STATE OF MAINE

GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 1998

MAINE

GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 1998

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

The State of Maine General Purpose Financial Statements can be Made available in alternative formats upon request, to ensure that it is Accessible to people with disabilities. This notice is provided as required by Title II of the American with Disabilities Act of 1990.

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STATE OF MAINE

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

We are pleased to present the General Purpose Financial Report of the State of Maine (the *Report*) for the fiscal year ended June 30, 1998. Once again substantial gains have been made in reaching full compliance with GAAP/GASB rules. Effective this year GASB mandated substantial changes to the presentation of the note disclosure for *Deposits and Investments*, and the *Maine State Retirement System,* and added certain disclosure around the State's preparedness for the anticipated Year 2000 automation problems.

Work on the State's fixed asset program continues with the only area of noncompliance being certain parcels of land and buildings that require record updates, including current value. The segregation of capital leases, the other area that is currently incomplete for GAAP purposes, needs to be automated to keep the leases both correctly categorized and easily reconciled.

The State's financial condition continues its positive trend. At fiscal year end, the Rainy Day fund, for the first time since 1989 reached its cap, approximately $99 million ($25million in 1989), interest earned on the Treasurer's cash pool was greater than any year since 1990, showing the State's liquidity, and for the first time since the Controller's Office has used GAAP mandated accruals, the State showed a positive unreserved GF fund balance.

For fiscal year 1999, our plan is to format the *Report* as a Comprehensive Annual Financial Report or CAFR for the State. The CAFR has a significant introductory section, financials/notes on a GAAP basis and a statistical section. Application for the Government Financial Officers Association Certificate of Excellence for a GAAP compliant CAFR will be submitted for the fiscal year 2000 *Report*. The budgetary report will continue to be published with financials and notes only.

We believe that the information in this *Report* presents fairly and accurately the financial position of the State with the exception of fixed assets and capital leases, mentioned herein, plus any qualifications of the State Auditor in the Opinion Letter. Responsibility for the accuracy and the completeness of this presentation, including all disclosures, rests with the State Controller.

Preparation of this report was made possible by the dedicated staff within the Office of the Controller and the Department of Audit, with the assistance of fiscal staff from all agencies, including component units.

Sincerely,

Carol F. Whitney
State Controller

Joseph W. Shaw
Deputy State Controller


DIRIGO
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STATE OF MAINE
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 1998

