Commission. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. Retirees must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees ineligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse.

Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent of the retiree-only premium. The rate is based on a single rate for single and employee plus children coverage, or 50 percent of the two party rate for two party and family coverage.

For State employees and Teachers, other options exist. Part-time employees are eligible for prorated benefits with retirees who worked 50 percent or more of full-time hours receiving 100 percent of the benefit. Surviving spouses and dependents may continue in the plan and pay 100 percent of the premium. Retirees ineligible for a State contribution are allowed to participate and pay the retiree premium.

County and municipal law enforcement officers and municipal firefighters began coverage in Fiscal Year 2008 with the State contributing 45 percent of the retiree-only premium of their respective plans. The State's premium subsidy is based on the Title 5 MRSA § 285 paragraph 11-A C cost of the retiree's share of the individual premium for the standard plan identified and offered under the group health insurance plan in which the retiree enrolls. The State subsidy ends after the retiree is eligible for Medicare. First Responders are eligible if they retire after age 50 with 25 or more years of service and receive a retirement benefit from either the MPERS or a defined contribution plan. If retirees have fewer than 25 years of service, the normal retirement benefit must be at least 50 percent of final average compensation. Retirees must also participate in their employer's health insurance plan or other fully insured health plan for at least 5 years. Retirees can elect to participate in the plan at their retirement date. If participation is waived at that time, the retiree is ineligible to participate at a later date.

The State also administers a fourth defined benefit healthcare plan, (Ancillary Group Plan), which covers two non-major discretely presented component units. Under the Ancillary Group Plan, the State acts as the plan administrator only.

Beginning in the fiscal year ending June 30, 2008, each participating employer is required by GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

PLAN MEMBERSHIP

Membership in the four healthcare plans is as follows:

	State Employees	Teachers	First Responders	Ancillary Groups
Actives	12,419	28,375	741	63
Retirees	9,587	9,520	80	13
Total	22,006	37,895	821	76
Number of employers	1			2
Contributing entities		1	1	2

STATE EMPLOYEES PLAN FUNDING POLICY

Title 5 MRSA § 286-B authorized an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or less from July 1, 2007.

Public Law 2007, Chapter 240, amended Title 5 Chapter 421 by establishing the Irrevocable Trust for Other Post-employment Benefits. MPERS holds and invests long-term funds in the irrevocable trust fund. Its fiduciary responsibilities include setting investment policy in order to fund the plan in accordance with a projected disbursement schedule that does not begin before the year 2027.

TEACHERS PLAN AND FIRST RESPONDERS PLAN FUNDING

A special funding situation exists for these plans. The State is statutorily responsible for contributions to the Teachers Plan and the First Responders Plan that cover the retirees of other governmental entities. The State is the sole contributing entity for Teachers and the primary contributing entity for the First Responders, therefore, making the contribution on behalf of the employing jurisdictions at a 45 percent level for the current portion of the health plan costs and are not included in the Trust.

Public Law 2011, Chapter 380 Pt. Y § 2 established separate Irrevocable Trust Funds for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust funds. Annually, beginning with the fiscal year starting July 1, 2011, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability for eligible first responders in 30 years or less from July 1, 2007. Annually, beginning with the fiscal year starting July 1, 2013, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability at June 30, 2006 for eligible teachers in 30 years or less from July 1, 2007.

No implied subsidy is calculated for either plan. The State does not pay for any of the costs of active employees. The State limited its contribution to 45 percent of the retiree-only premium.

ANCILLARY GROUP PLAN

The following plan, administered by the State, is financially independent and is not included in the State Retiree Health Internal Service Fund. This multiple-employer agent postemployment benefit plan covers 11 retirees of two non-major component units: Maine Educational Center for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. All active employees participate in the State Employee Group Health Insurance Plan. All eligible retired employees who elect coverage are included in this plan. The State Employee Health Commission establishes premiums annually.

ANNUAL OPEB COST

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	**Teachers**	**First Responders**
Annual required contribution	$ 126,000	$ 55,000	$ 1,350
Interest on net OPEB obligation	2,000	6,000	114
Adjustment to annual required contribution	(5,000)	(12,000)	(210)
Annual OPEB cost	123,000	49,000	1,254
Contributions made	73,000	22,000	434
Increase (decrease) in net healthcare obligation	50,000	27,000	820
Net healthcare obligation beginning of year	42,228	146,956	2,838
Net healthcare obligation end of year	$ 92,228	$ 173,956	$ 3,658

The annual OPEB cost for the current year, the percentage of annual OPEB cost contributed to the plan, and the net OPEB (asset) obligation for each plan are as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
State Employees	6/30/2012	123,000	59.35%	92,228
	6/30/2011	119,000	71.43%	42,228
	6/30/2010	92,000	59.78%	8,228
Teachers	6/30/2012	49,000	44.90%	173,956
	6/30/2011	58,000	31.03%	146,956
	6/30/2010	56,000	33.93%	106,956
First Responders	6/30/2012	1,254	34.61%	3,658
	6/30/2011	845	61.89%	2,838
	6/30/2010	1,051	35.01%	2,516

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plans as of June 30, 2012 was as follows:

		(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
	June 30, 2012	136	1,316	1,180	10.33%	502	235.06%
State Employees (in millions)	June 30, 2011	112	1,544	1,432	7.25%	567	252.56%
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
Teachers (in millions)	June 30, 2012	0	665	665	0.00%	1,156	57.53%
	June 30, 2011	0	801	801	0.00%	1,098	72.95%
	June 30, 2010	0	994	994	0.00%	1,064	93.42%
	June 30, 2011	0	21,921	21,921	0.00%	42,242	51.89%
First Responders (in thousands)	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%
	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	State Employees	Teachers	First Responders
Valuation date	June 30, 2012	June 30, 2012	June 30, 2011
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period - UAAL	25	25	26
Plan changes	30-year fixed [1]	30-year fixed [1]	20-year fixed
Actuarial (gains) /losses	10-year fixed	15-year fixed	rolling 15 year period
Asset valuation method	investment gains and losses spread over a 5 - year period no less than 80% nor more than 120% of market value	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.00% 7.25% ultimate	4.00% 7.25% ultimate	4.00%
Projected salary increases	3.25%	3.25%	3.00%
Inflation rate	3.00%	3.00%	3.00%
Healthcare inflation rate	initial - actual premiums [2] ultimate 5.00%	initial - actual premiums [2] ultimate 5.00%	8.50% ultimate 5.00%
Former actuarial assumptions:			
Investment rate of return			4.50%
Projected salary increases			3.75%
Inflation rate			3.75%
Healthcare inflation rate			8.00% [2]

[1] Initial UAAL and plan changes are amortized over a 30 year period from 6/30/07.

[2] Healthcare cost assumptions for the first 2 fiscal years include no increase in non-Medicare costs.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State's fiduciary financial statements are prepared on the accrual basis of accounting. Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense. Investment income is recognized when earned.

CONTRIBUTIONS AND RESERVES

The State Employees Health Insurance Committee establishes contributions to the plan by member employers and employees annually. Both active and retired members pay the same premium rate. Claims liabilities of the plan are periodically computed using statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

POST RETIREMENT GROUP LIFE INSURANCE BENEFIT PLAN

The Maine Public Employees Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit Group Life Insurance Plan (GLIP) administered by a third party insurance company in accordance with Title 5 MRSA C. 423 and 425. Members include employees of the State, public school employees (defined by Maine law as teachers and for whom the State acts like the employer for retirement contribution and benefit purposes), members of the Judiciary and the Legislature, that are eligible for membership in the System. Group life insurance benefits are also provided to employees of 293 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine that elect to participate under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2012 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Plan provides Basic group life insurance benefits, during retirement, to retirees who participated in the group life insurance plan prior to retirement for a minimum of 10 years. The 10 year participation requirement does not apply to recipients of disability retirement benefits. The level of coverage in retirement is initially set to an amount equal to the retiree's average final compensation. The initial amount of Basic group life insurance benefit is then subsequently reduced at the rate of 15% per year to the greater of 40% of the initial amount or $2,500.

Group life insurance funds managed by the System are constitutionally restricted and held in trust for the payment of benefits to participants or their beneficiaries. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs a single actuarial valuation that provides separate data for each participating entity.

BASIS OF ACCOUNTING

The System's financial statements are prepared on the accrual basis of accounting. Premiums paid, by or on behalf of those covered, are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company for premiums collected plus additional payments representing administrative fees.

Group life insurance premiums are recognized as additions in the period when they become due. Investment income is recognized when earned. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Group life insurance benefits and premium refunds are recognized as deductions when due and payable in accordance with Statutes. In addition, an estimate is made for group life insurance death benefits incurred before year end but not reported to the System until after year end. Group life insurance death benefits incurred but not reported are reflected as other liabilities.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

FUNDING POLICY

Premium rates are those determined by the System's Board of Trustees to be actuarially sufficient to pay anticipated claims and cover administrative costs. For State employee, legislative and judicial classes, the premiums for retiree life insurance coverage are factored into the premiums paid for Basic coverage while participants are active members. The State remits premiums at a single rate that supports basic coverage for active and retired State employees. This rate is $.56 per month for every $1,000 of coverage. Premiums for retiree life insurance coverage for retired teachers are paid by the State based on a rate of $.33 per $1,000 of coverage per month during the post-employment retirement period.

ANNUAL OPEB COST

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	Teachers
Annual required contribution	$ 3,250	$ 2,959
Interest on net OPEB obligation	(111)	-
Adjustment to annual required contribution	85	-
Annual OPEB cost	3,224	2,959
Contributions made	4,684	2,959
Increase (decrease) in net healthcare obligation	(1,460)	-
Net healthcare (asset) obligation beginning of year	(300)	-
Net healthcare (asset) obligation end of year	$ (1,760)	$ -

The State's OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB (Asset)
State Employees	6/30/2012	3,224	145.29%	(1,760)
	6/30/2011	4,268	89.22%	(300)
	6/30/2010	4,383	89.98%	(761)
Teachers	6/30/2012	2,959	100.00%	-
	6/30/2011	2,532	100.00%	-
	6/30/2010	2,417	100.00%	-

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of June 30, 2012 was as follows:

(Expressed in Thousands)

		(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
State Employees	June 30, 2012	24,700	80,900	56,200	30.53%	553,500	10.15%
	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
Teachers	June 30, 2012	30,100	71,000	40,900	42.39%	630,800	6.48%
	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%
	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Asset valuation method	market
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.25%
Inflation rate	3.50%
Cost of living increases in life benefits	N/A
Participation percent for future retirees	100.00%
Form of benefit payment	lump sum
Former actuarial assumptions:	
Projected salary increases	3.50% - 10.50%

NOTE 11 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT

The State records its liability for general obligation bonds in the Governmental Activities column on the Statement of Net Assets. Other long-term obligations recognized by the State include: revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit; obligations under Certificates of Participation and other financing arrangements; loans payable to component unit for repayment of bonds issued by the Maine Municipal Bond Bank on behalf of the Maine Department of Transportation; compensated employee absences; and the State's net pension obligation; other post-employment benefits; and obligations for pollution remediation and landfill closure and postclosure care costs.

GENERAL OBLIGATION BONDS

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

Changes in general obligation bonds of the primary government during fiscal year 2012 were:

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

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
General Obligation Debt:					
General Fund	$ 378,880	$ 49,265	$ 81,055	$ 347,090	$ 85,595
Special Revenue Fund	141,350	-	16,385	124,965	16,735
Total	$ 520,230	$ 49,265	$ 97,440	$ 472,055	$ 102,330

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2012 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2013	$ 102,330	$ 18,076	$ 120,406
2014	83,480	14,704	98,184
2015	69,650	11,886	81,536
2016	54,340	9,411	63,751
2017	49,105	7,102	56,207
2018 - 2022	113,150	10,611	123,761
Total	$ 472,055	$ 71,790	$ 543,845

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2012 are as follows:

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

	Amounts Issued	Outstanding June 30, 2012	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
General Fund:					
Series 2003	$ 97,080	$ 9,705	2003	2013	1.50% - 5.00%
Series 2004	117,275	19,560	2005	2014	2.00% - 5.27%
Series 2005	137,525	45,925	2006	2015	2.00% - 5.27%
Series 2006	52,390	20,945	2007	2016	4.00% - 5.51%
Series 2007	33,975	16,975	2008	2017	4.00% - 5.50%
Series 2008	46,525	27,905	2009	2018	3.00% - 5.13%
Series 2009	96,035	60,960	2011	2019	2.50% - 5.00%
Series 2010	31,755	23,055	2011	2020	1.41% - 4.00%
Series 2011	86,010	72,795	2012	2021	1.625% - 5.00%
Series 2012	49,265	49,265	2013	2022	1.00% - 5.00%
Total General Fund		$ 347,090			
Special Revenue Fund:					
Series 2004	$ 13,000	$ 2,175	2005	2014	2.00% - 4.00%
Series 2007	27,000	13,500	2008	2017	4.00% - 5.50%
Series 2008	57,550	34,530	2009	2018	3.00% - 5.13%
Series 2009	37,310	32,375	2011	2019	2.50% - 5.00%
Series 2010	25,080	22,475	2011	2020	1.41% - 4.00%
Series 2011	22,125	19,910	2012	2021	1.625% - 5.00%
Total Special Revenue		$ 124,965			

AUTHORIZED UNISSUED BONDS

Any bonds not issued within five years of the date of ratification may not be issued after that date. Within two years after expiration of the five-year period, the Legislature may extend, by a majority vote, the five-year period for an additional five years or may deauthorize the bonds. If the Legislature fails to take action within those two years, the bond issue shall be considered to be deauthorized and no further bonds may be issued. At June 30, 2012, general obligations bonds authorized and unissued totaled $40.8 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included $187.9 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of $325.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2012, MGFA issued Series 2011A Bonds, which totaled $33.0 million at an interest rate between 3.00 percent and 4.25 percent. At June 30, 2012, there were approximately $3.2. million of MGFA in-substance defeased bonds outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance construction of certain State buildings, to purchase or generate software, and to purchase equipment and vehicles, including school buses. COP's are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State and school districts maintain custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid.

Neither COP's nor the other financing arrangements constitute a legal debt, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

SHORT TERM OBLIGATIONS

The State of Maine did not issue or retire Bond Anticipation Notes during fiscal year 2012. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2012 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

OTHER LONG-TERM OBLIGATIONS

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Assets, the State has recorded long-term obligations for its compensated employee absences, net pension obligation, other post-employment benefit obligations, pollution remediation landfill closure and postclosure care costs.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2012, are summarized as follows:

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

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 172,150	$ 33,000	$ 17,285	$ 187,865	$ 18,245
COP's and Other Financing	71,830	7,171	26,904	52,097	26,323
Compensated Absences	46,443	156	4,545	42,054	4,430
Claims Payable	62,869	202,872	201,418	64,323	25,767
Capital Leases	33,690	1,386	5,298	29,778	5,324
Loans Payable to Component Unit	290,919	58,726	21,514	328,131	24,085
Net Pension Obligation	2,028	252,812	252,830	2,010	-
Other Post-Employment Benefit Obligation	190,622	168,962	92,879	266,705	-
Pollution Remediation and Landfill	47,037 *		18,157	28,880	-
Total Governmental Activities	$ 917,588 *	$ 725,085	$ 640,830	$ 1,001,843	$ 104,174
* as restated					
Business-Type Activities:					
Compensated Absences	$ 883	$ 765	$ 59	$ 1,589	$ 109
Other Post-Employment Benefit Obligation	1,400	4,292	2,555	3,137	-
Total Business-Type Activities	$ 2,283	$ 5,057	$ 2,614	$ 4,726	$ 109

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2012 until maturity, are summarized as follows:

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

	Governmental Funds			Internal Service Funds		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2013	$ 11,417	$ 35	$ 11,452	$ 33,151	$ 8,605	$ 41,756
2014	1,157	18	1,175	29,337	7,452	36,789
2015	570	3	573	23,908	6,467	30,375
2016	-	-	-	21,876	5,571	27,447
2017	-	-	-	19,351	4,717	24,068
2018 - 2022	-	-	-	59,675	13,696	73,371
2023 - 2027	-	-	-	23,235	6,149	29,384
2028 - 2031	-	-	-	16,285	1,498	17,783
Total	$ 13,144	$ 56	$ 13,200	$ 226,818	$ 54,155	$ 280,973

CONDUIT DEBT OBLIGATIONS

Under a General Bond Resolution adopted on June 5, 1973, Maine Health and Higher Educational Facilities Authority (MHHEFA) issues tax exempt bonds to assist in financing health care institutions and institutions for higher education. Loans to institutions made with proceeds of general resolution bonds are written for the entire amount of the bonds, including debt service reserve funds. Security for these bonds is limited to debt service reserve funds of and the loans to the specific institution for which the bond was issued. Therefore, these bonds are considered conduit debt.

LOANS PAYABLE TO COMPONENT UNIT

The State of Maine has pledged various revenue streams, as security for Grant Anticipation Bonds (GARVEE) and Transportation Infrastructure Revenue Bonds (TransCap) issued by the Maine Municipal Bond Bank (MMBB) on behalf of the Maine Department of Transportation to provide financing for qualified transportation projects.

Changes in GARVEE and TransCap revenue bonds during fiscal year 2012 were:

Primary Government - Changes in GARVEE and TransCap Loans Payable
(Expressed in Thousands)

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
Loans Payable to Component Unit:					
Federal Funds	$ 119,346	$ -	$ 11,095	$ 108,251	$ 12,291
Special Revenue Fund	171,573	58,726	10,419	219,880	11,794
Total	$ 290,919	$ 58,726	$ 21,514	$ 328,131	$ 24,085

Payment of principal and interest on the GARVEE bonds shall be subject to appropriation each year by the Legislature in an amount sufficient to cover the principal and interest requirements of MMBB's debt for these bonds. The State's receipt of these funds is subject to continuing federal appropriations. MMBB insured payments of principal and interest with a financial guaranty insurance policy. The bonds do not constitute a debt or obligation of the State.

Principal and interest on TransCap bonds are payable solely from pledged revenues, pledged rights, and pledged TransCap funds and accounts. Pledged revenues include certain motor vehicle registration and other fees, a portion of excise tax on gasoline and other special fuel, and certain amounts required to be transferred from the Highway Fund. All pledged revenues are required to be transferred to the TransCap Fund. The bonds do not constitute a debt or liability of the State.

GARVEE and TransCap Revenue bonds issued and outstanding at June 30, 2012 are as follows:

GARVEE and TransCap Revenue Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2012	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
Federal Funds:					
Series 2004	$ 48,395	$ 20,005	2005	2015	2.50% - 5.00%
Series 2008	50,000	39,400	2009	2020	3.25% - 4.00%
Series 2010A	25,915	23,340	2011	2017	2.00% - 5.00%
Series 2010B	24,085	24,085	2018	2022	4.52% - 5.32%
Total Federal Funds		$ 106,830			
Special Revenue Fund:					
Series 2008	$ 50,000	$ 42,800	2009	2023	3.00% - 5.50%
Series 2009A	105,000	93,405	2010	2023	2.50% - 5.00%
Series 2009B	30,000	28,350	2010	2024	2.00% - 5.00%
Series 2011A	55,000	55,000	2012	2026	2.00% - 5.00%
Total Special Revenue		$ 219,555			

Total principal and interest requirements over the life of the 2004 GARVEE bonds are $60.2 million, with annual requirements of up to $5.6 million; for the 2008 GARVEE bonds total principal and interest requirements are $63.1 million, with annual requirements of up to $5.3 million; for 2010 GARVEE bonds total principal and interest requirements are $66.3 million, with annual requirements of up to $5.3 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the 2004 GARVEE bonds totaled $175 million. Total federal highway transportation funds received in federal fiscal year 2012 were $207 million. Current year payments to MMBB for GARVEE bonds were $15.1 million (7.3 percent of federal highway transportation funds received).

Total principal and interest requirements over the life of the 2008 TransCap Revenue Bond are $71.9 million, with annual requirements up to $4.8 million. Total principal and interest requirements over the life of the 2009A TransCap Revenue Bonds are $144.3 million, with annual requirements up to $10.1 million; for the 2009B TransCap Revenue Bonds total principal and interest requirements are $46.2 million, with annual requirements up to $16.9 million. Total principal and interest requirements over the life of the 2011A TransCap Revenue Bond are $84.2 million, with annual requirements up to $20.3 million. Total revenue received for revenue sources used as pledged revenues were $38.2 million in fiscal year 2012.

OBLIGATIONS UNDER CAPITAL LEASES

The State leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below.

At June 30, 2012 capital assets include $66.2 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $40.7 million.

OBLIGATIONS UNDER OPERATING LEASES

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements. Rental expense incurred under operating leases totaled $2.4 million during the year.

A summary of the operating and noncancelable capital lease commitments to maturity follows:

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

Fiscal Year	Capital Leases	Operating Leases
2013	$ 5,324	$ 5,811
2014	4,656	5,414
2015	4,248	5,032
2016	3,734	4,439
2017	3,370	3,943
2018 - 2022	11,052	13,387
2023 - 2027	3,130	5,887
2028 - 2032	2	775
2033 - 2037	-	764
2038 - 2042	-	852
2043- 2047	-	762
2048 - 2051	-	892
Total Minimum Payments	35,516	$ 47,958
Less: Amount Representing Interest	5,738	
Present Value of Future Minimum Payments	$ 29,778	

MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS

MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for loans payable to the component unit will be liquidated from the Federal Fund and Highway Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded; the General and Highway Funds will pay relatively small amounts.

CLAIMS PAYABLE

Claims payable that represent Medicaid claims will be paid from the General Fund and Federal Fund. Claims payable that represent workers' compensation and retiree/employee health will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. Other claims and judgments attributable to governmental activities will be liquidated by the General Fund and related special revenue funds.

COMPENSATED ABSENCES

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as long-term liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments made to terminated employees as of June 30, 2012 but paid after the fiscal year end is also reported in the funds.

COMPONENT UNITS

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State. The following table summarizes bonds outstanding for selected material balances of discretely presented component units, as reported in their separately issued financial statements, utilizing their respective fiscal year-ends:

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	1.00%	1,513	2012 – 2025
Maine Community College System	3.0 - 5.0%	24,653	2012 - 2037
Maine Health and Higher Educational Facilities Authority			
debt	1.25 - 6.2%	1,263,465	2012 - 2040
conduit debt	3.42 - 7.5%	483,872	2012 - 2043
Maine Municipal Bond Bank	.7 - 6.1%	1,571,017	2012 – 2040
Maine State Housing Authority	0.1 - 5.75%	1,454,710	2012 – 2042
Maine Turnpike Authority	3.0 - 6.0%	397,056	2012 – 2038
University of Maine System	2.0 - 5.75%	190,617	2012 – 2037

On January 31, 2012, MHHEFA issued $27.7 million general resolution tax-exempt bonds with an average interest rate of 3.56 percent. A portion of the proceeds was used to in-substance defease $13.0 million in outstanding various bond obligations in prior years. The net proceeds of approximately $13.7 million were used to purchase U.S. Government securities that will provide for future payment on the debt. The economic benefits associated with the refunding inure to the respective institutions. At June 30, 2012, there were approximately $13.3 million of in-substance defeased bonds remaining outstanding with respect to advance refunded conduit debt of bond issues of the general resolution.

In periods of declining interest rates, MHHEFA has refunded its bond obligations, reducing aggregate debt service. The proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. During the current year, MHHEFA issued $119.6 million of reserve resolution bonds with interest rates of 4.36 to 4.60 percent to in-substance defease $127.1 million of various outstanding bonds. The net proceeds of $129.8 million were used to purchase U.S. Government securities that will provide for future payment on the debt. The economic benefits associated with the refunding inure to the respective institutions. At June 30, 2012 the remaining balances of the conduit debt reserve resolution in-substance defeased bonds total approximately $141.2.

On February 23, 2012, UMS issued bonds to currently refund a $30.0 million balloon payment and to fund a new capital project. Refunding proceeds were temporarily placed into an escrow account and were used to retire the 2002 bonds on March 1, 2012.

In periods of declining interest rates, MMBB has refunded its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. During the current year, MMBB issued $26.1 million of General Tax-Exempt Bonds with an average interest rate of 3.90 percent; $61.1 million of General Tax Exempt Series 2012 B and C Series Bonds with average interest rates of 4.85 percent and 1.58 percent, respectively; and $17.8 million of Sewer and Water bonds with an average interest rate of 3.80 percent to in-substance defease $105.9 million of various outstanding bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $9.5 million, MMBB in effect reduced its aggregate debt service payments by approximately $10.3 million over the next 13 to 21 years and obtained an economic gain of approximately $6.5 million. Future debt service requirements were reduced $6.1 million. At June 30, 2012 the remaining balances of the General Tax-Exempt Fund Group and Clean Water Revolving Loan Fund in-substance defeased bonds total approximately $177.3 million and $17.8 million, respectively.

For the period ended December 31, 2011, MSHA redeemed $122.3 million of its Mortgage Purchase Fund Group bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds and $6.3 million of its Housing Finance Revenue Fund Group bonds from subsidy funds. Mortgage Purchase Fund losses of $.5 million and Housing Finance Revenue Fund Group losses of $42 thousand were attributable to recognition of the bond discount and debt issuance expenses associated with the redeemed bonds.

The following table summarizes debt service requirements for outstanding bonds of the discretely presented component units:

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	FAME	MMBB	MCCS	MSHA	MTA	UMS	MHHEFA
2013	$ 806	$ 130,516	$ 600	$ 9,905	$ 13,855	$ 9,743	$ 55,450
2014	57	123,199	622	45,860	15,560	10,167	56,845
2015	57	119,515	649	52,130	17,470	12,259	58,725
2016	57	112,832	671	54,035	18,275	8,697	53,840
2017	58	106,569	697	50,760	19,090	9,099	54,515
2018 - 2022	301	474,819	3,946	295,835	81,145	45,507	281,475
2023 - 2027	177	332,450	4,967	304,420	83,450	37,740	265,340
2028 - 2032	-	130,141	6,061	278,015	91,220	39,360	230,400
2033 - 2037	-	7,520	5,692	245,420	35,965	14,450	165,050
2038 - 2042	-	2,415	-	129,955	10,345	-	41,825
2043 - 2047	-	-	-	1,055	-	-	-
Net unamortized premium or (deferred amount)	-	31,041	668	(12,680)	10,681	3,595	-
Total Principal Payments	$ 1,513	$ 1,571,017	$ 24,573	$1,454,710	$ 397,056	$190,617	$1,263,465

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

The State maintains several types of insurance plans and accounts for them in two funds that are combined for financial statement purposes as the Risk Management Fund. The Risk Management Division provides insurance advice and services to State governmental agencies. The State-Administered Fund offers similar services to quasi-governmental entities. Statute requires the Self-Insurance Fund to be replenished by appropriation if the fund balance drops below $1 million. The State-Administered Fund balance has no similar provision; however, statutes prevent it from being used for any purpose other than providing insurance services.

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professionals, and a variety of other insurance products. All departments have elected to insure through the Risk Management Division. The Department of Transportation elected to purchase general liability insurance as of April 1, 2007; in prior fiscal years the Department of Transportation had elected not to purchase general liability insurance through the Risk Management Division.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $400 million per occurrence. The State retains $2 million of this risk per occurrence. A private insurance carrier covers the remaining risk (excess insurance). Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

Type of Insurance	Coverage Per Occurrence	Risk Retention Per Occurrence	Excess Insurance Per Occurrence
Property *	$400 million	$ 2 million	$400 million
Ocean Marine Boat Liability *,[1]	10 million	10 thousand	10 million
Boiler and Machinery*	150 million	2 million	150 million
General Liability Including Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none
Vehicular Liability [2]	400 thousand	400 thousand	600 thousand
Bonding	500 thousand	500 thousand	none
Foster Parents	300 thousand	300 thousand	none
Inland Marine (various policies)	500 thousand	500 thousand	none

* These lines of insurance have commercial excess insurance covering losses above the risk retention amount up to the per occurrence amount listed. All other insurance programs are wholly self-insured.
[1] $10 million is the maximum limit for per occurrence coverage. Some agencies have chosen $400 thousand.
[2] Excess insurance is only for out of state travel.

