STATE OF MAINE

GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 1997

MAINE

General Purpose Financial Statements

For The Year Ended June 30, 1997

Angus S. King, Jr.
Governor

Janet E. Waldron
Commissioner
Department of Administrative & Financial Services

Carol F. Whitney
State Controller

Prepared by the State Controller's Office

STATE OF MAINE

Department of Administrative & Financial Services
Bureau of Accounts & Control
14 State House Station
Augusta, ME 04333-0014
Telephone: (207)626-8420 (Voice)
(207)287-4537 (TDD)
Fax: (207)626-8422

To the Citizens, Governor, and Members of the Legislature of the State of Maine:

This General Purpose Financial Report of the State of Maine represents the product of our second of three years of transition to generally accepted accounting principles or GAAP compliance. Our commitment continues, demonstrated by the inclusion in this year's report of component units.

Subsequent to the fiscal year ended June 1997, other mandatory compliance work has been completed or advanced. Included in this work is the segregation of capital leases, which is complete; and significant advances in the fixed asset project, expected to be complete by November 1998.

The State's financial condition continues to improve. For the first time in 5 years, there were no Tax Anticipation Notes issued. Reserving against uncollectable taxes is virtually complete, allowing use of a modified accrual approach; and the Rainy Day Fund is at an all time high.

We believe that the information in this report presents accurately the financial position of the State of Maine as of the fiscal year ended June 30, 1997. Responsibility for both the accuracy and completeness of the presentation, including all disclosures, rests with the office of the State Controller.

Preparation of this report was made possible by the dedicated staff within the Controller's Office and the Department of Audit.

Sincerely,

Carol F. Whitney
State Controller

Victor E. Fleury
Deputy State Controller.


DIRIGO
MAINE

STATE OF MAINE
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 1997

TABLE OF CONTENTS

DIRIGO

MAINE

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

GAIL M. CHASE, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA, CIA
DIRECTOR OF AUDITS
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDITS

Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the State of Maine, as of and for the year ended June 30, 1997, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the discretely presented component units listed in Note 1, which represent 100 percent of the total assets and 100 percent of the total revenues of the component unit column, 100 percent of the changes in pension plan net assets and 100 percent of the assets and 100 percent of the revenues of the college and university component unit funds. We did not audit the financial statements of the Maine Court Facilities Authority, which represents one percent of the assets and .4 percent of the total revenues of the Special Revenue Fund Type. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units and for the Maine Court Facilities Authority, is based solely on the reports of the other auditors.

Except as discussed in the first succeeding paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. The financial statements of the Finance Authority of Maine, the Maine Municipal Bond Bank, the Maine Court Facilities Authority, the Maine Educational Loan Authority and the Maine State Housing Authority 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 general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

Because the State of Maine does not maintain adequate systems to identify, classify and report capital leases in conformity with generally accepted accounting principles, we were unable to satisfy ourselves regarding the amounts at which fixed assets (stated at $46.2 million), and obligations under capital leases (stated at $0) are recorded in the Internal Service Fund.

The general purpose financial statements referred to above do not include the General Fixed Assets Account Group which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the General Fixed Assets Account Group is not known.

The general purpose financial statements referred to above do not include financial data of the Maine Turnpike Authority, which should be included in order to conform with generally accepted accounting principles. The financial statements of the Maine Turnpike Authority were audited by other auditors whose report dated March 14, 1997, expressed an unqualified opinion on those statements which were prepared in accordance with provisions of General Turnpike Revenue Bond Resolutions and the Authority's interpretations of those resolutions. The effect on amounts reported in the discretely presented component unit columns had the omitted component unit been included is not known.

The general purpose financial statements referred to above do not include financial data of the Maine Health and Higher Education Facilities Authority, which should be included in order to conform with generally accepted accounting principles. The financial statements of the Maine Health and Higher Education Facilities Authority were audited by other auditors whose report dated October 17, 1997, expressed an unqualified opinion on those statements. If the omitted component unit had been included, the assets and liabilities of the discretely presented component unit column would have increased by $946 million and $781.5 million, respectively. The effect on revenues and expenditures of the discretely presented component units had the omitted component unit been included is not known.

In our opinion, based on our audit and the reports of other auditors, except for the effect on the financial statements of the omissions described in the first, second and third preceding paragraphs, and the effect of such adjustments, if any, as might have been determined to be necessary had records concerning capital leases been adequate (discussed in the fourth preceding paragraph), the general purpose financial statements referred to in the first paragraph (as included in the table of contents) present fairly, in all material respects, the financial position of the State of Maine, as of June 30, 1997, and the results of its operations and the cash flows of its proprietary fund types, nonexpendable trust funds and discretely presented component units, the changes in pension plan net assets, and the changes in fund balances and current funds revenues, expenditures, and other changes of the college and university funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 20 to the financial statements, the State of Maine financial reporting entity has changed as the result of implementing Government Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

In accordance with *Government Auditing Standards*, we will issue a report dated April 15, 1998, on our consideration of the State of Maine's internal control structure and on its compliance with laws and regulations, in the State of Maine Single Audit Report.

As described in Note 3 to the financial statements, General and Special Revenue Fund fund balances and Internal Service and Enterprise Fund retained earnings have been restated.

Gail M. Chase, CIA
State Auditor

April 15, 1998
(Except for Note 18,
as to which the date
is May 5, 1998)

General Purpose Financial Statements

STATE OF MAINE
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUP and DISCRETELY PRESENTED COMPONENT UNITS

June 30, 1997
(Dollars in Thousands)

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Cash and Short-Term Investments	$ 171,616	$ 129,832	$ 55,654
Cash with Fiscal Agent	17,305	3,711	-
Investments	-	4,493	-
Restricted Deposits	9,426	-	-
Line of Credit	-	-	-
Investments of Deferred Compensation Plan	-	-	-
Assets Held in Trust	-	-	-
Unemployment Deposits with US Treasury	-	-	-
Receivables, Net of Allowance for Uncollectibles:			
Taxes Receivable	204,519	33,071	-
Due from Other Governments	-	123,059	-
Loans Receivable	1	1,394	-
Notes Receivable	-	-	-
Other Receivable	32,067	47,178	-
Due from Other Funds	2,006	12,955	-
Due from Primary Government	-	-	-
Inventories	2	21,719	-
Fixed Assets - Net of Depreciation Where Applicable	-	-	-
Working Capital Receivable	1,386	13,182	-
Other Assets	1,917	2,045	1
Amount to be Provided for Retirement of General Long-Term Obligations	-	-	-
Total Assets and Other Debits	$ 440,245	$ 392,639	$ 55,655
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	$ 74,062	$ 152,516	$ 5,439
Accrued Payroll	12,356	15,085	-
Compensated Absences	2,639	1,904	-
Tax Refunds Payable	65,486	-	-
Due to Other Governments	38,497	40,025	-
Due to Other Funds	10,019	7,149	-
Due to Component units	16,818	5,023	2,300
Lottery Prizes Payable	-	-	-
Deferred Compensation Payable	-	-	-
Agency Liabilities	-	-	-
Claims Payable	-	-	-
Other Accrued Liabilities	7,442	5,398	-
Certificates of Participation and Other Financing Arrangements	-	-	-
Obligations under Capital Leases	-	-	-
Amounts Held under State Loan Programs			
Deferred Revenue	77,164	32,617	-
Undisbursed Grant and Administrative Funds	-	-	-
Bonds and Notes Payable	2,471	108	-
Working Capital Advances Payable	-	275	-
Total Liabilities	306,954	260,100	7,739
Fund Equity and Other Credits:			
Contributed Capital	-	-	-
Retained Earnings:			
Reserved	-	-	-
Unreserved	-	-	-
Fund Balances (Deficits):			
Reserved for Continuing Appropriations	69,170	171,212	-
Reserved for Unemployment Benefits	-	-	-
Reserved for Nonexpendable Trusts	-	-	-
Reserved for Pension Benefits	-	-	-
Reserved for Debt Service	17,193	-	-
Reserved for Capital Projects	-	-	47,916
Reserved for Tax Relief	44,677	-	-
Other Reservations	15,380	14,572	-
Net Investment in Plant	-	-	-
Unreserved	(13,129)	(53,245)	-
Total Fund Equity and Other Credits	133,291	132,539	47,916
Total Liabilities, Fund Equity and Other Credits	$ 440,245	$ 392,639	$ 55,655

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

Primary Government						
Proprietary Fund Types		Fiduciary Fund Types	Account Group	Total (Memorandum Only)		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Long-Term Obligations	Primary Government	Component Units	Reporting Entity
$ 6,427	$ 33,234	$ 18,842	$ -	$ 415,605	$ 537,054	$ 952,659
-	115	748	-	21,879	3,723	25,602
-	-	44,494	-	48,987	5,325,556	5,374,543
-	-	-	-	9,426	-	9,426
-	-	-	-	-	35,863	35,863
-	-	133,988	-	133,988	1,567	135,555
-	-	40,385	-	40,385	2,660	43,045
-	-	118,405	-	118,405	-	118,405
-	-	-	-	237,590	-	237,590
-	-	-	-	123,059	18,093	141,152
9,323	-	-	-	10,718	1,779,583	1,790,301
-	-	-	-	-	34,848	34,848
7,143	1,635	5,765	-	93,788	37,918	131,706
21	8,680	-	-	23,662	3,140	26,802
-	-	-	-	-	25,622	25,622
3,182	4,476	1	-	29,380	5,560	34,940
54,147	46,167	-	-	100,314	341,738	442,052
-	-	-	-	14,568	-	14,568
127	435	25	-	4,550	22,916	27,466
-	-	-	523,160	523,160	-	523,160
$ 80,370	$ 94,742	$ 362,653	$ 523,160	$ 1,949,464	$ 8,175,841	$ 10,125,305
$ 5,505	$ 6,484	$ 7,203	$ -	$ 251,209	$ 22,725	$ 273,934
429	1,014	-	-	28,884	1,237	30,121
451	936	-	26,180	32,110	196	32,306
-	-	-	-	65,486	-	65,486
-	-	-	-	78,522	9,171	87,693
75	991	5,428	-	23,662	3,140	26,802
1,481	-	-	-	25,622	-	25,622
6,587	-	-	-	6,587	-	6,587
-	-	133,988	-	133,988	1,567	135,555
-	-	40,495	-	40,495	-	40,495
-	55,013	-	-	55,013	-	55,013
1,167	537	692	-	15,236	84,939	100,175
-	19,917	-	6,894	26,811	-	26,811
-		-	-	-	5,428	5,428
				-	48,972	48,972
331	1,337	5,752	-	117,201	38,425	155,626
-	-	-	-	-	7,794	7,794
-	-	-	490,086	492,665	1,953,568	2,446,233
1,000	13,293	-	-	14,568	-	14,568
17,026	99,522	193,558	523,160	1,408,059	2,177,162	3,585,221
56,646	15,328	-	-	71,974	-	71,974
-	-	-	-	-	152,312	152,312
6,698	(20,108)	-	-	(13,410)	162,893	149,483
-	-	-	-	240,382	-	240,382
-	-	101,693	-	101,693	-	101,693
-	-	12,355	-	12,355	6,185	18,540
-	-	-	-	-	5,214,197	5,214,197
-	-	-	-	17,193	931	18,124
-	-	-	-	47,916	6,561	54,477
-	-	-	-	44,677	-	44,677
-	-	-	-	29,952	157,190	187,142
-	-	-	-	-	288,632	288,632
-	-	55,047	-	(11,327)	9,778	(1,549)
63,344	(4,780)	169,095	-	541,405	5;998,679	6,540,084
$ 80,370	$ 94,742	$ 362,653	$ 523,160	$ 1,949,464	$ 8,175,841	$ 10,125,305

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	Primary Government				
	Governmental Fund Types			Fiduciary Fund Type	
	General	Special Revenue	Capital Projects	Expendable Trust	Total (Memorandum Only)
Revenues:					
Taxes	$ 1,803,224	$ 310,487	$ -	$ 116,056	$ 2,229,767
Assessments and Other Revenues	42,225	107,988	-	-	150,213
Federal Grants and Reimbursements	16,524	1,308,182	-	-	1,324,706
Service Charges	26,342	107,544	-	-	133,886
Miscellaneous Revenues	9,838	21,377	3,945	16,176	51,336
Total Revenues	1,898,153	1,855,578	3,945	132,232	3,889,908
Expenditures:					
General Government	162,502	99,099	(1,886)	192	259,907
Economic Development	29,966	63,175	3,000	-	96,141
Education and Culture	723,438	88,792	5,329	-	817,559
Human Services	541,026	1,154,810	1,217	-	1,697,053
Labor	11,274	66,519	-	104,289	182,082
Natural Resources	38,892	48,468	17,215	1,734	106,309
Public Protection	13,514	50,020	338	-	63,872
Transportation	2,715	341,128	21,135	-	364,978
Debt Service:					
Principal Payments	67,537	20,380	-	-	87,917
Interest Payments	26,156	8,202	-	-	34,358
Total Expenditures	1,617,020	1,940,593	46,348	106,215	3,710,176
Revenues over (under) Expenditures	281,133	(85,015)	(42,403)	26,017	179,732
Other Financing Sources (Uses):					
Operating Transfers Net	(5,187)	73,123	(3,687)	(2,325)	61,924
Bond Proceeds	-	-	42,700	-	42,700
Transfers to Component Units	(177,351)	(14,240)	(8,698)	-	(200,289)
Net Other Financing Sources (Uses)	(182,538)	58,883	30,315	(2,325)	(95,665)
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	98,595	(26,132)	(12,088)	23,692	84,067
Fund Balances at Beginning of Year	34,696	158,671	60,004	132,711	386,082
Fund Balances at End of Year	$ 133,291	$ 132,539	$ 47,916	$ 156,403	$ 470,149