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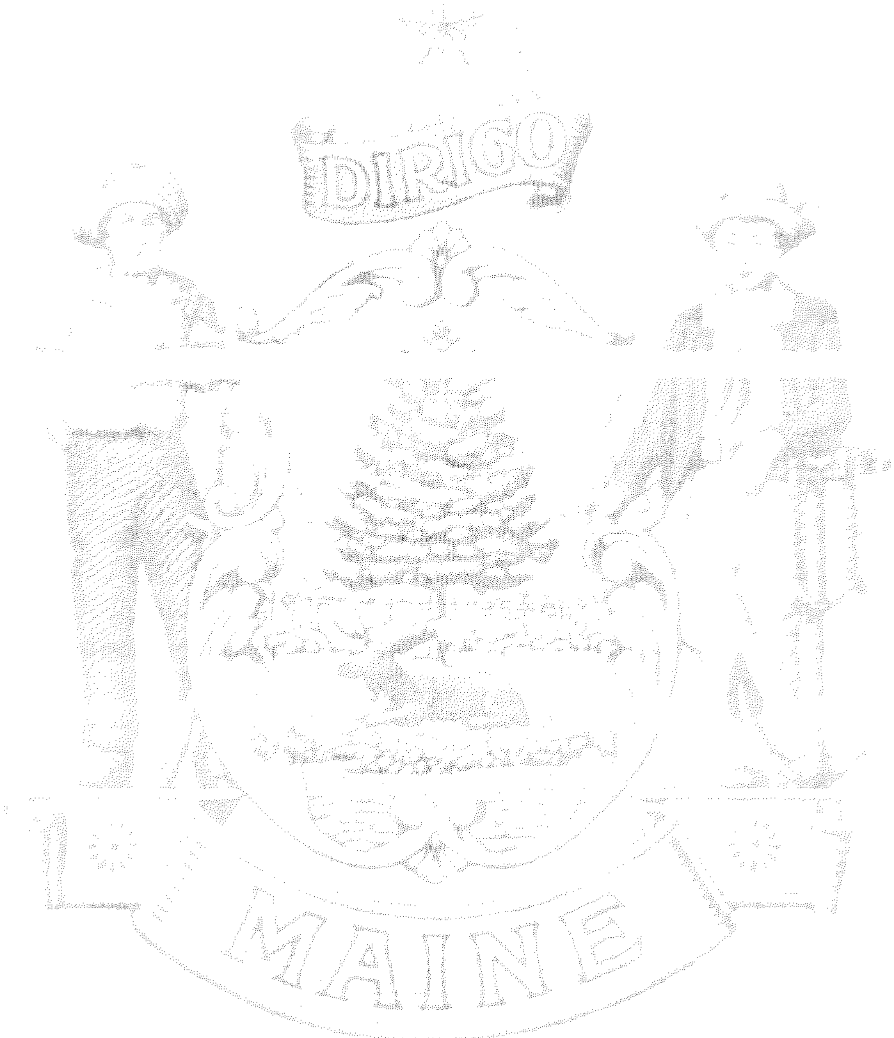
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Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the State of Maine, as of and for the year ended June 30, 1998, 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 Governmental Facilities Authority, which represents .46 percent of the assets and .01 percent of the total revenues of the Special Revenue Fund Type. Those financial statements were audited by other auditors whose reports 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 Governmental 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. The financial statements of the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, and the Maine Health and Higher Education Facilities Authority were not audited in accordance with the standards applicable to financial audits contained in *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 $43 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 September 4, 1998, 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 State's financial statements include pension information as audited by other auditors. The Statement of Changes in Pension Plan Net Assets is presented as if the Maine State Retirement System were the administrator of a single plan. Also, Notes 1 and 9 to the financial statements state that the System is the administrator of an agent, multiple-employer system. Further, Note 9 states that because 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, the System is regarded as administering a single plan for reporting purposes. However, subsequently the State's legal counsel did not concur with the accumulated assets representation. In our opinion, there is more than one pension plan and additional disclosure is required to conform with generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, except for the effect on the financial

described in the 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, 1998, 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.

In accordance with *Government Auditing Standards*, we will issue our report dated March 31, 1999, on our consideration of the State of Maine's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grants.

As discussed in Note 20 to the financial statements, the State of Maine implemented Governmental Accounting Standards Board Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

The year 2000 supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the State of Maine is or will become year 2000 compliant, that the State of Maine's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State of Maine does business are or will become year 2000 compliant.

The schedules of funding progress and employer contributions for the State retirement plan and the Participating Local District plan are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3 to the financial statements, the fund balances of the Component Units, General Fund, Special Revenue Fund, Expendable Trust Fund, Nonexpendable Trust Fund, and the contributed capital of the Internal Service Fund, have been restated.

Gail M Chase CIA

Gail M. Chase, CIA
State Auditor

March 31, 1999


DIRIGO
MAINE

GENERAL PURPOSE FINANCIAL STATEMENTS

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

June 30, 1998
(Dollars In Thousands)