The plan funds the cost of providing claims servicing and claims payment by charging a premium to each agency based on a review of past losses and estimated losses for the current period.

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of March 31, 2012. This cost of claims includes case reserves, the development of known claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis. Biennial re-evaluation occurs to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

At March 31, 2012 and 2011, the present value of the claims payable for the State's self-insurance plan was estimated at $3.8 million and $3.9 million, respectively. The actuary calculated this based on the State's rate on investments.

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

	2012	2011
Liability at Beginning of Year	$ 3,872	$ 3,872
Current Year Claims and Changes in Estimates	1,253	86
Claims Payments	1,355	86
Liability at End of Year	$ 3,770	$ 3,872

As of June 30, 2012, fund assets of $24.4 million exceeded fund liabilities of $4.4 million by $20 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added $50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400 thousand. The effect of this change has been partially incorporated into the estimate used to determine claims payable as of June 30, 2012.

B. Unemployment Insurance

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $2.2 million for the fiscal year ended June 30, 2012.

C. Workers' Compensation

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

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The balance of claims liabilities as of June 30, 2012:

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

	2012	2011
Liability at Beginning of Year	$ 39,282	$ 38,673
Current Year Claims and Changes in Estimates	11,468	8,987
Claims Payments	8,637	8,378
Liability at End of Year	$ 42,113	$ 39,282

Based on the actuarial calculation as of June 30, 2012, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $50.3 million. The discounted amount is $42.1 million and was calculated based on a 3.0 percent interest rate on investments.

D. EMPLOYEE HEALTH INSURANCE

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self insured for employee and retiree health care coverage on July 1, 2003. A stop loss agreement with Anthem Blue Cross and Blue Shield provides catastrophic coverage for individual claims exceeding $500 thousand.

The State retained third-party administration (TPA) services for claims administration, utilization review, and case management services. Premium equivalents are paid to the TPA based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. Smart Value is a Medicare Advantage plan available to Medicare eligible retirees. Total enrollment averaged approximately 38,800 covered individuals. This total includes 27,000 active employees and dependents, 4,400 pre-Medicare retirees and dependents, and 7,400 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2012 the State recorded a payable of $10.8 million for an underpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $18.4 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2012 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 14,786	$ 4,929
Current Year Claims and Changes in Estimates	158,537	31,614
Claims Payments	159,493	31,933
Liability at End of Year	$ 13,830	$ 4,610

The table above reflects actual activity of the employee health and retiree health insurance programs. In accordance with GASB Statement No. 45, certain costs reported above were reclassified for financial statement purposes. $44.6 million in retiree healthcare costs were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $22.0 million of active employee healthcare costs was reclassified from the internal service fund to the OPEB Trust Fund to reflect age-adjusted claims.

NOTE 13 – JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The State of Maine participates in two separate joint venture arrangements: the Tri-State Lotto Commission (Commission) and the Multi-State Lottery Association (MUSL).

Tri-State Lotto Commission

The Commission was established in 1985 pursuant to passage into law of the Tri-State Lotto Compact by the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including ticket prices, prizes, and the licensing of agents under Title 8 MRSA C. 16.

The Commission is composed of one member from each of the participating states. Each member State’s commission appoints one of its members to serve on the Commission and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members. The Commission designated that 50 percent of its sales revenue be reserved for prize awards and agent bonuses.

A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not claimed within one year from the date of the drawing be forfeited. All expired unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on ticket sales made by each State. Exceptions are the facility's management fee, which is based on a contracted percentage of operating revenue that varies from State to State, per diem charges, advertising, and certain printing, travel, and miscellaneous costs, which are allocated based on actual charges generated by each state.

The Tri-State Lotto Commission financial report for fiscal year 2012, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

Tri-State Lotto Commission
(Expressed in Thousands)

Current Assets	$	22,517
Noncurrent Assets		46,265
Total Assets	$	68,782
Current Liabilities	$	18,711
Long-term Liabilities		36,459
Total Liabilities		55,170
Designated Prize Reserves		4,346
Reserve for Unrealized Gains		9,266
Total Net Assets		13,612
Total Liabilities and Net Assets	$	68,782
Total Revenue	$	61,355
Total Expenses		41,134
Allocation to Member States		20,221
Change in Unrealized Gain on Investments Held for Resale		1,008
Change in Net Assets	$	1,008

Multi-State Lottery Association

The Maine State Lottery became a member of the Multi-State Lottery Association (MUSL) in July 2004. The MUSL currently has 32 member State lotteries, including the District of Columbia and the United States Virgin Islands. The MUSL is managed by a board of directors, which is comprised of the lottery directors or their designee from each of the party States, and authorized to initiate, promulgate, administer and carry out one or more lottery product offerings that will enhance the participating party lottery's revenue.

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the board are divided equally among all of the participating lotteries. Jackpot prizes payable in installments are satisfied through investments purchased by the MUSL. The MUSL purchases US government obligations which are held in irrevocable trusts established by the MUSL for the benefit of participating State lotteries. Each week the MUSL allocates 50 percent of sales to the prize pool. If no winning ticket is selected, the available jackpot is carried over to the following jackpot drawing.

The Multi-State Lottery Association's financial report for fiscal year 2012, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected information:

Multi-State Lottery Association
(Expressed in Thousands)

Cash and Cash Equivalents	$ 106,685
Investments in US Government Securities	142,712
US Government Securities Held for Prize Annuities	300,465
Due from Party Lotteries	32,358
Other Assets	945
Total Assets	$ 583,165
Amount Held for Future Prizes	$ 268,775
Grand Prize Annuities Payable	310,847
Other Liabilities	3,388
	583,010
Net Assets, Unrestricted	155
Total Liabilities and Net Assets	$ 583,165
Total Revenue	$ 4,783
Total Expenses	4,869
Excess of revenue over expenses	(86)
Net assets, beginning	241
Net assets, ending	$ 155

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

Title 20-A MRSA § 11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code.

By statute, program assets are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen had approximately $6.0 billion in net assets at June 30, 2012, which have been recorded in a Private Purpose Trust Fund on the financial statements of the State. Also see Note 16 for additional information.

The State of Maine entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Public Lands and the Bureau of Parks and Recreation. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated May 1991.

COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $237.6 million; Maine Community College System, $65.6 million; Maine Municipal Bond Bank, $39.1 million; Finance Authority of Maine, $12.0 million; and Maine State Housing Authority, $9.9 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $29.9 million at June 30, 2012, as a liability in Amounts Held Under State Revolving Loan Programs in their fiduciary financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2012, the State expended $2.8 million to FAME for State revolving loan funds. The State also transferred $1 million from its Loan Insurance Reserves to FAME. State statute required FAME to return $5 million of the Loan Insurance Reserves. As of June 30, 2012, $3 million was owed to the State.

Title 20-A MRSA Chapter 419-A established the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2007, the NextGen College Savings grant funds and the Maine State Grant funds were pooled into the new State of Maine Grant. FAME paid approximately $6.8 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

The Maine Turnpike Authority (MTA) pays the State for services rendered by the Maine State Police (MSP). MSP has a separate troop responsible for patrolling the Maine Turnpike. MTA pays all costs associated with that troop. For fiscal 2012, the amount billed totaled $4.8 million.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

PRIMARY GOVERNMENT

LITIGATION

The State of Maine, its units, and its employees are parties to numerous legal proceedings, many of which are the result of normal governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. Certain cases have the potential for liability in excess of $1 million. Even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, the State could incur a large judgment.

Temporary Assistance for Needy Families (TANF) Program – DHHS. This matter may result in a reduction of future payments to Maine. This dispute involves whether Maine met its two-parent work participation rate for the federal fiscal year 2007. The U.S. Department of Health and Human Services has assessed a penalty against Maine of just over $1 million. The federal agency has not required Maine to pay the penalty yet. Maine has submitted a Corrective Action Plan that has resulted in meeting the participation rate by the end of FY 2012, and the federal agency does have the ability to reduce the amount of the 2007 penalty. There is a high probability that Maine can experience this loss, but so far the federal agency has not reduced Maine's payments.

Food Supplement – DHHS. The State received from the federal Food and Nutrition Service a "Bill for Collection" in the amount of $2.8 million, representing an offset applying three performance bonus awards totaling $2.1 million to an over-issuance claim of $4.9 million. The State has administratively appealed this claim and should learn the result of our appeal within 30 days. There is a moderate probability that the State will experience this loss.

In various lawsuits, Plaintiffs seek damages in excess of $1 million against the State or against State officials, and various notices of claim also specify damages in excess of $1 million where no lawsuit has been filed. In none of these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed $1 million. Therefore, these suits have not been individually identified.

Numerous workers' compensation claims are now pending against various State agencies. Since most claims involve the possibility for significant long-term damages, and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

FEDERAL GRANTS

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

POLLUTION REMEDIATION

The Department of Environmental Protection (DEP) and Department of Transportation (DOT) have pollution remediation obligations as defined by Governmental Accounting Standards Board (GASB) Statement No. 49. The State's total amount of pollution remediation obligation as of June 30, 2012 is $21.4 million. Superfund sites account for approximately $12.2 million. Superfund is the federal government program to clean up hazardous waste sites.

The following are Superfund sites for which the State has recorded a liability for pollution remediation activities:

Eastland Woolen Mill – The State recorded a liability for pollution remediation activities of approximately $1.7 million. Currently the State shares the costs with Environmental Protection Agency (EPA) in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in September of 2018, the State will assume 100 percent of the operation and maintenance and long-term monitoring costs.

Eastern Surplus – The State recorded a liability for pollution remediation activities of approximately $5.2 million. Beginning in August of 2012, the State assumed 100 percent of the operation and maintenance and monitoring costs. As of June 30, 2012 the State has received $2.2 million in recoveries from the Department of Defense. The State expects to recover additional costs of $3.5 million.

Callahan Mine – The State recorded a liability for pollution remediation activities of approximately $5.3 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. The State will assume 100 percent of the cost for the operation and maintenance of the site. The State recorded a liability for pollution remediation activities of approximately $9.2 million (net of unrealized recoveries of $792 thousand) related to three of five uncontrolled hazardous substance sites. The State expects to recover $860 thousand in costs. The Uncontrolled Hazardous Substance Sites Program was created in response to the threats and potential threats to human health and the environment posed primarily by abandoned hazardous waste sites. The Uncontrolled Hazardous Substance Sites program is the State's equivalent to the Federal Superfund Program.

The State has the knowledge and expertise to estimate the remediation obligation based on prior experience in identifying and funding similar remediation activities. The standard requires the liability to be measured using the expected cash flow technique. The remediation obligation estimates are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statues or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

MUNICIPAL SOLID WASTE LANDFILLS

Dolby Landfills – On September 16, 2011 the State entered into an agreement with Katahdin Paper Company (KPC) to acquire the Dolby Landfills, a solid waste disposal facility, located in the Towns of Millinocket and East Millinocket. The State, as a holder of the permits, is responsible for closure and post closure monitoring and maintenance activities and costs.

The State will recognize a portion of the estimated total current cost of closure and postclosure care as an expense and a liability on the Statement of Activities and Statement of Net Assets, respectively, in each period that the landfill accepts solid waste. The $7.4 million reported as landfill closure and postclosure care liability at June 30, 2012, represents the cumulative amount reported to date based on the use of 94% of the estimated capacity of the landfill. The State will recognize the remaining estimated cost of closure and postclosure care of $465 thousand as the remaining estimated capacity is filled. Based on estimated annual disposal volumes of 5,000 cubic yard to 8,000 cubic yards per year, the estimated remaining landfill life would be 38 to 60 years. Actual costs may be higher due to inflation, changes in technology or changes in applicable laws or regulations.

Cost-Sharing Program– Title 38 MRSA §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for landfill remediation projects totaled $100 thousand for fiscal year 2012.

During the 2012 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills, except the Commissioner may make grants or payments up to 30 percent, if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. Recent changes to landfill legislation Title 38 MRSA §1310-F (1-B)(E) do obligate DEP to potential landfill closure expenses at a limited number of municipal landfills until 2015. No reimbursement applications for past closure costs are currently on file. No eligible municipalities have contacted DEP regarding potential closure cost sharing at this time. The DEP estimates that potential obligations related to municipal landfill closures could range from $1.14 million to $5.25 million by 2015.

During the 2012 fiscal year, the State expended $85 thousand of general obligation bond funds and $15 thousand in solid waste funds were expended for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue for 90 percent of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50 percent for structures constructed after that date. The DEP recognizes that, in the future, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs could be as much as $935 thousand, based on current site knowledge. The increasing frequency of residential development near closed municipal landfills, and the discovery of older abandoned dump sites now occupied by residential homes could add to these future costs. The DEP currently owes $2.6 million for recent remedial work related to issues involving gas migration from two municipal landfills in the state. The existing municipal landfill bond account has been spent. No bond funds are currently available to cover outstanding obligations. Additional bond funds will be necessary to cover current outstanding obligations as well as potential future remedial actions.

SAND AND SALT STORAGE PROGRAM

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the Sand and Salt Storage program to be $18.6 million. This consists of approximately $12.6 million for State-owned facilities and approximately $6 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 MRSA § 411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2012 fiscal year, $4.12 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2012, amounts encumbered for pollution abatement projects totaled $1.29 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $2.05 million. As of June 30, 2012, DEP estimated the total cost (federal, State, and local) of future projects to be $1 billion.

GROUND WATER OIL CLEAN-UP FUND

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA § 569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for cleanup of oil spills. The program is funded by a per barrel assessment on petroleum products imported into the State. Coverage is up to $1 million per occurrence for both aboveground and underground storage tanks. Third party injury coverage may not exceed $200 thousand per claimant.

A report to the legislature dated February 15, 2007, submitted by the Maine Department of Environmental Protection (DEP), identified 359 long-term remediation sites as of January 2007 that are covered by the insurance program. As of August 28, 2007 there were 377 sites on the long-term remediation priority list. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes 46.60 percent of the annual payments. As of June 30, 2012, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $1.1 billion.

At June 30, 2012, the Department of Transportation had contractual commitments of approximately $147.0 million for construction of various highway projects. The State's share of that amount is expected to be approximately $31.8 million. Of these amounts, $8.3 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and six civil jurisdictions (collectively known under the MSA as the "Settling States"), entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM's). The MSA is a settlement of lawsuits brought by many States against the four largest tobacco companies alleging multiple counts of misconduct and claiming punitive and compensatory damages, including a claim for all the State's Medicaid costs caused by or related to tobacco use. The MSA includes provisions to annually compensate the State for smoking-related Medicaid costs and to impose marketing and advertising restrictions on PM's to protect public health. In this settlement, the PM’s agreed, among other things, to make annual payments to the states and jurisdictions based on their allocable share of the market. In return, the states agreed to relinquish claims to further damages resulting from, among other things, Medicaid costs. Annual payments fluctuate subject to various adjustments and are partially contingent on the passage and enforcement of a State statute imposing economic conditions related to the State's public health claims on the Nonparticipating manufacturers (NPM’s) in the form of an annual escrow payment due from each NPM with in-state sales. The NPM Adjustment is set forth in the Master Settlement Agreement (MSA). If the PM’s claim an NPM Adjustment for a given year and prove that they lost market share to the NPM’s and it is determined that the MSA was a significant factor contributing to that lost market share then an NPM Adjustment ‘shall apply’ unless a Settling State passed a qualifying statute and ‘diligently enforced’ that statute. In effect this means that the Allocated Payment to a Settling State that diligently enforced will not be reduced, but a Settling State that did not diligently enforce its qualifying statute will be subject to a reduction in its payment due to the NPM Adjustment. NPM Adjustment Due to the provisions of the MSA, a State that is found not to have diligently enforced its qualifying statute may lose up to its entire annual payment amount due to the NPM Adjustment for a given year.

The NPM Adjustment may be claimed each year and has been claimed for each completed calendar year since 2003. Frequently PM's claim entitlement to the NPM Adjustment and either withhold the amount from their annual payments, or place the amount in what is known as a 'disputed payment account'. Each year beginning in 2003 Maine's annual payments have been lower than calculated because many of the PMs have claimed entitlement to the NPM Adjustment and either withheld money or routed it to the disputed payments account. For the year 2003, the Adjustment claimed by the PM's, and calculated as set forth in the MSA, was approximately 18 percent of the total amount paid by the PM's and distributed among the Settling States. However, the total amount related to the NPM Adjustment to which the PMs are entitled is dependent on the number of non-diligent states.

In addition, in the MSA, the PM’s agreed to pay $8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine’s share of this total amount is approximately $114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2012, Maine received a total of $51 million including both the annual payment amount and the strategic contribution amount.

ESCHEAT PROPERTY

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds $500 thousand at fiscal year-end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2012, the Fund included $3.9 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2012 of approximately $178.4 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2012, the amount reported in the Fund for claimant liability is $34.6 million. The General Fund shows a $30.2 million payable to the Escheat Fund.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2012, loans outstanding pursuant to these authorizations are $60.9 million, less than $1 million, and less than $1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2012.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. At June 30, 2012, no bonds were outstanding. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2012.

MORAL OBLIGATIONS

The State of Maine, through statute, enables certain Authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the Authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the Authority to issue debt that is not secured by these funds.

On or before December first of each year, the Authority is required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The Governor shall certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then-current State fiscal year.

These moral obligations are not considered to be "full faith and credit" obligations of the State, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.

The following summarizes information regarding outstanding moral obligations:

Moral Obligation Bonds
(Expressed in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Maine Health and Higher Educational				
Facilities Authority - debt	$ 1,263,465	$ 105,711	no limit	22 MRSA § 2075
conduit debt	483,872		no limit	22 MRSA § 2075
Finance Authority of Maine	35,026	-	$ 642,000	10 MRSA §1032, 1053
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority *****	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,201,387	142,437	no limit	30-A MRSA §6006
Maine Educational Loan Authority *****	161,790	16,042	225,000	20-A MRSA §11424
Maine State Housing Authority	1,467,390	90,087	2,150,000	30-A MRSA §4906
University of Maine System	189,135	2,870	220,000	20-A MRSA §10952
Total	$ 4,802,065	$ 357,147		

* Reported in combining non-major component unit financial statements.

CONSTRUCTION CONTRACTS
At June 30, 2012, UMS had outstanding commitments on uncompleted construction contracts that totaled $14.6 million.

MORTGAGE COMMITMENTS
Mortgage commitments are agreements to lend provided there is no violation of any term or condition of the agreement. Generally, once exercised, the loans made under the terms of such commitments are secured by a lien on the related property and other collateral as deemed necessary. At December 31, 2011 Maine State Housing Authority (MSHA) had outstanding commitments to originate multi-family loans of approximately $52.2 million.

MSHA, under its single-family program, enters into purchase agreements to lenders to purchase mortgage loans. At December 31, 2011, single-family loans being processed by lenders totaled $7.4 million.

INSURED LOAN COMMITMENTS
The Finance Authority of Maine (FAME) insures loans made by financial institutions to qualifying businesses under various insurance programs. FAME is contingently liable for the insured portion of payments due on these loans. At June 30, 2012, FAME had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately $83.4 million. At June 30, 2012, FAME was insuring loans with an aggregate outstanding principle balance approximating $4.9 million which were 90 or more days delinquent. The aggregate insured balance of these loans was approximately $2.6 million at June 30, 2012. In addition, FAME has entered into commitments to insure loans at some future date. At June 30, 2012, these commitments under the Loan Insurance Program were approximately $13.0 million.

NOTE 16 - SUBSEQUENT EVENTS

COMPONENT UNITS
In January 2012, MHSA was awarded $.5 million as part of a settlement in connection with an investigation by the United States Securities and Exchange Commission (SEC) into the bidding practices involving investment bond proceeds by a banking and financial services company. Proceeds from this settlement are to be distributed within 60 days of the final order. MSHA received $1.4 million in 2011 as part of a similar SEC investigation and settlement with a different banking and financial services company.

On March 1, 2012 MSHA communicated to the Trustee its intention to redeem on April 10, 2012 at par $44.0 million of bonds in the General Mortgage Purchase Bond Resolution.

Until June 30, 2012, the NextGen College Investing Plan is reported as a private purpose trust for the State. Pursuant to a change in Maine law which became effective September 28, 2011, beginning July 1, 2012, the fund will be held by FAME, which shall invest it under the direction of and with the advice of the Advisory Committee on College Savings. Once the law becomes effective, FAME will report the $6.0 billion in assets in a private purpose trust fund.

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues								
Taxes	$ 2,829,762	$ 2,865,232	$ 2,900,672	$ 35,440	$ 220,061	$ 218,089	$ 219,474	$ 1,385
Assessments and Other	102,673	101,488	102,887	1,399	87,823	88,027	88,957	930
Federal Grants	3,351	3,337	3,377	40	-	-	-	-
Service Charges	49,680	51,537	49,008	(2,529)	6,162	4,301	6,126	1,825
Income from Investments	258	107	403	296	32	122	141	19
Miscellaneous Revenue	41,969	47,726	15,203	(32,523)	192	131	693	562
Total Revenues	3,027,693	3,069,427	3,071,550	2,123	314,270	310,670	315,391	4,721
Expenditures								
Governmental Support and Operations	266,302	264,583	259,280	5,303	36,430	36,851	33,545	3,306
Economic Development & Workforce Training	34,722	34,666	33,529	1,137	-	-	-	-
Education	1,379,042	1,385,470	1,365,933	19,537	-	-	-	-
Health and Human Services	1,030,347	1,130,724	1,103,849	26,875	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	68,727	68,528	65,763	2,765	33	33	33	-
Justice and Protection	276,970	280,632	261,702	18,930	31,106	30,845	28,634	2,211
Arts, Heritage & Cultural Enrichment	7,457	7,463	7,068	395	-	-	-	-
Transportation Safety & Development	-	-	-	-	253,379	300,621	274,829	25,792
Total Expenditures	3,063,567	3,172,066	3,097,124	74,942	320,948	368,350	337,041	31,309
Revenues Over (Under) Expenditures	(35,874)	(102,639)	(25,574)	77,065	(6,678)	(57,680)	(21,650)	36,030
Other Financing Sources (Uses)								
Operating Transfers Net	(82,189)	(79,407)	49,044	128,451	(3,204)	(998)	19,374	20,372
Proceeds from Pledged Future Revenues								
Net Other Financing Sources (Uses)	(82,189)	(79,407)	49,044	128,451	(3,204)	(998)	19,374	20,372
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (118,063)	$ (182,046)	$ 23,470	$ 205,516	$ (9,882)	$ (58,678)	$ (2,276)	$ 56,402
Fund Balances at Beginning of Year			196,146				63,377	
Fund Balances at End of Year			$ 219,616				$ 61,101	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 269,345	$ 266,245	$ 258,819	$ (7,426)
4	4	1	(3)	163,842	166,651	137,546	(29,105)
2,704,172	3,371,127	2,702,662	(668,465)	17,620	25,286	10,789	(14,497)
504	462	451	(11)	210,494	211,040	188,256	(22,784)
-	-	18	18	1,461	1,460	324	(1,136)
-	-	883	883	144,419	164,735	135,210	(29,525)
2,704,680	3,371,593	2,704,015	(667,578)	807,181	835,417	730,944	(104,473)
10,335	25,428	13,258	12,170	130,548	143,729	132,305	11,424
123,590	270,180	219,550	50,630	77,341	82,152	68,995	13,157
251,711	320,053	221,739	98,314	17,742	17,941	11,864	6,077
1,955,928	2,265,383	1,891,851	373,532	508,669	560,274	423,638	136,636
1,202	1,399	441	958	74,184	73,496	63,526	9,970
60,923	70,075	47,657	22,418	125,104	133,864	83,371	50,493
122,012	134,408	47,869	86,539	38,407	44,946	35,133	9,813
4,106	4,342	3,585	757	1,768	1,756	881	875
188,544	266,487	213,675	52,812	82,502	119,096	86,918	32,178
2,718,351	3,357,755	2,659,625	698,130	1,056,265	1,177,254	906,631	270,623
(13,671)	13,838	44,390	30,552	(249,084)	(341,837)	(175,687)	166,150
(42,711)	(49,129)	(28,374)	20,755	183,163	212,732	28,723	(184,009)
				69,198	103,198	78,148	(25,050)
(42,711)	(49,129)	(28,374)	20,755	252,361	315,930	106,871	(209,059)
$ (56,382)	$ (35,291)	$ 16,016	$ 51,307	$ 3,277	$ (25,907)	$ (68,816)	$ (42,909)
		(9,614)				220,454	
		$ 6,402				$ 151,638	

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 219,616	$ 61,101	$ 6,402	$ 151,638
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	240,065	5,917	-	9,825
Intergovernmental Receivables	-	-	530,316	-
Other Receivables	35,272	3,575	72,270	64,450
Inventories	1,411	-	483	-
Due from Component Units	3,000		-	45,547
Due from Other Funds	14,861	9,074	4,315	239,330
Other Assets	1,552	45	319	657
Deferred Revenues	(235,827)	(8,623)	(2,214)	(25,960)
Total Revenue Accruals/Adjustments	60,334	9,988	605,489	333,849
Expenditure Accruals/Adjustments:				
Accounts Payable	(296,601)	(25,120)	(502,735)	(25,100)
Due to Component Units	(1,409)	1	(4,749)	(2,134)
Accrued Liabilities	(16,746)	(6,673)	(6,315)	(8,050)
Taxes Payable	(167,252)	(8)	-	-
Intergovernmental Payables	(3,792)	-	(70,539)	-
Due to Other Funds	(144,085)	(3,180)	(12,425)	(6,953)
Total Expenditure Accruals/Adjustments	(629,885)	(34,980)	(596,763)	(42,237)
Fund Balances - GAAP Basis	$ (349,935)	$ 36,109	$ 15,128	$ 443,250

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING

Statutory/Budgetary Presentation

In accordance with statute, the Governor presents a biennial budget for the General Fund and special revenue funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

Once passed and signed, the budget becomes the financial plan for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. The State Budget Officer is required to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund budgets.

Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Detailed budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget or separate pieces of legislation. For the year ended June 30, 2012, the legislature increased appropriations to the General Fund by $86.6 million.

Governmental funds use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. In the State's accounting system, amounts carried forward are shown as reservations of fund balance. For financial statement purposes unless amounts would create deficits, encumbrances outstanding at June 30 are shown as restrictions, commitments or assignments of fund balance.

The State's budget is prepared primarily on a cash basis. Sales, income, corporate and fuel taxes include a modified accrual basis adjustment to recognize revenues that are expected to be collected within 60 days of the end of the fiscal year.

The Budgetary Comparison Schedule is presented as Required Supplementary Information (RSI) in this report. Actual amounts in this schedule are presented on a budgetary basis. Because this basis differs from accounting principles generally accepted in the United States of America (GAAP), a reconciliation between the budgetary and GAAP basis is presented in the RSI.

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most "operating" funds.

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2012-2013, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 20, 2011, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column. Therefore updated revenue estimates available for appropriations as of June 30, 2012 rather than the amounts shown in the original budget, are reported.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, approved transfers, and executive order reductions. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by policy area rather than being reported by character and function as shown in the GAAP statements. This policy area classification is used to better reflect organizational responsibility and to be more consistent with the budget process.

Compliance at the Legal Level of Budgetary Control

The Budgetary Comparison Schedules by Agency depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds. The schedules provide further detail at the agency level within departments for transparency.