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

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

Fiscal Year Ended June 30, 1997
(Dollars In Thousands)

	General Fund			Special Revenue Fund		
	Actual	Budget	Variance Favorable/ (Unfavorable)	Actual	Budget	Variance Favorable/ (Unfavorable)
Revenues:						
Taxes	$ 1,769,131	$ 1,716,897	$ 52,234	$ 326,505	$ 328,494	$ (1,989)
Assessments and Other Revenues	45,631	50,155	(4,524)	104,571	126,742	(22,171)
Federal Grants and Reimbursements	6,043	9,535	(3,492)	1,215,670	1,517,012	(301,342)
Service Charges	26,604	28,267	(1,663)	82,092	109,783	(27,691)
Miscellaneous Revenues	8,127	6,433	1,694	95,814	110,435	(14,621)
Total Revenues	1,855,536	1,811,287	44,249	1,824,652	2,192,466	(367,814)
Expenditures:						
General Government	232,550	262,055	29,505	123,684	147,963	24,279
Economic Development	29,966	31,703	1,737	63,174	93,220	30,046
Education and Culture	893,688	900,755	7,067	89,165	97,757	8,592
Human Services	546,150	596,630	50,480	1,135,254	1,300,040	164,786
Labor	11,274	15,007	3,733	66,519	112,651	46,132
Natural Resources	38,892	40,728	1,836	48,468	80,563	32,095
Public Protection	13,356	15,731	2,375	50,020	59,938	9,918
Transportation	2,777	3,028	251	328,650	402,119	73,469
Total Expenditures	1,768,653	1,865,637	96,984	1,904,934	2,294,251	389,317
Excess Revenues over (under) Expenditures	86,883	(54,350)	141,233	(80,282)	(101,785)	21,503
Other Financing Sources (Uses):						
Operating Transfers In	71,576	69,085	2,491	77,703	76,113	(1,590)
Operating Transfers Out	(79,237)	(76,855)	(2,382)	(8,388)	(10,135)	(1,747)
Other Budgeted Resources	2,102	18,629	(16,527)	(515)	-	515
Net Other Financing Sources (Uses)	(5,559)	10,859	(16,418)	68,800	65,978	(2,822)
Excess Revenues and Other Sources over (under) Expenditures and Other Uses	81,324	$ (43,491)	$ $124,815	(11,482)	$ (35,807)	$ 24,325
Beginning Fund Balances	137,975			182,919		
Ending Fund Balances	$ 219,299			$ 171,437		

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


DIRIGO
MAINE

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS/ FUND BALANCES, AND CONTRIBUTED CAPITAL
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Types	Total	
	Enterprise	Internal Service	Nonexpendable Trusts	(Memorandum Only)	Component Units
Operating Revenues:					
Charges for Services	$ 221,477	$ 121,697	$ -	$ 343,174	$ 3,307
Interest on Loans Receivable from Governmental Units	-	-	-	-	45,656
Income from Investments	-	-	337	337	30,215
Interest Income from Mortgages and Notes	-	-	-	-	67,630
Grant Revenue from Other Governments	-	-	-	-	59,337
Federal Rent Subsidy Income	-	-	-	-	52,915
Reinsurance Recoveries - Guaranteed Student Loans	-	-	-	-	11,907
Miscellaneous Revenues	-	-	-	-	16,347
Total Operating Revenues	221,477	121,697	337	343,511	287,314
Operating Expenses:					
General Operations	159,028	91,158	-	250,186	16,929
Depreciation	3,938	9,912	-	13,850	373
Interest Expense	150	1,132	-	1,282	120,697
Grant Related Expenses	-	-	-	-	35,729
Federal Rent Subsidy Expense	-	-	-	-	52,915
Claims / Fees Expense	-	16,872	-	16,872	-
Miscellaneous Expenses	-	-	-	-	23,245
Total Operating Expenses	163,116	119,074	-	282,190	249,888
Operating Income (Loss)	58,361	2,623	337	61,321	37,426
Nonoperating Revenue (Expenses):	803	1,192	-	1,995	(2,633)
Income (Loss) before Operating Transfers	59,164	3,815	337	63,317	34,793
Transfers In (Out):					
Transfers In	2,358	25		2,383	8,496
Transfers Out	(64,307)			(64,307)	-
Total Operating Transfers	(61,949)	25	-	(61,924)	8,496
Income (Loss) before Extraordinary Item	(2,785)	3,841	337	1,393	43,289
Income (Loss) from Extraordinary Item:					
Loss on Bond Redemption					(743)
Net Income	(2,785)	3,841	337	1,393	42,546
Add: Depreciation of Fixed Assets Acquired from Contributed Capital	1,833	-	-	1,833	-
Increase (Decrease) in Retained Earnings/Fund Balances	(952)	3,841	337	3,226	42,546
Retained Earnings/Fund Balances at July 1, 1996 (As Restated)	7,650	(23,948)	12,355	(3,943)	272,659
Retained Earnings/Fund Balances at June 30, 1997	$ 6,698	$ (20,108)	$ 12,692	$ (718)	$ 315,205
Contributed Capital at July 1, 1996	55,861	15,328		71,189	
Add: Capital Contributions	2,618	-		2,618	
Less: Depreciation of Fixed Assets Acquired from Contributed Capital	(1,833)	-		(1,833)	
Contributed Capital at June 30, 1997	$ 56,646	$ 15,328		$ 71,974	

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

STATE OF MAINE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type		
	Enterprise	Internal Service	Nonexpendable Trust	Total (Memorandum Only)	Component Units
Cash Flows from Operating Activities:					
Excess of Revenues Over Expenses/Net Operating Income	$ 58,361	$ 2,623	$ 337	$ 61,321	$ 37,426
Adjustments to Reconcile Excess of Revenues over	-	-	-	-	-
Expenses to Net Cash Provided by Operating Activities:	-	-	-	-	-
Investments and Other Income	-	-	-	-	(32,748)
Depreciation/Amortization	5,771	9,912	-	15,683	373
Amortization					1,969
Accretion on Capital Appreciation of Bonds	-	-	-	-	1,601
Interest Expense on Bonds Payable	-	-	-	-	-
and Deferred Financing Costs	-	-	-	-	118,400
Grants from Federal Government and Primary Government	-	-	-	-	(21,868)
Provision for Losses on Insured Commercial and Student Loans	-	-	-	-	87
Changes in Assets and Liabilities:	-	-	-	-	-
Accounts Receivable	-	-	-	-	(105,080)
Other Receivable	2,654	(1,065)	-	1,589	-
Loans Receivable	550	-	-	550	-
Due from Other Funds	(10)	(199)	-	(209)	-
Inventories	102	670	-	772	-
Loans Receivable from Governmental Units	-	-	-	-	(11,492)
Accrued Interest Receivable from				-	-
Governmental Units	-	-	-	-	295
Other Assets	489	(258)	(4)	227	5,319
Accounts Payable	(630)	2,168	-	1,538	(2,172)
Accrued Payroll	66	84	-	150	-
Compensated Absences	(26)	(49)	-	(75)	-
Due to Other Funds	(1,528)	(785)	-	(2,313)	-
Due to Component Unit	1,481	-	-	1,481	-
Deferred Revenue	(20)	249	-	229	269
Lottery Prizes Payable	(931)	-	-	(931)	-
Claims and Judgments	-	2,329	-	2,329	-
Undisbursed Administrative Funds	-	-	-	-	96
Net of Receipts/(Payments) of Federal Government	-	-	-	-	817
Other Accrued Liabilities	(1,290)	69	2	(1,219)	-
Default Payments (Net of Recoveries) on Commercial and				-	-
Student Loans	-	-	-	-	(2,175)
Principal Payments Received on Notes Receivable	-	-	-	-	11,889
Interest Received on Educational Loans	-	-	-	-	3,102
Disbursements for New Notes Receivable	-	-	-	-	(10,369)
Educational Loans Originated for Sale to Related Party	-	-	-	-	(50,741)
Sale of Educational Loans to Related Party	-	-	-	-	50,741
Increase in Amounts Held in State Revolving Loan Programs	-	-	-	-	5,961
Grant Program Funds Received (Disbursed)	-	-	-	-	(2,948)
Net Cash Provided by Operating Activities	$ 65,039	$ 15,748	335	$ 81,122	$ (1,248)

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

(continued)

STATE OF MAINE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 1997
(Dollars In Thousands)
(continued)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type		
	Enterprise	Internal Service	Nonexpendable Trust	Total (Memorandum Only)	Component Units
Cash Flows from Noncapital Financing Activities:					
Proceeds from Bonds & Notes Payable	$ 255	$ -	$ -	$ 255	$ 247,912
Principle Paid on Bonds & Notes Payable	-	-	-	-	(139,538)
Amount Deposited in Refunding Escrow Accounts	-	-	-	-	(26,606)
Interest Paid on Bonds & Notes Payable	-	-	-	-	(113,216)
Grant Receipts from Other Governments	-	-	-	-	10,129
Increase in Pledged Collateral Due to Related Party	-	-	-	-	310
Operating Transfers In (Out)	(61,949)	25	-	(61,924)	-
Transfers In from Primary Government					8,496
Equity Transfer In (Out)	(4,225)	4,225	-	-	-
Miscellaneous Noncapital Financing Activities	-	-	-	-	(1,388)
Net Cash Provided by Noncapital Financing Activities	(65,919)	4,250	-	(61,669)	(13,901)
Cash Flows from Capital and Related Financing Activities:					
Additions to Land and Building	(4,487)	(7,873)	-	(12,360)	(119)
Principal Payments on Financing Instruments	-	(2,968)	-	(2,968)	-
Capital Contributions	785	-	-	785	-
Net Cash Provided by Capital and Related Financing Activities	(3,702)	(10,841)	-	(14,543)	(119)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	-	-	-	-	271,909
Purchase of Investments	-	-	(492)	(492)	(257,432)
Income Received from Investments	547	1,192	-	1,739	27,443
Net Cash Provided by Investing Activities	547	1,192	(492)	1,247	41,920
Increase (Decrease) in Cash and Cash Equivalents	(4,035)	10,349	(157)	6,157	26,652
Cash and Cash Equivalents at Beginning of Year	10,462	23,000	913	34,375	189,797
Cash and Cash Equivalents at End of Year	$ 6,427	$ 33,349	$ 756	$ 40,532	$ 216,449

STATE OF MAINE
STATEMENT OF CHANGES IN PLAN NET ASSETS
DISCRETELY PRESENTED COMPONENT UNIT - PENSION PLAN

Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

Additions:		
Investment Income:		
Interest	$	47,118
Dividends		18,410
Other		9,384
Net Appreciation in the Fair Value of Investments		753,103
Less: Investment Expenses		(10,744)
Net Investment Income		817,271
Contributions:		
Members		105,379
State and Local Agencies		267,854
Total Contributions		373,233
Total Additions		1,190,504
Deductions:		
Benefits Paid		290,211
Refunds and Withdrawals		15,717
Administrative Expenses		7,204
Total Deductions		313,132
Net Increase		877,372
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year		4,336,825
End of Year	$	5,214,197

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

STATE OF MAINE
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS

For the Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	Current Funds					Total
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds	(Memorandum Only)
Revenues and Other Additions:						
Unrestricted Current Fund Revenues	$ 187,231	$ 10,595	$ -	$ -	$ -	$ 197,826
Government Grants and Contracts - Restricted	-	47,546	428	-	880	48,854
Private Gifts, Grants and Contracts - Restricted	-	20,144	210	2,746	3,431	26,531
Endowment Income - Restricted	-	2,680	9	292	-	2,981
Investment Income - Restricted	-	747	41	-	357	1,145
Interest Income on Loans Receivable	-	-	1,006	-	-	1,006
Unrealized Gains on Investments	-	-	131	11,205	-	11,336
Expended for Plant Facilities	-	10	-	-	21,121	21,131
Other Additions	4,538	133	1	45	2,733	7,450
Total Revenues and Other Additions	191,769	81,855	1,826	14,288	28,522	318,260
Expenditures and Other Deductions:						
Educational and General Expenditures	303,544	94,015	-	650	-	398,209
Auxiliary Enterprise Expenditures	49,002	3	-	-	-	49,005
Administrative and Collection Costs	-	100	1,459	212	218	1,989
Interest on Indebtedness	-	-	-	-	2,550	2,550
Disposal of Plant Assets	-	-	-	-	1,537	1,537
Proceeds from New Financing	-	-	-	-	5,281	5,281
Expended for Plant Facilities	-	-	-	-	4,864	4,864
Write Down of Asset Values	-	23	25	-	22,761	22,809
Net Recoveries of Charged-off Loans	-	-	-	-	-	-
Total Expenditures and Other Deductions	352,546	94,141	1,484	862	37,211	486,244
Transfers Amoung Funds - Additions (Deductions):						
Mandatory:						
Principal and Interest	(5,923)	-	-	-	5,923	-
Loan Fund Transfers	(147)	-	147	-	-	-
Restricted Resources Allocated	888	(919)	3	29	499	500
Nonmandatory Transfers from Plant	(5,110)	(499)	-	2	5,108	(499)
Nonmandatory Transfers to Endowment	(1,491)	-	-	1,878	(387)	0
Transfers from Primary Government	170,379	17,716	-	-	3,698	191,793
Other Deductions	(4,759)	(72)	-	-	-	(4,831)
Total Transfers	153,837	16,226	150	1,909	14,841	186,963
Net Increase (Decrease) for the Year	(6,940)	3,940	492	15,335	6,152	18,979
Fund Balance June 30, 1996	39,223	16,779	37,227	65,744	291,325	450,298
Fund Balance June 30, 1997	$ 32,283	$ 20,719	$ 37,719	$ 81,079	$ 297,477	$ 469,277