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Cash and Short-Term Investments	$ 335,717	$ 196,370	$ 69,149
Cash with Fiscal Agent	16,912	5,694	-
Investments	-	-	-
Restricted Deposits	-	-	-
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	225,169	52,058	-
Due from Other Governments	-	157,433	-
Loans Receivable	1	1,323	-
Notes Receivable	-	-	-
Other Receivable	23,632	53,066	-
Due from Other Funds	10,469	15,251	-
Due from Primary Government	-	-	-
Inventories	2	20,458	-
Fixed Assets - Net of Depreciation Where Applicable	-	-	-
Working Capital Receivable	1,536	-	-
Other Assets	46	79	-
Amount to be Provided for Retirement of General Long-Term Obligations	-	-	-
Total Assets and Other Debits	$ 613,484	$ 501,732	$ 69,149
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	$ 83,249	$ 155,629	$ 5,504
Accrued Payroll	13,931	16,573	-
Compensated Absences	1,457	1,711	-
Tax Refunds Payable	77,212	-	-
Due tc Other Governments	7,000	51,379	-
Due to Other Funds	17,313	15,517	-
Due to Component Units	13,591	5,002	4,263
Deferred Compensation Payable	-	-	-
Agency Liabilities	-	-	-
Claims Payable	-	-	-
Interest Payable	-	-	-
Other Accrued Liabilities	10,596	2,617	-
Certificates of Participation and Other Financing Arrangements	-	-	-
Obligations Under Capital Leases	-	-	-
Pension Obligation	-	-	-
Amounts Held under State Loan Programs	-	-	-
Deferred Revenue	73,482	43,790	-
Undisbursed Grant and Administrative Funds	-	-	-
Bonds and Notes Payable	448	-	-
Working Capital Payable	-	250	-
Total Liabilities	298,279	292,468	9,767
Fund Equity and Other Credits:			
Contributed Capital	-	-	-
Retained Earnings:			
Reserved	-	-	-
Unreserved	-	-	-
Fund Balances (Deficits):			
Reserved for Continuing Appropriations	74,856	204,568	-
Reserved for Unemployment Benefits	-	-	-
Reserved for Nonexpendable Trusts	-	-	-
Reserved for Pension Benefits	-	-	-
Reserved for Debt Service	16,630	1,546	-
Reserved for Capital Projects	-	-	59,382
Reserved for Tax Relief	154,045	-	-
Other Reservations	10,386	1,282	-
Net Investment in Plant	-	-	-
Unreserved	59,288	1,868	-
Total Fund Equity and Other Credits	315,205	209,264	59,382
Total Liabilities, Fund Equity and Other Credits	$ 613,484	$ 501,732	$ 69,149

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
$ 7,039	$ 39,489	$ 10,335	$ -	$ 658,099	$ 663,196	$ 1,321,295
-	775	2	-	23,383	111,138	134,521
-	-	66,621	-	66,621	6,502,636	6,569,257
-	-	-	-	-	12,135	12,135
-	-	-	-	-	38,223	38,223
-	-	159,172	-	159,172	-	159,172
-	-	40,425	-	40,425	240	40,665
-	-	162,416	-	162,416	-	162,416
-	-	-	-	277,227	-	277,227
-	-	-	-	157,433	18,651	176,084
7,338	-	-	-	8,662	2,006,338	2,015,000
-	-	-	-	-	35,982	35,982
8,885	2,522	1,237	-	89,342	750,238	839,580
3	8,904	23	-	34,650	12,173	46,823
-	-	-	-	-	24,079	24,079
3,055	4,378	-	-	27,893	5,121	33,014
52,284	42,997	-	-	95,281	362,679	457,960
-	-	-	-	1,536	-	1,536
49	629	1,972	-	2,775	35,404	38,179
-	-	-	626,620	626,620	-	626,620
$ 78,653	$ 99,694	$ 442,203	$ 626,620	$ 2,431,535	$ 10,578,233	$ 13,009,768
$ 6,214	$ 5,590	$ 665	$ -	$ 256,851	$ 68,521	$ 325,372
199	1,025	-	-	31,728	1,064	32,792
472	985	-	27,887	32,512	993	33,505
-	-	-	-	77,212	-	77,212
-	-	-	-	58,379	8,055	66,434
1,407	413	-	-	34,650	12,173	46,823
1,223	-	-	-	24,079	-	24,079
-	-	159,172	-	159,172	1,507	160,679
-	-	45,034	-	45,034	-	45,034
-	92,580	-	-	92,580	-	92,580
-	-	-	-	-	28,233	28,233
6,342	469	(5)	-	20,019	102,525	122,544
-	16,221	-	6,137	22,358	-	22,358
-	-	-	-	-	5,328	5,328
-	-	-	95,546	95,546	-	95,546
-	-	-	-	-	62,198	62,198
366	3,246	1,223	-	122,107	45,466	167,573
-	-	-	-	-	4,452	4,452
-	-	-	497,050	497,498	2,978,893	3,476,391
1,000	286	-	-	1,536	-	1,536
17,223	120,815	206,089	626,620	1,571,261	3,319,408	4,890,669
54,394	29,565	-	-	83,959	-	83,959
-	-	-	-	-	159,705	159,705
7,036	(50,686)	-	-	(43,650)	212,637	168,987
-	-	-	-	279,424	-	279,424
-	-	163,510	-	163,510	-	163,510
-	-	18,569	-	18,569	7,361	25,930
-	-	-	-	-	6,181,956	6,181,956
-	-	-	-	18,176	108,633	126,809
-	-	-	-	59,382	9,456	68,838
-	-	-	-	154,045	-	154,045
-	-	-	-	11,668	261,195	272,863
-	-	-	-	-	297,774	297,774
-	-	54,035	-	115,191	20,108	135,299
61,430	(21,121)	236,114	-	860,274	7,258,825	8,119,099
$ 78,653	$ 99,694	$ 442,203	$ 626,620	$ 2,431,535	$ 10,578,233	$ 13,009,768