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress
(Expressed in Thousands)

Actuarial Valuation June 30,	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
2012	8,939,788	11,605,891	2,666,103	77.0%	1,727,667	154.3%
2011	8,795,250	11,335,259	2,540,009	77.6%	1,652,576	153.7%
2010	8,369,772	12,676,367	4,306,595	66.0%	1,681,593	256.1%
2009	8,383,148	12,377,262	3,994,114	67.7%	1,678,931	237.9%
2008	8,691,076	11,721,272	3,030,196	74.1%	1,628,421	186.1%
2007	8,302,467	11,209,708	2,907,241	74.1%	1,595,200	182.2%
2006	7,556,515	10,598,346	3,041,831	71.3%	1,546,316	196.7%

Major changes in actuarial assumptions include the following:

Valuation date	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2008
Former actuarial assumptions:				
Retirement assumption	Lowered to reflect the closing of the retirement window for early retiree health coverage			
Version of actuarial cost method	New entrant		No changes	
Investment rate of return		7.25%	were made	7.75%
Projected salary increases		3.50%	to 2008	4.75% - 10.00%
Includes inflation at		3.50%	plan	4.50%
Cost of living adjustments		2.25%	assumptions	3.75%

The June 30, 2011 valuation included changes to the plan and actuarial assumptions. For members with fewer than 5 years of creditable service on July 1, 2011, the normal retirement age increased to 65. Projected salary increases include a 3.5% across the board increase at each year of service. The first 2 fiscal years assume a flat 1.5% pay increase across the board. The cap on annual cost of living adjustments was lowered from 4% per year to 3% per year on the first $20,000 of annual benefit (indexed). No COLA will be made until September 2014.

The Maine Public Retirement System (the System), which is a component unit of the State, is the administrator of an agent, multiple-employer, defined benefit public employee retirement system. The June 30, 2012 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System amortizes the unfunded liability of the State and Teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the “sunset” provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2012 was determined by the 2010 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 5 years remained at June 30, 2012.

Note: Unless plan changes occur, actuarial valuations are performed biennially on even years. Rollforward valuations occur on odd numbered years. The latest actuarial valuation occurred June 30, 2012.

Required Supplementary Information – Other Post-employment Benefit Plans

Schedules of Funding Progress

Healthcare Plans

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
	June 30, 2012	136	1,316	1,180	10.33%	502	235.06%
State Employees	June 30, 2011	112	1,544	1,432	7.25%	567	252.56%
(in millions)	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
Teachers	June 30, 2012	0	665	665	0.00%	1,156	57.53%
(in millions)	June 30, 2011	0	801	801	0.00%	1,098	72.95%
	June 30, 2010	0	994	994	0.00%	1,064	93.42%
	June 30, 2011	0	21,921	21,921	0.00%	42,242	51.89%
First Responders	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%
(in thousands)	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%

Group Life Insurance Plans

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
	June 30, 2012	24,700	80,900	56,200	30.53%	553,500	10.15%
State Employees	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
	June 30, 2012	30,100	71,000	40,900	42.39%	630,800	6.48%
Teachers	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%
	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%

Schedule of Employer Contributions

(Expressed in Thousands)

	Employer Contributions							
	State Employees			Teachers			First Responders	
Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed		Annual Required Contribution	Percentage Contributed		Annual Required Contribution	Percentage Contributed
Healthcare - 2012	$126,000	57.94%		$55,000	40.00%		$1,350	32.15%
Healthcare - 2011	120,000	70.84%		61,000	29.51%		916	57.10%
Healthcare - 2010	90,000	61.12%		58,000	32.76%		1,105	33.31%
Group Life - 2012	3,250	144.13%		2,959	100.00%		N/A	N/A
Group Life - 2011	4,268	89.20%		2,532	100.00%		N/A	N/A
Group Life - 2010	4,383	89.98%		2,417	100.00%		N/A	N/A

Required Supplementary Information – Information about Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include 8,828 highway miles or 17,993 lane miles of roads and 2,963 bridges having a total deck area of 11.8 million square feet that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved at, or above, the established condition level.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Highways

Measurement Scale for Highways

The Maine Department of Transportation (MDOT) uses six indicators to determine the condition of highway adequacy. The six indicators and their relative point weighting are listed in the table below.

Data Element	Point Rating (%)	Description
Pavement Condition Rating (PCR)	45	PCR is defined as the composite condition of the pavement on a roadway only, and is compiled from the severity and extent of pavement distresses such as cracking, rutting and patching. It is the key indicator used to determine the optimum time to treat a particular section of road. Points decrease as PCR decreases.
Safety	20	Statewide crash rates are used to allocate points. Locations with high rates get fewer points.
Backlog (Built v Unbuilt roadway)	15	A "Built" road is one that has been constructed to a modern standard, usually post 1950. This includes adequate drainage, base, and pavement to carry the traffic load, and adequate sight distance and width to meet current safety standards. "Unbuilt" (backlog) is defined as a roadway section that has not been built to modern standards. Yes or No (15 or 0).
Annual Average Daily Traffic divided by the hourly highway capacity (AADT/C)	10	This ratio measures how intensely a highway is utilized. As a highway facility's AADT/C ratio increases, the average speed of vehicles on that facility tends to decrease. This decrease in average speed is evidence of reduced mobility. As congestion increases, points decrease (0-10).
Posted Speed	5	Lower speeds equal fewer points.
Paved Shoulder	5	In general, roadways with paved shoulders perform at a higher level and last longer than those without shoulders or with only gravel shoulders. Yes or No (5 or 0).
	100	

Bridges

MDOT uses four separate factors to obtain a numerical value used to indicate the ability of bridges to remain in service at the current level of usage. The numeric value is a percentage ranging from 0% to represent an entirely insufficient or deficient bridge, and 100% to represent an entirely sufficient bridge. The four indicators and their relative point weighting are listed in the table below. The composite numeric value is based on the sufficiency rating formula in the Recording and Coding Guide for Structure Inventory and Appraisal of the Nation's Bridges.

Data Element	Point Rating (%)	Description
Structural Adequacy and Safety	55	This category considers inventory rating, superstructure, substructure and culverts.
Serviceability and Functional Obsolescence	30	Serviceability and functional obsolescence that addresses the number of lanes, average daily traffic, roadway width, bridge width, deck condition, under clearances, waterway adequacy, alignment, and defense highway designation.
Essentiality for Public Use	15	This considers detour length, average daily traffic, and defense highway designation.
Special Reductions	(13)	The sufficiency rating also includes consideration of special reductions for detour length, safety features, and type of structure.

Assessed Conditions

The following table shows adequacy ratings for maintenance levels from Excellent to Poor.

Adequacy Rating	Total
Excellent	80-100
Good	70-80
Fair	60-70
Poor	0-60

MDOT intends to maintain highways and bridges at an adequacy rating of 60 or higher. The following table shows adequacy ratings achieved by MDOT.

Fiscal Year	Highways	Bridges
2012	75.4	79.0
2011	74.8	78.0
2010	76.2	79.0

Comparison of Estimated-to-Actual Preservation Costs

The following table presents the State's preservation costs for the past five fiscal years. It also shows the estimate of spending necessary to preserve and maintain the roads and bridges at, or above, a sufficiency rating of 60 for both highways and bridges (in millions).

Actual Preservation Costs
(Amounts in millions)

	2012	2011	2010	2009	2008
Highways	$ 91.5	$ 101.4	$ 68.6	$ 74.5	$ 80.0
Bridges	13.2	9.3	9.2	1.6	1.6
Total	**$ 104.7**	**$ 110.7**	**$ 77.8**	**$ 76.1**	**$ 81.6**

Estimated Preservation Costs
(Amounts in millions)

	2012	2011	2010	2009	2008
Highways	$ 155.0	$ 86.1	$ 48.5	$ 55.8	$ 97.7
Bridges	30.0	7.9	6.5	1.2	2.0
Total	**$ 185.0**	**$ 94.0**	**$ 55.0**	**$ 57.0**	**$ 99.7**

Transportation Bonds

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 645, PL 2009, $13.7 million in General fund bonds was spent during FY2012.

STATE OF MAINE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2012


DIRIGO
MAINE

STATE OF MAINE
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POLA A. BUCKLEY, CPA, CISA
STATE AUDITOR

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To: Justin L. Alfond, President of the Senate
Mark W. Eves, Speaker of the House of Representatives

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2012, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated December 21, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Child Development Services, ConnectME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College system, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Education Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine Technology Institute, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, NextGen College Investing Plan, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and the University of Maine System. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority, and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards.*

Internal Control over Financial Reporting

Management of the State of Maine is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Maine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the State of Maine's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the financial findings section of the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency in internal control over financial reporting (see finding 12-0308-01). A *significant deficiency* is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain additional matters which we will report to management in a separate letter.

This report is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor
Maine Department of Audit

December 21, 2012

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POLA A. BUCKLEY, CPA, CISA
STATE AUDITOR

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

To: Justin L. Alfond, President of the Senate
Mark W. Eves, Speaker of the House of Representatives

Compliance

We have audited the State of Maine's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Maine's major Federal programs for the year ended June 30, 2012. The State of Maine's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's basic financial statements included the operations of the following component units: Child Development Services, ConnectME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and the University of Maine System. The Federal awards that these component units received are not included in the Supplementary Schedule of Expenditures of Federal Awards for the year ended June 30, 2012. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Maine's compliance with those requirements.

As described in items 12-1140-03, 12-1203-01 and 12-1302-01 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with compliance requirements regarding Eligibility that are applicable to its Children's Health Insurance Program, compliance requirements regarding Reporting that are applicable to its Child Nutrition Cluster or compliance requirements regarding Eligibility that are applicable to its Unemployment Insurance program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Maine complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12-0703-01, 12-0909-01, 12-1103-02, 12-1106-07, 12-1106-08, 12-1106-12, 12-1109-02, 12-1200-02, 12-1200-05, and 12-1201-01.

Internal Control Over Compliance

Management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described as items 12-1140-03, 12-1203-01 and 12-1302-01 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described as items 12-0909-01, 12-1106-01, 12-1106-02, 12-1106-04, 12-1106-05, 12-1106-07, 12-1106-08, 12-1106-09, 12-1106-10, 12-1106-11, 12-1106-12, 12-1106-14, 12-1108-01, 12-1109-01, 12-1111-01, 12-1111-02, 12-1113-01, 12-1118-03, 12-1140-01, 12-1140-02, 12-1200-01, 12-1200-03, 12-1200-04, 12-1200-05, 12-1201-02, 12-1201-03, 12-1201-04, 12-1205-01, 12-1315-01, 12-1401-02, 12-1404-01, 12-1505-01, and 12-1505-02 in the accompanying Schedule of Findings and Questioned costs to be significant deficiencies.

The State of Maine's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Maine's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor
Maine Department of Audit

March 28, 2013

STATE OF MAINE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

STATE OF MAINE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
Department of Agriculture					
Plant and Animal Disease, Pest Control, and Animal Care	10.025	Agriculture	-	373,508	373,508
		Conservation	-	70,209	70,209
		Inland Fisheries	-	54,155	54,155
	10.025 Total		-	497,872	497,872
Conservation Reserve Program	10.069	Conservation	-	4,382	4,382
Federal-State Marketing Improvement Program	10.156	Agriculture	-	681,418	681,418
Inspection Grading and Standardization	10.162	Agriculture	-	809,778	809,778
Market Protection and Promotion	10.163	Agriculture	-	323,095	323,095
Specialty Crop Block Grant Program	10.169	Agriculture	-	34,394	34,394
Specialty Crop Block Grant Program - Farm Bill	10.170	Agriculture	-	494,670	494,670
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	Agriculture	-	190,963	190,963
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Human Services	-	18,892,008	18,892,008 *
Child and Adult Care Food Program	10.558	Human Services	-	10,214,243	10,214,243 *
State Administrative Expenses for Child Nutrition	10.560	Education	-	392,457	392,457
		Human Services	-	277,598	277,598
	10.560 Total		-	670,055	670,055
Commodity Supplemental Food Program	10.565	Agriculture	-	231,207	231,207
WIC Farmers' Market Nutrition Program (FMNP)	10.572	Human Services	-	55,645	55,645
Team Nutrition Grants	10.574	Education	-	108,578	108,578
Senior Farmers Market Nutrition Program	10.576	Agriculture	-	1,032,135	1,032,135
WIC Grants To States (WGS)	10.578	Human Services	539,119	91,446	630,565
Child Nutrition Discretionary Grants Limited Availability	10.579	Human Services	-	100,114	100,114
Fresh Fruit and Vegetable Program	10.582	Education	-	1,662,470	1,662,470
Forestry Research	10.652	Conservation	-	330,573	330,573
Cooperative Forestry Assistance	10.664	Conservation	-	4,639,301	4,639,301
Urban and Community Forestry Program	10.675	Conservation	-	150,267	150,267
Forest Legacy Program	10.676	Conservation	-	2,225,504	2,225,504
Forest Stewardship Program	10.678	Conservation	-	268,702	268,702
Forest Health Protection	10.680	Conservation	-	23,975	23,975
Recovery Act of 2009: Wildland Fire Management	10.688	Conservation	5,542,304	-	5,542,304
Rural Energy for America Program	10.868	Planning	-	40,144	40,144
Soil and Water Conservation	10.902	Conservation	-	6,261	6,261
		Inland Fisheries	-	19,982	19,982
	10.902 Total		-	26,243	26,243
Environmental Quality Incentives Program	10.912	Conservation	-	33,447	33,447
Wildlife Habitat Incentive Program	10.914	Inland Fisheries	-	17,380	17,380
Child Nutrition Cluster					
School Breakfast Program	10.553	Corrections	-	113,970	113,970 *
		Education	-	10,034,390	10,034,390 *
	10.553 Total			10,148,360	10,148,360
National School Lunch Program	10.555	Corrections	-	227,764	227,764 *
		Education	-	35,412,565	35,412,565 *
	10.555 Total		-	35,640,329	35,640,329
Special Milk Program for Children	10.556	Education	-	33,087	33,087 *
Summer Food Service Program for Children	10.559	Education	-	1,270,649	1,270,649 *
Child Nutrition Cluster Total			-	47,092,426	47,092,426
Emergency Food Assistance Cluster					
Emergency Food Assistance Program (Administrative Costs)	10.568	Agriculture	-	372,246	372,246
Emergency Food Assistance Program (Food Commodities)	10.569	Agriculture	-	976,166	976,166
Emergency Food Assistance Cluster Total			-	1,348,412	1,348,412
SNAP Cluster					
Supplemental Nutrition Assistance Program	10.551	Human Services	-	382,345,928	382,345,928 *
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	Human Services	1,083,907	11,483,874	12,567,781 *
SNAP Cluster Total			1,083,907	393,829,802	394,913,709
Department of Agriculture Total			7,165,331	486,120,650	493,285,981

Department of Commerce					
Interjurisdictional Fisheries Act of 1986	11.407	Marine Resource	-	83,987	83,987

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Coastal Zone Management Administration Awards	11.419	Conservation	-	96,867	96,867	
		Environment	-	419,872	419,872	
		Marine Resource	-	270,191	270,191	
		Planning	-	1,391,860	1,391,860	
	11.419 Total		-	2,178,790	2,178,790	
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	Marine Resource	-	11,875	11,875	
Marine Mammal Data Program	11.439	Marine Resource	-	32,935	32,935	
Hawaii Sustainable Fisheries Development (Aquaculture Program)	11.444	Agriculture	-	87,241	87,241	
Unallied Industry Projects	11.452	Marine Resource	-	851,461	851,461	
Unallied Management Projects	11.454	Marine Resource	-	2,112,540	2,112,540	
Meteorologic and Hydrologic Modernization Development	11.467	Defense	-	41,945	41,945	
Unallied Science Program	11.472	Marine Resource	-	2,411,928	2,411,928	
Atlantic Coastal Fisheries Cooperative Management Act	11.474	Marine Resource	-	608,690	608,690	
Public Safety Interoperable Communications Grant Program	11.555	Defense	-	780,016	780,016	
Broadband Technology Opportunities Program (BTOP)	11.557	Library	1,075,371	-	1,075,371	
State Broadband Data and Development Grant Program	11.558	Education [1]	65,605	-	65,605	
		Planning	121,201	-	121,201	
	11.558 Total		186,806	-	186,806	
NMFS - Office of Law Enforcement	11.999	Marine Resource	-	475,292	475,292	
Derelict Lobster Gear Retrieval, Salvage & Disposal MOU-GOMLF	11.999	Marine Resource	-	1,764	1,764	
Exploratory Fixed Gear Survey EA133F10CN0075	11.999	Marine Resource	-	23,398	23,398	
MOA with MACRO #37555-10S-1482	11.999	Marine Resource [2]	-	18,718	18,718	
NMFS Large Pelagic Intercept Survey	11.999	Marine Resource	-	26,062	26,062	
Department of Commerce Total			1,262,177	9,746,641	11,008,818	
Department of Defense						
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	Environment	-	522,062	522,062	
Military Construction, National Guard	12.400	Defense	-	655,661	655,661	
National Guard Military Operations and Maintenance (O&M) Projects	12.401	Defense	-	57,856,172	57,856,172	*
National Guard Challenge Program	12.404	Defense	-	264,036	264,036	
Department of Defense Total			-	59,297,931	59,297,931	
Department of Housing and Urban Development						
Manufactured Home Dispute Resolution	14.171	Professional Reg	-	26,040	26,040	
Shelter Plus Care	14.238	Human Services	-	6,548,396	6,548,396	
Fair Housing Assistance Program_State and Local	14.401	Human Rights	-	211,052	211,052	
CDBG - State-Administered CDBG Cluster						
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	Defense	-	21,655	21,655	*
		Economic Devel	-	17,372,550	17,372,550	*
CDBG - State-Administered CDBG Cluster Total	14.228 Total		-	17,394,205	17,394,205	
Department of Housing and Urban Development Total			-	24,179,692	24,179,692	
Department of the Interior						
National Fire Plan - Rural Fire Assistance	15.242	Conservation	-	24,974	24,974	
Fish and Wildlife Management Assistance	15.608	Conservation	-	21,981	21,981	
Fish and Wildlife Management Assistance		Environment	-	18,500	18,500	
		Inland Fisheries	-	1,694	1,694	
		Marine Resource	-	72,886	72,886	
	15.608 Total		-	115,061	115,061	
Coastal Wetlands Planning, Protection and Restoration Act	15.614	Inland Fisheries	-	1,378,367	1,378,367	
Cooperative Endangered Species Conservation Fund	15.615	Conservation	-	19,836	19,836	
		Inland Fisheries	-	25,149	25,149	
		Marine Resource	-	19,863	19,863	

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
	15.615 Total		-	64,848	64,848
Clean Vessel Act	15.616	Environment	-	178,484	178,484
Sportfishing and Boating Safety Act	15.622	Transportation	-	53,182	53,182
North American Wetlands Conservation Fund	15.623	Conservation	-	59,500	59,500
Landowner Incentive Program	15.633	Inland Fisheries	-	540,673	540,673
State Wildlife Grants	15.634	Inland Fisheries	-	531,639	531,639
Challenge Cost Share	15.642	Inland Fisheries	-	35	35
Service Training and Technical Assistance (Generic Training)	15.649	Conservation	-	28,000	28,000
Research Grants (Generic)	15.650	Marine Resource	-	2,899	2,899
National Wildlife Refuge Fund	15.659	Conservation	-	20,694	20,694
U.S. Geological Survey_ Research and Data Collection	15.808	Financial Serv	-	79,120	79,120
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	Financial Serv	-	22,500	22,500
National Cooperative Geologic Mapping Program	15.810	Conservation	-	137,582	137,582
Historic Preservation Fund Grants-In-Aid	15.904	Historic Preserve	-	621,709	621,709
Outdoor Recreation_Acquisition, Development and Planning	15.916	Conservation	-	185,038	185,038
Conservation Activities by Youth Service Organizations	15.931	Conservation	25,000	152,923	177,923
Atlantic Salmon Management & Habitat Protection #01-007	15.999	Marine Resource	-	38,455	38,455
Webber Pond - 7 Mile Stream Fish Passage	15.999	Marine Resource	-	(2,189)	(2,189)
Fish and Wildlife Cluster					
Sport Fish Restoration Program	15.605	Inland Fisheries	-	2,022,780	2,022,780
		Marine Resource	-	825,762	825,762
	15.605 Total		-	2,848,542	2,848,542
Wildlife Restoration and Basic Hunter Education	15.611	Inland Fisheries	-	2,979,423	2,979,423
Fish and Wildlife Cluster Total			-	5,827,965	5,827,965
Department of the Interior Total			25,000	10,061,459	10,086,459
Department of Justice					
Sexual Assault Services Formula Program	16.017	Human Services	-	89,246	89,246
Juvenile Accountability Block Grants	16.523	Corrections	-	192,409	192,409
Supervised Visitation, Safe Havens for Children	16.527	Human Services	-	90,576	90,576
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	Corrections	-	392,843	392,843
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	Corrections	-	27,091	27,091
Missing Children's Assistance	16.543	Public Safety	134,526	238,106	372,632
Youth Gang Prevention	16.544	Public Safety	-	186,295	186,295
Title V_Delinquency Prevention Program	16.548	Corrections	-	118,289	118,289
State Justice Statistics Program for Statistical Analysis Centers	16.550	Corrections	-	53,179	53,179
Crime Victim Assistance	16.575	Corrections	-	47,085	47,085
		Human Services	-	2,037,259	2,037,259
		Judicial	-	21,583	21,583
	16.575 Total		-	2,105,927	2,105,927
Crime Victim Compensation	16.576	Attorney General	-	202,699	202,699
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	Public Safety	-	139,889	139,889
Drug Court Discretionary Grant Program	16.585	Human Services	-	490,337	490,337
		Judicial	-	286,970	286,970
	16.585 Total		-	777,307	777,307
Violence Against Women Formula Grants	16.588	Attorney General	34,608	32,204	66,812
		Judicial	15,939	33,832	49,771
		Public Safety	83,469	1,080,267	1,163,736
	16.588 Total		134,016	1,146,303	1,280,319
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	Corrections	-	76,468	76,468
		Judicial	-	111,611	111,611
	16.590 Total		-	188,079	188,079
Residential Substance Abuse Treatment for State Prisoners	16.593	Corrections	-	100,000	100,000
		Public Safety	-	1,523	1,523
	16.593 Total		-	101,523	101,523
State Criminal Alien Assistance Program	16.606	Corrections	-	70,583	70,583
Project Safe Neighborhoods	16.609	Public Safety	-	60,624	60,624
Public Safety Partnership and Community Policing Grants	16.710	Financial Serv	-	2,069,114	2,069,114

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
		Inland Fisheries	-	109,429	109,429
		Public Safety	-	1,196,415	1,196,415
	16.710 Total		-	3,374,958	3,374,958
Juvenile Mentoring Program	16.726	Corrections	-	35,877	35,877
Enforcing Underage Drinking Laws Program	16.727	Human Services	-	194,048	194,048
Forensic DNA Backlog Reduction Program	16.741	Public Safety	-	145,986	145,986
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	Attorney General	-	47,250	47,250
		Human Services	-	41,653	41,653
		Public Safety	-	86,133	86,133
	16.742 Total		-	175,036	175,036
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	Judicial	-	1,036	1,036
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	16.748	Public Safety	-	16,540	16,540
Congressionally Recommended Awards	16.753	Public Safety	-	3,546	3,546
Harold Rogers Prescription Drug Monitoring Program	16.754	Human Services	-	221,365	221,365
Recovery Act - State Victim Assistance Formula Grant Program	16.801	Human Services	133,135	-	133,135
Equitable Sharing Program	16.922	Public Safety	-	30,864	30,864
JAG Program Cluster					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Attorney General	-	556,892	556,892
		Public Safety	-	780,709	780,709
	16.738 Total		-	1,337,601	1,337,601
Recovery Act - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	Attorney General	132,261	-	132,261
		Attorney General [4]	-	63,380	63,380
		Judicial	12,902	-	12,902
		Public Safety	870,568	-	870,568
	16.803 Total		1,015,731	63,380	1,079,111
JAG Program Cluster Total			1,015,731	1,400,981	2,416,712
Department of Justice Total			1,417,408	11,781,204	13,198,612
Department of Labor					
Labor Force Statistics	17.002	Labor	-	1,182,556	1,182,556
Compensation and Working Conditions	17.005	Labor	-	116,047	116,047
Unemployment Insurance	17.225	Labor	99,984,968	239,702,537	339,687,505 *
Senior Community Service Employment Program	17.235	Human Services	-	557,211	557,211
Trade Adjustment Assistance	17.245	Labor	-	4,017,604	4,017,604
WIA Pilots, Demonstrations, and Research Projects	17.261	Labor	-	108,402	108,402
Work Incentives Grant	17.266	Labor	-	5,832	5,832
H-1B Job Training Grants	17.268	Economic Devel	-	251,671	251,671
Work Opportunity Tax Credit Program (WOTC)	17.271	Labor	-	101,908	101,908
Temporary Labor Certification for Foreign Workers	17.273	Labor	-	253,736	253,736
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	Labor [5]	1,896,180	-	1,896,180
Health Care Tax Credit (HCTC) National Emergency Grants (NEGs)	17.276	Labor	78,976	-	78,976
Workforce Investment Act (WIA) National Emergency Grants	17.277	Labor	188,506	1,443,249	1,631,755
Consultation Agreements	17.504	Labor	-	651,219	651,219
OSHA Data Initiative	17.505	Labor	-	139	139
Mine Health and Safety Grants	17.600	Labor	-	45,205	45,205
Employment Service Cluster					
Employment Service/Wagner-Peyser Funded Activities	17.207	Labor	-	4,331,478	4,331,478
Disabled Veterans' Outreach Program (DVOP)	17.801	Labor	-	315,447	315,447
Local Veterans' Employment Representative Program	17.804	Labor	-	381,049	381,049
Employment Service Cluster Total			-	5,027,974	5,027,974
WIA Cluster					
WIA Adult Program	17.258	Labor	53,393	2,895,871	2,949,264 *
WIA Youth Activities	17.259	Labor	15,611	3,139,006	3,154,617 *
WIA Dislocated Worker Formula Grants	17.278	Labor	222,080	4,296,099	4,518,179 *
WIA Cluster Total			291,084	10,330,976	10,622,060
Department of Labor Total			102,439,713	263,796,264	366,235,977

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Department of Transportation						
Airport Improvement Program	20.106	Transportation	-	1,757,349	1,757,349	
National Motor Carrier Safety	20.218	Public Safety	-	161,323	161,323	
Commercial Driver's License Program Improvement Grant	20.232	State	-	246,760	246,760	
Border Enforcement Grants	20.233	Public Safety	-	221,098	221,098	
Safety Data Improvement Program	20.234	Public Safety	-	139,216	139,216	
Commercial Vehicle Information Systems and Networks	20.237	Transportation	-	277,281	277,281	
Capital Assistance to States - Intercity Passenger Rail Service	20.317	Transportation	-	2,843,809	2,843,809	
Metropolitan Transportation Planning	20.505	Transportation	-	104,317	104,317	
Formula Grants for Other Than Urbanized Areas	20.509	Transportation	1,008,156	6,225,626	7,233,782	
Paul S. Sarbanes Transit in the Parks	20.520	Transportation	-	520,548	520,548	
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614	Public Safety	-	38,026	38,026	
Pipeline Safety Program Base Grants	20.700	Public Utilities	-	224,573	224,573	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	Defense	-	118,630	118,630	
PHMSA Pipeline Safety Program One Call Grant	20.721	Public Utilities	-	59,574	59,574	
Surface Transportation _ Discretionary Grants for Capital Investment.	20.932	Transportation	10,205,243	-	10,205,243	*
Federal Transit Cluster						
Federal Transit_Capital Investment Grants	20.500	Transportation	-	1,810,906	1,810,906	
Federal Transit_Formula Grants	20.507	Transportation	-	2,689,945	2,689,945	
Federal Transit Cluster Total			-	4,500,851	4,500,851	
Highway Planning and Construction Cluster						
Highway Planning and Construction	20.205	Transportation	6,544,617	203,396,070	209,940,687	*
Recreational Trails Program	20.219	Conservation	-	1,595,177	1,595,177	*
Highway Planning and Construction Cluster Total			6,544,617	204,991,247	211,535,864	
Highway Safety Cluster						
State and Community Highway Safety	20.600	Public Safety	-	719,237	719,237	
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	Public Safety	-	409,825	409,825	
Occupant Protection Incentive Grants	20.602	Public Safety	-	137,973	137,973	
Safety Belt Performance Grants	20.609	Public Safety	-	281,997	281,997	
State Traffic Safety Information System Improvement Grants	20.610	Public Safety	-	415,367	415,367	
Incentive Grant Program to Increase Motorcyclist Safety	20.612	Public Safety	-	40,742	40,742	
Child Safety and Child Booster Seats Incentive Grants	20.613	Public Safety	-	57,793	57,793	
Highway Safety Cluster Total			-	2,062,935	2,062,935	
Transit Services Programs Cluster						
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	Transportation	-	530,494	530,494	
Job Access_Reverse Commute	20.516	Transportation	-	1,049,927	1,049,927	
New Freedom Program	20.521	Transportation	-	185,597	185,597	
Transit Services Programs Cluster Total			-	1,766,018	1,766,018	
Department of Transportation Total			17,758,016	226,259,179	244,017,195	
Department of the Treasury						
Treasury Forfeiture Fund	21.000	Public Safety	-	280,644	280,644	
Department of the Treasury Total			-	280,644	280,644	
Equal Employment Opportunity Commission						
Employment Discrimination_Title VII of the Civil Rights Act of 1964	30.001	Human Rights	-	144,431	144,431	
Equal Employment Opportunity Commission Total			-	144,431	144,431	
General Services Administration						
Donation of Federal Surplus Personal Property	39.003	Financial Serv	-	831,182	831,182	
General Services Administration Total			-	831,182	831,182	