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

STATE OF MAINE
COMBINED STATEMENT OF CURRENT FUNDS
REVENUES, EXPENDITURES, AND OTHER CHANGES
DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS

For the Fiscal Year Ended June 30, 1997
(Dollars in Thousands)

	Unrestricted	Restricted	Total
Revenues:			
Tuition and Fees	$ 104,708	$ 263	$ 104,971
Federal Appropriations	300	6,363	6,663
Federal Grants and Contracts	559	49,753	50,312
Private Gifts, Grants and Contracts	2,178	21,778	23,956
Endowment Income	339	2,687	3,026
Sales and Services of Auxiliary Enterprise	54,818	-	54,818
Other Income	28,867	816	29,683
Total Current Fund Revenues	191,769	81,660	273,429
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	125,327	6,023	131,350
Research	8,989	21,047	30,036
Public Service	15,174	23,202	38,376
Academic Support	43,566	6,911	50,477
Student Services	30,784	2,289	33,073
Institutional Support	38,903	884	39,787
Operational and Maintenance of Plant	30,531	464	30,995
Scholarships and Fellowships	10,270	33,217	43,487
Total Expenditures	303,544	94,037	397,581
Mandatory Transfers:			
Principal and Interest	3,517	-	3,517
Loan Fund	147	-	147
Total Mandatory Transfers	3,664	-	3,664
Total Educational and General	307,208	94,037	401,245
Auxiliary Enterprises:			
Expenditures	49,002	3	49,005
Mandatory Transfer for Principal and Interest	2,406	-	2,406
Total Auxiliary Enterprises	51,408	3	51,411
Total Expenditures and Mandatory Transfers	358,616	94,040	452,656
Other Transfers and Additions (Deductions):			
Excess of Restricted Receipts over Transfers to Revenues	-	(43)	(43)
Net Allocation of Resources (to) from Other Funds	(5,186)	(1,419)	(6,605)
Transfer from PG	170,379	17,716	188,095
Other Deductions	(5,286)	66	(5,220)
Total Transfers and Additions	159,907	16,320	176,227
Net Increase (Decrease) in Fund Balance	$ (6,940)	$ 3,940	$ (3,000)

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

Notes To The General Purpose Financial Statements

STATE OF MAINE

INDEX TO THE NOTES TO THE COMBINED FINANCIAL STATEMENTS

Notes to the Financial Statements
For Year Ended June 30, 1997

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine have been prepared under guidelines established by generally accepted accounting principles (AGAPE) as prescribed by the Governmental Accounting Standards Board (GASB), with certain exceptions. The financial statements do not include the General Fixed Asset Account Group, the reporting of capital leases, and the financial statements of two component units.

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

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The criteria for determining financial accountability include the following: 1) appointment of a voting majority of an organization's governing authority and either the ability of the primary government to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government; or 2) the organization is fiscally dependent on the primary government, or 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.

The State has included ten entities as component units in the reporting entity due to the significance of their operational and/or financial relationships with the State. Agencies that meet the criteria for component units include: the Maine State Retirement System (MSRS), the Maine Technical College System (MTCS), the University of Maine System (UM), the Maine Maritime Academy (MMA), the Finance Authority of Maine (FAME), the Maine State Housing Authority (MSHA), the Maine Educational Loan Authority (MELA), the Loring Development Authority (LDA), the Maine Court Facilities Authority (MCFA), and the Maine Municipal Bond Bank (MMBB). The financial information for these entities is either blended within the State's financial statements, or discretely presented in a separate column or in separate statements. Financial information for the Maine Turnpike Authority, and the Maine Health and Higher Education Facilities Authority (MHHEFA), which are component units, have not been included.

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

The Authority was created in 1987 for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as court facilities in the State. The Authority is included in the Special Revenue Fund type.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but that are either accountable to the State or related so closely to the State that their exclusion would cause the

State's financial statements to be misleading or incomplete. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. It includes the financial data of the following entities:

Proprietary Types:

The Finance Authority of Maine was created in 1983 to provide commercial financing and loan guarantees to Maine businesses and to provide educational financing to Maine students and their parents. Additionally, the Authority provides financial and other services for the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, the Occupational Safety Program Fund Board, and the Small Business Enterprise Growth Fund Board. The 15 voting members of the Authority are appointed by the Governor.

The Maine State Housing Authority is authorized to issue bonds for the purchase of notes and mortgages on single-family and multifamily residential units for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collects and disburses federal rent subsidies for low-income housing. The Authority has seven commissioners, five of whom are appointed by the Governor. Its fiscal year ends on December 31.

The Maine Educational Loan Authority was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. There are seven voting members of the Authority, five of whom are appointed by the Governor. The authority's fiscal year ends on December 31.

The Loring Development Authority was created in 1993, after the President of the United States accepted the recommendation of the Base Closure and Realignment Commission to close Loring Air Force Base. It is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the old Loring Air Force Base. The Board of Trustees consists of thirteen members appointed by the Governor.

The Maine Municipal Bond Bank is authorized to issue bonds to provide funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations within the State. The Bond Bank has a Board of five commissioners, three of whom must be residents of the State and appointed by the Governor.

The State has capital reserve restoration provisions with the Maine Health and Higher Education Facilities Authority, the Maine Municipal Bond Bank, the Loring Development Authority, the Maine State Housing Authority, the Maine Educational Loan Authority, and the Finance Authority of Maine.

The Maine State Retirement System is the administrator of an agent multiple-employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, and employees of approximately 250 local municipalities and other public entities in Maine. The Board has seven voting members, four of whom are appointed by the Governor. Due to the nature and significance of the public employee retirement system to the State, exclusion would cause the State's financial statements to be misleading or incomplete.

Colleges and Universities

The Maine Technical College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree.

The University of Maine System is the State University. In 1968 all existing units of the State college system (Orono, Portland, Augusta, and the Law School) were merged by the 103rd Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. The System now consists of seven campuses, the Maine Public Broadcasting Network, and a central administrative office. The educational and general portion of the total enterprise is supported by two sources, a State appropriation that makes up 55 percent of the System budget, and University revenues (primarily tuition and fees) that make up the budgetary difference of 45 percent.

Maine Maritime Academy is a college specializing in ocean and marine programs at the undergraduate and graduate level. The operation of the Academy is subject to review by the Federal Government. It is supported by State appropriations, student fees, and a subsidy from the Maritime Administration.

The State of Maine provides significant financial resources to these educational institutions.

The component units' financial information included in the reporting entity has been reformatted to conform to the accounting classifications used by the State. Condensed financial statement information for each component unit included in the component units column in the general purpose financial statements is presented in Note 14, Segment Information.

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

Loring Development Authority of Maine
PO Box 457
Limestone, ME 04750-0457

Finance Authority of Maine
83 Western Avenue, PO Box 949
Augusta, ME 04332-0949

Maine Educational Loan Authority
526 Western Avenue, PO Box 549
Augusta, ME 04332

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

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

University of Maine System
107 Maine Avenue
Bangor, ME 04401

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

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

Maine Maritime Academy
Castine, ME 04420

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

Maine Technical College System
131 State House Station, 323 State Street
Augusta, ME 04330-0131

Maine Turnpike Authority
450 Riverside Street
Portland, ME 04103

Related Organizations

Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Science and Technology Foundation, the Maine School of Science and Mathematics, the Maine Port Authority, the Maine Veteran's Home, the Maine Sludge and Residuals Utilization Research Foundation, and the Maine Public Utilities Financing Bank. However, the primary government has no material accountability for these organizations beyond making the appointments.

B. Fund Accounting

The State reports its financial position and results of operations in funds and account groups. A fund is a separate accounting entity with a self-balancing set of accounts. Cash and other financial resources, all related liabilities and residual equities or balances, and changes therein, are recorded and segregated. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Transactions between funds, if any, have not been eliminated.

The presentation of component units is not meant to be a consolidation, since transactions within the State entity have not been eliminated. However, appropriations and grants to the component units are recorded as operating transfers out of the applicable fund and as operating transfers into the component unit organization.

Account groups are used to provide accounting control and accountability for the State's general fixed assets and general long-term debt obligations. They are not considered funds because they do not report expendable, available financial resources and related liabilities.

The financial activities of the State of Maine are classified in three fund categories, one account group, and component units, as described below. The fund categories include governmental funds, proprietary funds, and fiduciary funds. The account group is the General Long-term Obligations Account Group. The General Fixed Asset Account Group is not reported.

1. Governmental Funds are used to account for the State's general activities.

   The General Fund is the primary operating fund of the State. It is used to account for all governmental transactions that are not accounted for in other funds.

   Special Revenue Funds account for specific revenue sources and the related current liabilities, other than expendable trusts or major capital projects that are legally restricted to expenditures for specified purposes.

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

2. Proprietary Funds are used to account for the State's ongoing activities that are similar to those found in the private sector.

   Enterprise Funds account for transactions related to resources received and used to finance self-supporting activities of the State. These activities offer products and services on a user-charge basis to the general public.

   Internal Service Funds account for transactions related to the financing and sale of goods or services between State agencies. The costs associated with these goods or services are billed to the recipient agency as user charges.

3. Fiduciary Funds are used to account for assets held by the State, acting as either a trustee or an agent for individuals, organizations, or other funds.

   Expendable Trust Funds account for those assets held in a trustee capacity where the principal and income may be expended in the course of the funds' designated operations.

   Nonexpendable Trust Funds account for those assets held in a trustee capacity by the State for which only income derived from the trust principal may be expended for designated operations. The principal must be preserved intact.

   Agency Funds account for assets the State holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

4. The Account Group consists of the following:

   General Long-Term Obligations Account Group is used to establish control and accountability for long-term obligations of the State not accounted for in proprietary funds or non-expendable trust funds. This includes outstanding, long-term obligations related to general obligation bonds, Certificates of Participation and other financing arrangements, compensated employee absences, and other long-term obligations.

5. The component units include College and University Funds and other proprietary type organizations that are legally separate from the State but are considered part of the reporting entity. There are three College and University Funds.

   The *Current Funds* account for unrestricted funds, over which the governing Boards retain full control in achieving the Institutions' purposes, and for restricted funds, which may be used only in accordance with externally restricted purposes. The funds do not show the results of operations or the net income or loss for the period.

The *Loan, Endowment, and Agency Funds* account for assets for which the Institutions act in a fiduciary capacity.

The *Plant Funds* account for Institutional property acquisition, renewal, replacement, and debt service.

C. Measurement Focus and Basis of Accounting

Governmental Funds and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized 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 (within 12 months, or within 60 days for property taxes) to be used to pay liabilities of the current period. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

Property taxes levied during the current fiscal year for the subsequent period are recorded as deferred revenue during the current year. Property taxes are assessed by the State Tax Assessor on properties located in the Unorganized Territories of Maine and on telecommunications personal properties statewide. Such taxes are levied by April 1. Prepayment of one-half of
the telecommunications tax is due on June 1 and all other property taxes are due on October 1. Formal collection procedures begin on November 1. Unpaid property taxes become a lien on March 15 of the fiscal year for which they are levied.

Significant revenues susceptible to accrual include income, sales and use, and other taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred. Principal and interest on long-term obligations are recorded as fund liabilities when due.

Proprietary Fund Types and Nonexpendable Trust Funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For all proprietary funds, the State applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

The Component Unit College and University Funds are an aggregate of the Institutions' separate financial statements and are accounted for on the accrual basis of accounting, with the following exception: the Maine Maritime Academy does not record depreciation expense on physical plant and equipment, which is allowed by governmental accounting standards.

The Maine State Retirement System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment purchases and sales are recorded as of their trade date.

D. Cash and Short-Term Investments, and Investments

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. The balances pooled are reported at cost, which approximates market value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds. Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Short-term investments reported as Cash and Short-term Investments on the Balance Sheet are comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, and U.S. Treasury Notes. Other investments of the State are carried at the lower of cost or market except for investments of the Deferred Compensation Plan, which are carried at market value. Donated investments are stated at fair market value at the date of donation.

Certain of the component units participate in the cash pool, which transactions they record as an investment. Component units' funds have been removed from the investments of the primary government and shown as component unit investments for purposes of note disclosure. Component units' investments are shown at cost or amortized cost except for the University of Maine System, and the Maine Maritime Academy which carry investments at market value, and the Maine State Retirement System, which carries investments at fair value.

E. Unemployment Deposits with United States Treasury

These deposits represent unemployment tax receipts deposited with the United States Treasury, which are drawn down to pay benefits.

F. Restricted Assets

Restricted assets represent funds that have been invested in a repurchase agreement and Certificates of Deposit at various financial institutions within the State, upon the financial institutions making loans to local commercial and agricultural enterprises to foster economic growth in Maine.