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

Fiscal Year Ended June 30, 1998
(Dollars In Thousands)

	Primary Government						
	Governmental Fund Types			Fiduciary Fund Type		Governmental Fund Type	
	General	Special Revenue	Capital Projects	Expendable Trust	Total (Memorandum Only) Primary Government	Component Unit	Total (Memorandum Only) Reporting Entity
Revenues:							
Taxes	$ 1,971,297	$ 354,707	$ -	$ 122,803	$ 2,448,807	$ -	$ 2,448,807
Assessments and Other Revenues	58,930	116,572	-	-	175,502	-	175,502
Federal Grants and Reimbursements	5,425	1,332,260	-	-	1,337,685	-	1,337,685
Service Charges	30,324	83,118	-	-	113,442	2,229	115,671
Received and Receivable from Institutions	-	-	-	-	-	69,133	69,133
Income from Investments	-	161	-	11,387	11,548	10,569	22,117
Net Increase in the Fair Value of Investments	-	-	-	8,047	8,047	122	8,169
Miscellaneous Revenues	8,459	39,139	4,051	5,498	57,147	2,547	59,694
Total Revenues	2,074,435	1,925,957	4,051	147,735	4,152,178	84,600	4,236,778
Expenditures:							
General Government	182,158	134,572	(3,082)	385	314,033	112,539	426,572
Economic Development	31,264	60,909	-	-	92,173	-	92,173
Education and Culture	751,108	93,152	1,491	-	845,751	-	845,751
Human Services	567,006	1,144,819	299	-	1,712,124	-	1,712,124
Labor	13,021	70,592	-	88,312	171,925	-	171,925
Natural Resources	40,609	50,308	12,821	-	103,738	-	103,738
Public Protection	22,780	63,988	241	-	87,009	-	87,009
Transportation	3,672	272,523	42,928	-	319,123	-	319,123
Debt Service:							
Principal Payments	56,546	20,900	-	-	77,446	26,121	103,567
Interest Payments	[illegible]	[illegible]			[illegible]	[illegible]	[illegible]
Total Expenditures	1,686,901	1,919,800	54,698	88,697	3,750,096	181,897	3,931,993
Revenues over (under) Expenditures	387,534	6,157	(50,647)	59,038	402,082	(97,297)	304,785
Other Financing Sources (Uses):							
Operating Transfers In	101,887	143,486	-	-	245,373	-	245,373
Operating Transfers Out	(129,367)	(43,767)	(4,025)	(6,969)	(184,128)	-	(184,128)
Bond Proceeds	-	-	84,500	-	84,500	129,755	214,255
Transfers to Component Units	(193,929)	(21,585)	(18,362)	-	(233,876)	-	(233,876)
Net Other Financing Sources (Uses)	(221,409)	78,134	62,113	(6,969)	(88,131)	129,755	41,624
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	166,125	84,291	11,466	52,069	313,951	32,458	346,409
Fund Balances at Beginning of Year (As Restated)	149,080	124,973	47,916	165,476	487,445	164,755	652,200
Fund Balances at End of Year	$ 315,205	$ 209,264	$ 59,382	$ 217,545	$ 801,396	$ 197,213	$ 998,609