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
National Endowment for the Arts					
Promotion of the Arts_Partnership Agreements	45.025	Arts	-	914,763	914,763
National Endowment for the Arts Total			-	914,763	914,763
Institute of Museum and Library Services					
Grants to States	45.310	Library	-	974,025	974,025
Institute of Museum and Library Services Total			-	974,025	974,025
Department of Veterans Affairs					
Burial Expenses Allowance for Veterans	64.101	Defense	-	7,271	7,271
State Cemetery Grants	64.203	Defense	-	1,046,527	1,046,527
Department of Veterans Affairs Total			-	1,053,798	1,053,798
Environmental Protection Agency					
State Indoor Radon Grants	66.032	Human Services	-	216,228	216,228
National Clean Diesel Emissions Reduction Program	66.039	Environment	51,672	242,213	293,885
State Clean Diesel Grant Program	66.040	Education	-	57,000	57,000
		Environment	155,469	287,210	442,679
		Transportation	40,487	-	40,487
	66.040 Total		195,956	344,210	540,166
Congressionally Mandated Projects	66.202	Environment	-	340,687	340,687
State Public Water System Supervision	66.432	Human Services	-	940,514	940,514
Water Quality Management Planning	66.454	Environment	46,364	123,469	169,833
Regional Wetland Program Development Grants	66.461	Conservation	-	95,487	95,487
Capitalization Grants for Drinking Water State Revolving Funds	66.468	Human Services	-	1,340,220	1,340,220
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	Human Services	-	86,185	86,185
Beach Monitoring and Notification Program Implementation Grants	66.472	Environment	-	248,690	248,690
		Planning	-	72,140	72,140
	66.472 Total		-	320,830	320,830
Water Protection Grants to the States	66.474	Human Services	-	44,582	44,582
Science To Achieve Results (STAR) Research Program	66.509	Inland Fisheries	-	(200)	(200)
Performance Partnership Grants	66.605	Agriculture	-	228,541	228,541
		Environment	-	6,484,807	6,484,807
	66.605 Total		-	6,713,348	6,713,348
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	Environment	-	284,097	284,097
		Marine Resource	-	219,886	219,886
	66.608 Total		-	503,983	503,983
Multi-Media Capacity Building Grants for States and Tribes	66.709	Environment	-	39,970	39,970
Source Reduction Assistance	66.717	Environment	-	6,684	6,684
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	Environment	-	2,624,965	2,624,965
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	Environment	-	466,533	466,533
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	Environment	-	628,470	628,470
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	Environment	-	196,231	196,231
State and Tribal Response Program Grants	66.817	Environment	-	1,068,457	1,068,457
Environmental Policy and State Sustainability Grants	66.940	Environment	-	67,259	67,259
Environmental Protection Agency Total			293,992	16,410,325	16,704,317
Department of Energy					
State Energy Program	81.041	Governor	5,824,645	-	5,824,645
		Labor	199,998	-	199,998

STATE OF MAINE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
		Planning	118,428	806,181	924,608	
		Public Safety	75,497	-	75,497	
		Transportation	411,436	-	411,436	
	81.041 Total		6,630,004	806,181	7,436,184	
State Energy Program Special Projects	81.119	Planning	-	69,837	69,837	
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	Financial Serv	918	-	918	
		Governor	7,000	-	7,000	
		Public Utilities	183,135	-	183,135	
	81.122 Total		191,053	-	191,053	
Department of Energy Total			6,821,057	876,017	7,697,993	
Department of Education						
Adult Education - Basic Grants to States	84.002	Education	-	1,840,344	1,840,344	
Migrant Education_State Grant Program	84.011	Education	-	1,408,394	1,408,394	
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	Corrections	-	97,338	97,338	
Career and Technical Education -- Basic Grants to States	84.048	Corrections	-	26,783	26,783	
		Education	-	4,769,713	4,769,713	
	84.048 Total		-	4,796,496	4,796,496	
National Institute on Disability and Rehabilitation Research	84.133	Labor	-	1,600	1,600	
Rehabilitation Services_Client Assistance Program	84.161	Labor	-	109,733	109,733	
Safe and Drug-Free Schools and Communities_National Programs	84.184	Human Services	-	45,583	45,583	
Safe and Drug-Free Schools and Communities_State Grants	84.186	Corrections	-	32	32	
		Human Services	-	30,633	30,633	
	84.186 Total		-	30,665	30,665	
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	Labor	-	143,740	143,740	
Even Start_State Educational Agencies	84.213	Education	-	272,536	272,536	
Assistive Technology	84.224	Education	-	353,608	353,608	
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265	Labor	-	51,118	51,118	
Twenty-First Century Community Learning Centers	84.287	Education	-	4,951,619	4,951,619	*
Special Education - State Personnel Development	84.323	Education	-	424,362	424,362	
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	Education	-	84,279	84,279	
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	Corrections	-	11,919	11,919	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Education	-	696,380	696,380	
Reading First State Grants	84.357	Education	-	203,375	203,375	
Rural Education	84.358	Corrections	-	17,425	17,425	
		Education	-	1,799,447	1,799,447	
	84.358 Total		-	1,816,871	1,816,871	
English Language Acquisition Grants	84.365	Education	-	912,151	912,151	
Mathematics and Science Partnerships	84.366	Education	-	777,638	777,638	
Improving Teacher Quality State Grants Total						
Improving Teacher Quality State Grants	84.367	Corrections	-	9,251	9,251	*
		Education	-	10,554,400	10,554,400	*
	84.367 Total		-	10,563,651	10,563,651	
Grants for State Assessments and Related Activities	84.369	Education	-	3,386,711	3,386,711	
Striving Readers	84.371	Education	-	9,703	9,703	
Education Jobs Fund	84.410	Education	-	27,672,596	27,672,596	*
Early Intervention Services (IDEA) Cluster						
Special Education-Grants for Infants and Families	84.181	Education	-	2,598,538	2,598,538	
Early Intervention Services (IDEA) Cluster Total			-	2,598,538	2,598,538	
Education of Homeless Children and Youth Cluster						
Education for Homeless Children and Youth	84.196	Education	-	154,277	154,277	
Education for Homeless Children and Youth, Recovery Act	84.387	Education	14,259	-	14,259	
Education of Homeless Children and Youth Cluster Total			14,259	154,277	168,536	
Educational Technology State Grants Cluster						
Educational Technology State Grants	84.318	Education	-	325,775	325,775	
Education Technology State Grants, Recovery Act	84.386	Education	539,561	-	539,561	

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
Educational Technology State Grants Cluster Total			539,561	325,775	865,335
Independent Living Services for Older Individuals Who Are Blind Cluster					
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177	Labor	-	345,672	345,672
Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399	Labor	43,749	-	43,749
Independent Living Services for Older Individuals Who Are Blind Cluster Total			43,749	345,672	389,421
Independent Living State Grants Cluster					
Independent Living_State Grants	84.169	Labor	-	292,691	292,691
Independent Living State Grants, Recovery Act	84.398	Labor	70,434	-	70,434
Independent Living State Grants Cluster Total			70,434	292,691	363,125
School Improvement Grants Cluster					
School Improvement Grants	84.377	Education	-	117,450	117,450
School Improvement Grants, Recovery Act	84.388	Education	3,725,457	-	3,725,457
School Improvement Grants Cluster Total			3,725,457	117,450	3,842,907
Special Education Cluster (IDEA)					
Special Education_Grants to States	84.027	Corrections	-	3,160	3,160 *
		Education	-	47,166,021	47,166,021 *
	84.027 Total		-	47,169,181	47,169,181
Special Education_Preschool Grants	84.173	Education	-	2,179,110	2,179,110 *
Special Education Grants to States, Recovery Act	84.391	Education	4,736,087	-	4,736,087 *
Special Education - Preschool Grants, Recovery Act	84.392	Education	248,425	-	248,425 *
Special Education Cluster (IDEA) Total			4,984,512	49,348,291	54,332,803
State Fiscal Stabilization Fund Cluster					
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	Education	18,410,039	-	18,410,039 *
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	Financial Serv	2,569	-	2,569 *
State Fiscal Stabilization Fund Cluster Total			18,412,608	-	18,412,608
Statewide Data Systems Cluster					
Statewide Data Systems	84.372	Education	-	165,179	165,179
Statewide Data Systems, Recovery Act	84.384	Education	1,882,317	-	1,882,317
Statewide Data Systems Cluster Total			1,882,317	165,179	2,047,496
Title I, Part A Cluster					
Title I Grants to Local Educational Agencies	84.010	Education	-	43,628,282	43,628,282 *
Title I Grants to Local Educational Agencies, Recovery Act	84.389	Education	2,809,789	-	2,809,789 *
Title I, Part A Cluster Total			2,809,789	43,628,282	46,438,071
Vocational Rehabilitation Cluster					
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	Labor	-	17,043,229	17,043,229 *
Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	84.390	Labor	425,910	-	425,910 *
Vocational Rehabilitation Cluster Total			425,910	17,043,229	17,469,139
Department of Education Total			32,908,595	174,681,794	207,590,389
National Archives and Records Administration					
Cooperative Agreements to Support the Programs of the National Archives and Records Administration (NARA)	89.005	State	-	59,637	59,637
National Archives and Records Administration Total			-	59,637	59,637
U.S. Election Assistance Commission					
Help America Vote Act Requirements Payments	90.401	State	-	657,238	657,238
U.S. Election Assistance Commission Total			-	657,238	657,238
Department of Health and Human Services					
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	Human Services	-	23,868	23,868
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042	Human Services	-	84,369	84,369

STATE OF MAINE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043	Human Services	-	104,815	104,815
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048	Human Services	-	876,805	876,805
Alzheimer's Disease Demonstration Grants to States	93.051	Human Services	-	475,335	475,335
National Family Caregiver Support, Title III, Part E	93.052	Human Services	-	640,460	640,460
Public Health Emergency Preparedness	93.069	Human Services	-	4,075,050	4,075,050
		Public Safety	-	49,929	49,929
	93.069 Total		-	4,124,979	4,124,979
Environmental Public Health and Emergency Response	93.070	Human Services	-	929,689	929,689
Medicare Enrollment Assistance Program	93.071	Human Services	-	511	511
Guardianship Assistance	93.090	Human Services	-	514,384	514,384
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	Human Services	-	243,406	243,406
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	Human Services	-	754,323	754,323
Maternal and Child Health Federal Consolidated Programs	93.110	Human Services	-	507,342	507,342
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	Human Services	-	208,885	208,885
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	Human Services	-	184,219	184,219
Injury Prevention and Control Research and State and Community Based Programs	93.136	Human Services	-	350,608	350,608
Projects for Assistance in Transition from Homelessness (PATH)	93.150	Human Services	-	307,972	307,972
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	Human Services	-	20,038	20,038
Traumatic Brain Injury State Demonstration Grant Program	93.234	Human Services	-	67,505	67,505
Grants to States to Support Oral Health Workforce Activities	93.236	Human Services	-	276,863	276,863
State Rural Hospital Flexibility Program	93.241	Human Services	-	292,667	292,667
		Public Safety	-	2,977	2,977
	93.241 Total		-	295,644	295,644
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	Human Services	-	1,970,193	1,970,193
		Judicial	-	170,561	170,561
	93.243 Total		-	2,140,754	2,140,754
Universal Newborn Hearing Screening	93.251	Human Services	-	226,721	226,721
State Health Access Program	93.256	Dirigo	-	1,227,412	1,227,412
Adult Viral Hepatitis Prevention and Control	93.270	Human Services	-	108,982	108,982
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	Human Services	-	7,283,586	7,283,586
State Partnership Grant Program to Improve Minority Health	93.296	Human Services	-	105,559	105,559
Small Rural Hospital Improvement Grant Program	93.301	Human Services	-	237,409	237,409
ARRA Equipment to Enhance Training for Health Professionals	93.411	Human Services	291,525	-	291,525
ARRA - State Primary Care Offices	93.414	Human Services	41,484	-	41,484
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	Human Services	-	3,982,464	3,982,464
PPHF 2012 National Public Health Improvement Initiative	93.507	Human Services	-	1,171,575	1,171,575
Affordable Care Act (ACA) State Health Care Workforce Development Grants	93.509	Labor	-	56,094	56,094
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	Human Services	-	50,000	50,000
		Professional Reg	-	100,080	100,080
	93.511 Total		-	150,080	150,080
Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST)	93.512	Human Services	-	592,778	592,778
Affordable Care Act Aging and Disability Resource Center	93.517	Human Services	-	201,015	201,015
Affordable Care Act - Medicare Improvements for Patients and Providers	93.518	Human Services	-	144,984	144,984
Affordable Care Act (ACA) Consumer Assistance Program Grants	93.519	Attorney General	-	86,583	86,583
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements	93.521	Human Services	-	609,995	609,995
State Planning and Establishment Grants for the Affordable Care Act (ACA)s Exchanges	93.525	Governor	-	963,426	963,426

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
PPHF 2012: Community Transfromation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Preventinon and Public Health Funds	93.531	Human Services	-	498,619	498,619	
Affordable Care Act - National Environmental Public Health Tracking Program-Network Implementation	93.538	Human Services	-	796,037	796,037	
PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	93.539	Human Services	-	254,557	254,557	
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544	Human Services	-	246,046	246,046	
Promoting Safe and Stable Families	93.556	Human Services	-	1,250,110	1,250,110	
Child Support Enforcement	93.563	Human Services	-	16,778,548	16,778,548	*
Refugee and Entrant Assistance_State Administered Programs	93.566	Human Services	-	642,022	642,022	
Refugee and Entrant Assistance_Discretionary Grants	93.576	Education	-	185,930	185,930	
		Human Services	-	559,569	559,569	
	93.576 Total		-	745,499	745,499	
State Court Improvement Program	93.586	Judicial	-	250,618	250,618	
Chafee Education and Training Vouchers Program (ETV)	93.599	Human Services	-	172,894	172,894	
Adoption Incentive Payments	93.603	Human Services	-	57,963	57,963	
Family Connection Grants	93.605	Human Services	-	567,381	567,381	
Voting Access for Individuals with Disabilities_Grants to States	93.617	State	-	120,118	120,118	
Developmental Disabilities Basic Support and Advocacy Grants	93.630	Financial Serv	-	494,321	494,321	
Children's Justice Grants to States	93.643	Human Services	-	15,803	15,803	
Stephanie Tubbs Jones Child Welfare Services Program	93.645	Human Services	-	373,070	373,070	
Social Services Research and Demonstration	93.647	Human Services	-	173,832	173,832	
Foster Care_Title IV-E	93.658	Human Services	-	16,110,429	16,110,429	*
Adoption Assistance	93.659	Human Services	-	14,230,557	14,230,557	
Social Services Block Grant	93.667	Human Services	-	5,587,371	5,587,371	
Child Abuse and Neglect State Grants	93.669	Human Services	-	127,102	127,102	
Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	93.671	Human Services	-	841,092	841,092	
Chafee Foster Care Independence Program	93.674	Human Services	-	306,302	306,302	
ARRA Child Care and Development Block Grant	93.713	Human Services	913,343	-	913,343	
Recovery Act Comparative Effectiveness Research - AHRQ	93.715	Human Services	253,630	-	253,630	
ARRA - Preventing Healthcare-Associated Infections	93.717	Human Services	519,678	-	519,678	
ARRA - State Grants to Promote Health Information Technology	93.719	Human Services	1,082,684	-	1,082,684	
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723	Human Services	175,414	-	175,414	
ARRA - Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	Human Services	1,693,121	-	1,693,121	
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	Human Services	81,227	-	81,227	
Children's Health Insurance Program	93.767	Human Services	-	32,134,243	32,134,243	*
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	Human Services	-	356,447	356,447	
		Labor	-	87,153	87,153	
	93.768 Total		-	443,600	443,600	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	Human Services	-	859,842	859,842	
Money Follows the Person Rebalancing Demonstration	93.791	Human Services	-	127,070	127,070	
Specially Selected Health Projects	93.888	Professional Reg	-	123,525	123,525	
National Bioterrorism Hospital Preparedness Program	93.889	Human Services	-	1,678,168	1,678,168	
		Public Safety	-	32,259	32,259	
	93.889 Total		-	1,710,427	1,710,427	
Grants to States for Operation of Offices of Rural Health	93.913	Human Services	-	150,728	150,728	
HIV Care Formula Grants	93.917	Human Services	-	1,772,297	1,772,297	
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	Education	-	535,952	535,952	
HIV Prevention Activities_Health Department Based	93.940	Human Services	-	1,362,347	1,362,347	
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	Human Services	-	143,898	143,898	
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	Human Services	-	154,111	154,111	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Block Grants for Community Mental Health Services	93.958	Human Services	-	1,618,797	1,618,797	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Human Services	-	5,888,430	5,888,430	
National All Schedules Prescription Electronic Reporting Grant	93.975	Human Services	-	33,527	33,527	
Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977	Human Services	-	284,037	284,037	
Preventive Health and Health Services Block Grant	93.991	Human Services	-	254,801	254,801	
Maternal and Child Health Services Block Grant to the States	93.994	Education	-	131,586	131,586	
		Human Services	-	2,632,585	2,632,585	
	93.994 Total		-	2,764,171	2,764,171	
MIS: Implementation of Uniform Alcohol & Drug Abuse Data Collection System	93.999	Human Services	-	86,150	86,150	
Aging Cluster						
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	Human Services	-	2,628,501	2,628,501	
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	Human Services	-	2,635,746	2,635,746	
Nutrition Services Incentive Program	93.053	Human Services	-	533,753	533,753	
Aging Cluster Total			-	5,798,000	5,798,000	
CCDF Cluster						
Child Care and Development Block Grant	93.575	Human Services	-	8,054,625	8,054,625	*
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Human Services	-	7,550,032	7,550,032	*
CCDF Cluster Total			-	15,604,657	15,604,657	
CSBG Cluster						
Community Services Block Grant	93.569	Human Services	-	3,166,929	3,166,929	
CSBG Cluster Total			-	3,166,929	3,166,929	
Head Start Cluster						
Head Start	93.600	Human Services	-	3,075	3,075	
ARRA - Head Start	93.708	Human Services	231,784	-	231,784	
Head Start Cluster Total			231,784	3,075	234,859	
Immunization Cluster						
Immunization Grants	93.268	Human Services	-	13,730,817	13,730,817	*
ARRA - Immunization	93.712	Human Services	147,878	-	147,878	*
Immunization Cluster Total			147,878	13,730,817	13,878,695	
Medicaid Cluster						
ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	93.720	Human Services	33,185	-	33,185	*
State Medicaid Fraud Control Units	93.775	Attorney General	-	394,672	394,672	*
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	Human Services	-	3,052,643	3,052,643	*
Medical Assistance Program	93.778	Governor	-	61,913	61,913	*
		Human Services	46,805,144	1,538,462,009	1,585,267,153	*
	93.778 Total		46,805,144	1,538,523,922	1,585,329,066	
Medicaid Cluster Total			46,838,329	1,541,971,237	1,588,809,566	
TANF Cluster						
Temporary Assistance for Needy Families	93.558	Human Services	-	74,444,073	74,444,073	*
TANF Cluster Total			-	74,444,073	74,444,073	
Department of Health and Human Services Total			52,270,099	1,796,088,470	1,848,358,568	

Corporation for National and Community Service					
State Commissions	94.003	Planning	-	186,846	186,846
Learn and Serve America_School and Community Based Programs	94.004	Planning	-	39,203	39,203
AmeriCorps	94.006	Conservation	-	321,249	321,249
		Planning	-	625,226	625,226
	94.006 Total		-	946,475	946,475
Program Development and Innovation Grants	94.007	Planning	-	41,200	41,200
Training and Technical Assistance	94.009	Planning	-	56,324	56,324
Volunteers in Service to America	94.013	Planning	-	151,456	151,456
Volunteer Generation Fund	94.021	Planning	-	310,733	310,733
Corporation for National and Community Service Total			-	1,732,237	1,732,237

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Agency Clusters and Program Titles	CFDA#	State Agency	Total ARRA	Total non-ARRA	Grand Total
Social Security Administration					
Disability Insurance/SSI Cluster					
Social Security_Disability Insurance	96.001	Human Services	-	8,475,585	8,475,585
Social Security Administration Total			-	8,475,585	8,475,585
Department of Homeland Security					
Interoperable Emergency Communications Grant	97.001	Defense	-	486,169	486,169
Boating Safety Financial Assistance	97.012	Inland Fisheries	-	999,627	999,627
		Marine Resource	-	260,139	260,139
	97.012 Total		-	1,259,766	1,259,766
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	Planning	-	122,625	122,625
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Defense	-	3,274,443	3,274,443
		Inland Fisheries	-	366	366
		Marine Resource	-	11,743	11,743
	97.036 Total		-	3,286,552	3,286,552
Hazard Mitigation Grant	97.039	Defense	-	169,607	169,607
National Dam Safety Program	97.041	Defense	-	56,406	56,406
Emergency Management Performance Grants	97.042	Defense	-	2,662,910	2,662,910
		Financial Serv	-	30,000	30,000
	97.042 Total		-	2,692,910	2,692,910
Assistance to Firefighters Grant	97.044	Public Safety	-	95,976	95,976
Cooperating Technical Partners	97.045	Planning	-	164,670	164,670
Pre-Disaster Mitigation	97.047	Defense	-	89,598	89,598
Homeland Security Grant Program	97.067	Defense	-	5,777,400	5,777,400
		Inland Fisheries	-	297,627	297,627
		Marine Resource	-	68,716	68,716
		Public Safety	-	317,499	317,499
	97.067 Total		-	6,461,242	6,461,242
Buffer Zone Protection Program (BZPP)	97.078	Defense	-	235,249	235,249
		Public Safety	-	40,227	40,227
	97.078 Total		-	275,476	275,476
Earthquake Consortium	97.082	Defense	-	38,756	38,756
Driver's License Security Grant Program	97.089	State	-	100,033	100,033
Department of Homeland Security Total			-	15,299,786	15,299,786
Total State of Maine			222,361,388	3,109,722,952	3,332,084,340

The State spent pass-through funds received from:
1 ConnectME Authority
2 MACRO
3 Cumberland County
4 York County
5 State of Vermont

* represents major programs.

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2012

Legend of State Agency Abbreviations

Abbreviation	State Agency Name
Agriculture	Department of Agriculture
Arts	Maine Arts Commission
Attorney General	Department of the Attorney General
Conservation	Department of Conservation
Corrections	Department of Corrections
Defense	Department of Defense, Veterans and Emergency Management
Economic Devel	Department of Economic and Community Development
Education	Department of Education
Environment	Department of Environmental Protection
Financial Serv	Department of Administrative and Financial Services
Governor	Governor's Office
Historic Preserve	Maine Historical Preservation Commission
Human Rights	Maine Human Rights Commission
Human Services	Department of Health and Human Services
Inland Fisheries	Department of Inland Fisheries and Wildlife
Judicial	Judicial Branch
Labor	Department of Labor
Library	Maine State Library
Marine Resource	Department of Marine Resources
Museum	Maine State Museum
Planning	State Planning Office
Public Safety	Department of Public Safety
Public Utilities	Maine Public Utilities Commission
State	Department of Secretary of State
Transportation	Department of Transportation

STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

1. Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's basic financial statements (BFS) and is presented for purposes of additional analysis. Total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA) are shown. Federal financial assistance programs, which have not been assigned a CFDA number, have been identified using the two-digit federal agency number and the suffix *999*. Federal award amounts aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

2. Significant Accounting Policies

A. *Reporting Entity* - The reporting entity is defined in Note 1 to the BFS. The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2012, with the exception of the discrete component units identified in Note 1 to the BFS. The discrete component units engaged other auditors.

B. *Basis of Presentation* – The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.

1) Federal Awards – Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost-reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance. Accordingly, non-monetary federal assistance, including food stamps, food stamp EBT cards and food commodities, is included in federal financial assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

2) ARRA Reporting - To maximize the transparency and accountability of the American Recovery and Reinvestment Act spending required by Congress and in accordance with 2 CFR 215, section___. 21 "Uniform Administrative Requirements for Grants and Agreements" and the A-102 Common Rule provisions, recipients agree to maintain records that identify adequately the source and application of ARRA funds. For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, recipients agree to separately identify the expenditures for Federal awards under the ARRA on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. This shall be accomplished by identifying expenditures for Federal awards made under the ARRA separately, in their own column on the SEFA. Separate rows under Item 9 of Part III on the SF-SAC by CFDA number, and inclusion of the

prefix "ARRA-" in identifying the name of the Federal program as the first characters in Item 9d of Part III on the SF-SAC.

3) ARRA Reporting Exception – The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.55 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

4) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $10.7 million in expenditures, distributions, or issuances for the year ended June 30, 2012. Programs audited as major programs are marked with asterisks in the accompanying schedule.

C. *Basis of Accounting* - The information presented in the Schedule of Expenditures of Federal Awards is presented primarily on the modified accrual basis of accounting, which is consistent with the fund financial statements. Under this basis, expenditures of federal awards are recorded in the accounting period in which the fund liability is incurred.