G. Receivables

Receivables consist primarily of amounts due to the State from taxpayers, service providers, and the federal government. Reimbursements due to the State for its expenditures on federally funded reimbursement and grant programs are included in "Due From Other Governments." Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. The receivables in the Component Units column are amounts that have arisen in the normal course of business.

Loans receivable for the primary government represent low interest financing arrangements for the construction and modernization of agricultural storage facilities. Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience and aging of the accounts.

H. Interfund Transactions

Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that certain transactions between funds were not completed as of June 30, 1997, interfund receivables or payables have been recorded. Receivables and payables resulting from transactions between funds are classified as "Due To Other Funds" or "Due From Other Funds" on the balance sheet.

Title 28-A, § 64, and Title 8, § 387, of M.R.S.A. require the Bureau of Alcoholic Beverages and Lottery Operations to transfer all net earnings to the General Fund.

Advances to and from other funds are long-term loans made by one fund to another. The advances are offset by a fund balance reserve indicating that the reserves do not constitute expendable financial resources.

Receivables and payables between the component units and the primary government are classified as "Due To/From Primary Government" or "Due To/From Component Units."

I. Inventories

The costs of materials and supplies of the governmental funds are reported as expenditures when purchased. Food stamps are stated at coupon value and any unexpended balances at fiscal year end are reported as inventory and deferred revenue in the Special Revenue Fund. Revenues and corresponding expenditures are recognized when the food stamps 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, except for those of the Bureau of Alcoholic Beverages, which are maintained on a current replacement cost basis. Although this basis is not in conformity with GAAP, it does not result in a material misstatement.

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

J. Fixed Assets

For Governmental Funds, fixed asset acquisitions are recorded as expenditures in the acquiring fund. Infrastructure assets such as highway curbs, bridges, and lighting systems are not capitalized. Fixed asset acquisitions of Proprietary Funds are accounted for in the acquiring fund and stated net of accumulated depreciation. Depreciation is recorded on a straight-line basis over the assets' estimated useful lives, which are 2-25 years for equipment and 10-40 years for buildings and improvements. No interest has been capitalized on self-constructed assets, as non-capitalization of interest does not have a material effect on the financial statements.

Fixed assets of Component Units are capitalized upon purchase and depreciated over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 3–100 years for structures and improvements, and 3–25 years for equipment, furniture, fixtures and vehicles. The Maine Maritime Academy does not record depreciation, which is allowed by governmental accounting standards.

K. Tax Refunds Payable

Tax refunds payable primarily represent amounts owed to taxpayers because of overpayments of their 1996 calendar year tax liabilities. Tax refunds payable are accrued to the extent they are measurable based on payments and estimates.

L. Claims Payable

Claims payable represent workers' compensation and other claims payable at June 30, 1997. These include actual claims submitted, as well as actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

M. Deferred Revenue

Revenue that does not meet the "availability" criterion for recognition in the current period is classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. In subsequent periods, when the revenue recognition criterion is met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and revenue is recognized. Most of the deferred revenue reported in the General Fund is for property tax assessments on telecommunications equipment. Most of the deferred revenue in the Special Revenue Fund is for food stamps not yet issued.

N. Due From/To Other Governments

At June 30, 1997, payments were due from the State to various municipalities and school districts. These amounts include General Purpose Aid for Local Schools and Municipal Revenue Sharing. The amount owed for General Purpose Aid for Local Schools is recorded in the General Fund. The State also owed the federal government for Medicaid cost recoveries from providers. Municipal Revenue Sharing and Medicaid cost recoveries are recorded in the Special Revenue Fund. Due From Other Governments represents federal grants receivable, which are amounts due for Medicaid claims. Due From Other Governments in the component units column represents money due from other governments for grants or owed for retirement benefits.

O. Compensated Employee Absences

Under the terms of union contracts and personnel administrative policies, employees are granted limited amounts of vacation, sick, and personal days, as well as compensatory time. Upon separation from State service, employees are eligible for compensation for accrued vacation, personal days, compensatory time, and (in some cases) sick leave. For Governmental Funds, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. Other leave is reported in the General Long-Term Obligations Account Group. Compensated employee absence benefits in the Proprietary Funds are recorded as expenses and liabilities as they accrue.

In the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

P. Other Accrued Liabilities

Other liabilities of the Governmental Funds consist primarily of amounts owed to providers for medical services. The liability for medical services includes an estimate of provider claims for services provided but not billed as of the State's fiscal year end, net of anticipated recoveries.

Contractor retainage is included in Other Accrued Liabilities of the Special Revenue Fund.

Q. Long Term Obligations

Primary Government

The State records Governmental Fund long term debt in the General Long Term Obligations Account Group. This includes the State's general obligation bonds, Certificates of Participation and other financing arrangements, and long term liabilities for compensated employee absences.

Also included in the General Long Term Obligations Account Group, as part of General Obligation Bonds, is $20.6 million in bonds issued by the Maine Court Facilities Authority, a blended component unit. Payment of these bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature.

Long term debt and other obligations of the Proprietary Funds, as well as the related interest payments, are recorded as liabilities in the appropriate funds.

Component Units

Loans, notes, and bonds payable for component units are for commercial financing, educational loans, and loans to counties, cities, towns, school administrative districts, other quasi-municipal corporations, multifamily low income residential units, and for the construction or capital improvement of school facilities.

R. Fund Balances

The State reports fund balances as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved. The State has the following reservations:

Reserved for Continuing Appropriations - identifies appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year if unexpended.

Reserved for Nonexpendable Trusts - identifies the nonexpendable amount of the trust principal.

Reserved for Unemployment Benefits - identifies amounts reserved for payment of unemployment compensation.

Reserved for Debt Service - identifies amounts held by fiscal agents to fund future debt service obligations.

Reserved for Capital Projects - identifies a legally segregated portion of funds available to finance the construction of major capital facilities.

Other Reservations - identifies the amount of fund balance reserved for other specified purposes including working capital needs, long term loans to other funds, and contingency funds from which the Governor may allocate sums for various purposes.

Contributed Capital in Proprietary Fund types represents equity acquired through contributions from other funds.

S. Total Column - Memorandum Only

Total columns included in certain statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented for information only.

T. Future Adoption of Accounting Pronouncements

In November, 1994, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers.* GASB Statement No. 27 establishes standards for the measurement and presentation of pension expenditures and expenses for governmental employers. Measurement is based on the governmental employer's annual required contributions. The State will adopt GASB Statement No. 27 in fiscal year 1998.

In March, 1997, GASB issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Statement's provisions generally require the State to report its investments at fair value as of the balance sheet date and to reflect changes in the fair value of investments as revenue in the State's operating statements. The Statement also requires the State to report its external investment pool as an investment trust fund. The provisions of this statement, which are effective for fiscal periods beginning after June 15, 1997, will be reflected in the State's financial report for the year ended June 30, 1998. Management has not yet determined the impact that implementation of GASB Statement No. 31 will have on the State's financial statements.

In October, 1997, GASB issued Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* The provisions of this Statement eliminate the requirements that Section 457 plan assets legally remain the assets of the sponsoring government and be reported in an agency fund as assets and liabilities of the government. Only those Section 457 plans that meet the existing criteria for inclusion in fiduciary funds may be reported in the financial statements. For plans in existence at August 20, 1996, the provisions of this statement are effective January 1, 1999. The State plans to implement this Statement for the year ended June 30, 1998. It is anticipated that the Section 457 plan will not be reported on the State's financial statements, as the State does not plan to have significant administrative involvement or perform the investing function.

U. Other Accounting Disclosures

During the fiscal year ended June 30, 1997, the State changed its method of reporting risk financing activities. In fiscal year 1996, risk management activities were reported in two funds. The primary government activities were reported in an Internal Service Fund and the activities of outside entities were presented as a risk pool within the Enterprise Fund. Since approximately 95 percent of the equity in the risk pool is due to component units, reflected in the State's financial statements for the first time, the two funds are now reported as one.

The effect of this change is to decrease current year excess of revenues over expenses and other nonoperating revenues/expenses in the Enterprise Fund and increase the current year excess of revenues over expenses and other nonoperating revenues/expenses in the Internal Service Fund.

NOTE 2 - BUDGETARY PROCESS

In accordance with statute, the Governor presents a biennial budget for the General Fund and the Special Revenue Fund 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 deallotment 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. In 1995, the Revenue Forecasting Committee was established. The Committee submits revenue projections for the General Fund and Highway Fund for the upcoming fiscal biennium and recommends adjustments to the current biennium.

Budgetary control is maintained at the account level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. Budget revisions during the year, reflecting program changes or intradepartmental administrative transfers, must be approved by the Budget Officer, or by the Budget Officer and the Chief Executive. 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. In order to provide sufficient funding for several programs during the year ended June 30, 1997, supplemental appropriations of $29.8 million were required.

Encumbrance accounting, which requires that purchase orders, contracts, and other commitments be recorded to reserve a portion of an appropriation or allocation for expenditure, is employed as an extension of formal budgetary control. Appropriated and allocated balances are available for subsequent expenditure to the extent that encumbrances have been approved by the end of a fiscal year. Encumbrances outstanding at year-end are reported as reservations of fund balances representing those portions of fund balances that are not available for allocation or expenditure, or that are legally segregated for specific future uses. Unencumbered appropriations in the General Fund and in the Highway Fund lapse at year-end unless, by law, they are carried forward to a subsequent year.

The State's budget is prepared primarily on a cash basis that differs from generally accepted accounting principles (GAAP). A reconciliation of the General Fund and the Special Revenue Fund to the GAAP basis is presented in the accompanying tables.

Budget to GAAP Reconciliation
June 30, 1997
(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$219,299	$171,437
Basis Differences		
Revenue Accruals/Adjustments:		
Taxes Receivable	136,674	16,101
Intergovernmental Receivables	-	108,195
Other Receivables	12,472	29,887
Due from Other Funds	1,969	3,087
Other Assets	(6,490)	(8,447)
Deferred Revenues	(68,129)	(8,708)
Total Revenue Accruals/Adjustments	76,496	140,115
Expenditure Accruals/Adjustments:		
Accounts Payable	(58,575)	(123,543)
Due to Other Governments	(38,497)	(38,308)
Accrued Liabilities	863	(20,859)
Due to Other Funds	(1,898)	135
Due to Component Units	(1,926)	(529)
Tax Refunds Payable	(65,486)	-
Total Expenditure Accruals/Adjustments	(165,519)	(183,104)
Perspective Differences		
Amounts reported in the Debt Service Fund on the budgetary basis and included in the General Fund on the GAAP basis	3,015	-
Entity Differences		
Blended Component Unit included in the Special Revenue Fund on a GAAP basis but not on a budgetary basis	-	4,091
Fund Balances - GAAP Basis	$133,291	$132,539

NOTE 3 - FUND BALANCE AND RETAINED EARNINGS RESTATEMENTS

Restatement

The restatement of fund balances/retained earnings as of June 30, 1996, is as follows:

Restatement of Fund Balances/Retained Earnings
(Dollars in Thousands)

Fund	Fund Balance/Retained Earnings as Previously Reported, June 30, 1996	Increase (Decrease) for Restatement	Fund Balance/Retained Earnings as Restated, July 1, 1996
General Fund	$ 39,760	$ (5,065)	$ 34,695
Special Revenue Fund	$ 153,700	$ 4,971	$ 158,671
Internal Service Funds	$ (17,563)	$ (6,385)	$ (23,948)
Enterprise Funds	$ 11,653	$ (4,003)	$ 7,650

The General Fund fund balance has been restated due to expenditures that were not accrued at June 30, 1996.

The Special Revenue Fund fund balance has been restated due to expenditures and tax revenues that were not accrued at June 30, 1996.

Retained earnings of the Enterprise Fund have been restated to remove risk management activities of other entities, due to implementation of GASB Statement No. 14.

The restatement of retained earnings of the Internal Service Funds reflects: (1) the addition of the risk pool portion of risk management activities, which had previously been reported in an Enterprise Fund, and (2) the reporting of contributed equity of the Retiree Health Fund as Contributed Capital rather than as part of Retained Earnings. Beginning Contributed Capital was increased by the same amount for the same reason as shown in the following table:

Restatement of Contributed Capital Balances
June 30, 1996
(Dollars in Thousands)

Fund	Contributed Capital as Previously Reported, June 30, 1996	Increase (Decrease) for Restatement	Contributed Capital As Restated, July 1, 1996
Internal Service Fund:			
Retiree Health	$ -	$10,386	$10,386
All Other Internal Service Funds	4,942	-	4,942
Total Internal Service Fund	$4,942	$10,386	$15,328

NOTE 4 - DEFICIT FUND BALANCES/RETAINED EARNINGS

Two Internal Service Funds, the Workers' Compensation Fund and the Retiree Health Insurance Fund, had deficit Retained Earnings for the fiscal year ended June 30, 1997. The $44.5 million deficit in the Workers' Compensation Fund reflects the accrual of a $51.9 million actuarial liability for claims payable. The $2.1 million deficit in the Retiree Health Insurance Fund is the result of reclassifying a residual equity transfer to Contributed Capital from Retained Earnings. Overall equity in the Retiree Health Insurance Fund is positive. Funds shown as Contributed Capital are available for program purposes.