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

STATE OF MAINE

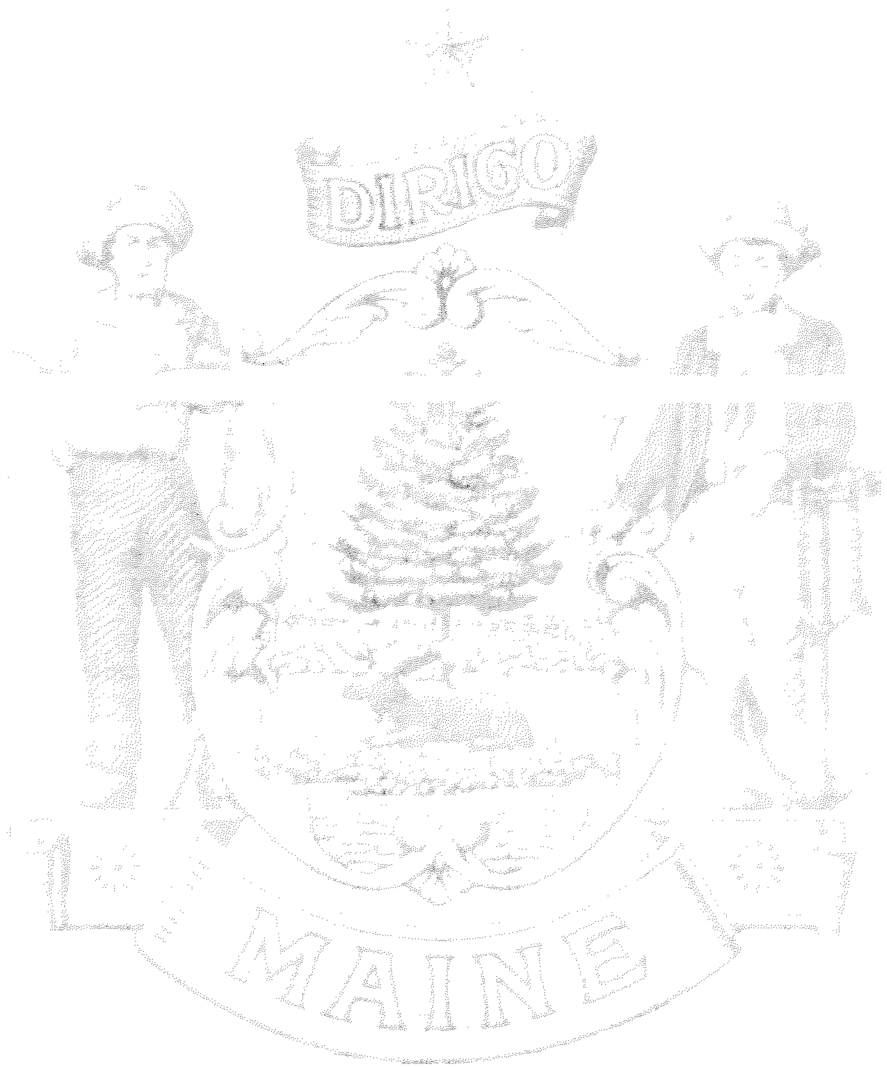
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

Fiscal Year Ended June 30, 1998
(Dollars in Thousands)

	General Fund			Special Revenue Fund		
	Actual	Budget	Variance Favorable/ (Unfavorable)	Actual	Budget	Variance Favorable/ (Unfavorable)
Revenues:						
Taxes	$ 2,025,687	$ 1,920,347	$ 105,340	$ 361,225	$ 345,328	$ 15,897
Assessments and Other Revenues	58,930	52,955	5,975	116,573	125,094	(8,521)
Federal Grants and Reimbursements	5,425	8,496	(3,071)	1,329,740	1,639,122	(309,382)
Service Charges	30,324	15,456	14,868	62,075	94,855	(32,780)
Miscellaneous Revenues	8,548	13,660	(5,112)	135,601	107,444	28,157
Total Revenues	2,128,914	2,010,914	118,000	2,005,214	2,311,843	(306,629)
Expenditures:						
General Government	238,759	251,218	12,459	136,835	161,927	25,092
Economic Development	31,264	32,507	1,243	60,909	91,918	31,009
Education and Culture	964,636	969,949	5,313	94,482	106,983	12,501
Human Services	580,090	612,563	32,473	1,216,661	1,328,512	111,851
Labor	13,021	16,747	3,726	70,592	112,436	41,844
Natural Resources	40,459	42,808	2,349	50,308	81,434	31,126
Public Protection	22,780	24,529	1,749	63,988	79,508	15,520
Transportation	6,514	7,074	560	297,684	397,365	99,681
Total Expenditures	1,897,523	1,957,395	59,872	1,991,459	2,360,083	368,624
Excess Revenues over (under) Expenditures	231,391	53,519	177,872	13,755	(48,241)	61,996
Other Financing Sources (Uses):						
Operating Transfers In	91,607	69,292	22,315	89,864	85,020	4,844
Operating Transfers Out	(94,305)	(89,530)	(4,775)	(28,725)	(11,085)	(17,640)
Other Budgeted Resources	-	-	-	1,312	-	1,312
Net Other Financing Sources (Uses)	(2,698)	(20,238)	17,540	62,451	73,935	(11,484)
Excess Revenues and Other Sources over (under) Expenditures and Other Uses	228,693	$ 33,281	$ 195,412	76,206	$ 25,695	$ 50,511
Beginning Fund Balances	217,199			171,437		
Ending Fund Balances	$ 445,892			$ 247,643		