3. Unemployment Insurance Program

The expenditures reported on the Schedule for Unemployment Insurance (CFDA 17.225) include:

State Funds	$182,838,290
Federal Funds	156,849,214
Total	$339,687,505

4. NonCash Awards

The State of Maine is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements. Noncash awards received by the State are included in the Schedule of Expenditures of Federal Awards as follows:

CFDA Number	Program Title	Noncash Awards	Commodities on hand at June 30, 2012
10.551	SNAP (Supplemental Nutrition Assistance Program)	375,063,008	-
10.553	School Breakfast Program	123,640	20,409
10.555	National School Lunch Program	3,717,210	-
10.559	Summer Food Service Program for Children	5,815	-
10.569	Emergency Food Assistance Program	2,459,457	434,313
10.664	Cooperative Forestry Assistance	1,224,329	-
12.401	National Guard Military Operations & Maint. Proj.	1,440,470	-
12.401	Readiness Sustainment Maint. Center (formerly CFDA 12.999)	6,876,612	-
39.003	Donation of federal surplus property	950,634	376,679
93.268 Immunization Cluster	Immunization grants	9,558,935	-

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I – Summary of Auditor's Results

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
• Material weaknesses identified?	YES ☐	NO ☑
• Significant deficiencies identified that were not considered to be material weaknesses?	YES ☑	NO ☐
• Noncompliance material to financial statements noted?	YES ☐	NO ☑

Federal Awards:

Internal control over major programs:		
• Material weaknesses identified?	YES ☑	NO ☐
• Significant deficiencies identified that were not considered to be material weaknesses?	YES ☑	NO ☐

Type of auditor's report issued on compliance for major programs:

<u>Unqualified</u>
CCDF Cluster
CDBG – State-Administered CDBG Cluster
Child and Adult Care Food Program
Child Support Enforcement
Education Jobs Fund
Foster Care Title IV-E
Highway Planning and Construction Cluster
Immunization Cluster
Improving Teacher Quality State Grants
Medicaid Cluster
National Guard Military Operations and Maintenance (O&M) Projects
SNAP Cluster
Special Education Cluster (IDEA)
Special Supplemental Nutrition Program for Women, Infants, and Children
State Fiscal Stabilization Fund Cluster
Surface Transportation – Discretionary Grants for Capital Investment
TANF Cluster
Title I, Part A Cluster
Twenty-First Century Community Learning Centers
Vocational Rehabilitation Cluster
WIA Cluster

<u>Qualified</u>
Child Nutrition Cluster
Children's Health Insurance Program
Unemployment Insurance

Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	YES ☑	NO ☐

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Identification of Major Programs:

CFDA #	Name of Federal Program or Cluster
SNAP Cluster	
10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
CDBG - State-Administered CDBG Cluster	
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
WIA Cluster	
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.278	WIA Dislocated Worker
Highway Planning and Construction Cluster	
20.205	Highway Planning and Construction
20.219	Recreational Trails Program
Title I, Part A Cluster	
84.010	Title I Grants to Local Educational Agencies
84.389	Title I Grants to Local Educational Agencies, Recovery Act
Special Education Cluster (IDEA)	
84.027	Special Education--Grants to States (IDEA, Part B)
84.173	Special Education--Preschool Grants (IDEA Preschool)
84.391	Special Education–Grants to States (Idea, Part B), Recovery Act
84.392	Special Education–Preschool Grants (Idea Preschool), Recovery Act
Vocational Rehabilitation Cluster	
84.126	Rehabilitation Services–Vocational Rehabilitation Grants to States
84.390	Rehabilitation Services–Vocational Rehabilitation Grants to States, Recovery Act
State Fiscal Stabilization Fund Cluster	
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund)
84.397	State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Immunization Cluster	
93.268	Immunization Grants
93.712	ARRA - Immunization
TANF Cluster	
93.558	Temporary Assistance for Needy Families (TANF) State Programs
CCDF Cluster	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Medicaid Cluster	
93.720	ARRA - State Survey and Certification Ambulatory Surgical Center Healthcare Associated Infection (ASC-HAI) Prevention Initiative
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
Other Programs	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225	Unemployment Insurance
20.932	Surface Transportation – Discretionary Grants for Capital Investment
84.287	Twenty-First Century Community Learning Centers
84.367	Improving Teacher Quality State Grants
84.410	Education Jobs Fund
93.563	Child Support Enforcement
93.658	Foster Care - Title IV-E
93.767	Children's Health Insurance Program

Dollar threshold used to distinguish between type A and type B programs: $9,996,253

Does the auditee qualify as low risk? YES ☐ NO ☑

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Summary of Questioned Costs:

Federal Agency	**Federal Program**	**Known Questioned Costs**	**Finding Number**
U.S. Department of Commerce/NOAA	Groundfish Industry Economic Assistance	$ 10,234	12-0703-01
U.S. Department of Education	Special Education Cluster (IDEA)	65,846	12-1201-01
	Title I, Part A Cluster	13,654	12-1200-02
U.S. Department of Health and Human Services	Medicaid Cluster	647,077 40,061 Undeterminable 803	12-0909-01 12-1106-07 12-1106-08 12-1106-12
	Foster Care – Title IV-E	90,069	12-1109-02
	Children's Health Insurance Program	15,068 1,321	12-0909-01 12-1140-03
	Supplemental Nutrition Assistance Program, Outreach/Participation Program	30,582	12-1103-02
U.S. Department of Labor	Unemployment Insurance	Undeterminable	12-1302-01

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section II – Financial Statement Findings

(12-0308-01)

Title: Accounting for the employer-funded unemployment insurance program needs to be improved

Prior Year Finding: None
State Department: Labor, Administrative and Financial Services
State Bureau: Unemployment Compensation
Security and Employment Service Center
Office of the State Controller
Federal Agency: None (this finding pertains to the financial audit of the Enterprise Fund for Unemployment)
CFDA Title: None (see comment for Federal Agency)
CFDA #: None (see comment for Federal Agency)
Federal Award #: None (see comment for Federal Agency)

Compliance Area: None (see comment for Federal Agency)

Type of Finding: Significant Deficiency

Known Questioned Costs: N/A

Likely Questioned Costs: N/A

Criteria: Generally Accepted Accounting Principles

Condition: The Department of Labor Bureau of Unemployment Compensation and the Department of Administrative and Financial Services did not have controls in place to prevent, detect, and correct accounting records and estimates used to prepare financial statements for the Employment Security Fund.

Context: The Employment Security Fund provides an accounting of assets and liabilities; and operating activity such as revenue from Maine's employers, State-funded payments to claimants, and interest income.

On June 30, 2012, the U.S. Treasury held $268.5 million of Maine's employer-funded unemployment contributions. Payments of $184.9 million were made to unemployment claimants during fiscal year 2012.

Cause: Inadequate procedures to prevent, detect, and correct errors in the State's Employment Security accounting records and financial statements.

Effect: The financial statements for the Employment Security Fund contained multiple errors as follows:

- Estimated revenue from employers earned in the fourth quarter of fiscal year 2012 but not received until fiscal year 2013 was understated by approximately $11.0 million.
- For at least thirteen years the same percentages and assumptions have been used to estimate the Allowance for Uncollectible Accounts. For fiscal year 2012, an Allowance of $19.2 million was calculated for receivables of $50.6 million without taking into consideration relevant collection experience and general economic conditions. Also, personnel did not consider the fact that no write-off of uncollectible accounts was made in fiscal year 2012. In each of the prior two fiscal years $2.4 million in receivables had been written-off.
- Estimated unemployment claims earned in fiscal year 2012 of $5.9 million but not paid until fiscal year 2013 were overstated by approximately $2.8 million.
- Restricted Deposits and Investments (Maine's deposits with the U.S. Treasury) were overstated by $1.1 million.

Recommendation: We recommend that personnel employed by the Bureau of Unemployment Compensation, the Security and Employment Service Center, and the Office of the State Controller combine their efforts to improve their procedures and scrutiny of accounting entries and estimates.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees to review the current process used for estimating the year-end revenue accrual for Unemployment Insurance Tax. We will complete this review for the accrual that will be included in the fiscal year 2013 Comprehensive Annual Financial Report.*

The Maine Department of Labor agrees with the finding. The financial service center has already addressed the issue related to the overstatement of Restricted Deposits and Investments with a process improvement. The issue of overstatement of estimated unemployment claims earned but not paid has also been addressed by a manual process put in place.

The Department and Service Center are reviewing a detailed course of action that should identify a resolution necessary in order to address estimated revenue from employers earned in fiscal year 2012 but not received until the following year as well as the estimating of the Allowance for Uncollectible Accounts. We are tentatively planning a September 30, 2013 completion date.

The primary reason there was no submission of uncollectable debt in 2012 was due to the fact that on the benefits side, we are anticipating the implementation of Federal Tax Offset Program (TOP). As a result of TOP, we will be able to identify debt aged retroactively back ten years for collection via this program with the IRS.

Contacts: *Patricia K. O'Brien, Deputy Bureau Director, Labor, 621-5161*
Heidi McDonald, Manager, Financial Reporting and Analysis. OSC, 626-8437

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Indexes to Federal Program Findings

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Dept	Page
SNAP Cluster CFDA# 10.551, 10.561			
12-1108-01	Cash management procedures need improvement	DAFS	E-49
12-1111-01	Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges	DAFS	E-52
12-1111-02	Income Eligibility and Verification System procedures need improvement	DHHS	E-54
Child Nutrition Cluster CFDA# 10.553, 10.555, 10.556, 10.559			
12-1200-03	Procedures to comply with Treasury-State Agreement for cash management need to be improved	DAFS	E-67
12-1203-01	Agency did not file reports required under the Federal Funding Accountability and Transparency Act	DOE	E-76
Special Supplemental Nutrition Program for Women, Infants, and Children CFDA# 10.557			
12-1113-01	Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency	DAFS	E-57
Supplemental Nutrition Assistance Program, Outreach/Participation Program CFDA# 10.580			
12-1103-02	Costs not allocated in accordance with plans	DAFS	E-31
Groundfish Industry Economic Assistance CFDA 11.452			
12-0703-01	Prebilling of board members' payments not allowed for reimbursement by Federal program	DMR	E-29
CDBG – State-Administered CDBG Cluster CFDA# 14.228			
12-1505-01	Suspension and debarment requirements overlooked	DECD	E-85
12-1505-02	Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency	DECD	E-86
Unemployment Insurance CFDA# 17.225			
12-1302-01	Procedures to determine continuing eligibility	DOL/ DAFS	E-79

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

INDEX TO FEDERAL FINDINGS BY FEDERAL PROGRAM

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Dept	Page
Children's Health Insurance Program CFDA# 93.767			
12-0909-01	Reversed pharmacy claims payments not recovered	DHHS	E-33
12-1106-05	Procedures to ensure that the MaineCare fiscal agent complies with provisions relating to information technology risk assessment and system security reviews need to be improved	DHHS	E-38
12-1106-09	Controls over pharmacy claims processing system need improvement	DHHS	E-42
12-1106-10	Access controls over Maine Integrated Health Management Solution (MIHMS) need improvement	DHHS	E-43
12-1106-11	The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system	DHHS	E-44
12-1140-01	Federal cash management procedures need improvement	DAFS	E-60
12-1140-02	Procedures to ensure local matching funds (certified seed) are met need improvement	DHHS	E-61
12-1140-03	Incorrect client eligibility determinations	DHHS	E-62
Medicaid Cluster CFDA# 93.720, 93.775, 93.777, 93.778			
12-0909-01	Reversed pharmacy claims payments not recovered	DHHS	E-33
12-1106-01	Inconsistent application of controls over the Medicaid provider desk review process	DHHS	E-34
12-1106-02	Procedures relating to the hospital cost reporting process need to be improved	DHHS	E-35
12-1106-04	Automated Data Processing (ADP) risk analysis and security reviews were not performed	DAFS/ DHHS	E-37
12-1106-05	Procedures to ensure that the MaineCare fiscal agent complies with provisions relating to information technology risk assessment and system security reviews need to be improved	DHHS	E-38
12-1106-07	Procedures relating to uncashed checks need improvement	DAFS	E-39
12-1106-08	Medicare Parts A and B eligibility verification procedures need improvement	DHHS	E-40
12-1106-09	Controls over pharmacy claims processing system need improvement	DHHS	E-42
12-1106-10	Access controls over Maine Integrated Health Management Solution (MIHMS) need improvement	DHHS	E-43
Medicaid Cluster continued on next page			

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Legend of State Agency Abbreviations:

DAFS	Department of Administrative and Financial Services
DECD	Department of Economic and Community Development
DHHS	Department of Health and Human Services
DMR	Department of Marine Resources
DOE	Department of Education
DOL	Department of Labor
DOT	Department of Transportation
DVEM	Defense Veterans and Emergency Management
EXEC	Executive Office

INDEX TO FEDERAL FINDINGS
BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Administrative and Financial Services																
12-1103-02	Supplemental Nutrition Assistance Program, Outreach/Participation Program		✓													E-31
12-1106-04	Medicaid Cluster														✓	E-37
12-1106-07	Medicaid Cluster		✓													E-39
12-1106-12	Medicaid Cluster	✓	✓													E-46
12-1108-01	SNAP Cluster			✓												E-49
12-1109-01	Foster Care Title IV-E		✓													E-50
12-1109-02	Foster Care Title IV-E		✓													E-51
12-1111-01	Multiple Programs														✓	E-52
12-1113-01	Special Supplemental Nutrition Program for Women, Infants, and Children												✓			E-57
12-1140-01	Children's Health Insurance Program			✓												E-60
12-1200-02	Title I, Part A Cluster								✓							E-66
12-1200-03	Multiple Programs			✓												E-67
12-1200-04	Multiple Programs			✓												E-68
12-1200-05	Multiple Programs								✓							E-69
12-1302-01	Unemployment Insurance					✓										E-79
12-1315-01	WIA Cluster			✓												E-81
Department of Education																
12-1200-01	Multiple Programs			✓												E-65
12-1201-01	Special Education Cluster (IDEA)							✓								E-71
Department of Education continued on next page																

INDEX TO FEDERAL FINDINGS
BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Education continued from previous page																
12-1201-02	Special Education Cluster (IDEA)													✓		E-72
12-1201-03	Special Education Cluster (IDEA)												✓			E-73
12-1201-04	Special Education Cluster (IDEA)							✓								E-74
12-1203-01	Child Nutrition Cluster												✓			E-76
12-1205-01	Twenty-First Century Learning Centers													✓		E-78
Department of Health and Human Services																
12-0909-01	Multiple Programs	✓	✓													E-33
12-1106-01	Medicaid Cluster														✓	E-34
12-1106-02	Medicaid Cluster														✓	E-35
12-1106-04	Medicaid Cluster														✓	E-37
12-1106-05	Multiple Programs	✓	✓													E-38
12-1106-08	Medicaid Cluster					✓										E-40
12-1106-09	Multiple Programs	✓	✓													E-42
12-1106-10	Multiple Programs	✓	✓													E-43
12-1106-11	Multiple Programs	✓	✓													E-44
12-1106-12	Medicaid Cluster	✓	✓													E-46
12-1106-14	Medicaid Cluster														✓	E-48
12-1111-02	Multiple Programs														✓	E-54
12-1118-03	Immunization Cluster	✓	✓													E-58
12-1140-02	Multiple Programs							✓								E-61
12-1140-03	Children's Health Insurance Program (CHIP)					✓										E-62

INDEX TO FEDERAL FINDINGS
BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Economic and Community Development																
12-1505-01	CDBG – State - Administered CDBG Cluster									✓						E-85
12-1505-02	CDBG – State - Administered CDBG Cluster												✓			E-86
Department of Labor																
12-1302-01	Unemployment Insurance					✓										E-79
Department of Transportation																
12-1401-02	Highway Planning and Construction Cluster													✓		E-83
12-1404-01	Surface Transportation – Discretionary Grants for Capital Investment									✓						E-84
Department of Marine Resources																
12-0703-01	Groundfish Industry Economic Assistance	✓														E-29

INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER BY FINDING TYPE

Finding # *	Page	Compliance Area	Finding Type			
			Material Non-compliance	Internal Control		Known / Likely Questioned Costs
				Material Weakness	Significant Deficiency	
12-0703-01	E-29	Activities Allowed				$10,234 / $10,234
12-0909-01	E-33	Activities Allowed/Allowable Costs			✓	$662,000 /$ 662,000
12-1103-02	E-31	Allowable Costs				$30,582 / $30,582
12-1106-01	E-34	Special Tests and Provisions			✓	
12-1106-02	E-35	Special Tests and Provisions			✓	
12-1106-04	E-37	Special Tests and Provisions			✓	
12-1106-05	E-38	Activities Allowed/Allowable Costs			✓	
12-1106-07	E-39	Allowable Costs			✓	$40,061 / Undeterminable
12-1106-08	E-40	Eligibility			✓	Undeterminable / Undeterminable
12-1106-09	E-42	Activities Allowed/Allowable Costs			✓	
12-1106-10	E-43	Activities Allowed/Allowable Costs			✓	
12-1106-11	E-44	Activities Allowed/Allowable Costs			✓	
12-1106-12	E-46	Activities Allowed/Allowable Costs			✓	$803 / Undeterminable
12-1106-14	E-48	Special Tests and Provisions			✓	
12-1108-01	E-49	Cash Management			✓	
12-1109-01	E-50	Allowable Costs			✓	
12-1109-02	E-51	Allowable Costs				$90,069 / $90,069

**Gaps in the sequence of finding numbers result from matters that are not required to be reported in accordance with OMB Circular A-133.*

INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER BY FINDING TYPE

Finding # *	Page	Compliance Area	Finding Type			
			Material Non-compliance	Internal Control		Questioned Costs
				Material Weakness	Significant Deficiency	
12-1111-01	E-52	Special Tests and Provisions			✓	
12-1111-02	E-54	Special Tests and Provisions			✓	
12-1113-01	E-57	Reporting			✓	
12-1118-03	E-58	Activities Allowed/Allowable Costs			✓	
12-1140-01	E-60	Cash Management			✓	
12-1140-02	E-61	Matching, Level of Effort, Earmarking			✓	
12-1140-03	E-62	Eligibility	✓	✓		$1,321 / $4,018,000
12-1200-01	E-65	Cash Management			✓	
12-1200-02	E-66	Period of Availability				$13,654/ $13,654
12-1200-03	E-67	Cash Management			✓	
12-1200-04	E-68	Cash Management			✓	
12-1200-05	E-69	Period of Availability			✓	Undeterminable/ Undeterminable
12-1201-01	E-71	Matching, Level of Effort, Earmarking				$65,846 / $65,846
12-1201-02	E-72	Subrecipient Monitoring			✓	
12-1201-03	E-73	Reporting			✓	
12-1201-04	E-74	Matching, Level of Effort, Earmarking			✓	
12-1203-01	E-76	Reporting	✓	✓		
12-1205-01	E-78	Subrecipient Monitoring			✓	
12-1302-01	E-79	Eligibility	✓	✓		Undeterminable / Undeterminable
12-1315-01	E-81	Cash Management			✓	
12-1401-02	E-83	Subrecipient Monitoring			✓	

**Gaps in the sequence of finding numbers result from matters that are not required to be reported in accordance with OMB Circular A-133.*

INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER BY FINDING TYPE

Finding # *	Page	Compliance Area	Finding Type: Material Non-compliance	Internal Control: Material Weakness	Internal Control: Significant Deficiency	Questioned Costs
12-1404-01	E-84	Procurement, suspension, and debarment			✓	
12-1505-01	E-85	Procurement, suspension, and debarment			✓	
12-1505-02	E-86	Reporting			✓	

**Gaps in the sequence of finding numbers result from matters that are not required to be reported in accordance with OMB Circular A-133.*

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section III – Federal Findings, Questioned Costs and Corrective Action Plan

(12-0703-01)

Title: Pre-billing of board members' payments not allowed for reimbursement by Federal program

Prior Year Finding: No
State Department: Marine Resources (DMR)
State Bureau: Resource Management
Federal Agency: U.S. Department of Commerce/NOAA
CFDA Title: Groundfish Industry Economic Assistance
CFDA #: 11.452
Federal Award #: NA09NMF4520244

Compliance Area: Activities allowed or unallowed

Type of Finding: Questioned costs

Known Questioned Costs: $10,234

Likely Questioned Costs: $10,234

Criteria: 2 CFR Section 225 Cost Principles for State, Local and Tribal Governments (OMB Circular A-87, Attachment C)

Condition: A first tier subcontractor was reimbursed by DMR for payments to a second tier subcontractor for board member stipends. The second tier subcontractor had not paid the board members at the time they billed the first tier subcontractor; instead payments to the board members were made approximately one year after receipt of the funds. In addition, payment was made to all seven sitting board members, rather than only to the five board members who were on the board at the time of the funding request.

Context: The first tier subcontractor, had a $99,000 contract with the State of Maine to provide assistance to the State's groundfish industry. The first tier subcontractor, in turn, contracted with the second tier subcontractor for services related to the grant. Board member payments totaled $10,234, or $1,462 for each of the seven board members.

Cause: Lack of appropriate and timely support for claimed expenditures

Effect: Inappropriate billing and claim of expenditure of Federal program funds

Recommendation: We recommend that DMR only pay invoices for services that have been authorized and received.

Management's Response/Corrective Action Plan: *The Department of Marine Resources agrees with this finding.*

The Department will require the first tier subcontractor to demonstrate review and assessment controls for monitoring payment documentation are in place. Additionally, we are requesting a return of the full amount of the questioned costs.

Contact: *Sherri Watson, Marine Resources, Resource Administrator, 624-6572*

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM, OUTREACH/PARTICIPATION PROGRAM

(12-1103-02)

Title: Costs not allocated in accordance with plans

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Agriculture
CFDA Title: Supplemental Nutrition Assistance Program, Outreach/Participation Program
CFDA #: 10.580
Federal Award #: 2011IS63121

Compliance Area: Allowable costs/cost principles

Type of Finding: Questioned costs

Known Questioned Costs: $30,582

Likely Questioned Costs: $30,582

Criteria: 45 CFR §95.507, §95.519 General Administration – Cost Allocation Plans

Condition: The SNAP Outreach/Participation Program was overcharged due to an incorrect allocation method related to the Office for Family Independence (OFI). Costs associated with OFI personnel working on multiple programs are supposed to be allocated based on the time charged to each program by the OFI Staff. These costs were allocated based on the average case counts of the three months in each quarter. This incorrect allocation method was used in both quarter three and quarter four.

Context: $7.3 million of costs related to OFI were allocated among various DHHS programs.

Cause:

- Human Error
- Lack of oversight

Effect: Not properly allocating costs could result in the following issues with Federal assistance programs:

- Inaccurate financial reports
- Potential unallowable costs claimed
- Possible match deficiencies
- Programs may not be charged their fair share of allocated costs

Recommendation: We recommend that the Department continue in its efforts to properly allocate costs by ensuring that the appropriate allocation method is assigned to each account based on the Federally approved cost allocation plan.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

In September both quarters three and four were rerun in the model with the correct allocation method. The money was returned to the Food Supplement Participation Grant account on 9/17 and 9/20 through journals. The money has been wired back to the Federal government to repay the overcharges.

The Service Center is undergoing changes to allow for better oversight of the cost allocation plan. Additional staff has been added to the cost allocation process so the running of the model can be transitioned off the Indirect Cost Team Leader to other members of the team. This will allow the Team Leader to perform more analysis and provide more oversight. A new model is in development that long-term is planned to have additional functionality that will better link the model and the narrative.

Contact: *David Whitt or William Korth, DHHS Financial Services Center, 215-1586*

(12-0909-01)

Title: Reversed pharmacy claims payments not recovered

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.720; 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP
05-1105ME5021; 05-1205ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $662,000

Likely Questioned Costs: $662,000
Total reversed claims provided by the pharmacy system contractor was $887,473. We used the value in the Date of Service field as the basis to apply the FMAP rate for each detail claim line since the Pay Order Date was not available in the data. Our likely questioned cost is 75% of the total overpayment, which approximates the ARRA FMAP rate in effect for the period of 99% of the claims.

Criteria: 2 CFR Part 225, Appendix A, Section C(1)(j) Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) requiring that costs be net of all applicable credits

Condition: Credits for a limited number of reversed pharmacy claims payments were not applied to claims payment cycles. To date, the Office of MaineCare Services has not recovered any of the amounts identified.

Context: This issue is limited to reversed pharmacy claims where the associated original claims were paid via the MEPOPS external interface feed to the State's accounting system prior to the implementation of the Maine Integrated Health Management Solution (MIHMS) in September 2010. The issue does not affect pharmacy claims and associated reversals for claims processed in MIHMS.

Cause: The MIHMS system was not capable of processing the reversed pharmacy claims without a reference to an original claim that exists in MIHMS.

Effect: Pharmacy providers were overpaid, since subsequent payments were not reduced by the amount of the reversed claims.

Recommendation: We recommend that the Department implement procedures to recover the overpayments.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

Goold Health Systems is reconciling the list of claims that are affected by this finding, once completed they will send the detail of the claims to the DHHS Service Center Accounts Receivable group. At that time the actual amount owed could vary from this finding. When the Accounts Receivable receives the data the receivable will be established and collections will begin to recoup the reversed claims.

Completion Date: 6/30/2013

Contact: *Donna Wheeler, Financial Analyst, DHHS Service Center, 287-1860*
Sarah Gove, Senior Managing Accountant, DHHS Service Center, 287-6390

(12-1106-01)

Title: Inconsistent application of controls over the Medicaid provider desk review process

Prior Year Finding: 11-1106-05
State Department: Health and Human Services
State Bureau: Division of Audit
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.720; 93.775; 93.777; 93.778
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Chapter 101 of the MaineCare Benefits Manual (Chapter III, Section 67, subsection 34.1.3 of the Principles of Reimbursement for Nursing Facilities)

Condition: Established control procedures were not followed to ensure the timely issuance of nursing facility desk reviews. A test of 16 nursing facility desk reviews issued during the audit period revealed that 13 were not completed within the established 180-day time frame after the acceptance of the cost report and/or a request for additional information. The untimeliness of the desk audits ranged from a low of 13 to a high of 354 days.

Context: Medicaid paid $140.5 million to nursing facilities during fiscal year 2012.

Cause: Lack of staff

Effect:
- Noncompliance with cost report review requirements included in the principles of reimbursement
- Delays in the preparation and issuance of cost settlements

Recommendation: We recommend that the Division of Audit consistently apply established monitoring controls over the nursing home desk review process in order to provide reasonable assurance that they be completed within the established 180-day time frame.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this recommendation.*

The Division of Audit utilizes status reports to track the 180 day time frame. The Division is assigning Nursing Facility cost reports for desk review and monitors these status reports at our monthly staff meetings. The Division of Audit is making every effort to comply with the 180 day time frame. However, staffing shortages have made compliance difficult. During State fiscal year 2013, the Division will be training some newly hired staff to do Nursing Facility cost report desk reviews.

In addition, there are other factors that cause delays in the issuance of desk reviews, such as delays in obtaining necessary information from a provider, and audit findings that are under appeal and affect the subsequent period desk review.

Contact: *David Hellmuth, MaineCare Audit Manager, 287-2809*

(12-1106-02)

Title: Procedures relating to the hospital cost reporting process need to be improved

Prior Year Finding: 11-1106-06
State Department: Health and Human Services
State Bureau: Division of Audit
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.720; 93.775; 93.777; 93.778
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Chapter 101 of the MaineCare Benefits Manual (Chapter III, Section 45.02-5); 42 CFR §413.24(f)(2)(ii) Due dates for cost reports

Condition: Controls are inadequate to ensure the timely submission of hospital cost reports and the completion of periodic audits of the cost reports. Cost reports are due on or before the last day of the fifth month following the close of the period covered by the report. A test of eight hospital facility desk reviews issued during the audit period revealed that five of the eight cost reports were not submitted within the established time frame. The number of days late ranged from a low of one day to a high of 65 days. In addition, the Division of Audit did not perform any audits of the reports.

Context: Medicaid paid approximately $356 million to 41 in-state hospitals during fiscal year 2012.

Cause: Lack of available funding for cost settlements

Effect:
- Noncompliance with cost report submission requirements included in the State's principles of reimbursement and the Code of Federal Regulations
- Delays in the preparation and issuance of cost settlements

Recommendation: We recommend that the Division of Audit strengthen controls over the hospital cost reporting process in order to provide reasonable assurance that cost reports are submitted and received in a more timely fashion and periodic audits of cost reports are performed.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this recommendation.*

The Division of Audit has established a process of notifying the hospitals in writing 30 days before their cost report is due. If a cost report is not received timely, the Division of Audit will contact the hospital to determine if good cause exists for the delay in the filing.

Failure to submit an adequate, complete cost report is grounds for the Department to impose sanctions pursuant to the MaineCare Benefits Manual Chapter I, Section I. Imposition of these sanctions will be considered on a case by case basis.

Audits are conducted when funding has been appropriated to pay settlements.

Contact: *Herb Downs, Director, Division of Audit, 287-2778*

(12-1106-04)

Title: Automated Data Processing (ADP) risk analysis and security reviews were not performed

Prior Year Finding: ML11-1106-09
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Office of Information Technology
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.720; 93.775; 93.777; 93.778
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 45 CFR §95.621 Automated Data Processing (ADP) Reviews

Condition: The required ADP risk analysis of DHHS systems and biennial security reviews were not performed. Also, the individual assigned these responsibilities is not organizationally independent from the ADP systems being reviewed.