NOTE 5 - DEPOSITS AND INVESTMENTS

The deposit and investment policies of the State of Maine Office of the Treasurer are governed by Title 5 of the Maine Revised Statutes Annotated (M.R.S.A.). Per 5 M.R.S.A. § 135, the Treasurer of State 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 Treasurer of State may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services, and the consent of the Governor. Approved investments include U.S. Treasury Bills, bonds, notes, other obligations of the United States that mature not more than 24 months from the date of investment, repurchase agreements secured by obligations of the United States that mature within the succeeding 24 months, prime commercial paper, tax-exempt obligations, or bankers' acceptances. State funds may also be deposited as required by the terms of custodial contracts or agreements negotiated in accordance with the laws of this State.

Investment policies of the permanent trust funds are governed by 5 M.R.S.A. § 138. The Treasurer of State, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Banking, and the Commissioner of Education, may invest the funds in securities that are legal investments in accordance with Title 9-B, M.R.S.A. The investment policies of the Percival Baxter expendable trusts, as stated in the late Governor Baxter's last will and testament, provide only that the funds may be managed, invested, reinvested and administered within the trustees' discretion.

The State Treasurer may also participate in the securities loan market by lending State-owned bonds, notes, or other certificates of indebtedness of the federal government, if the loans are fully collateralized by treasury bills or cash. In addition, the State Treasurer may invest up to four million dollars annually in lending institutions at a two percent lower-than-market yield, provided the financial institutions lend at least the same amount in operating funds to agricultural enterprises in this State at the same rate. The same provisions apply to non-agricultural commercial enterprises approved by the State Treasurer.

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 at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debts, or interest, or to pay current bills or expenses of the State. Also exempt are those deposits secured by the pledge of certain securities as collateral, and deposits fully covered by insurance. The collateral shall be in an amount equal to the deposit. The Treasurer of State shall determine the value of the securities pledged on the basis of market value.

Deposits

Deposits with financial institutions are classified as to collateral risk into three categories. Category 1 is the amount of State deposits that are fully insured or collateralized with securities held by the State or its agent in the State's name. Category 2 is the amount of deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 is the amount of deposits that are not collateralized or insured. Deposits of the Reporting Entity at June 30, 1997 are as follows:

Primary Government - Deposits
June 30, 1997
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 26,129	$ -	$ 12,863	$ 38,992	$ (65,633)
Cash with Fiscal Agent	-	-	21,878	21,878	21,878
Restricted Deposits	-	-	11,298	11,298	11,298
Total	$ 26,129	$ -	$ 46,039	$ 72,169	$ (32,457)

Investments

Investments are classified to indicate the level of risk assumed by the State. Category 1 consists of investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 are those investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name. Investments of the Primary Government at June 30, 1997, are as follows:

Primary Government - Investments
June 30, 1997
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Short-Term Investments:					
Repurchase Agreements	$ 119,931	$ -	$ -	$ 119,931	$ 120,082
U.S. Treasury Bills and Notes	152,920	-	-	152,920	155,168
Commercial Paper	141,583	-	-	141,583	142,189
Total Short-Term Investments	414,434	-	-	414,434	417,439
Investments:					
U.S. Government Securities	-	6,660	8,318	14,978	14,967
Corporate Bonds and Notes	-	-	5,579	5,579	5,581
Equity Securities	-	6,023	17,130	23,153	36,638
Other	-	3,514	120	3,634	3,634
Total Investments	$ 414,434	$ 16,197	$ 31,147	461,778	$ 478,259
Money Market Investments				1,643	
Deposits with U.S. Treasury				118,405	
Deferred Compensation Plan Assets				133,988	
Assets Held in Trust				40,385	
Total Investments – Primary Government				$ 756,199	

Component Units

Generally, component unit investment policies authorize investments in obligations of the U.S. Government, 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.

Cash and investments of the discretely presented component units at June 30, 1997, are as follows:

Component Units - Cash and Investments
June 30, 1997
(Dollars in thousands)

	Category 1	Category 2	Category 3	Carrying Amount	Market Value
Cash and Short-term Investments:					
Cash and Cash Equivalents	$ 750	$ 37,988	$289,573	$328,311	$ 328,311
Repurchase Agreements	165,388	11,168	12,428	188,984	188,984
Commercial Paper	22,822	-	-	22,822	22,822
Total Cash and Short –term Investments	188,960	49,156	302,001	540,117	540,117
Investments:					
U.S. Government Securities	312,785	157,923		470,708	480,054
Corporate Bonds and Notes	27,933	1,821	20,015	49,769	49,741
Equity Securities	1,368,103	1,302	33,992	1,403,397	1,404,400
Obligations of States and Political Sub-divisions	150	-	-	150	150
Other	16,688	5,788	2,194	24,670	24,660
Total Cash and Investments	$ 1,914,619	$215,990	$ 358,202	$2,488,811	$2,499,122
Real Estate				22	
Limited Partnership				713	
Common/Collective Trusts				3,367,483	
Guaranteed Investment Contracts				5,461	
Other				172	
Deferred Compensation Plan Assets				1,567	
Total Cash and Investments – Component Units				$5,864,229	

NOTE 6 - RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows:

Primary Government - Receivables
June 30, 1997
(Dollars in Thousands)

	Taxes	Due from Other Governments	Loans	Other Receivables	Allowance for Uncollectibles	Net Receivables
General Fund	$ 325,478	$ -	$ 1	$ 45,057	$ (133,949)	$ 236,587
Special Revenue Funds	42,533	123,059	1,379	53,752	(16,021)	204,702
Trust and Agency Funds	-	-	-	10,769	(5,004)	5,765
Internal Service Funds	-	-	-	1,645	(10)	1,635
Enterprise Funds	-	-	10,556	7,219	(1,309)	16,466
Subtotal	368,011	123,059	11,936	118,442	$ (156,293)	465,155
Less: Allowance for Uncollectibles	(130,421)	-	(1,218)	(24,654)		-
Net Receivables	$ 237,590	$ 123,059	$ 10,718	$ 93,788		$ 465,155

Component Units - Receivables
June 30, 1997
(Dollars in Thousands)

	Due from Other Governments	Loans and Notes	Other Types	Allowance for Uncollectibles	Net Receivables
Maine Municipal Bond Bank	$ -	$ 753,266	$ 8,050	$ -	$ 761,316
Maine State Housing Authority	2,490	957,427	-	-	959,917
Maine Education Loan Authority	-	34,998	687	(200)	35,485
Loring Development Authority	414	-	66	-	480
University of Maine System	4,705	35,774	13,165	(3,009)	50,635
Maine State Retirement System	10,264	-	11,416	-	21,680
Finance Authority of Maine	-	34,093	1,984	-	36,077
Maine Maritime Academy	220	2,207	372	(125)	2,674
Maine Technical College System	-	-	2,178	-	2,178
Subtotal	18,093	1,817,765	37,918	$(3,334)	1,870,442
Less: Allowance for Uncollectibles	-	(3,334)	-		-
Net Receivables	$ 18,093	$ 1,814,031	$ 37,918		$1,870,442

NOTE 7 - INTERFUND TRANSACTIONS

Due From/Due To Other Funds and Component Units

Due From Other Funds are amounts owed to one State fund by another for goods sold or services received. Similarly, Due From Component Units are amounts owed to the State by a component unit. The following is a summary of amounts due from and due to other funds and component units:

Primary Government - Due To/Due From Other Funds
June 30, 1997
(Dollars in Thousands)

Fund Type	Due From	Due To	Working Capital Advance Receivable	Working Capital Advance Payable
General Fund	$ 2,006	$ 10,019	$ 1,386	$ -
Special Revenue Fund	12,955	7,149	13,182	275
Internal Service Fund	8,680	991	-	13,293
Enterprise Fund	21	75	-	1,000
Trust and Agency Fund	-	5,428	-	-
Total	$ 23,662	$ 23,662	$ 14,568	$ 14,568

Component Units - Due From/Due To
June 30, 1997
(Dollars in Thousands)

	Due From	Due To
General Fund:		
University of Maine System	$ -	$ 1,926
Maine State Retirement System	-	14,892
Finance Authority of Maine	-	-
Loring Development Authority	-	-
Maine Maritime Academy	-	-
Maine Technical College System	-	-
Special Revenue Funds:		
University of Maine System	-	4,494
Maine State Housing Authority	-	529
Capital Project Funds:		
Maine Municipal Bond Bank	-	2,300
Finance Authority of Maine	-	-
Enterprise Funds:		
Finance Authority of Maine	-	-
Maine Technical College System	-	1,481
University of Maine System	-	-
Maine State Housing Authority:		
Special Revenue Funds	529	-
Maine Municipal Bond Bank:		
Capital Project	2,300	-
Finance Authority of Maine:		
Enterprise	1,481	-
University of Maine System:		
General Fund	1,926	-
Special Revenue	4,494	-
Maine State Retirement System:		
General Fund	14,892	-
Total Component Units	$ 25,622	$ 25,622

NOTE 8 - FIXED ASSETS

The following schedule details fixed assets that are not recorded in the General Fixed Assets Account Group:

Primary Government - Fixed Assets
June 30, 1997
(Dollars in Thousands)

	Enterprise Funds	Internal Service Funds
Land	$ 1,523	$ 243
Buildings	10,608	6,131
Equipment	40,407	111,725
Improvements Other Than Buildings	19,977	220
Construction in Progress	3,864	-
Less: Accumulated Depreciation	(22,232)	(72,152)
Total Fixed Assets	$ 54,147	$ 46,167

Component Units - Fixed Assets
June 30, 1997
(Dollars in Thousands)

	Totals
Land and Buildings	$ 361,453
Equipment	129,612
Improvements Other Than Buildings	31,645
Assets Under Capital Leases	325
Library Books	3,443
Construction in Process	5,569
Less: Accumulated Depreciation	(190,309)
Total Fixed Assets	$ 341,738

NOTE 9 - MAINE STATE RETIREMENT SYSTEM

The Maine State Retirement System is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Maine State Retirement System Laws, Title 5 M.R.S.A., C. 421, 423, and 425. The System is a component unit of the State. Financial information for the System is included in the discretely presented component unit column on the combined balance sheet and in the statement of changes in net assets available for pension benefits. Condensed financial statement information is presented in Note 14.

The System provides pension, death, and disability benefits to its members, which include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement contribution purposes, and employees of approximately 250 local municipalities and other public entities in Maine, each of which contracts for participation in the System under provisions of relevant statutes.

Membership is a condition of employment for State employees and teachers. Membership ceases upon withdrawal of contributions, retirement, or death.

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. The standard retirement benefit is 1/50 of the average of the employees' three highest earning years multiplied by years of membership service and up to 25 years of prior service, reduced for retirement before age 60. Vesting occurs upon the earning of ten year's service credit or the earning of one year's service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is age 60 or 62, determined by whether a member had at least 10 years of creditable service on June 30, 1993.

The System also provides death and disability benefits, which are established by statute for State and public school employees, and by contract with other participating employers under applicable statutory provisions. Group life insurance is provided under a plan that is administered by a third party insurance company. Premiums are set and collected by the System.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited for a five-year period for non-vested members and through the date of refund for vested members. Withdrawal of accumulated contributions results in forfeiture of all benefits. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 6.50 percent.

The total covered payroll for the year ended June 30, 1997, is shown in the following table. The employer's current year covered payroll is 100 percent of the total current year payroll for all employees.

Payroll Covered By MSRS
(Dollars in Thousands)

	State Employees	Teachers	Judicial & Legislative	Total
Vested	$ 248,649	$ 500,888	$ 2,321	$ 751,858
Non-vested	147,566	212,196	3,847	363,609
Totals	$ 396,215	$ 713,084	$ 6,168	$1,115,467

The amount shown in the next table as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the retirement plan on a going-concern basis, gauge the progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the retirement plan.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1997. Significant actuarial assumptions used in the valuation include (a) investment return of 8 percent per year compounded annually, (b) salary increases of 6 percent to 10 percent per year (including inflation of 4 percent), and (c) 4 percent annual cost-of-living post-retirement benefit increases.

As of June 30, 1997, the total unfunded pension benefit obligation was $2.4 billion, as shown in the following table.

MSRS Pension Benefit Obligation
(Dollars in Thousands)

	State Employees	Teachers	Judicial & Legislative	Total
Pension benefit obligation:				
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 1,225,764	$ 1,426,233	$ 17,396	$ 2,669,393
Current employees:				
Accumulated employee contributions, including allocated investment earnings	391,843	644,167	3,894	1,039,904
Employer-financed for vested employees	202,513	795,777	6,202	1,004,492
Employer-financed for nonvested employees	355,632	813,092	2,596	1,171,320
Total pension benefit obligation	2,175,752	3,679,269	30,088	5,885,109
Net assets available for benefits, at cost*	1,461,843	1,987,628	26,390	3,475,861
Total unfunded pension benefit obligation	$ 713,909	$ 1,691,640	$ 5,314	$ 2,409,248
* Net assets available at market	$ 1,679,027	$ 2,282,927	$ 30,311	$ 3,992,265

Retirement benefits are funded by contributions from members and employers, and earnings from investments. Disability and death benefits are funded by employer contributions and investment earnings. Member and employer contributions are a percentage of member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by annual actuarial valuations.

The employer contribution rate is developed using the entry age normal cost method (based on a level percentage of covered payroll). Under this funding method, a total contribution rate is determined that consists of two elements: the normal cost rate and the unfunded actuarial liability rate. The accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payroll. Entry age is defined as the first day service is credited under the plan. Significant actuarial assumptions used to compute contribution requirements are the same as those used in calculating the actuarial liability.