The accompanying notes are an integral part of the financial statements.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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, 1998
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Types		
	Enterprise	Internal Service	Nonexpendable Trusts	Total (Memorandum Only)	Component Units
Operating Revenues:					
Charges for Services	$ 226,649	$ 124,712	$ -	$ 351,361	$ 341
Interest on Loans Receivable from Governmental Units	-	-	-	-	46,033
Income from Investments	-	-	(208)	(208)	30,145
Fair Value Increases (Decreases)	-	-	2,168	2,168	7,059
Interest Income from Mortgages and Notes	-	-	-	-	78,380
Grant Revenue from Other Governments	-	-	-	-	51,773
Federal Rent Subsidy Income	-	-	-	-	52,949
Reinsurance Recoveries - Guaranteed Student Loans	-	-	-	-	11,481
Miscellaneous Revenues	108	-	(287)	(179)	15,727
Total Operating Revenues	226,757	124,712	1,673	353,142	293,888
Operating Expenses:					
General Operations	166,434	93,366	-	259,800	19,136
Depreciation	3,303	9,672	-	12,975	479
Interest Expense	67	894	-	961	127,226
Grant Related Expenses	-	-	-	-	35,971
Federal Rent Subsidy Expense	-	-	-	-	52,949
Claims/Fees Expense	-	52,401	-	52,401	-
Miscellaneous Expenses	-	-	-	-	24,480
Total Operating Expenses	169,804	156,333	-	326,137	260,241
Operating Income (Loss)	56,953	(31,621)	1,673	27,005	33,647
Nonoperating Revenue (Expenses):	1,556	1,325	-	2,881	(6,741)
Income (Loss) before Operating Transfers	58,509	(30,296)	1,673	29,886	26,906
Transfers In (Out):					
Transfers In	2,842	-	-	2,842	-
Transfers Out	(64,087)	-	-	(64,087)	-
Transfers from Primary Government	-	-	-	-	20,984
Total Operating Transfers	(61,245)	-	-	(61,245)	20,984
Income (Loss) before Extraordinary Item	(2,736)	(30,296)	1,673	(31,359)	47,890
Income (Loss) from Extraordinary Item:					
Loss on Bond Redemption					(531)
Net Income	(2,736)	(30,296)	1,673	(31,359)	47,359
Add: Depreciation of Fixed Assets Acquired from Contributed Capital	3,074	-	-	3,074	-
Increase (Decrease) in Retained Earnings/Fund Balances	338	(30,296)	1,673	(28,285)	47,359
Retained Earnings/Fund Balances at July 1, 1997 (As Restated)	6,698	(20,390)	16,896	3,204	320,501
Retained Earnings/Fund Balances at June 30, 1998	$ 7,036	$ (50,686)	$ 18,569	$ (25,081)	$ 367,860
Contributed Capital at July 1, 1997 (As Restated)	56,646	28,792		85,438	
Add: Capital Contributions	822	773		1,595	
Less: Depreciation of Fixed Assets Acquired from Contributed Capital	(3,074)	-		(3,074)	
Contributed Capital at June 30, 1998	$ 54,394	$ 29,565		$ 83,959	