Context: ADP systems process Medicaid claims totaling approximately $2.5 billion per year.

Cause:
- Staff turnover
- Lack of resources
- Misinterpretation of the ADP risk analysis and security review requirements

Effect:
- Noncompliance with Federal regulations
- Reliance on ADP systems with potential security risks

Recommendation: We recommend that the Department implement policies and procedures to ensure periodic ADP risk analysis of DHHS systems and the required biennial security reviews are performed. We further recommend that the ADP risk analysis and system security reviews be performed by personnel who are organizationally independent.

Management's Response/Corrective Action Plan: *The Office of Information Technology (OIT) agrees with the finding.*

The Department has developed a basic framework for completing a comprehensive risk assessment over all DHHS major systems. Policies and procedures to ensure that periodic ADP risk analysis of DHHS systems and the required biennial security reviews are performed will be developed and should be completed by September 30, 2013.

Contact: *Jim Smith, CIO, Department of Administrative and Financial Services, 624-7568*

(12-1106-05)

Title: Procedures to ensure that the MaineCare fiscal agent complies with provisions relating to information technology risk assessment and system security reviews need to be improved

Prior Year Finding: 11-1106-13
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.720; 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP;
05-1105ME5021; 05-1205ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Contract with MaineCare Fiscal Agent, Security Specification Document, p. 8

Condition: The Office of MaineCare Services did not ensure that the MaineCare fiscal agent (FA) performed a systematic risk assessment to formally evaluate critical risk areas associated with the new claims management system, the Maine Integrated Health Management Solution (MIHMS). The contract explicitly requires the FA to conduct quarterly and annual reviews over 24 high risk areas. These critical areas include but are not limited to physical, equipment, and network security and the risks associated with personnel, contingency plans, and emergency preparedness. The only quarterly review completed was for the quarter ending June 30, 2012, and no annual review was performed.

Context: The MIHMS system processes Medicaid and CHIP claims totaling approximately $2.5 billion per year. It is a high risk and complex information system that connects various commercial off-the-shelf software.

Cause:

- High turnover of MaineCare personnel
- Competing priorities

Effect: Lack of a scheduled and systematic risk assessment process could have a negative effect on the utility of the system, business continuity, and financial exposure. It could also potentially lead to fraud or disclosure of personal health information.

Recommendation: We recommend that the Department ensure that the fiscal agent complies with contractual requirements.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The Department believes that substantial progress has been made on these issues but they are not yet complete. Quarterly security reports have been received from the fiscal agent beginning with the second quarter of CY2012 (April – June). Monthly security reports have been received from the fiscal agent for each month from June 2012 to current.

The fiscal agent has not provided an annual security review report to the State for CY2012. The State has reminded the fiscal agent of this obligation and will continue to request compliance with this provision.

Disaster recovery planning was on-going throughout FY12. A full Disaster Recover test is scheduled for March 2013. Following a successful Disaster Recovery test, the State will require the fiscal agent to update all outstanding security documentation.

Contact: *Roger Bondeson, Director of Operations, MaineCare Services, 287-2705*

(12-1106-07)

Title: Procedures relating to uncashed checks need improvement

Prior Year Finding: 11-1106-03
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.720; 93.775; 93.777; 93.778
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $40,061

Likely Questioned Costs: Undeterminable

Criteria: 42 CFR §433.40(c) Treatment of uncashed or canceled (voided) Medicaid checks; 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A)

Condition: The Department did not credit the Federal government with a proportionate share of checks uncashed beyond 180 days from issuance on the next quarterly CMS-64 Federal expenditure report.

Context: The Department identifies checks that remain uncashed beyond 180 days from issuance on an annual basis. The related adjustment on the CMS-64 report may not be posted for another five quarters.

Cause: Failure to establish a process that will provide the information needed to report on the quarterly CMS-64 report

Effect:
- Potential current and future disallowances
- Inaccurate Federal financial reports

Recommendation: We recommend that the Department establish procedures to credit the Federal government on a quarterly basis for the proportionate share of checks uncashed beyond 180 days from issuance.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

It is our intention to dedicate a resource to work with the Office of the State Treasurer and the Office of the State Controller to correct this finding and ensure CMS is credited with the Federal share of uncashed checks greater than 180 days quarterly. We intend to have a process in place by 6/30/2013.

Contact: *Sarah Gove, Senior Managing Accountant, 287-6390*

(12-1106-08)

Title: Medicare Parts A and B eligibility verification procedures need improvement

Prior Year Finding: 11-1106-08
State Department: Health and Human Services
State Bureau: Office of Family Independence
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.720; 93.775; 93.777; 93.778

Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP

Compliance Area: Eligibility

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Centers for Medicare and Medicaid Services' State Buy-In Manual; 42 CFR §431.625 Coordination of Medicaid with Medicare Part B; 45 CFR §92.20 Standards for financial management systems

Condition: Procedures were not adequate to ensure that Medicare Parts A and B premiums paid to the Centers for Medicare and Medicaid Services (CMS) are made only for eligible individuals. System controls to detect and reassess eligibility for Medicare Buy-In need to be established.

Context: Maine DHHS paid $117 million to CMS for Medicare Parts A and B premiums in fiscal year 2012.

Cause: No systematic electronic method has been developed that will determine whether Medicare Parts A and B health insurance premiums paid by the State are made only for eligible individuals.

Effect:

- Medicare Parts A and B premiums may be paid on behalf of ineligible individuals and result in higher than necessary Federal and State expenditures
- Possible disallowed costs

Recommendation: We recommend that the Department continue to improve electronic reconciliation procedures to provide assurance that Medicare Parts A and B premium payments are correct.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

*The Department has implemented a full rewrite of the Buy-In automated process (**April 2012**) that has reduced the need for manual re-establishment of Buy-ins. Additionally, the Department has an operating memorandum that regional staff refer to when requesting a manual Buy-In to ensure this is handled correctly.*

***Contact:** Anthony Pelotte, Division Director MIS/QA/EBT, 624-4104*

(12-1106-09)

Title: Controls over pharmacy claims processing system need improvement

Prior Year Finding: 11-1106-04
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.720; 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP;
05-1105ME5021; 05-1205ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: MaineCare Benefits Manual §80; 2 CFR Part 225 (Attachment A) Cost Principles for State Local, and Indian Tribal Governments (OMB Circular A-87)

Condition: Pharmacy claims processing system controls are not adequate to ensure compliance with program requirements. We noted the following:

- The Office of MaineCare Services does not provide adequate oversight to ensure the appropriateness of the override of rejected claims.
- Wholesale Acquisition Cost (WAC) prices are ignored when considering the lowest reimbursement rate for drugs.

Context: The pharmacy claims processing system processed Medicaid and CHIP claims totaling $243 million in fiscal year 2012.

Cause: The Department has relied on a contractor to have appropriate controls in place over the processing of pharmacy claims without adequate oversight.

Effect:

- Rejected claims could be erroneously approved
- Drugs may be paid at a higher rate than necessary
- Noncompliance with State and Federal rules and regulations
- Potential current and future disallowances

Recommendation: We recommend that the Department strengthen monitoring activities and ensure drug pricing is in line with State and Federal rules and regulations.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this recommendation.*

Any pharmacy claim override must be approved by a pharmacist employed by Goold Health Systems. The recommended override report for State review has been designed and is being implemented during State Fiscal Year 2013. The report will be reviewed monthly by the MaineCare Quality Assurance staff.

The Department also intends to remove mention of the Wholesale Acquisition Cost (WAC) from MaineCare payment policy. The Department found that WAC was inaccurate for brand name drugs. The Department balances an aggressive approach to low reimbursement with the need to maintain access to prescription drugs for members, and WAC pricing was neither necessary nor effective to meet that goal.

Contact: *Roger Bondeson, Director of Operations, OMS, 287-2705*

(12-1106-10)

Title: Access controls over Maine Integrated Health Management Solution (MIHMS) need improvement

Prior Year Finding: ML11-0906-02
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.720; 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP;
05-1105ME5021; 05-1205ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 45 CFR Part 164, Subpart C, Paragraph 308 HIPAA; State of Maine Information Technology Security Policy, Section 9

Condition: Access controls over MIHMS should be improved. We are not disclosing specific issues in this report to avoid the possibility of compromising the Department's data and information technology resources. We have notified appropriate Department management regarding the specific issues.

Context: The MIHMS system processes Medicaid and Children's Health Insurance Program (CHIP) claims totaling approximately $2.5 billion per year. It is a high risk and complex information system that connects various commercial off-the-shelf software.

Cause: Competing priorities

Effect: Lack of proper control could potentially lead to fraud, abuse, disclosure of protected health information, or other unintentional errors

Recommendation: We recommend that the Department work with the fiscal agent to improve access controls within the MIHMS system.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The Department notes that significant progress has been made in this area in the past twelve months. Reviews of individual user access have been on-going. The final step, revision of the access permitted within specific user roles, is scheduled to begin in March 2013. This is a joint review between State and Molina security analysts.

Contact: *Roger Bondeson, Director of Operations, MaineCare Services, 287-2705*

(12-1106-11)

Title: The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system

Prior Year Finding: 11-1106-11
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.720; 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP
05-1105ME5021; 05-1205ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 2 CFR Part 225, Appendix A, Section C(1)(j) Cost Principles for State, Local, and Indian Tribal Governments requiring that costs be adequately documented.

Condition: The Department did not have procedures in place to routinely reconcile the Decision Support System/Data Warehouse (DSS/DW) to the Statewide accounting system. In addition, the DHHS Finance Unit was not able to provide the support necessary to reconcile the DSS/DW to the Statewide accounting system for fiscal year 2012. Paid claims stored in the DSS are not readily reconcilable to the Statewide accounting system with the data elements currently available.

Context: The Maine Integrated Health Management Solution (MIHMS) system processes Medicaid and CHIP claims totaling approximately $2.5 billion per year. It is a high risk and complex information system that connects various commercial-off-the-shelf software. MIHMS claim payment data is stored in the DSS/DW.

Cause: State personnel have not developed an understanding regarding how to reconcile the DSS/DW to the Statewide accounting system.

Effect: Incomplete or inaccurate financial data in the DSS/DW could potentially lead to administrative inefficiencies, incorrect decision-making, incorrect financial reporting or budgeting, and posting of adjusting journals that are incorrect.

Recommendation: We recommend that the Department work with their fiscal agent to develop a method that will facilitate a reconciliation of claim payments to the Statewide accounting system as well as provide a readily accessible audit trail of claims.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

Claim data is only reconcilable by paid date and service date in the DSS and does not tie to a payment batch date in AdvantageME, the State accounting system. Claim transactions need to be aligned to a batch in AdvantageME to be reconcilable.

The corrective action plan to address this issue is currently in process. We have submitted, to our vendor Truven, a formal change request to improve our Financial DSS/DW. Additionally, it has been acknowledged by the MIHMS vendor Molina who subcontracts to Truven for DSS/DW hosting and support that the current DSS/DW solution that is in place does not satisfy our financial reporting needs. The corrective action is planned to be in place by 12/31/2013. Additional expansion of the available reporting data set may continue into the first half of Calendar Year (CY) 2014.

The percentage of data and dollar amounts affected by the issue is moderate to relatively small. End users familiar with the data inconsistencies have been able to effect reliable results when the DSS is used from trend reporting, comparative analysis and forecasting. However, this issue prevents the ability to use the DSS to provide accurate supporting subsidiary ledger type detail which ties to the AdvantageME claims payment cycles.

Corrective action related to data accuracy, integrity and completeness includes Molina and Truven's implementation of balancing integrity checks between data source and destination as well as scheduled database builds that resolve incorrect data sent to the DSS and/or missing data issues. While best practices for data warehousing integrity were not in place initially, Truven and Molina continue to review best practice in these areas and identify opportunities for improvement.

With continued commitment from Molina and Truven DW/DSS reporting concerns identified in the 2011 & 2012 audit are on the path to being resolved. Additionally, many needs have been identified and related improvements implemented during State Fiscal Year 2013.

Contact: *Steve Garrant, Director of Benefit Analytics, OMS, 215-5879*
Sarah Gove, Senior Managing Accountant, DHHSSC, 287-6390

(12-1106-12)

Title: Procedures to ensure proper crediting of Federal share of "cost of care" recoupments and procedures to ensure "cost of care" is properly deducted need improvement

Prior Year Finding: 11-1106-14
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.720; 93.775; 93.777; 93.778
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $803

Likely Questioned Costs: Undeterminable

Criteria: 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, Attachment A); 42 CFR §435.725 Post-eligibility treatment of income of institutionalized individuals in SSI states: application of patient income to the "cost of care"; MaineCare Eligibility Manual, Part 14

Condition: The Department did not ensure "cost of care" was properly deducted prior to paying claims nor did they credit the Federal government with the proper share of "cost of care" recoupments.

- In a test of 60 paid claims, "cost of care" was not properly deducted for one nursing facility claim. The Department was unable to verify that this issue was isolated to this one member.
- Not all recoupments related to nursing facility and intermediate care facility overpayments were properly allocated between the General and Federal funds after October 2011. A disproportionate share of these recoupments was credited to the General Fund.

Context: Medicaid recipients may be responsible for paying a portion of their cost of care. Approximately $3.6 million in "cost of care" overpayments related to nursing facilities and intermediate care facilities were recouped in fiscal year 2012.

Cause:

- The "cost of care indicator" for one member was inadvertently removed from the electronic system. It remains unclear as to whether this affected other members as well.
- Uncertainty of how "cost of care" recoupments should be recorded in the State's accounting system

Effect: Potential current and future disallowances

Recommendation: We recommend that the Department ensure the necessary system corrections are made, including establishing controls to properly deduct "cost of care" when applicable. We further recommend that the Department credit the Federal program accounts for the appropriate share of "cost of care" recoupments related to nursing facilities and intermediate care facilities.

Management's Response/Corrective Action Plan: *The State Department of Health and Human Services and its Service Center agree with this finding.*

The State Cost of Care group plans to analyze the past cost of care data, determine the corrective action, and to make the appropriate CMS 64 reporting adjustments and journal adjustments. The corrections will be done by June 30, 2013.

Also, beginning 1/1/2013 the State moved to a new MaineCare receivables process that reports the Federal share appropriately and returns funds identified up front. In addition this new process uses a field in the accounting system to clearly identify the applicable receivables by type, which includes cost of care.

Contact: *David Whitt, Deputy Director DHHS Service Center, 215-1586*

MEDICAID CLUSTER

(12-1106-14)

Title: Provider eligibility procedures need improvement

Prior Year Finding: 11-1106-12
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.720; 93.775; 93.777; 93.778
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 42 CFR §431.107(b)(4) Advance Directives; 42 CFR §455.105(b) Business Transactions

Condition: The Office of MaineCare Services does not have controls in place to ensure that provider agreements contain all required provisions. Provider agreements do not include a provision that the provider agrees to comply with advance directive requirements. In addition, the agreements do not include provisions to ensure the disclosure of information related to certain types of business transactions.

Context: All providers were re-enrolled as part of the implementation of the Maine Integrated Health Management Solution (MIHMS) system on September 1, 2010 operated by a fiscal agent.

Cause: Unfamiliarity with program requirements

Effect:
- Potentially ineligible providers being allowed to participate in the program
- Potential questioned costs and disallowances
- Noncompliance with required provider documentation requirements

Recommendation: We recommend that the Department modify provider enrollment forms and provider agreements to meet the advance directive and business transaction requirements.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The Department has requested the necessary changes in language and a system change request has been issued to move the updated agreement to the Provider Portal.
We anticipate that this change will be completed by May 31, 2013.

Contact: *Beth Ketch, Director of Policy, OMS, 287-4078*

SNAP CLUSTER

(12-1108-01)

Title: Cash management procedures need improvement

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Agriculture
CFDA Title: SNAP Cluster
CFDA #: 10.561
Federal Award #: 4ME400401; 4ME420408; 4ME430421

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 31 CFR Part 205 (Subpart B) Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement

Condition: The Department did not minimize the time between the drawdown and disbursement of Federal funds for the administrative portion of the SNAP Cluster (CFDA # 10.561). Federal regulations require that the timing of the drawdown of Federal funds be as close as administratively feasible to the date of disbursement. The administrative portion of the SNAP Cluster maintained an average of 12 days cash on hand throughout the fiscal year.

Context: The Department drew approximately $12.7 million in SNAP Cluster administrative funds during fiscal year.

Cause: Inadequate procedures

Effect: The Federal government may require the use of a more stringent cash drawdown method for the program.

Recommendation: We recommend strengthening procedures to better monitor cash balances and the number of days cash is on hand.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

The Service Center has implemented a reconciliation between draws and expenditures that also factors in returns for offsets. This increased control will decrease the number of days cash is on hand. This new process was implemented in the first half of State Fiscal Year 2013.

Contact: *Sarah Gove, DHHS Service Center, Senior Managing Accountant, 287-6390*

(12-1109-01)

Title: Payroll costs not properly documented

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services, ACFS
CFDA Title: Foster Care Title IV-E
CFDA #: 93.658
Federal Award #: 1201-ME-1401

Compliance Area: Allowable cost/cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 2 CFR Part 225 Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87) Attachment B - Support for salaries and wages

Condition: The Department did not have adequate procedures in place to ensure that salaries and wages were supported in accordance with Federal cost principles. These cost principles require that when employees are expected to work solely on a single Federal award, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.

Context: The Department did not require periodic certifications for five of six employees whose compensation costs were charged 100% to the program.

Cause: Payroll system task codes were not available for program employees to properly document and certify their time.

Effect: Salaries and wages charged to the program may not be allowable.

Recommendation: We recommend that the Department implement procedures to ensure that payroll costs are properly documented in accordance with Federal cost principles.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this recommendation.*

The Office of Child and Family Services will work with DHHS Financial Services to add additional task codes in the Time and Attendance Management System for the identified eligibility workers. This will ensure proper documentation of payroll costs in accordance with Federal cost principals. The task codes should be in place by June 30, 2013.

Contact: *Robert Blanchard, Associate Director, Office of Child and Family Services, 624-7955*

FOSTER CARE – TITLE IV-E

(12-1109-02)

Title: Procedures not adequate to ensure payments are made only for allowable costs

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services, ACFS
CFDA Title: Foster Care Title IV-E
CFDA #: 93.658
Federal Award #: 1201-ME-1401

Compliance Area: Allowable costs/cost principles

Type of Finding: Questioned costs

Known Questioned Costs: $90,069

Likely Questioned Costs: $90,069

Criteria: 42 USC § Definitions; 45 CFR § 1356.60 Fiscal Requirement (IV-E)

Condition: The Department improperly requested reimbursement twice for $180,137 in training costs. Training costs are reimbursed at a Federal financial participation rate of 50%, resulting in an over-reimbursement of $90,069.

Context: The Federal share of training and administrative costs during the audit period was $10.6 million

Cause: Templates used to prepare financial status reports contained flawed formulas.

Effect:
- Inaccurate Federal financial status reports
- Excess Federal financial participation

Recommendation: We recommend that the Department make a correction to their financial status report template and report a prior quarter adjustment on their next quarterly Financial Status Report to correct the noted excess reimbursement.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

The Service Center has a new template effective October 1, 2012, that includes training costs being claimed from the Cost Allocation Plan and flawed formulas no longer exist. This audit finding will be paid back on the next quarterly financial status report following the audit number being released to reference this finding.

Contact: *Sarah Gove, DHHS Service Center, Senior Managing Accountant, 287-6390*

TANF CLUSTER

(12-1111-01)

Title: Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Office of Information Technology
Office for Family Independence
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: TANF Cluster
Medicaid Cluster
SNAP Cluster
CFDA #: 93.558; 93.775; 93.777; 93.778; 10.551; 10.561
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP;
1102METANF; 1102METANF; 1202METANF;
4ME400401; 4ME420408; 4ME430421

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 42 USC 1320b-7 Income and Eligibility Verification System; 42 CFR §431.625 Coordination of Medicaid with Medicare Part B; US Department of HHS, State Buy-In Manual (various sections); 45 CFR §92.20 Standards for Financial Management Systems; 2 CFR 225 (Attachment A, paragraph C) Cost Principles for State, Local, and Indian Tribal Governments ; HHS pub. ASMB, C-10; State Information Technology Security Policies, Procedures and Guidelines

Condition: Office of Information Technology (OIT) internal controls over federally required Income and Eligibility Verification System (IEVS) data exchanges are inadequate. Overall, we noted:

- The lack of institutional knowledge within OIT regarding IEVS and documentation to describe methods used to process IEVS related data exchanges is inaccurate and outdated.
- Inadequate monitoring practices and feedback controls present a risk that some exchanges are being performed needlessly or in an insecure manner.

In a test of 37 IEVS data exchanges, we noted the following:

- OIT Staff did not re-run one failed exchange (job) we tested.
- Four test jobs were identified as defunct; yet were still scheduled to run on a daily basis. These jobs still ran, receiving inbound and transmitting outbound records - despite their "defunct" status.
- One job tested is scheduled to run only when “a BMV (Bureau of Motor Vehicles) file is present", yet no records were produced when the job was run.

- Thirteen inbound jobs we tested were identified with a bogus remote IP address, rather than accurate information
- For three jobs tested OIT does nothing with the IEVS information received
- Six jobs run nightly seem to be experiencing problems during processing because no records are generated
- Another job tested was always manually processed by an employee who retired in November 2012. Current OIT staff can provide no information regarding this data transmission between SSA and the State, including the last date it was processed.

The results of a separate test of the four major inbound jobs indicated that the State does not necessarily receive all information sent to it from the SSA. We noted that total batch records sent by the SSA did not agree with the records received by ACES in two of the four instances tested – differences were for the two largest inbound data exchanges (BEER and BENDEX).

Context: The State is required to comply with Federal IEVS exchange rules and regulations in accordance with State Medicaid, TANF and SNAP agreements or risk financial penalties of up to two percent of State Federal assistance grants**.**

Cause:

- Ineffective communication between DHHS system owners and OIT service providers to ensure compliance with State and Federal requirements; and the lack of an in-house project manager accountable for this activity.
- The current DAFS-OIT-DHHS technology servicing structure does not hold any person or group of personnel appropriately accountable for these technology processes.
- Insufficient number of OIT personnel assigned to this effort
- Data exchanges are not tested periodically to ensure continued compliance with Federal regulations.
- System batch jobs relevant to IEVS were designed more than twenty years ago and over time have not been reviewed and maintained in an ongoing basis by OIT
- Lost institutional knowledge within OIT due to the retirement of one technical staff person with no backup process in place or adequate training of replacement personnel poses a business risk

Effect:

- Potential sanctions from Federal oversight entity
- Potential disallowed costs resulting from ineligible clients
- Exchanges may be performed needlessly or in an insecure manner

Recommendation: We recommend that the OIT:

- Document and periodically review the reasonableness of current IEVS exchanges with knowledgeable Medicaid, TANF and SNAP program experts to ensure that program eligibility and security compliance rules and regulations continue to be adhered to.
- Establish a feedback exchange method to provide assurance that all eligibility records sent from the SSA or CMS were, in fact, received by the State; and that all eligibility records sent from the State were, in fact, received by the SSA or CMS.
- Increase the number of OIT personnel assigned to this effort.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The Department is working to correct the areas of the Income and Eligibility Verification System (IEVS) that have been identified as being weak or deficient. Implementation of a complete and full documentation library for each exchange is underway. A comprehensive review for all exchanges jobs is also underway. A program of interface job modification is being planned. Both program and technology management is aware of position challenges that have an impact on IEVS data interfaces and exchanges; options to address these challenges are currently under consideration.

At the time of the audit, a number of deficiencies/areas of improvement had already been identified by the ACES team. We are in the process of addressing these challenge areas. The audit findings have confirmed the areas of improvement and highlighted a few other areas that need attention. We agree with the finding, have a mitigation strategy and are currently working to correct these areas. A complete detailed corrective action plan is on file at the Department. A tentative completion date for corrective action is September 2013.

Contact: *John DeWitt, System Team Lead – ACES, 624-5662*

(12-1111-02)

Title: Income Eligibility and Verification System procedures need improvement

Prior Year Finding: 11-1111-01
State Department: Health and Human Services
State Bureau: Office for Family Independence
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: TANF Cluster
Medicaid Cluster
SNAP Cluster
CFDA #: 93.558; 93.775; 93.777; 93.778; 10.551; 10.561
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP;
1102METANF; 1102METANF; 1202METANF;
4ME400401; 4ME420408; 4ME430421

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 42 USC 1320b-7 Income Eligibility and Verification System; 45 CFR §205.56 Requirements Governing the Use of Income and Eligibility Information; Maine Public Assistance Manual; Maine Medicaid Manual; Maine Food Stamp Certification Manual

Condition: Policies and procedures in place to ensure that Income Eligibility and Verification System (IEVS) information is utilized in determining eligibility and level of benefits or in maintaining case records in the Automated Client and Eligibility System (ACES) are not always followed.

Our testing indicated that the Department did not document any follow-up for 17 of the 60 client cases examined:

- Quarterly Earnings Discrepancy report
  - One of three wage discrepancy alerts were not addressed
- Prisoner Verification Details
  - None of the 3 alerts related to benefits, incarceration, or living arrangements were addressed
- Buy-In Supplement Security Income (SSI) Status report
  - Four of 15 alerts that indicated "SSI ending" were not addressed
- Buy-In Discrepancy report
  - Three of 15 alerts that indicated "CMS close – client moved out of State (1728)" were not addressed
- Buy-In Discrepancy report
  - Six of 15 alerts that indicated "CMS close – client deceased (16)" were not addressed

Context: The State is required to comply with Federal IEVS exchange rules and regulations in accordance with State Medicaid, TANF and SNAP agreements. Many of these data exchanges involve "Buy-In". Buy-in refers to the payment of Medicare premiums by the Medicaid program for certain individuals eligible for Medicare.

Cause:

- While there seems to be efforts taken by eligibility workers in the Bangor and Augusta offices to use the Buy-In related match reports, these same efforts do not take place as frequently in other DHHS offices.
- The information in the "Prisoner Verification Details" match reports were found to be incomplete or outdated; prison staff is identified as uncooperative with eligibility workers who try to obtain more accurate information for updating client case records.

Effect:

- The Federal government may penalize a State for up to two percent of the State family assistance grant for noncompliance
- Potential disallowed costs resulting from ineligible clients

Recommendation: While we recognize that improvements have been made concerning the use of IVES data exchanges, we recommend that the Department:

- Continue with IEVS training efforts that outline the methods to be used to document case action taken in response to IEVS alert information presented in match reports
- Implement procedures to ensure that information in the "Prisoner Verification Details Reports" are accurate; and to develop a cooperative relationship or process with State prison personnel

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding*

OFI will continue the IEVS training efforts it has already successfully implemented in all the regional offices. OFI's Director will attempt to establish a cooperative relationship with his counterpart in the Department of Corrections. OFI will also explore other automated and manual processes to assist front line staff with IEVS data exchanges.

These corrective actions should be completed by 12/31/2013.

Contact: *Anthony Pelotte, Division Director, OFI, 624-4104*

SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

(12-1113-01)

Title: Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Agriculture
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #: 10.557
Federal Award #: 4ME700701

Compliance Area: Reporting

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 2 CFR Part 170.320 Federal financial assistance subject to the Transparency Act

Condition: The amount reported on the FFATA report for contractors differed significantly from the amount of the actual award. Estimates of food of approximately $17 million were omitted from the FFATA report.

Context: There are eight contracts with local agencies, totaling $20,653,587 that were required to be reported under FFATA.

Cause: Misunderstanding of the amount to be reported

Effect: Lack of transparency related to amounts awarded to contractors

Recommendation: We recommend that DHHS personnel responsible for FFATA reporting report all funds obligated by contractors.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

We will amend the FFATA postings for FFY 2012 for the eight contracts to show the correct amount of the award. The FFATA postings for FFY 2013 will be reviewed and amended as needed.