Funds managed by the System are constitutionally restricted to be held in trust for the payment of pension and related benefits to its participants. 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. There is no legal requirement that any portion of the total assets managed by the System be accumulated and utilized solely for the benefit of certain classes of members or for members who are employees of certain participating entities. Nevertheless, each of the participating entities is responsible for the funding of benefits related to that entity.

The contributions to the System required of employers and employees are based on percentages of covered employees' gross salaries. The actuarially determined contribution rates are as follows:

	1997	1996
State:		
Employees	7.65 - 8.65%	7.65 - 8.65%
Employer	16.09%	16.13%
Teachers:		
Employees	7.65%	7.65%
Employers	19.42%	19.36%

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and funds accumulated as of the same date is referred to as the unfunded actuarial liability. The unfunded actuarial accrued liability had been amortized on a level percentage of payroll over a 35 year closed period that commenced June 30, 1993.

In November, 1995, voters in the State approved a constitutional amendment that requires the State to retire the unfunded liabilities of the System that are attributed to State employees and teachers over a period of 31 years or less. The creation of new unfunded liabilities is prohibited, except those arising from experience losses, which must be funded over a period of not more than ten years. In addition, the amendment requires use of actuarially sound current-cost accounting, reinforcing the existing statutory requirements. It is effective at the beginning of the 1998 fiscal year.

Actuarially determined contribution requirements and contributions actually made for the 1997 fiscal year are as follows:

	State Employees	Teachers	Judicial	Legislative
Actuarially determined contribution requirement:				
Normal Cost	6.65 %	7.25%	16.00%	0.47%
Unfunded actuarially-determined liability	8.51	12.05	9.57	-
Total	15.16 %	19.30%	25.57%	0.47%
Employer contribution rates applied:				
Normal Cost	6.45%	7.45%	16.59%	9.10%
Unfunded actuarially-determined liability	8.52	12.61	12.13	-
Administration	1.00	0.42	1.00	1.00
Unfunded actuarially-determined liability adjustment	1.98	-	-	-
Total	17.95%	20.48%	29.72%	10.10%

Contributions for the 1997 fiscal year were as follows:

State	$ 73.5 million
Teachers	$133.0 million
Judicial	$ 1.1 million
Legislative	$ 0.1 million
Employee Contributions	$ 25.3 million

Additionally, the State is required by statute to remit 25 percent of the excess of total General Fund revenue received over accepted budget estimates in any fiscal year to the System, in order to reduce any unfunded liability for state employees. Accordingly, for the 1997 fiscal year, the State recorded additional contributions of $18.5 million, of which $14.9 million was due to the System at June 30, 1997.

Three-year trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Combined trend information for the three years ended June 30, 1997, 1996, and 1995 is presented in the next table.

	1997	1996	1995
Net assets available for benefits, as a percentage of pension benefit obligation	59.1%	41.1%	38.9%
Unfunded pension benefit obligation, as a percentage of covered payroll	216.0%	309.0 %	278.0%
Employer contributions, as a percentage of covered payroll	18.5%	17.9%	13.0%

Employer contributions met or exceeded actuarially determined contribution requirements.

Component Unit Pension Description

The component units shown in the following table have defined benefit pension plans. All except the University of Maine System are participants in plans administered by the Maine State Retirement System. Employees of the Maine Technical College System are considered to be State employees for retirement benefit purposes and are included in the pension disclosures of the State.

Pension Benefit Obligation - Component Units
(Dollars in Millions)

	Valuation Date	Pension Benefit Obligation	Net Assets Available for Benefits (at book value)
MMBB [1]	June 30, 1996	$ 341.6	$ 241.0
MMA	June 30, 1996	$ 18.3	$ 17.3
MSRS [1]	June 30, 1996	$ 341.6	$ 241.0
UM[2]	June 30, 1996	$ 42.3	$ 52.8

[1]These component units are participants in a "Consolidated Plan for Participating Local Districts," a cost-sharing, multiple-employer defined benefit pension plan. As such, the disclosures made by individual Participating Local Districts (PLD's) reflect the assets and liabilities of the regular and/or special plan(s) under the Consolidated Plan in which the PLD participates and not those of the PLD itself.

[2] UM net assets are stated at market value.

Employer contributions met actuarially determined contribution requirements.

Other Plans

MTCS also has an optional program with the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), which is a defined contribution plan, to which the MTCS contributes 12.88 percent of total salaries for participating employees.

UM also has a defined program with TIAA-CREF. The University contributes approximately 10 percent of base salary of participants. All full time employees are eligible, and part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time service. All eligible employees are required to participate in this Plan when they reach thirty years of age.

LDA and FAME have a Simplified Employee Pension Plan. MSHA has a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(a).

NOTE 10 - OTHER POST EMPLOYMENT EMPLOYEE BENEFITS

Post Retirement Health Care Benefits

The State of Maine funds health care benefits for most retirees. Pursuant to 5 M.R.S.A., § 285, most retired State employees and Legislators, and employees of the Maine Turnpike Authority, the Maine Technical College System, the Maine Maritime Academy, and the Maine State Retirement System are eligible for this benefit.

Specifically excluded (5 M.R.S.A., § 285 1-B) are members of the Maine Municipal Association and the Maine Teachers Association, and employees of counties and municipalities and their instrumentalities.

The State pays 25 percent of health insurance premiums for retired teachers. Benefits for retired teachers are addressed in 20-A M.R.S.A., § 13451 et seq.

The State pays 100 percent of post retirement health insurance premiums for retirees who were first employed before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than 5 years participation to 100 percent for retirees with 10 or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees eligible for Medicare are covered under supplemental insurance policies. The retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization, supplemental major medical and prescription drugs, and costs for treatment of mental health, alcoholism, and substance abuse.

Retiree health care benefits are funded on a pay-as-you go basis. For retired State employees, the State estimates the total amount necessary to pay health insurance premiums. This amount results in an employer contribution rate (4.08 percent for the 1997 fiscal year) that is applied against current employee payrolls. The amounts contributed are reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual amount necessary to pay its 25 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in the General Fund. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed.

For the fiscal year ended June 30, 1997, there were 7,880 retired eligible State and Technical College employees and 5,800 retired teachers. In the 1997 fiscal year, the State paid into the Retiree Health Insurance Fund $15.9 million for retired employees and $2.6 million for retired teachers. Premium charges paid were $13.7 million and $2.5 million, respectively. Overall fund equity increased by $3.3 million, to $8.3 million at June 30, 1997.

Post Retirement Life Insurance Benefits

The Maine State Retirement System (MSRS) provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of 10 years. Payments of claims are made by the MSRS from a fund containing a percentage of the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. Retired State employee and retired teacher life insurance claims totaled $2.5 million for the fiscal year ended June 30, 1997. The number of participants eligible to receive benefits at fiscal year end cannot be readily determined.

NOTE 11 - DEFERRED COMPENSATION

The State offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code § 457. The plan, available to all State employees, permits deferral of a portion of salary until future years. Compensation deferred is not available to employees until the employees retire, resign, or otherwise leave State employment.

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

The financial liability of the State is limited in each instance to the payment of premiums and the purchase of shares under the deferred compensation program while the participant remains an employee of the State, and only to the amount of the compensation or portion of compensation held for payment of such premiums or shares. In the past, plan assets have been used only to pay benefits. The State believes that it is highly unlikely that it will use the assets to satisfy the claims of general creditors.

During fiscal 1997, legislation was enacted at the federal and state levels that, under the provisions of Internal Revenue Code §457, will transfer the ownership and rights to the employee or beneficiary if certain procedures are followed, which include establishing a trust for the assets held in the plan. The State is planning on changing the current trust document in fiscal year 1998, at which time it is anticipated that the deferred compensation will not be reported in the State's financial statements.

NOTE 12 - LONG-TERM OBLIGATIONS

Primary Government

The State records its liability for bonds in the General Long-Term Obligations Account Group. Other general long-term obligations recognized by the State are its compensated employee absences and its obligations under Certificates of Participation and other financing arrangements. Payments for these liabilities will be made from the governmental funds.

General Obligation Bonds

Programs for which the State issues general obligation bonds include adaptive equipment loan programs, environmental cleanup and highway projects, and the acquisition, construction, and renovation of major capital facilities. 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.

In June, 1997, the State issued $42.7 million of general obligation bonds, $37.7 million of which will be repaid from the General Fund and $5 million of which will be repaid from the Special Revenue Fund. In addition, $6 million of bonds were issued by the Maine Court Facilities Authority, a blended component unit, for the purpose of financing the acquisition and construction of court facilities for use by the State's Judicial Department. As of June 30, 1997, the State had $53.5 million of authorized but unissued general obligation bonds.

Changes in general obligation bonds during the fiscal year are as follows:

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

	Balance July 1, 1996	Additions	Retirements	Adjustments	Balance June 30, 1997
General Obligation Debt:					
General Fund	$369,458	$37,700	$67,538	$ -	$339,620
Special Revenue Fund	144,440	10,990	21,175	15,400	149,655
Self Liquidating	1,792	-	262	(719)	811
Total	$515,690	$48,690	$(88,975)	$14,681	$490,086

Adjustments to bonds outstanding are the result of the State including component units as part of the reporting entity. This has resulted in bonds of the Maine Technical College System, previously reported in the self liquidating category, being reported with other component units. It has also resulted in the Maine Court Facilities Authority being included in the Special Revenue Fund. At June 30, 1996, these bonds were shown as capital leases in the General Long-Term Obligations Account Group.

The future debt service requirements for the bonds are as follows:

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

Fiscal Year	Principal	Interest	Total
1998	$ 77,536	$ 26,201	$ 103,737
1999	72,070	21,789	93,859
2000	66,080	18,118	84,198
2001	63,865	14,458	78,323
2002	59,535	10,953	70,488
Thereafter	151,000	20,316	171,316
Total	$ 490,086	$ 111,835	$ 601,921

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, 1997, general obligations bonds authorized and unissued totaled $53.5 million.

Bond and Tax Anticipation Notes

During fiscal year 1997, bond anticipation notes (BAN's) totaling $14.7 million were issued by the State. Interest rates ranged from 4.00 percent to 5.90 percent. The BAN's were issued as a temporary financing vehicle for new projects that were ultimately financed with bond issuance proceeds. The BAN's are backed by the full faith and credit of the State. Tax anticipation notes (TAN's) totaling $150 million were issued during fiscal year 1997. As of June 30, 1997, there were no BAN's or TAN's outstanding.

Certificates of Participation and Other Financing Arrangements

The State uses financing companies and Certificates of Participation (COP's) to finance the construction of certain State buildings, and to purchase equipment and vehicles. Certificates of Participation are issued through a trustee and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State maintains custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid. Neither Certificates of Participation nor the other financing arrangements constitute a legal debt or liability, or a 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.

Changes in liabilities reported in the General Long-Term Obligations Account Group are as follows:

Changes in General Long-Term Obligations
June 30, 1997
(Dollars in Thousands)

	Bonds	COP's and Other Financing Arrangements	Compensated Absences	Total
Balance, July 1, 1996	$ 515,690	$ 8,045	$ 26,112	$ 549,847
Issuances	48,690	-	-	48,690
Payments	88,975	1,995	-	90,970
Other Increase (Decrease)	14,681	844	68	15,593
Balance, June 30, 1997	$ 490,086	$ 6,894	$ 26,180	$ 523,160

Changes in COP's and Other Financing Arrangements reported in Proprietary Fund Types are as follows:

Certificates of Participation and Other Financing Arrangements
June 30, 1997
(Dollars in Thousands)

Outstanding July 1, 1996	Additions	Retirements	Outstanding June 30, 1997
$22,885	$4,344	$7,312	$19,917

Debt service on COP's and other financing arrangements are presented in the following table:

Debt Service on Certificates of Participation and Other Financing Arrangements
June 30, 1997
(Dollars In Thousands)

	Minimum Payments			
	Governmental Funds		Internal Service Funds	
Fiscal Year Ending	COP's	Other Financing Arrangements	COP's	Other Financing Arrangements
1998	$1,901	$197	$ 7,191	$1,311
1999	1,803	197	4,389	2,160
2000	1,703	197	4,168	1,534
2001	1,601	192	-	967
2002	-	-	-	-
Thereafter	-	-	-	-
Total Minimum Payments	7,008	783	15,748	5,972
Less: Amount Representing Interest	808	89	1,253	550
Present Value of Future Minimum Payments	$6,200	$694	$14,495	$5,422

Obligations Under Capital Leases

At June 30, 1997, the State was not able to identify, classify and report capital leases in conformity with generally accepted accounting principles. As such, it is not possible to present the amount of assets recorded under such leases and their accumulated amortization, or disclose the future minimum lease payments at net present value.

Component Units - Bonds outstanding for the component units are as follows:

Component Units Bonds Outstanding
June 30, 1997
(Dollars in Thousands)

	Purpose	Interest Rates	Amount	Maturity Dates
Maine Municipal Bond Bank	General Tax-Exempt Fund Group	3.00 - 9.75%	$ 751,284	1986 - 2020
	Sewer and Water Fund Group	2.75 - 7.30%	56,323	1991 - 2017
	Special Obligation Taxable Fund Group	6.10 - 10.25%	4,105	1991 - 2009
			811,712	
University of Maine System	1993 Series A Revenue Bonds	2.30 - 5.20%	13,175	1994 - 2008
	1993 Series B Refunding Bonds	3.15 - 5.25%	14,655	1995 - 2009
			27,830	
Maine State Housing Authority	Mortgage Purchase Program	2.75 - 9.25%	1,006,378	1997 - 2037
	Mortgage Acquisition Program	5.95 - 9.50%	17,685	1997 - 2021
	Housing Finance Revenue Program	3.95 - 6.80%	33,816	1997 - 2018
			1,057,879	
Other	Construction, Educational Loan, and other Revenue Bonds	1.00 - 9.50%	56,147	1986 - 2037
Total			$1,953,568	

Maturities of principal for component units are as follows. Amounts of principal maturities will not match amounts on the financial statements due to deferred amounts on refunding, and unamortized original issue discount.