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, 1998
(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	$ 58,509	$ (30,297)	$ 1,673	$ 29,885	$ 47,358
Adjustments to Reconcile Excess of Revenues over					
Expenses to Net Cash Provided by Operating Activities:					
Investments and Other Income	-	-	-	-	(33,329)
Depreciation/Amortization	3,303	9,672	-	12,975	479
Amortization	-	-	-	-	2,060
Accretion on Capital Appreciation of Bonds	-	-	-	-	1,446
Net Increase in Fair Value of Investments	-	-	-	-	(7,059)
Interest Expense on Bonds Payable					
and Deferred Financing Costs	-	-	-	-	124,670
Grants from Federal Government and Primary Government	-	-	-	-	(26,640)
Provision for Losses on Insured Commercial and Student Loans	-	-	-	-	974
Recovery of Losses on Notes Receivable	-	-	-	-	61
Extraordinary Loss on Early Extinguishment of Bonds	-	-	-	-	19
Gain on Investment Sale	-	-	-	-	(584)
Changes in Assets and Liabilities:					
Restricted Deposits	-	-	-	-	(8,166)
Accounts Receivable	-	-	-	-	(125,855)
Other Receivable	(1,853)	(879)	-	(2,732)	-
Loans Receivable	1,363	-	-	1,363	-
Receivable Reserves	733	(8)	-	725	-
Due from Other Funds	18	(224)	-	(206)	-
Inventories	126	99	-	225	-
Loans Receivable from Governmental Units	-	-	-	-	(92,554)
Accrued Interest Receivable from					
Fees Receivable from Institutions	-	-	-	-	-
Fees Receivable from Trusteed Funds	-	-	-	-	-
Other Assets	78	(194)	16	(100)	3,297
Accounts Payable	709	(893)	-	(184)	839
Accrued Payroll	(230)	11	-	(219)	-
Compensated Absences	21	49	-	70	-
Due to Other Funds	1,332	(578)	-	754	-
Due to Component Unit	(257)	-	-	(257)	-
Deferred Revenue	35	1,909	-	1,944	8,729
Working Capital Payable	-	(13,007)	-	(13,007)	-
Claims and Judgments	-	37,567	-	37,567	-
Undisbursed Administrative Funds	-	-	-	-	157
Net of Receipts/(Payments) of Federal Government	-	-	-	-	(1,297)
Other Accrued Liabilities	(1,412)	(68)	(17)	(1,497)	7,552
Default Payments (Net of Recoveries) on Commercial and					
Student Loans	-	-	-	-	(1,262)
Principal Payments Received on Notes Receivable	-	-	-	-	11,058
Interest Received on Educational Loans	-	-	-	-	2,917
Disbursements for New Notes Receivable	-	-	-	-	(14,592)
Educational Loans Originated for Sale to Related Party	-	-	-	-	(49,587)
Sale of Educational Loans to Related Party	-	-	-	-	49,587
Increase in Amounts Held in State Revolving Loan Programs	-	-	-	-	14,010
Grant Program Funds Received (Disbursed)	-	-	-	-	(3,980)
Net Cash Provided by Operating Activities	$ 62,475	$ 3,159	1,672	$ 67,306	$ (90,016)

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, 1998
(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	$ -	$ -	$ -	$ -	$ 430,965
Principal Paid on Bonds & Notes Payable	-	-	-	-	(153,477)
Amount Deposited in Refunding Escrow Accounts	-	-	-	-	(63,223)
Interest Paid on Bonds & Notes Payable	-	-	-	-	(118,861)
Grant Receipts from Other Governments	-	-	-	-	21,680
Operating Transfers In (Out)	(61,245)	-	-	(61,245)	-
Miscellaneous Noncapital Financing Activities	-	(3,696)	-	(3,696)	2,247
Net Cash Provided by Noncapital Financing Activities	(61,245)	(3,696)	-	(64,941)	119,331
Cash Flows from Capital and Related Financing Activities:					
Additions to Land and Building	(1,440)	(6,502)	-	(7,942)	(290)
Capital Contributions	822	13,955	-	14,777	-
Net Cash Provided by Capital and Related Financing Activities	(618)	7,453	-	6,835	(290)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	-	-	920	920	275,098
Interest paid on bonds payable	-	-	-	-	(1,542)
Purchase of Investments			(1,203)	(1,203)	(281,283)
Income Received from Investments	-	-	(1,013)	(1,013)	31,231
Net Increase (Decrease) in Short Term Investments	-	-	(203)	(203)	(6,533)
Net Cash Provided by Investing Activities	-	-	(1,499)	(1,499)	16,971
Increase (Decrease) in Cash and Cash Equivalents	612	6,916	173	7,701	45,996
Cash and Cash Equivalents at Beginning of Year	6,427	33,349	756	40,532	208,964
Cash and Cash Equivalents at End of Year	$ 7,039	$ 40,265	$ 929	$ 48,233	$ 254,960