Currently, FFATA reporting procedures are being reviewed in order to ensure that all amounts that should be FFATA reported are reported including Food Allotment amounts associated with providers. A tentative date for completed corrective action is May 1, 2013.

Contact: *Bert Batchelor, CPA, Financial Analyst, DHHS/DPFC, 446-4731*

(12-1118-03)

Title: Hours worked for the program not adequately documented.

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Centers for Disease Control
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Immunization Cluster
CFDA #: 93.268; 93.712
Federal Award #: 5H23IP122558-09; 5H23IP122558-10; 3U50CI123809-05S2; 3H23IP122558-07S1

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 2 CFR Part 225 Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87 Appendix B) - Support for salaries and wages

Condition: Three employees' time was charged to the Immunization Program based on what appears to be budgeted percentages rather than actual hours worked, time studies or an approved cost allocation plan, as required by OMB Circular A-87.

Context: Personnel involved included two administrative assistants who support various functions and programs within the Maine Centers for Disease Control (CDC) and one epidemiologist who supported the Immunization Program as well as other programs administered the Maine CDC. Each of these staff members consistently charged the same percentage of their time to the Immunization Program each week.

Cause: Agency personnel were not aware of the requirements of OMB Circular A-87.

Effect: Potential disallowance of expenditures by the Federal government.

Recommendation: We recommend that the Department accurately record actual hours worked for the program or include the employees' payroll expenditures in a cost pool and allocate hours based on an approved cost allocation plan.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

There were staff identified in this finding that may not have been recording actual hours worked according to the OMB Circular A-87.

IMMUNIZATION CLUSTER

Both Program Managers that oversee the funding for this staff member (epidemiologist) have met with the staff to address the work that needs to be completed for both programs and has asked the staff to make sure when completing her time sheet that she accurately chooses the correct Time and Attendance Management System (TAMS)/tasks code for the actual hours worked for each project. This meeting occurred in February 2013. This employee will continue to work as close to the 80/20 program code split to meet both programs responsibilities and needs. On each Friday she will assess her time worked for the week and then determine what work needs to be done on Friday to meet both program requirements. Time sheets will be reviewed by her immediate supervisor and signed off on every two weeks, this will validate that the work has been performed and accounted for accurately. Program Managers will document this expectation and procedure.

We are working with the DHHS Service Center to determine a cost allocation solution for the administrative staff position that will be best suited for the needs of the Division. This solution will be implemented by June 1, 2013.

Contact: *Lori Wolanski, Division Director of Infectious Disease, MeCDC, 287-6448*

CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

(12-1140-01)

Title: Federal cash management procedures need improvement

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Children's Health Insurance Program (CHIP)
CFDA #: 93.767
Federal Award #: 1Z0C30541A

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 31 CFR Subpart A §205 Rules applicable to Federal assistance programs included in a Treasury-State Agreement

Condition: The Department did not follow requirements outlined in the Treasury-State Agreement (TSA) on cash management. Federal program cash drawdowns are not being made in a manner consistent with the methodology prescribed by the TSA. Four of 19 drawdowns tested were not in compliance with the prescribed methodology. All four drawdowns were from the Children's Health Insurance Program Reauthorization Act's quality demonstration grant.

Context: CHIP expended approximately $31 million in Federal funds during the fiscal year.

Cause:
- Inadequate procedures
- Insufficient cash in account to comply with TSA requirements

Effect:
- Potential interest liability to the Federal government
- The possibility that the Federal government could impose more stringent cash management requirements on the State for programs in noncompliance

Recommendation: We recommend that the Department follow procedures outlined in the Treasury-State Agreement on cash management to ensure that Federal funds are drawn in compliance with Federal requirements.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

The Department is working with the Office of the State Controller to complete the necessary procedures in order to place the CHIPRA Account on Estimated Revenue in order to assure compliance with the TSA's requirements. This corrective action should be completed before June 30, 2013.

Contact: *Sarah Gove, DHHS Service Center, Senior Managing Accountant, 287-6390*

(12-1140-02)

Title: Procedures to ensure that local matching funds (certified seed) are met need improvement

Prior Year Finding: 11-1140-02
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.720; 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP;
05-1105ME5021; 05-1205ME5021

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 45 CFR §92.20 Standards for Financial Management Systems

Condition: Certain providers, called "certified seed providers," are required to provide the non-Federal matching funds for all claims they submit. Certified seed budgets are established within the Maine Integrated Health Management Solution (Flexi Financial) system with available matching funds. This budget amount is reduced each time a seed claim is paid. Once the certified seed budget is fully expended, no further claims should be paid as no funds are available to match the Federal funds. However, instances were found where the Federal share of the claim was paid despite a fully expended certified seed budget.

Context: Approximately $9 million in claims were paid to certified seed providers in fiscal year 2012.

Cause: Improper programming logic

Effect: Had there not been alternative sources of local matching funds, the non-Federal match may not have been met.

Recommendation: We recommend that the Department continue developing business process controls that will ensure payments are made only to certified seed providers with non-Federal match available.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

In State Fiscal Year 2013, this certified seed payment methodology ended and now all providers are paid with State and Federal portions with a reimbursement back from the Department of Education through a Memorandum of Understanding for the State share of those payments made to school-based providers.

Contact: *Sarah Gove, Managing Staff Accountant, DHHS Service Center, 287-6390*

(12-1140-03)

Title: Incorrect client eligibility determinations

Prior Year Finding: 11-1106-16
State Department: Health and Human Services
State Bureau: Office for Family Independence (OFI)
Office of MaineCare Services (OMS)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Children's Health Insurance Program (CHIP)
CFDA #: 93.767
Federal Award #: 05-1105ME5MAP; 05-1205ME5MAP;
05-1105ME5021; 05-1205ME5021

Compliance Area: Eligibility

Type of Finding: Material weakness/Material noncompliance/Questioned costs

Known Questioned Costs: $1,321 (CHIP)
-$1,124 (Medicaid)

Likely Questioned Costs: $4.018 million (CHIP)
-$3.43 million (Medicaid)

Criteria: MaineCare Eligibility Manual; State Plan for Medicaid and State Plan for CHIP

Condition: The Department does not have adequate procedures to determine individual eligibility for the CHIP program or to charge the appropriate program for the associated costs of eligible individuals. In our sample, we noted the following:

- Claims for seven clients were incorrectly paid by the CHIP program. These clients had income below the 126% Federal Poverty Level (FPL), which made them eligible for Medicaid, rather than Medicaid Expansion.

- A claim for one client was incorrectly paid by the CHIP program. This client had income below the 134% FPL, which made the client eligible for Medicaid, rather than Medicaid Expansion.
- One claim was incorrectly paid by the CHIP program. The caseworker applied the childcare expense to the child as opposed to the parent. As a result, childcare expense was never included in the client's eligibility determination. The client should have been eligible for Medicaid, rather than Medicaid Expansion.
- One claim was incorrectly paid by the CHIP program. The caseworker incorrectly applied a known workaround that is necessary when one family member receives Social Security Disability Insurance. With the correct income allocation, the client would have been eligible for Medicaid, rather than CubCare.
- One client was incorrectly deemed eligible for CubCare. Based on a data exchange with the Social Security Administration (SSA) the client's income was changed in Maine's Automated Client Eligibility System (ACES). However, due to the way ACES handles SSA data exchanges, a redetermination was not initiated for this client at that time. Based on the client's income change, the client would have been eligible for Medicaid, rather than CubCare.

Context: ACES determines eligibility for the Department's public welfare programs. ACES eligibility information interfaces with the Data Hub which in turn links with the claims payment system.

Cause:
- Complex methods and criteria used to classify the underlying reasons that individuals are deemed eligible or ineligible
- Caseworker error
- Eligibility determinations made in ACES did not always get transferred correctly to the MIHMS system. This resulted in payments being made by incorrect programs
- Eligibility, payment, accounting and information technology functions are managed by separate organizational units which can impede problem identification and resolution

Effect:
- Costs may be charged to an incorrect State or Federal program
- Costs paid on behalf of ineligible individuals reduce funds available for eligible individuals
- Eligibility errors may result in significant noncompliance with Federal regulations
- Current and possible future questioned costs

Recommendation: We recommend that the Department:
- Strengthen procedures to ensure that Medicaid and CHIP eligibility is properly determined in the electronic information system
- Provide resources necessary to resolve issues with the interface of data between ACES and the claims payment system

Management's Response/Corrective Action Plan: *The Department agrees partially with the findings outlined in this audit.*

We do agree that eligibility was determined incorrectly in one case. The ACES system correctly determined eligibility in the other cases; however the appropriate category did not end up in the claims system MIHMS.

We can't give an opinion on the cause of the problem at this time. In addition, we can't determine that the questioned costs are correct. DHHS will conduct a review involving representatives from OMS and the Data hub teams and OFI to investigate the finding in order to determine the cause of this problem. Once the cause has been determined, we will be able to identify the amount of questioned costs and implement a corrective action. This review should be complete by December 31, 2013.

***Contact:** Anthony Pelotte, Division Director, OFI, 624-4104*

Auditor's Conclusion: It is our understanding that the Departments' only partial agreement with this finding is due largely to the projection of likely questioned costs. We selected and tested our sample based on generally accepted auditing standards, and projected likely questioned costs based on the resulting error rate.

The finding remains as stated.

TITLE I, PART A CLUSTER

(12-1200-01)

Title: Noncompliance with subrecipient cash management requirements

Prior Year Finding: 11-1200-01
State Department: Education
State Bureau: Support Systems Team – Education Finance
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster
Special Education Cluster (IDEA)
Twenty-First Century Community Learning Centers
Improving Teacher Quality State Grants
CFDA #: 84.010; 84.389; 84.027; 84.173; 84.391; 84.392; 84.287; 84.367
Federal Award #: S010A110019A; S010A100019A; S010A090019A; S389A090019A; H027A110109A; H027A100109A; H027A090109A; H173A110115; H173A100115; H173A090115; H391A090109A; H392A090115A; S287C110019; S287C100019; S367A110018; S367A100018; S367A090018

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 34 CFR Subtitle §80.37 & §80.20 Uniform administrative requirements for grants and cooperative agreements to State and local governments

Condition: During Fiscal Year 2012 the Department transitioned to a reimbursement system to process and disburse funds to subrecipients. The reimbursement requests obtained from subrecipients contained only summary level expenditure data in support of the reimbursement request and the Department did not have adequate procedures in place to ensure the reimbursement requests were supported by actual expenditures of the subrecipients.

Context: Approximately 180 subrecipients expended a total of approximately $112.1 million in fiscal year 2012.

Cause: Inadequately designed procedures

Effect: Subrecipients receiving funding were not monitored by the Department for compliance with cash management requirements.

Recommendation: We recommend that the Department modify procedures to ensure compliance with Federal cash management requirements.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

The Sub-recipient Monitoring Committee is scheduled to meet April 11, 2013. The committee will discuss and develop an efficient and effective protocol for reviewing reimbursed expenditures to ensure compliance with Federal requirements regarding sub-recipient monitoring across the Federal programs impacted by this finding. The Department expects to have the new protocol fully implemented by July 1, 2013.

Contact: *Heather Neal, Fiscal Review and Compliance Supervisor, Education, 624-6863*

(12-1200-02)

Title: Noncompliance with period of availability requirements

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster
CFDA #: 84.010
Federal Award #: S010A090019A

Compliance Area: Period of availability

Type of Finding: Questioned costs

Known Questioned Costs: $13,654

Likely Questioned Costs: $13,654

Criteria: 34 CFR Subtitle §76.703 through §76.710 Uniform administrative requirements for grants and cooperative agreements to State and local governments

Condition: During the fiscal year, the Department made payments totaling $13,654 outside of the period of availability of Federal funds, ranging from four to 43 days after the expiration of the liquidation period.

Context: U.S. Department of Education regulations require that Federal grant funds be obligated by the end of the grant period, typically 27 months after the award. These regulations also require that obligations be liquidated within 90 days of the end of the grant period.

Cause:
- Misinterpretation of regulations applicable to Federal grant period of availability
- Lack of procedures to obtain subcontract billing in adequate time to effectively liquidate outstanding obligations
- Lack of communication between Departments

Effect:

- Possible repayment of unallowable costs to the U.S. Department of Education
- Possibility that obligated expenditures of the Department and its subrecipients cannot be applied toward available Federal grant funding

Recommendation: We recommend that the Department modify procedures to ensure compliance with Federal period of availability requirements.

Management's Response/Corrective Action Plan: *The Department agrees with this finding, and will improve its documentation on Period of Availability requirements. Procedures will be updated by June 2013.*

Contact: *Darlene Tarr, Managing Staff Accountant, General Government Service Center, 624-7395*

(12-1200-03)

Title: Procedures to ensure compliance with Treasury-State Agreement for cash management need to be improved

Prior Year Finding: 11-1200-03
State Department: Administrative and Financial Services
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster;
Special Education Cluster (IDEA)
Child Nutrition Cluster
State Fiscal Stabilization Fund Cluster
CFDA #: 84.010; 84.389; 84.027; 84.391; 10.555; 84.394
Federal Award #: S010A100019A; S010A090019A; S389A090019A; H027A100109A; H027A090109A; H391A090109A; 4ME300301; S394A090020

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 31 CFR Subpart A §205 Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement

Condition: The Department did not follow the cash management requirements outlined in the Treasury-State Agreement (TSA). Federal program cash drawdowns are not being made in a manner consistent with the methodology prescribed by the TSA. Thirty-three of 70 drawdowns tested were not in compliance with the prescribed methodology. During the fiscal year, the level of noncompliance was worsened by the return of approximately $9.9 million of excess cash from Local Educational Agencies (LEAs).

Context: The four CFDA numbers cited above expended a total of $166.3 million in fiscal year 2012.

Cause:
- Inadequate procedures
- Insufficient understanding of the requirements of the TSA
- Return of $9.9 million from LEAs

Effect:
- Potential interest liability to the Federal government
- The possibility that the Federal government could impose more stringent cash management requirements for programs in noncompliance

Recommendation: We recommend that the Department follow procedures outlined in the Treasury State Agreement for cash management to ensure that Federal funds are drawn in compliance with Federal requirements. Furthermore, we recommend that the Department strengthen procedures for managing Federal funds returned to the Department from LEAs.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

As of March 2013, the Service Center has adjusted its draw down process to improve timeliness, particularly in the Child Nutrition program. Problems with drawdowns in other programs were the result of insufficient communication and documentation. Documentation will be updated by June 2013.

Contact: *Darlene Tarr, Managing Staff Accountant, General Government Service Center, 624-7395*

(12-1200-04)

Title: Federal cash management procedures need improvement

Prior Year Finding: 11-1200-04
State Department: Administrative and Financial Services
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Improving Teacher Quality
Education Jobs Fund
CFDA #: 84.367; 84.410
Federal Award #: S367A100018; S410A100020

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 34 CFR Subpart C §80 Post-Award Requirements, Standards for Financial Management Systems; 31 CFR Subpart B §205 Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement

Condition: The Department did not minimize the time between receipt and disbursement of Federal funds for programs not subject to the Treasury-State Agreement for cash management. Six of fifty-five draws tested were in excess of immediate cash needs.

Context: The two programs cited expended approximately $38.2 million in fiscal year 2012.

Cause: Lack of communication between personnel drawing funds and personnel processing the disbursements

Effect: The possibility that the Federal government could impose more stringent cash management requirements for programs in noncompliance

Recommendation: We recommend that the Department establish procedures to monitor receipts and disbursements to ensure that Federal funds are drawn down and spent within allowable time frames.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

Many of the instances of excess cash were attributable to a one-time change in the processing of payments to subrecipients. This particular issue is not expected to recur. The Service Center is reviewing its process for cash drawdowns, and will work to improve the timeliness of draws overall. The review will be completed by June 2013.

Contact: *Darlene Tarr, Managing Staff Accountant, General Government Service Center, 624-7395*

(12-1200-05)

Title: Control procedures related to period of availability requirements need improvement

Prior Year Finding: No
State Department: Education
State Bureau: Support Systems Team – Education Finance
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster (IDEA)
State Fiscal Stabilization Fund Cluster
CFDA #: 84.027; 84.173; 84.391; 84.392; 84.394

TITLE I, PART A CLUSTER

Federal Award #: H027A090109A; H173A090115; H391A090109A; H392A090115A; S394A090020

Compliance Area: Period of availability

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: 34 CFR Subtitle §76.703 through §76.710 Uniform administrative requirements for grants and cooperative agreements to State and local governments

Condition: Internal control procedures related to period of availability of Federal funds need to be improved to ensure that only expenditures that were properly obligated are paid. During the fiscal year, the Department made disbursements from Federal grant funds to Local Educational Agencies (LEAs) which may have included expenditures that were not obligated by the end of the grant period. Auditor noted that LEA grant disbursements occurring in the liquidation period were not supported by documentation which ensured that the requested reimbursements were for amounts obligated during the grant period.

Context: U.S. Department of Education regulations require that grant funds be obligated by the end of the grant period, typically 27 months after the award. Approximately 206 LEA grant disbursements amounting to $8.2 million occurred during the liquidation periods.

Cause: Inadequate monitoring of LEAs

Effect: Possible repayment of unallowable costs to the U.S. Department of Education.

Recommendation: We recommend that the Department modify procedures to ensure compliance with period of availability requirements.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

Similar to finding 12-1200-01, the Sub-recipient Monitoring Committee is scheduled to meet April 11, 2013. The committee will discuss and develop an efficient and effective protocol for reviewing reimbursed expenditures to actual invoices to ensure that the requested reimbursements were for amounts obligated during the grant period. This new procedure will be established for all applicable Federal programs. The Department expects to have the new protocol fully implemented by July 1, 2013.

Contact: *Heather Neal, Fiscal Review and Compliance Supervisor, Education, 624-6863*

(12-1201-01)

Title: Noncompliance with earmarking requirements

Prior Year Finding: No
State Department: Education
State Bureau: Special Services
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster (IDEA)
CFDA #: 84.027; 84.391
Federal Award #: H027A090109; H391A090109

Compliance Area: Earmarking

Type of Finding: Questioned costs

Known Questioned Costs: $65,846

Likely Questioned Costs: $65,846

Criteria: 34 CFR § 300.704 State reserves for State-level activities

Condition: The Department did not comply with earmarking requirements specifically related to limits on State set-aside funds of the regular and ARRA Special Education School Age Grants to Local Education Agencies (LEAs). The Department expended $65,846 more than allowed.

Context: Of the $107.5 million of funding awarded under the regular and ARRA Special Education School Age Grants, the Department was authorized to reserve $6.2 million as a State set-aside for Administration and Other State-level Activities.

Cause: Human error

Effect: The State Education Agency expenditures for Administration and Other State-level Activities exceeded the authorized amount of State set-aside funds.

Recommendation: We recommend that the Department review and improve procedures to ensure compliance with earmarking requirements.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

The State set-aside funds are identified in the table that accompanies the grant award.

When the Department receives the grant award the amounts for administration, State-level activities and grants are assigned a program code in AdvantageME so that the amount available cannot be overspent.

This particular case was caused by human error as the Management Analyst overseeing the grant did not use the table provided with the grant to identify the proper amounts.

The Department will request that the accountant in the General Government Service Center confirm the set-aside amounts before entering the budgets into AdvantageME creating a double-check of the data.

The Department agrees that expenditures for administration exceeded the amount authorized by $65,846.19 and has returned the funds to the United States Department of Education.

Contact: *Janice Breton, Director, Special Services, 624-6676*

(12-1201-02)

Title: During-the-award monitoring procedures need improvement

Prior Year Finding: 11-1201-02
State Department: Education
State Bureau: Special Services
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster (IDEA)
CFDA #: 84.027; 84.173; 84.391; 84.392
Federal Award #: H027A110109; H173A110115; H391A090109A; H392A090115A

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Subpart D, §__.400 (d)(3), Pass-through entity responsibilities.

Condition: The Department did not adequately monitor Local Education Agencies (LEAs) to ensure compliance with all Federal regulations. Only ten high risk subrecipients, out of a total of 144 subrecipients, were monitored for compliance with fiscal requirements.

Context: Ninety-six percent of program funds are passed through to LEAs, totaling $50 million in fiscal year 2012.

Cause: A new monitoring process was developed during fiscal year 2012 to address this deficiency. The Department did not fully implement the process because of time constraints. The new process will utilize risk assessment to identify high risk subrecipients, desk reviews, and other procedures for monitoring compliance with fiscal requirements.

Effect: Noncompliance with fiscal requirements could occur and not be detected if monitoring is not conducted.

Recommendation: We recommend that the Department continue to develop and implement subrecipient monitoring procedures to address compliance requirements that are fiscal in nature.

Management's Response/Corrective Action Plan: *Management agrees with the finding.*

The Department will continue to develop and implement subrecipient monitoring procedures for fiscal compliance. The process will continue to utilize risk assessment to identify high risk subrecipients requiring monitoring. The Department will also develop and implement procedures for monitoring compliance with fiscal requirements for subrecipients who are not determined to be high risk. The process will be fully implemented by February 1, 2014

Contact: *Janice E. Breton, Director of Special Services, 624-6676*

(12-1201-03)

Title: Noncompliance with reporting requirements

Prior Year Finding: No
State Department: Education
State Bureau: Special Services
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster (IDEA)
CFDA #: 84.027; 84.173; 84.391; 84.392
Federal Award #: H027A110109; H173A110115;
H391A090109A; H392A090115A

Compliance Area: Reporting

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 34 CFR § 300.645 Annual report of children served—other responsibilities of the State Educational Agency (SEA).

Condition: The Department did not maintain documentation to support the accuracy of the annual child count. In addition, the Department did not obtain required certifications from all Local Educational Agencies (LEAs) that an unduplicated and accurate child count had been made.

Context: The annual report of children served is due February 1^{st} each year, based on the number of children receiving special education services on December 1^{st} of that academic year.

Cause:
- High staff turnover
- Lack of monitoring of child count reporting process

Effect: Inaccurate child count data could result in incorrect decision making

Recommendation: We recommend that the Department obtain certification from all LEAs ensuring that an unduplicated and accurate child count has been made. We further recommend that the Department maintain documentation that enables the State and the U.S. Department of Education to audit the accuracy of the child count.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

For the 2013 child count, the Department will ensure that each LEA certifies the accuracy of its submitted child count data. Additionally, the Department will maintain documentation that allows an audit of the accuracy of the child count data. Processes already exist that will be reviewed and strengthened with the new personnel who are responsible for these functions.

Contact: *Janice E. Breton, Director of Special Services, Maine Department of Education, 624-6676*

(12-1201-04)

Title: Noncompliance with earmarking requirements

Prior Year Finding: 11-1201-01
State Department: Education
State Bureau: Special Services
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster (IDEA)
CFDA #: 84.173
Federal Award #: H173A110115

Compliance Area: Earmarking

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 34 CFR § 300.816 Allocation of Formula Subgrants to Local Educational Agencies (LEAs)

Condition: The Department did not comply with Earmarking requirements specifically related to the allocation of Special Education Preschool Grants. Incorrect data was used in determining amounts to be allocated to local educational agencies.

Context: The Department was awarded $2.5 million for preschool special education programs during fiscal year 2012. The Department is required to allocate a base amount of $1,793,129 to approximately 152 LEAs based on the child count conducted on December 1, 1996; instead DOE utilized child count data from December 1, 1998. In addition, the Department allocated $1,797,418 to LEAs as the base year component of the award.

Cause: Insufficient resources

Effect: LEAs may have received disproportionate shares of the Special Education Preschool Grant funds.

Recommendation: We recommend that the Department implement procedures to ensure compliance with earmarking requirements.

Management's Response/Corrective Action Plan: *The Department accepts the finding.*

This was a unique situation based on one person's error. It will not be repeated because the same baseline year (1996) is supposed to be used every year and is now in our worksheet for consistent use going forward to ensure compliance with earmarking requirements.

Contact: *Janice E. Breton, Director of Special Services, Maine Department of Education, 624-6676*

CHILD NUTRITION CLUSTER

(12-1203-01)

Title: Agency did not file reports required under the Federal Funding Accountability and Transparency Act

Prior Year Finding: 11-1203-04
State Department: Education
State Bureau: Child Nutrition Services
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child Nutrition Cluster
CFDA #: 10.553; 10.555; 10.556; 10.559
Federal Award #: 4ME300301

Compliance Area: Reporting

Type of Finding: Federal material noncompliance/Material weakness

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 2 CFR Part 170 Reporting subaward and executive compensation information

Condition: The Department did not report information required under the Federal Financial Accountability and Transparency Act (FFATA). FFATA requires that recipients periodically report information about first tier subawards or subaward amendments that result in an obligation of $25,000 or more of Federal funds.

Context: Child Nutrition Cluster payments to school food authorities totaled approximately $42 million.

Cause: The Agency was not aware of FFATA reporting requirements.

Effect:

- Inaccurate financial information
- Possible Federal sanctions for not reporting

Recommendation: We recommend that the Department implement procedures to ensure compliance with FFATA reporting requirements.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

Please note that procedures to submit school meals for Fiscal Year 2012 began after the 2011 audit (latter part of State Fiscal Year 2012); however, the Department did not maintain records to verify that attempts were made to transmit information to the Federal transparency site USAspending.gov.

Corrective action will consist of a manual upload process to the Federal Funding Accountability and Transparency Act Subaward Reporting system (FSRS); automated tracking; and, procedures that will verify that records were transmitted to USAspending.gov. Furthermore, the Department will maintain supporting documentation that uploads were successful.

A July 1, 2013 implementation date is planned.

Contact: *Walter Beesley, Education Specialist, 624-6875*

21^{ST} CENTURY COMMUNITY LEARNING CENTERS

(12-1205-01)

Title: During-the-award monitoring procedures need improvement

Prior Year Finding: No
State Department: Education
State Bureau: Special Services Team
Federal Agency: U.S. Department of Education
CFDA Title: 21^{st} Century Community Learning Centers
CFDA #: 84.287
Federal Award #: S287C110019-11A

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Subpart D, §__.400 (d)(3), Pass-through entity responsibilities.

Condition: The Department did not adequately monitor subrecipients to ensure compliance with all Federal regulations. None of the subrecipients were monitored for compliance with financial requirements such as cash management, allowable activities and allowable costs.

Context: Ninety-five percent of the $5 million grant award was passed through to subrecipients.

Cause: The current Subrecipient Monitoring Report that is utilized for site visits is not adequately designed to meet the financial monitoring requirements of OMB Circular A-133.

Effect: Potential noncompliance with Federal regulations.

Recommendation: We recommend that the Department continue to develop and implement subrecipient monitoring procedures to address all compliance requirements, including those that are financial in nature.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

The 21^{st} Century Special Services Team will continue to work with the Sub-recipient Monitoring Committee and the Fiscal Review and Compliance Team to further develop and strengthen sub-recipient monitoring procedures including fiscal oversight. July 1, 2013 implementation is expected.

Contact: *Rachelle Tome, Education/No Child Left Behind Director, 624-6705*

(12-1302-01)

Title: Procedures to determine continuing eligibility needs improvement

Prior Year Finding: 11-1302-06
State Department: Labor
Administrative and Financial Services
State Bureau: Unemployment Compensation (BUC)
Office of Information Technology (OIT)
Federal Agency: U.S. Department of Labor (US DOL)
CFDA Title: Unemployment Insurance (UI)
CFDA #: 17.225
Federal Award #: Not applicable

Compliance Area: Eligibility

Type of Finding: Material weakness/Material noncompliance/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: 26 MRSA §1192 Eligibility Conditions; 26 MRSA §1194 Claims for Benefits; 20 CFR § 603.2 Federal State Unemployment Compensation (UC) Program; Confidentiality and Disclosure of State UC Information and 20 CFR § 615.8 Provisions of State Laws Applicable to Claims

Condition: Procedures to determine continuing eligibility need to be improved. We reviewed a random sample of 120 weekly benefit payments that were funded either by Maine's employers or the Federal government. No work search log was ever submitted to the Bureau of Unemployment Compensation for 39 of the 120 cases. This represents an error rate of 33%.