Component Units Principal Maturities
June 30, 1997
(Dollars in Thousands)

Fiscal Year Ending June 30 (December 30 for MSHA, MELA)	FAME	MELA	MMA	MTCS	MMBB	UM	MSHA	Totals
1997	$ -	$ 2,910	$ -	$ -	$ -	$ -	$ 11,875	$ 14,785
1998	-	1,665	94	149	70,155	1,940	13,710	87,713
1999	1,797	2,625	101	85	67,885	1,830	18,960	93,283
2000	-	2,525	76	85	64,295	1,515	21,080	89,576
2001	-	2,325	81	85	63,020	1,525	23,260	90,296
2002	-	-	80	85	66,205	1,450	-	67,820
Thereafter		38,406	2,907	230	508,115	20,015	981,840	1,551,513
Less amounts deferred or unamortized	-	-	(164)	-	(27,963)	(445)	(12,846)	(41,418)
Total Principal Payments	$1,797	$50,456	$3,175	$ 719	$811,712	$27,830	$1,057,879	$1,953,568

NOTE 13 - SELF-INSURANCE

A. Risk Management

The State maintains several types of self-insurance plans and accounts for them in an Internal Service Fund. This coverage includes property, vehicle, boat and aircraft, tort, civil rights, employee bonds, and police professionals.

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

Commercial insurance has been purchased for losses that exceed the following limits: buildings, $1 million per occurrence subject to a $2 million annual aggregate, after which a $100,000 per occurrence retention applies; boat hulls, $100,000; aircraft, $50,000; and boat liability, $10,000. Aircraft liability is insured from the first dollar. There is a fund depletion policy that contributes money to the fund when the year's claims exceed $300,000 per occurrence, subject to a $2.5 million aggregate for police professionals, foster parents, vehicle liability, civil rights, and tort.

At June 30, 1997, $3.6 million was reported as the estimated claims payable for the State's self-insurance plan. The discounted amount is $3.1 million and was calculated based on a 6 percent yield on investments.

Risk Management Fund Changes in Claims Payable
June 30, 1997
(Dollars in Thousands)

	1997	1996	
	Combined Fund	Internal Service Fund	Enterprise Fund
Liability at beginning of year	$2,179	$1,727	$546
Current year claims and changes in estimate	2,403	1,554	104
Claims payments	1,753	1,102	344
Other Adjustment	*306	-	-
Liability at end of year	$3,135	$2,179	$306

* Risk management activities were reported in two separate funds in 1996. Component units were not part of the reporting entity in that year; therefore, risk management activities for those agencies were shown separately in an Enterprise Fund and risk management activities for the primary government were reported in an Internal Service Fund. Approximately 95 percent of entities reported in the risk pool are now included as part of the reporting entity.

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 $1.37 million for the fiscal year ended June 30, 1997.

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.

Annuity contracts have been purchased for the purpose of settling certain claims. Information is insufficient to determine either the amount of the claims liabilities for which annuity contracts have been purchased in the claimant's name, or the amount of the related liabilities that have been removed from the balance sheet.

Changes in the balance of claims and judgments liabilities during fiscal 1997 were as follows:

Workers' Compensation Fund Changes in Claims Payable
June 30, 1997
(Dollars in Thousands)

	1997	1996
Liability at Beginning of Year	$ 50,200	$ 63,874
Current Year Claims and Changes in Estimates	14,468	(1,318)
Claims Payments	(12,790)	(12,356)
Liability at End of Year	$ 51,878	$ 50,200

Based on actuarial calculations as of June 30, 1997, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $71.1 million. The discounted amount is $51.9 million and was calculated based on a 6 percent yield on investments.

D. Health Care

The State of Maine's health insurance plan provides insurance coverage for the active employees of the State and several quasi-governmental agencies, including the Maine Technical College System and the Maine Turnpike Authority. The State is insured as a group plan under a policy from a commercial insurer.

Rates were set to generate working premiums totaling $93.5 million, of which the State was 93 percent. The contract agreement is effective from July 1, 1996 through December 31, 1997. At the termination of the contract, a final cost settlement will be determined. The carrier assumes all risk of any loss. If a gain results, the group receives 75 percent and the carrier retains 25 percent. Contract claims experience through June 30, 1997, indicate that no material receivable will result. For the past three fiscal years, contracts were not fully insured and contract settlements exceeded insurance coverage as follows:

Fiscal Year	Cumulative Deficit (Dollars in Millions)
1994	$6.7[1]
1995	$5.1[2]
1996	$0.6

[1] For the year ended June 30, 1994, the accumulated plan deficit was $10.2 million. Of this deficit, stop loss insurance coverage funded $3.5 million, resulting in a $6.7 million cumulative deficit.

[2] Prior year surpluses of $5.6 million, held by the insurer, were applied to the $6.7 million deficit. Deficits for the year ended June 30, 1995, were $4 million, resulting in a $5.1 million cumulative deficit.

Medicare contributions have been required for all employees hired since April, 1986.

E. Disability

State law allows confidential employees who become temporarily disabled to receive 66.67 percent of their salary for up to 335 calendar days. There were a total of 893 confidential employees at June 30, 1997. The expenditure amount for this benefit cannot be determined.

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND COMPONENT UNITS

Primary Government

The State has nine enterprise funds that have been created to provide various services to the general public and are described below:

The Alcoholic Beverages Fund was established to license and regulate the sale of alcoholic beverages. The net profit from the fund is transferred to the State's General Fund and is used for general government purposes.

The Lottery Fund was established to account for all operations of the Maine State Lottery. This includes the Tri-State Lotto Commission, which was established in 1985, and is a joint venture between the states of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including the price or prices of tickets, the number and size of prizes for winning tickets, and the licensing of agents.

The Potato Marketing Improvement Fund provides low interest loans to potato growers for the modernization of storage facilities and improvements in the handling of the product.

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

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

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

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

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

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

Segment Information
June 30, 1997
(Dollars in Thousands)

	State Lottery Bureau	Bureau of Alcoholic Beverages	Transportation Related	Agriculture Related	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues	$ 147,538	$ 70,575	$ 2,211	$ 330	$ 823	$ 221,477
Depreciation Expense	15	77	3,770	63	13	3,938
Operating Income (Loss)	41,827	22,251	(4,114)	(1,617)	16	58,361
Net Non-operating Revenues	232	-	311	243	19	803
Net Income (Loss)	-	-	(1,680)	(1,140)	35	(2,785)
Net Operating Transfers In (Out)	(42,055)	(22,251)	2,123	235	-	(61,948)
Additions To (From) Property, Plant and Equipment	23	-	4,453	(6)	19	4,489
Total Assets	8,657	6,156	53,856	10,866	835	80,370
Total Long –Term Liabilities	-	1,000	-	-	-	1,000
Total Liabilities	8,657	6,156	435	1,639	139	17,026
Total Equity	-	-	53,421	9,227	696	63,344
Net Working Capital	(59)	775	615	(966)	508	874
Current Capital Contributions	-	-	2,618	-	-	2,618

Component Units

The following tables present condensed financial statements for each of the discretely presented component units. Complete financial statements of the individual component units can be obtained from their respective administrative offices as described in Note 1.

Component Units Condensed Balance Sheet

June 30, 1997

(Dollars in Thousands)

	LDA	MELA	FAME	MSHA	MMBB	MSRS	MMA	MTSC	UM	Total
Assets:										
Cash	$ 1,994	$ 1,336	$ 38,195	$ 174,845	$ 78	$ 263,693	$ 91	$ 4,549	$ 55,996	$ 540,777
Investments	-	14,169	21,252	104,301	166,934	4,927,060	12,567	8,628	70,645	5,325,556
Due from Primary Government	-	-	1,481	529	2,300	14,892	-	-	6,420	25,622
Due from Other Government	414	-	-	2,490	-	10,264	220	-	4,705	18,093
Loans and Notes Receivable	-	34,798	34,093	957,427	753,266	-	2,082	-	32,765	1,814,431
Other Receivables	66	687	1,984	-	8,050	11,416	372	2,178	13,165	37,918
Fixed Assets	71	-	137	933	1,137	2,763	37,673	59,591	239,433	341,738
Other Assets	-	-	738	17,876	42,640	-	2,522	3,174	4,756	71,706
Total Assets	2,545	50,990	97,880	1,258,400	974,405	5,230,088	55,527	78,120	427,885	8,175,841
Liabilities:										
Accounts Payable	224	36	1,999	1,332	1,162	12,069	723	1,383	3,797	22,725
Due to Other Government	1,441	-	-	5,273	2,457	-	-	-	-	9,171
Deferred Revenues	19	155	5,017	23,466	-	-	237	1,040	8,491	38,425
Amounts Held Under State Loan Programs	-	-	48,972	-	-	-	-	-	-	48,972
Bonds and Notes Payable	-	50,456	1,797	1,057,879	811,712	-	3,175	719	27,830	1,953,568
Other Accrued Liabilities	114	636	18,048	26,567	10,254	3,822	2,971	10,051	31,838	104,301
Total Liabilities	1,798	51,283	75,833	1,114,517	825,585	15,891	7,106	13,193	71,956	2,177,162
Equity:										
Retained Earnings:										
Reserved	-	-	8,398	139,243	4,671	-	-	-	-	152,312
Unreserved	747	(293)	13,649	4,639	144,151	-	-	-	-	162,893
Reserved for Debt Service	-	-	-	-	-	-	-	-	931	931
Net Investment in Plant	-	-	-	-	-	-	34,506	55,390	198,736	288,632
Reserved for Pension Benefits	-	-	-	-	-	5,214,197	-	-	-	5,214,197
Other Reservation	-	-	-	-	-	-	9,909	4,29,3	155,734	169,936
Unreserved Fund Balance	-	-	-	-	-	-	4,006	5,244	528	9,778
Total Equity	747	(293)	22,047	143,882	148,822	5,214,197	48,421	64,927	355,929	5,998,679
Total Liabilities and Equity	$2,545	$50,990	$97,880	$1,258,399	$974,407	$5,230,088	$55,527	$78,120	$427,885	$8,175,841

Component Units Statement of Revenue, Expenses, and Changes in Fund Balance
June 30, 1997
(Dollars in Thousands)

	LDA	MELA	FAME	MSHA	MMBB	Total
Operating Revenues	$4,276	$4,247	$35,853	$168,827	$74,111	$287,314
Operating Expenses	4,277	3,770	33,070	156,912	51,859	249,888
Operating Income (Loss)	(1)	477	2,783	11,915	22,252	37,426
Non-Operating Revenues (Expenses)	-	-	(2,496)	(137)	-	(2,633)
Extraordinary Loss	-	(28)	-	(715)	-	(743)
Transfers from Primary Government	384	-	1,574	2,538	4,000	8,496
Net Income (Loss)	383	449	1,861	13,601	26,252	42,546
Retained Earnings, July 1, 1996	365	(742)	20,184	130,282	122,570	272,659
Retained Earnings, June 30, 1997	$ 748	$ (293)	$22,045	$143,883	$148,822	$315,205

NOTE 15 - JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The only material joint venture in which the State participates is the Tri-State Lotto Commission.

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

The Commission is composed of one member from each of the participating states. Each member state's commission appoints one of its members to serve on the Commission. Each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members.

The Commission has designated that 50 percent of its operating revenue be aggregated in a common prize pool. A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not claimed within one year from the date of the drawing are forfeited. All unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and zero-coupon U.S. Government Treasury Strips.

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

The financial statements of the Tri-State Lotto Commission may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333.

As of and for the year ended June 30, 1997, the following selected financial information was reported in the audited financial statements of the Tri-State Lotto Commission:

Tri-State Lotto Commission
June 30, 1997
(Dollars in Thousands)

Current Assets	$ 38,883
Noncurrent Assets	218,748
Total Assets	$ 257,631
Current Liabilities	$ 34,531
Long-term Liabilities	218,104
Total Liabilities	252,635
Retained Earnings (designated prize reserves)	4,996
Total Liabilities and Retained Earnings	$ 257,631
Total Revenue	$ 87,318
Total Expenses	$ 56,478
Allocation of Funds to Member States	$ 30,840
Increase in Retained Earnings	-

NOTE 16 - RELATED PARTY TRANSACTIONS

Primary Government

General Obligation Bonds of the State include $810,000 of self-liquidating bonds of Maine Veteran's Home. The State issues the bonds and the Maine Veteran's Home remits to the State the debt service as it comes due.

Maine Science and Technology Foundation and the Maine School of Science and Mathematics, related organizations, received appropriations of $2.7 million and $1.3 million, respectively.

Component Unit

The University of Maine Foundation (the "Foundation") is an independent non-profit organization and, accordingly, its financial statements are not consolidated with those of the University. Total gifts and income received by the University from the Foundation during fiscal years ending June 30, 1997 and 1996 were approximately $2.2 million and $1.8 million, respectively. The reported fair market value of the Foundation's assets at June 30, 1997 and 1996 was approximately $74 million and $58.6 million, respectively.

The Maine Educational Loan Authority (Authority) acts as an originating lender for a federal loan program for loans ultimately sold to the Maine Educational Loan Marketing Corporation, a related party. The funds necessary to originate the loans are made available to the Authority by Maine Educational Services through advances under a revolving credit agreement. The funds are advanced normally for a one day period. The educational loans are sold at face value plus a fifty basis point premium. In 1996 and 1995, approximately $50.7 million and $43.8 million, respectively, of educational loans were originated by the Authority and purchased by MELMAC as described above. The Authority received approximately $254,000 and $189,000 in 1996 and 1995, respectively, in loan premiums from MELMAC.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

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.

Municipal Solid Waste Landfills

Title 38 M.R.S.A., § 1310-F, establishes within the Department of Environmental Protection a cost-sharing program for the closure and remediation of 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 general obligation bond funds approved for that purpose. At June 30, 1997, $68 million had been authorized for solid waste landfill closure and remediation, of which $66 million had been issued, with $63 million expended or encumbered. In fiscal year 1997, $8.3 million in bond funds was expended for solid waste landfill projects.

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 $38 million through the year 2003. This consists of approximately $18 million for State owned facilities and $20 million for the State's share, under a cost sharing arrangement, for municipal facilities. Program funding depends upon appropriations being made by the State Legislature.

Construction Commitments

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. This portion represents the subsidy for debt service resulting from local outstanding indebtedness for school construction and renovation projects. As of June 30, 1997, outstanding commitments by municipalities for school bond issues that are eligible for state subsidy totaled $645.6 million.

At June 30, 1997, the Department of Transportation had contractual commitments of approximately $80 million for construction of various highway projects. The State's share of that amount is expected to be approximately $17 million. Funding for these future expenditures is expected to be provided from federal funds, State funds, and bond proceeds.

At June 30, 1997, the Department of Environmental Protection had contractual commitments for pollution abatement construction projects as provided by Title 13 MSRA §411. Subject to approval by the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. At June 30, 1997, $108 million general obligation bond funds had been authorized for pollution abatement construction projects, $100.7 million had been issued and $94.5 million expended. The amount of bond funds committed in contracts to these projects at June 30, 1997, was $3.7 million. The estimated cost of future pollution abatement construction projects is not known. In the 1997 fiscal year, $9.4 million in bond funds was expended on pollution abatement projects.

Treatment of Wastewater From the State's Correctional Facilities

At June 30, 1997, the Department of Corrections (DOC) had a contractual commitment with the Warren Sanitary District to provide treatment of wastewater from the State's correctional facilities located in Warren, Maine. Under the terms of the agreement, the DOC is required to make annual payments to the District for the DOC's prorated share of capital costs, debt service, and operation and maintenance costs. Fiscal year 1997 expenditures totaled $317,000. The agreement with the District shall be in effect for as long as the DOC uses the wastewater treatment facility. If the DOC ceases its use, the agreement is in effect until (a) the DOC has paid off its share of the local capital costs of the project and (b) another user acceptable to the Warren Sanitary District assumes the DOC's share of the operations and maintenance costs.

Contingent Receivable

At June 30, 1997, the Maine Department of Transportation (MDOT) had unreimbursed expenditures paid from the Highway Fund in fiscal years 1997 and prior. Based on historical experience, these expenditures are potentially reimbursable, in part, by the federal highway program through project modifications. The MDOT has not determined the probability or estimated the amount of any reimbursement.

Constitutional Obligations

Article 9, § 14-A, of the Maine State Constitution provides that the State may insure the payment of mortgage loans on real estate and personal property within the State for industrial, manufacturing, fishing, agricultural and recreational enterprises. The aggregate of these obligations may not exceed $90 million at any one time. As of June 30, 1997, $61.5 million was committed pursuant to this authorization.

Article 9, § 14-C, of the Maine State Constitution provides that the State may insure the payment of 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. These loans may not exceed $1 million in the aggregate at any one time. As of June 30, 1997, $73,000 was committed pursuant to this authorization.

Article 9, § 14-D, of the Maine State Constitution provides that the State may insure the payment of any mortgage loan 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 a resident Maine veteran. These loans may not exceed $4 million in the aggregate at any one time. As of June 30, 1997, $1.6 million was committed pursuant to this authorization.

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. As of June 30, 1997, there were no amounts issued pursuant to these authorizations.

Moral Obligations

Statutes governing certain public Authorities provide for Capital Reserve Provisions. These provisions authorize the State to make up any deficiencies in their debt service reserve funds, subject to legislative appropriation, effectively constituting a moral obligation to back the Authorities' credit. Since such moral obligations do not constitute full faith and credit obligations of the State, voter approval of such obligations is not required. The State has never been called upon to make any direct payments pursuant to such provisions. As of June 30, 1997, approximately $2.8 billion in moral obligation bonds were outstanding and the required debt service reserve was $278.5 million.

The following table shows the issuing Authorities, the amount of their moral obligation bonds outstanding, the required debt reserve, the debt limit on moral obligation bonds, and the legal citation.

Moral Obligation Bonds
June 30, 1997
(Dollars in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Finance Authority of Maine	$235,553	$34,063	$757,000	10 MRSA § 1032, 1053
Maine Educational Loan Authority	29,040	2,154	50,000	20-A MRSA § 11424
Maine Municipal Bond Bank	839,675	99,461	No Limit	30-A MRSA § 6006
Maine Health and Higher Education Facilities Authority	619,820	58,806	No Limit	22 MRSA § 2075
Loring Development Authority	-	-	100,000	5 MRSA § 13080-N
Maine State Housing Authority	1,137,533	83,982	1,650,000	30-A MRSA § 4906
Total	$2,861,621	$278,466		

NOTE 18 - LITIGATION

The State of Maine, its units and employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, except in the Consent Decrees, the State or its agencies or employees have valid defenses, and that, even if liability is found, the damages awarded will be far less than the amounts sought. The Attorney General is unaware of any case in which it is both probable that the State will incur liability and that the amount of such liability can be reasonably estimated to exceed $1 million. In any given case, however, it is possible that the State could incur a large judgment against it.

Bates v. Peet, et al., is a class action suit that was settled in 1990 by a Consent Decree, applicable to the mental health and mental retardation services provided by the Department of Mental Health and Mental Retardation. On September 7, 1994, the Superior Court found the defendants in contempt for their failure to live up to certain of the obligations contained in the Decree. On March 8, 1996, the Court found that the defendants had not purged themselves of the contempt previously found in the September 1994 order. A receivership was imposed but was stayed on condition that the defendants complied with further milestones by October 31, 1996. On February 8, 1997, the Court determined that the defendants had substantially complied with the term of the March 8, 1996, order and therefore purged themselves of civil contempt. However, the defendants remain under the obligations of the underlying Consent Decree, which may result in costs to the State that cannot be determined at this time.

Consumer Advisory Board, et al., v. Glover was the Consent Decree entered into September 28, 1994. In this case, the Department of Mental Health and Mental Retardation currently expects to be able to comply with terms of the Decree under its existing budget, but it is possible that additional funds could be required as a result of further court orders.

Parker v. Wakelin and *Dzialo v. Perrier* are two lawsuits seeking declaratory judgments that certain legislative changes made to save money in the State Retirement System are unconstitutional. The *Parker* case involves teachers who work for local school districts but who are members of the Maine State Retirement System. The *Dzialo* lawsuit, which involves similar legislative changes as they impact directly on State employees, was filed in December of 1996. On May 4, 1998, the United States Supreme Court denied the petition for certiorari in *Parker v. Wakelin* and, accordingly, the First Circuit's decision upholding the 1993 amendments to the State Retirement statute has become final. The Attorney General believes that the successful outcome of the *Parker* case will be largely dispositive of the claims made in the companion case of *Dzialo v. Perrier*, which raises mostly the same arguments. The *Dzialo* plaintiffs, however, have raised one argument that was not addressed in *Parker*. If that argument were found to be valid, it would affect the constitutionality of only one of the legislative changes made in 1993 – the cap on average final compensation for purposes of computing retirement benefits. The amount at issue would be a fraction of the total amount that was at issue in the *Parker* litigation. At this time, the Attorney General does not believe that, in light of the outcome of *Parker*, it is probable that the State would incur any liability in *Dzialo*.

Central Maine Medical Center (CMMC) has challenged $12.3 million in hospital taxes imposed on CMMC for 1996-1998. CMMC challenges the tax based on both procedural and constitutional grounds. In certain respects, CMMC's situation is similar to that of other hospitals; in other respects, CMMC's situation appears to be unique. If the tax were invalidated on the grounds that were applicable to other hospitals, and if no replacement tax were enacted, it is possible that other hospitals could seek refunds of several hundred million dollars. This case is currently in the discovery stage.

Jackson Brook Institute, Inc. (JBI) has challenged the $2.3 million in hospital taxes imposed on JBI for 1996-1998. JBI challenges the tax based on both procedural and constitutional grounds. Although JBI purports to challenge the entire hospital tax, only one other hospital's tax was calculated in the same manner as JBI's tax. This case is currently in the discovery stage. On March 27, 1998, JBI filed for bankruptcy, and JBI and the State entered into a 90-day standstill agreement to discuss the possible resolution of this and other issues.

At this time, the State has defenses to the challenges from both CMMC and JBI, but the outcome of these cases is uncertain. If the hospital taxes in question were invalidated in whole or in part, however, the Legislature could address the problem by amending and reenacting the taxes in question so as to avoid any major revenue loss to the State.

Bourre, et al., v. State Tax Assessor is an appeal of the State Tax Assessor's decision denying an abatement with respect to Maine income taxes, sought by a New Hampshire resident working at the Portsmouth Naval Shipyard in Kittery, Maine. Bourre has raised a number of constitutional issues and has asserted that the shipyard is in New Hampshire rather than Maine, preventing Maine from taxing his income. This is a test case, and the potential loss of income taxes if the State loses could run in excess of several million dollars. The Attorney General has advised management that the State has valid defenses to this action.

New Hampshire v. Maine. The Attorney General has advised us that the State of New Hampshire is preparing to file a lawsuit in the U.S. Supreme Court contending that the Kittery Shipyard is actually located in New Hampshire. The Attorney General believes that if such a suit is filed, the State of Maine will prevail.

The Federal Department of Health and Human Services (HHS) brought an administrative reimbursement action against the State, arising out of a dispute concerning the proper allocation of pension contribution costs between the State and federal government as a result of a federal audit for fiscal years 1992 and 1993. On May 5, 1998, the HHS Departmental Appeals Board ruled against the State on its appeal with respect to the proper allocation of pension contribution costs between the state and federal government. This will cost the State approximately $7 million unless the State goes to court and overturns the agency's decision. At this time, the Attorney General believes that the State has a viable basis for challenging the decision, but the outcome of the court case could go either way.

The Federal Internal Revenue Service has audited various agencies of the State and the IRS has taken the position that the State owes employment taxes on those independent contractors that the IRS believes qualify as employees under federal tax law. This dispute is currently pending before the IRS at the administrative level. It has been estimated that approximately $450,000 is at issue for tax year 1993, and the outcome of the dispute might have an effect on other open tax years.

There are also numerous workers' compensation claims 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.

NOTE 19 - SUBSEQUENT EVENTS

Primary Government

Subsequent to June 30, 1997, the State issued $46.5 million of bond anticipation notes with interest rates ranging from 4.00 percent to 6.25 percent.

In February, 1998, the State entered into a lease financing arrangement for the purchase of approximately 250 vehicles, recorded in the Internal Service Fund. The amount financed was $3.2 million, the term of the lease is 42 months and the interest rate is a fixed 4.50 percent.

The State Legislature enacted legislation effective September, 1997, that created a successor organization to the Maine Court Facilities Authority, a blended component unit. The Maine Governmental Facilities Authority will assume all rights, liabilities, indebtedness and duties of the Court Facilities Authority.

Component Units

On February 12, 1997, the Maine State Housing Authority issued $35 million of bonds, with interest rates ranging from 4.55 percent to 6.20 percent. The bonds mature between the years 2000 and 2037. The Maine State Housing Authority also elected to redeem, on April 1, 1997, at par, $6.3 million of its Mortgage Purchase Bonds.

Subsequent to December 31, 1996, the Maine Educational Loan Authority issued an additional $12.5 million in bonds. On August 14, 1997, the Maine Municipal Bond Bank issued $20.8 million of Sewer and Water Revenue Bonds. The bonds mature between the years 1998 and 2013, and carry interest rates ranging from 3.90 percent to 5.10 percent.

NOTE 20 - ACCOUNTING CHANGES

In fiscal year 1997, the State of Maine adopted Governmental Accounting Standard Board (GASB) Statement No. 14, *The Financial Reporting Entity.* See Note 1 for a description of the component units included in the reporting entity.

For the fiscal year ended June 30, 1997, the Maine State Retirement System (a discretely presented component unit) adopted GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.* GASB Statement No. 25 establishes reporting and disclosure requirements for defined benefit pension plans. It applies to stand-alone financial reports of pension plans or the public employee retirement systems that administer them. The new Statement contains a major change in the reporting of investments at fair value versus cost. It also requires retroactive restatement of all prior periods presented. As a result, unrealized gains on investments of $925.4 million for 1995 and $660.9 million for 1996 were recorded.