This error rate for the federally funded portion of the 120 count sample was 31% (16/51).

Context: $319 million in benefits were paid in fiscal year 2012. This includes $183 million of employer funded benefit payments and $136 million in federally funded benefit payments.

Cause: Inadequate internal control procedures

Effect: Approximately $42 million in federally funded unemployment claims and $61 million in claims funded by Maine's employers were paid to persons who might not have been actively searching for a job and obtaining timely re-employment. This potential effect would be to improperly reduce Maine's Unemployment Fund held by the U.S. Treasury, and to cause an unemployment tax rate increase in order to replenish the fund.

Recommendation: We recommend that the Department continue to implement procedures and system improvements to ensure that eligibility requirements for UI benefits are met and are adequately supported.

Management's Response/Corrective Action Plan: *MDOL agrees with this finding.*

It is our plan to continue implementing procedures and system improvements to ensure that eligibility requirements for UI benefits are met and are adequately supported. Implementation began during November 2012 and full implementation is expected by the end of March 2013. Our detailed corrective action plan is on file at the Department.

Contact: *Patricia O'Brien, Deputy Bureau Director 621-5161.*

(12-1315-01)

Title: Cash management procedures need to be improved

Prior Year Finding: 11-1315-01
State Department: Administrative and Financial Services
State Bureau: Security and Employment Service Center
Federal Agency: U.S. Department of Labor
CFDA Title: WIA Cluster
CFDA #: 17.258, 17.259; 17.278
Federal Award #: AA213991155A23; AA201971055A23; AA186440955A23

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 31 CFR §205 Subpart B Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement*;* 34 CFR §80 Subpart C Post Award Requirements

Condition: According to Federal regulations, programs not subject to the Treasury-State Agreement on cash management are required to minimize the time between receipt and disbursement of Federal funds. In our review, we noted that the program maintained cash balances in excess of immediate need throughout the year.

Context: The program expended approximately $10.6 million of Federal funds in fiscal year 2012.

Cause: Cash on hand is not taken into consideration when the amount of a draw from the Federal government is determined.

Effect: Potential interest liability to the Federal government and the possibility of more stringent cash management requirements by the Federal government.

Recommendation: We recommend that the Department document and follow established procedures to ensure that Federal funds are drawn in compliance with cash management requirements.

Management's Response/Corrective Action Plan: *We agree with the finding.*

The SESC is finalizing a reconciliation of balances on inactive grants that were impacted by the existence of a dual accounting system that was sunset in April 2008 and the conversion of the State's accounting system in 2007. New accounts have been established and the older accounts are being reconciled and closed out. This work is expected to be complete by June 30, 2013. The current procedures for drawing cash have been simplified with the new account structure and *accurate cash on hand data is available to review and it is considered when making a new Federal draw request.*

Contact: *Dennis A. Corliss, Director, Security and Employment Service Center, 623-6701*

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER

(12-1401-02)

Title: Subrecipient contracts do not contain all information required by Federal regulations

Prior Year Finding: No
State Department: Transportation
State Bureau: Finance and Administration
Federal Agency: U.S. Department of Transportation
CFDA Title: Highway Planning and Construction Cluster
CFDA #: 20.205; 20.219
Federal Award #: Various

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Subpart D, _ .400 (d) Pass-through entity responsibilities

Condition: Federal regulations require that pass-through entities identify Federal awards by informing whether the award is research and development, and the name of the Federal agency. DOT did not include the CFDA title and number when awarding funds for locally administered projects.

Context: Out of a $210 million Federal program, MDOT passed-through $ 10.8 million to subrecipients for locally administered projects during fiscal year 2012.

Cause: Inadequately designed procedures

Effect: Without this information subrecipients may not be aware of compliance requirements related to grants, and may not know how to properly record Federal expenditures on their Schedule of Expenditures for Federal Awards.

Recommendation: We recommend that the Department notify their subrecipients of the correct CFDA title and number.

Management's Response/Corrective Action Plan: *We agree with the recommendation.*

Future contracts for subrecipients will include the CFDA title and number.

Contact: *Michael Laberge, Local Projects Coordinator, 624-3508*

SURFACE TRANSPORTATION – DISCRETIONARY GRANTS FOR CAPITAL INVESTMENT

(12-1404-01)

Title: Procedures to ensure compliance with Federal suspension and debarment

Prior Year Finding: No
State Department: Transportation
State Bureau: Contract Procurement Office
Federal Agency: U.S. Department of Transportation
CFDA Title: Surface Transportation – Discretionary Grants for Capital Investment
CFDA #: 20.932
Federal Award #: DTMA1G10006

Compliance Area: Procurement, suspension and debarment

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 49 CFR §18.35 Subawards to debarred and suspended parties

Condition: The Department did not have policies and procedures in place to ensure that awards were made only to parties who were not suspended or debarred from participation in Federal assistance programs. No verification was performed to ensure that a contractor receiving significant grant funds was not a suspended or debarred party.

Context: The Department expended $4.2 million during fiscal year 2012 related to this contract.

Cause: Insufficient monitoring of contractual provisions

Effect: Potential payments to suspended or debarred parties, resulting in disallowances

Recommendation: We recommend that the Department implement procedures to ensure the required suspension and debarment clause be included in the contracts.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

*Although the Department does currently have policies and procedures in place to monitor suspension and debarment, **additional** policies and procedures will be implemented to ensure that **all** awards are made only to parties who are not suspended or debarred. In the future, all Department contracts involving Federal assistance programs will be monitored for contractual provisions such as the suspension and debarment clause. Additionally, the Department verified, with the Excluded Parties List System, that the particular contractor in question was not suspended or debarred.*

***Contact:** Deborah Farrell, Director, CPO, 624-3324*

(12-1505-01)

Title: Suspension and debarment requirements overlooked

Prior Year Finding: No
State Department: Economic and Community Development
State Bureau: Office of Community Development
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Title: CDBG – State Administered CDBG Cluster
CFDA #: 14.228
Federal Award #: B-08-DN-23-0001

Compliance Area: Procurement, suspension and debarment

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 2 CFR part 180 OMB Guidelines

Condition: The Department did not have sufficient procedures in place to ensure that awards were made only to parties who were not suspended or debarred from participation in Federal assistance programs. No verification procedures were performed for any of the five contracts tested under this grant award.

Context: During the fiscal year 2012 ten contracts totaling $18,303,714 were funded by this award.

Cause: Because the Federal government selected the municipalities to whom this grant would be awarded, the standard procedures related to awarding contracts were not performed. Suspension and debarment verification procedures were overlooked.

Effect: Potential payments to suspended or debarred parties, resulting in possible disallowances

Recommendation: We recommend that the DECD amend its control procedures to ensure that suspension and debarment requirements are satisfied when Federal contracts are awarded, regardless of the methods used in awarding the contracts.

Management's Response/Corrective Action Plan: *Management agrees with the finding.*

The Office of Community Development (OCD) currently has procedures in place to ensure that suspension and debarment requirements are satisfied. For the particular municipalities not included with our usual suspension and debarment procedures, the *awarding agency (HUD) specifically approved the municipalities; municipalities that also have an existing contractual relationship with HUD as entitlements. The particular municipalities were awarded funding through the Neighborhood Stabilization Program (NSP) funds, a special Community Development Block Grant allocation that resulted from the Housing and Economic Recovery Act of 2008. The NSP funding expired during State Fiscal Year 2013.*

In the future, OCD will ensure that suspension and debarment requirements are satisfied in regards to all entities awarded funding through OCD, including municipalities and/or entities approved by HUD.

Contact: *Deborah Johnson, Director, Office of Community Development, 624-9817*

(12-1505-02)

Title: Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency

Prior Year Finding: No
State Department: Economic and Community Development
State Bureau: Office of Community Development
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Title: CDBG – State Administered CDBG Cluster
CFDA #: 14.228
Federal Award #: B-11-DC-23-0001

Compliance Area: Reporting

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 2 CFR part 170 Reporting subaward and executive compensation information

Condition: The Department did not comply with FFATA reporting requirements. Although the information related to the contractors was uploaded to the Federal reporting system, it remained in a pending status and was never submitted to the Federal government.

Context: Forty contracts totaling $9,664,340 required FFATA reporting during the State Fiscal Year 2012.

Cause: Implementation challenges with the new FFATA reporting process.

Effect: Possible Federal sanctions for noncompliance with Transparency Act reporting requirements.

Recommendation: We recommend that DECD continue to utilize the FFATA training materials available at the Subaward Reporting System (FSRS) to comply with Transparency Act reporting requirements.

Management's Response/Corrective Action Plan: *Management agrees with the finding and has, in spite of the inherent technical flaws in the FFATA system successfully entered all of the awards as required.*

Staff is now familiar with the system and awards are being entered appropriately for the 2013 CDBG Program.

Contact: *Deborah Johnson, Director, Office of Community Development, 624-9817*

STATE OF MAINE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY12 Status (Refer to auditee's complete corrective action plan)	FY12 Finding
09-1106-08	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Provider eligibility procedures need improvement	None	Corrective action not completed in FY12	See 12-1106-14 No further action warranted per OMB A-133 §315(b)(4)
09-1106-09	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Controls over pharmacy claims processing system need improvement	None	Corrective action not completed in FY12	See 12-1106-09 No further action warranted per OMB A-133 §315(b)(4)
09-1106-10	93.720 93.775 93.777 93.778 93.767	Health and Human Services Service Center & Health and Human Services	Procedures need to be implemented to ensure correct reimbursement rates are paid to providers and cost of care is properly deducted	96,618	Corrective action not completed in FY12	See 12-1106-16 No further action warranted per OMB A-133 §315(b)(4)
09-1106-13	93.720 93.775 93.777 93.778	Health and Human Services	Controls over prompt payment requirements need improvement	None	Corrective action not completed in FY12	ARRA audit requirements not applicable in FY12
09-1106-14	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Incorrect client eligibility determinations	None	Corrective action not completed in FY12	See 12-1106-18 No further action warranted per OMB A-133 §315(b)(4)
09-1109-04	93.658	Health and Human Services	Procedures to ensure payments are made only for allowable activities need improvement	7,045	Corrective action taken in FY12	Finding was not repeated
09-1111-01	93.558 93.714 93.720 93.775 93.777 93.778 10.551 10.561	Health and Human Services	Income and Eligibility Verification System procedures need improvement	None	Corrective action not completed in FY12	See 12-1111-02 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY12 Status (Refer to auditee's complete corrective action plan)	FY12 Finding
09-1111-04	93.558 93.714	Health and Human Services Service Center	Procedures to ensure accurate financial reporting need improvement	None	Corrective action taken in FY12	Finding was not repeated
09-1140-01	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Claims processing procedures to ensure local match (certified seed) is met need improvement	None	Corrective action not completed in FY12	See 12-1140-02 no further action warranted per OMB A-133 §315(b)(4)
09-1140-03	93.720 93.775 93.777 93.778 93.767	Health and Human Services	School based rehabilitation services billing and payment procedures need improvement	None	Corrective action taken in FY12	Finding was not repeated
09-1140-04	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Procedures needed to ensure better accountability of certified public expenditures	None	Corrective action taken in FY12	Finding was not repeated
09-1200-01	84.010 84.389 84.027 84.173 84.391 84.392 84.367	Administrative and Financial Services General Government Service Center	Noncompliance with subrecipient cash management requirements	None	Corrective action not completed in FY12	See 12-1200-01 No further action warranted per OMB A-133 §315(b)(4)
09-1200-03	84.010 84.027 84.394	Administrative and Financial Services General Government Service Center	Procedures to comply with Treasury State Agreement on cash management need to be improved	None	Corrective action not completed in FY12	See 12-1200-03 No further action warranted per OMB A-133 §315(b)(4)
09-1200-04 09-1234-01	84.389 84.173 84.391 84.392	Administrative and Financial Services General Government Service Center	Federal cash management procedures inadequate	None	Corrective action not completed in FY12	See 12-1200-04 No further action warranted per OMB A-133 §315(b)(4)
09-1201-02	84.027 84.173 84.391 84.392	Education	During-the-award monitoring procedures need improvement	None	Corrective action not completed in FY12	See 12-1201-02 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY12 Status (Refer to auditee's complete corrective action plan)**	**FY12 Finding**
09-1308-01	84.126 84.390	Labor	Eligibility decisions need to be more timely	None	Corrective action completed in FY12	Finding was not repeated
09-1502-01	97.036	Defense, Veterans and Emergency Management	Lack of procedures to ensure compliance with subrecipient monitoring requirements	None	Corrective action taken in FY12	Finding was not repeated. No further action warranted per OMB A-133 §315(b)(4)
10-1106-01	93.720 93.775 93.777 93.778	Health and Human Services	Medicare Part B eligibility verification procedures need improvement	None	Corrective action not completed in FY12	12-1106-08
10-1106-02	93.720 93.775 93.777 93.778	Health and Human Services Service Center & Health and Human Services	Federal share of paid claims overstated	Not determinable	Corrective action not completed in FY12	Management Letter comment issued for FY12
10-1106-03	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Inconsistent application of the Medicaid provider desk review process	None	Corrective action not completed in FY12	12-1106-01
10-1106-04	93.720 93.775 93.777 93.778	Health and Human Services	Procedures relating to the hospital cost reporting process need to be improved	None	Corrective action not completed in FY12	12-1106-02
10-1106-09	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Controls over pharmacy claims processing system need improvement	Not determinable	Corrective action not completed in FY12	12-1106-09
10-1106-10	93.720 93.775 93.777 93.778 93.767	Health and Human Services Service Center & Health and Human Services	Procedures need to be implemented to ensure correct reimbursement rates are paid to providers and cost of care is properly deducted	30,000	Corrective action not completed in FY12	12-1106-16

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY12 Status (Refer to auditee's complete corrective action plan)	FY12 Finding
10-1106-11	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Provider eligibility procedures need improvement	None	Corrective action not completed in FY12	12-1106-14
10-1106-12	93.720 93.775 93.777 93.778	Health and Human Services Service Center	Procedures relating to uncashed checks need improvement	55,512	Corrective action not completed in FY12	12-1106-07
10-1106-14	93.720 93.775 93.777 93.778	Health and Human Services	Controls over prompt payment requirements need improvement	Not determinable	Corrective action not completed in FY12	ARRA audit requirements not applicable in FY12
10-1106-15	93.720 93.775 93.777 93.778 93.767	Health and Human Services Service Center & Health and Human Services	Procedures to ensure payments are made from the correct Federal program need	223,171	Corrective action not completed in FY12	Management Letter comment issued for FY12
10-1106-16	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Incorrect client eligibility determinations	None	Corrective action not completed in FY12	12-1106-18
10-1106-17	93.720 93.775 93.777 93.778	Health and Human Services	Procedures to ensure timely submission of Medicaid Eligibility Quality Control (MEQC) six month summary reports need to be improved	None	Corrective action taken in FY12	Finding was not repeated
10-1109-06	93.658	Health and Human Services	Procedures to ensure payments are made only for allowable activities need improvement	13,622	Corrective action taken in FY12	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY12 Status (Refer to auditee's complete corrective action plan)	FY12 Finding
10-1111-01	93.558 93.714 93.720 93.775 93.777 93.778 10.551 10.561	Health and Human Services	Income and Eligibility Verification System procedures need improvement	None	Corrective action not completed in FY12	12-1111-02
10-1111-02	93.558 93.714	Health and Human Services Service Center	Procedures to ensure accurate financial reporting need improvement	None	Corrective action taken in FY12	Finding was not repeated
10-1140-01	93.720 93.775 93.777 93.778 93.767	Health and Human Services	School based rehabilitation services billing and payment procedures need improvement	Not determinable	Corrective action taken in FY12	Finding was not repeated
10-1140-02	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Claims processing procedures to ensure local match (certified seed) is met need improvement	None	Corrective action not completed in FY12	12-1140-02
10-1140-03	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Procedures needed to ensure better accountability of certified public expenditures	None	Corrective action taken in FY12	Finding was not repeated
10-1151-03	93.069	Health and Human Services Service Center	Controls over period of availability of Federal funds need improvement	$15,255	Corrective action taken in FY12	Finding was not repeated
10-1151-05	93.069	Health and Human Services	Payroll costs not supported in accordance with Federal regulations	Not determinable	Corrective action not completed in FY12	Finding was not repeated
10-1200-01	84.010 84.389 84.027 84.173 84.391 84.392 84.367	Administrative and Financial Services General Government Service Center	Noncompliance with subrecipient cash management requirements	None	Corrective action not completed in FY12	12-1200-01

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY12 Status (Refer to auditee's complete corrective action plan)**	**FY12 Finding**
10-1200-02	Various	Education & Administrative and Financial Services General Government Service Center	Subrecipient monitoring procedures need improvement	None	Corrective action completed in FY12	Finding was not repeated
10-1200-03	84.010 84.027 84.394	Administrative and Financial Services General Government Service Center	Procedures to comply with Treasury State Agreement on cash management need to be improved	None	Corrective action not completed in FY12	12-1200-03
10-1200-04	84.389 84.173 84.391 84.392	Administrative and Financial Services General Government Service Center	Federal cash management procedures inadequate	None	Corrective action not completed in FY12	12-1200-04
10-1201-01	84.027 84.173 84.391 84.392	Education	During-the-award monitoring procedures need improvement	None	Corrective action not completed in FY12	12-1201-02
10-1308-01	84.126 84.390	Administrative and Financial Services Security and Employment Service Center	Cash management procedures need improvement	None	Corrective action completed in FY12	Finding was not repeated
10-1308-03	84.126 84.390	Labor	Eligibility decisions need to be more timely	None	Corrective action completed in FY12	Finding was not repeated
10-1315-01	17.258 17.259 17.260 17.277 17.278	Administrative and Financial Services Security and Employment Service Center	Cash management procedures need to be improved	None	Corrective action not completed in FY12	12-1315-01
10-1315-02	17.258 17.259 17.260	Labor	Procedures for providing award information to subrecipients need to be implemented	None	Corrective action taken in FY12	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY12 Status (Refer to auditee's complete corrective action plan)	FY12 Finding
10-1315-03	17.258 17.259 17.260 17.277 17.278	Labor and Administrative and Financial Services Security and Employment Service Center	Subrecipient monitoring activities need to be improved	None	Corrective action taken in FY12	Finding was not repeated
11-1103-01	10.551 10.561	Health and Human Services Service Center	Cost allocation plan error	21,815	Corrective action not completed in FY12	Management Letter comment issued for FY12
11-1106-01	93.720 93.775 93.777 93.778	Health and Human Services	Controls over prompt payment requirements need improvement	Not determinable	Corrective action not completed in FY12	ARRA audit requirements N/A in FY12
11-1106-02	93.720 93.775 93.777 93.778	Health and Human Services Service Center & Health and Human Services	Federal share of paid claims overstated	Not determinable	Corrective action not completed in FY12	Management Letter comment issued for FY12
11-1106-03	93.720 93.775 93.777 93.778	Health and Human Services Service Center	Procedures relating to uncashed checks need improvement	26,024	Corrective action not completed in FY12	12-1106-07
11-1106-04	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Controls over pharmacy claims processing system need improvement	Not determinable	Corrective action not completed in FY12	12-1106-09
11-1106-05	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Inconsistent application of the Medicaid provider desk review process	None	Corrective action not completed in FY12	12-1106-01
11-1106-06	93.720 93.775 93.777 93.778	Health and Human Services	Procedures relating to the hospital cost reporting process need to be improved	None	Corrective action not completed in FY12	12-1106-02

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY12 Status (Refer to auditee's complete corrective action plan)	FY12 Finding
11-1106-07	93.720 93.775 93.777 93.778 93.767	Health and Human Services Service Center & Health and Human Services	Procedures to ensure payments are made from the correct Federal program need	223,793	Corrective action not completed in FY12	Management Letter comment issued for FY12
11-1106-08	93.720 93.775 93.777 93.778	Health and Human Services	Medicare Part B eligibility verification procedures need improvement	None	Corrective action not completed in FY12	12-1106-08
11-1106-10	93.720 93.775 93.777 93.778	Health and Human Services	Procedures to ensure timely submission of Medicaid Eligibility Quality Control (MEQC) six month summary reports need to be improved	None	Corrective action taken in FY12	Finding was not repeated
11-1106-11	93.720 93.775 93.777 93.778	Health and Human Services	The Decision Support System/Data Warehouse (DSS/DW) is not reconciled to the Statewide accounting system	None	Corrective action not completed in FY12	12-1106-11
11-1106-12	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Provider eligibility procedures need improvement	None	Corrective action not completed in FY12	12-1106-14
11-1106-13	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Procedures need to be implemented to ensure that the MaineCare Fiscal Agent complies	None	Corrective action not completed in FY12	12-1106-05
11-1106-14	93.720 93.775 93.777 93.778 93.767	Health and Human Services Service Center & Health and Human Services	Procedures need to be implemented to ensure correct reimbursement rates are paid to providers and cost of care is properly deducted	Not determinable	Corrective action not completed in FY12	12-1106-16

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY12 Status (Refer to auditee's complete corrective action plan)**	**FY12 Finding**
11-1106-16	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Incorrect client eligibility determinations	Not determinable	Corrective action not completed in FY12	12-1106-18
11-1109-01	93.658	Health and Human Services	Procedures to ensure payments are made only for allowable activities need improvement	11,214	Corrective action taken in FY12	Finding was not repeated
11-1111-01	93.558 93.714 93.720 93.775 93.777 93.778 10.551 10.561	Health and Human Services	Income and Eligibility Verification System procedures need improvement	None	Corrective action not completed in FY12	12-1111-02
11-1111-02	93.558 93.714	Health and Human Services Service Center	Procedures to ensure accurate financial reporting need improvement	None	Corrective action taken in FY12	Finding was not repeated
11-1114-01	93.596 93.575 93.713	Health and Human Services Service Center	Federal cash management procedures inadequate	None	Corrective action completed in FY12	Finding was not repeated
11-1114-04	93.596 93.575 93.713	Health and Human Services	Payroll costs not properly documented	Not determinable	Corrective action taken in FY12	Finding was not repeated
11-1114-05	93.596 93.575 93.713	Health and Human Services	Procedures to ensure payments were only made to approved providers need to be improved	less than $10,000	Corrective action taken in FY12	Finding was not repeated
11-1128-02	93.563	Health and Human Services	Case records not established within required time frame	None	Corrective action not completed in FY12	Finding was not repeated
11-1128-03	93.563	Health and Human Services	Cases not referred to other States within required time frame	None	Corrective action not completed in FY12	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY12 Status (Refer to auditee's complete corrective action plan)	FY12 Finding
11-1128-04	93.563	Health and Human Services	Interstate cases not responded to within required time frame	None	Corrective action not completed in FY12	Finding was not repeated
11-1140-01	93.720 93.775 93.777 93.778 93.767	Health and Human Services	School based rehabilitation services billing and payment procedures need improvement	Not determinable	Corrective action taken in FY12	Finding was not repeated
11-1140-02	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Claims processing procedures to ensure local match (certified seed) is met need improvement	None	Corrective action not completed in FY12	12-1140-02
11-1140-03	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Procedures needed to ensure better accountability of certified public expenditures	None	Corrective action taken in FY12	Finding was not repeated
11-1200-01	84.010 84.389 84.027 84.173 84.391 84.392 84.367	Administrative and Financial Services General Government Service Center	Noncompliance with subrecipient cash management requirements	None	Corrective action not completed in FY12	12-1200-01
11-1200-03	84.010 84.027 84.394	Administrative and Financial Services General Government Service Center	Procedures to comply with Treasury State Agreement on cash management need to be improved	None	Corrective action not completed in FY12	12-1200-03
11-1200-04	84.389 84.173 84.391 84.392	Administrative and Financial Services General Government Service Center	Federal cash management procedures inadequate	None	Corrective action not completed in FY12	12-1200-04
11-1201-01	84.173 84.392	Education	Noncompliance with earmarking requirements	None	Corrective action not completed in FY12	12-1201-04

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY12 Status (Refer to auditee's complete corrective action plan)**	**FY12 Finding**
11-1201-02	84.027 84.173 84.391 84.392	Education	During-the-award monitoring procedures need improvement	None	Corrective action not completed in FY12	12-1201-02
11-1201-03	84.027 84.173 84.391 84.392	Education	Award identification procedures need improvement	None	Corrective action completed in FY12	Finding was not repeated
11-1203-03	10.553 10.555 10.556 10.559	Education	Record keeping for donated foods needs to be improved	None	Corrective action completed in FY12	Finding was not repeated
11-1203-04	10.553 10.555 10.556 10.559	Education	Reports required under the Federal Funding Accountability and Transparency Act (FFATA) were not filed	None	Corrective action not completed in FY12	12-1203-01
11-1221-01	84.367	Education	Grant information not consistently or accurately provided to local educational agencies (LEAs)	None	Corrective action completed in FY12	Finding was not repeated
11-1302-02	17.225	Labor & Administrative and Financial Services Security and Employment Service Center	Significant improvements are needed to prevent, detect, remediate and recover improper Unemployment Insurance benefit payments	None	Corrective action not completed in FY12	12-1302-01
11-1302-06	17.225	Labor & Administrative and Financial Services Security and Employment Service Center	Procedures to determine eligibility need to be improved	6,532	Corrective action not completed in FY12	12-1302-01

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY12 Status (Refer to auditee's complete corrective action plan)	FY12 Finding
11-1302-07	17.225	Labor & Administrative and Financial Services Security and Employment Service Center	Benefit Accuracy Measurement (BAM) unit procedures need to be implemented so that Federal requirements are met	None	Corrective action completed in FY12	Finding was not repeated
11-1302-08	17.225	Labor	Procedures to write-off Unemployment Insurance benefit overpayments need to be reassessed	Not determinable	Corrective action not completed in FY12	Finding was not repeated
11-1308-01	84.126 84.390	Administrative and Financial Services Security and Employment Service Center	Cash management procedures need improvement	None	Corrective action completed in FY12	Finding was not repeated
11-1308-02	84.126 84.390	Labor	Eligibility decisions need to be more timely	None	Corrective action completed in FY12	Finding was not repeated
11-1308-03	84.126 84.390	Labor	Improvements are needed to ensure timely development of Individualized Plans for Employment (IPEs)	None	Corrective action completed in FY12	Finding was not repeated
11-1315-01	17.258 17.259 17.260 17.277 17.278	Administrative and Financial Services Security and Employment Service Center	Cash management procedures need to be improved	None	Corrective action not completed in FY12	12-1315-01
11-1315-02	17.258 17.259 17.260 17.277 17.278	Labor and Administrative and Financial Services Security and Employment Service Center	Subrecipient monitoring activities need to be improved	None	Corrective action taken in FY12	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2012

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY12 Status (Refer to auditee's complete corrective action plan)	FY12 Finding
11-1315-03	17.258 17.259 17.260	Labor	Procedures for providing award information to subrecipients need to be implemented	None	Corrective action taken in FY12	Finding was not repeated
11-1315-04	17.258 17.259 17.260 17.277 17.278	Labor	Procedures to ensure compliance with Federal suspension and debarment requirements need improvement	None	Corrective action taken in FY12	Finding was not repeated
11-1401-01	20.205 20.219	Transportation	Procedures related to Davis-Bacon requirements need improvement	None	Corrective action taken in FY12	Finding was not repeated
11-1401-02	20.205 20.219 23.003	Transportation	Quality Assurance Program requirements not followed	None	Corrective action taken in FY12	Finding was not repeated
11-1403-01	20.500 20.507 20.509	Transportation	Procedures related to subrecipient monitoring requirements need improvement	None	Corrective action not completed in FY12	Management Letter comment issued for FY12
11-1530-01	81.041	Executive	Federal suspension and debarment procedures need to be implemented	None	Corrective action taken in FY12	Finding was not repeated
11-1530-03	81.041	Executive	Subrecipient monitoring procedures need improvement	None	Corrective action taken in FY12	Finding was not repeated

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