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

Fiscal Year Ended June 30, 1998
(Dollars in Thousands)

Additions:	
Investment Income:	
Interest	$ 59,660
Dividends	22,283
Net Appreciation in the Fair Value of Investments	850,980
Less: Investment Expenses	(10,550)
Net Investment Income	922,373
Contributions:	
Members	108,528
State and Local Agencies	274,788
Total Contributions	383,316
Total Additions	1,305,689
Deductions:	
Benefits Paid	307,972
Refunds and Withdrawals	17,737
Administrative Expenses	7,517
Depreciation Adjustment	1,504
Other	547
Total Deductions	335,277
Net Increase	970,412
Net Assets Held in Trust for Pension Benefits:	
Reclassification	(2,653)
End of Year	$ 6,181,956

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, 1998
(Dollars in Thousands)

	Current Funds					
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds	Total (Memorandum Only)
Revenues and Other Additions:						
Unrestricted Current Fund Revenues	$ 195,845	$ -	$ -	$ -	$ -	$ 195,845
Education and General	2,084	6,981	-	-	-	9,065
Government Grants and Contracts - Restricted	-	46,971	547	-	447	47,965
Private Gifts, Grants and Contracts - Restricted	-	21,647	173	1,599	9,172	32,591
Endowment Income - Restricted	-	3,120	11	480	0	3,611
Investment Income - Restricted	3	989	35	-	436	1,463
Interest Income on Loans Receivable	-	0	1,029	-	-	1,029
Unrealized Gains on Investments	-	35	131	12,889	-	13,055
Expended for Plant Facilities	6	-	-	-	17,544	17,550
Other Additions	-	139	2	18	1,610	1,769
Total Revenues and Other Additions	197,938	79,882	1,928	14,986	29,209	323,943
Expenditures and Other Deductions:						
Educational and General Expenditures	311,997	97,122	-	1,200	-	410,319
Auxiliary Enterprise Expenditures	49,471	5	-	-	-	49,476
Administrative and Collection Costs	-	19	1,103	336	169	1,627
Interest on Indebtedness	-	-	-	-	2,605	2,605
Disposal of Plant Assets	-	-	-	-	430	430
Proceeds from New Financing	-	-	-	-	-	-
Expended for Plant Facilities	-	-	-	-	5,147	5,147
Write Down of Asset Values	21	-	23	-	24,532	24,576
Net Recoveries of Charged-off Loans	-	-	-	-	-	-
Total Expenditures and Other Deductions	361,489	97,146	1,126	1,536	32,883	494,180
Transfers Amoung Funds - Additions (Deductions):						
Mandatory:						
Principal and Interest	(6,063)	-	-	-	6,063	-
Loan Fund Transfers	(140)	-	140	-	-	-
Restricted Resources Allocated	811	(1,191)	4	127	375	126
Nonmandatory Transfers from Plant	(2,507)	-	-	-	2,507	-
Nonmandatory Transfers to Endowment	278	(127)	(40)	(328)	-	(217)
Transfers from Primary Government	178,825	22,604	-	-	6,762	208,191
Other Deductions	(1,393)	628	-	858	(3)	90
Total Transfers	169,811	21,914	104	657	15,704	208,190
Net Increase (Decrease) for the Year before Cumulative Change in Accounting Principle	6,260	4,650	906	14,107	12,030	37,953
Cumulative effect of Change in Accounting Principle	3,600	-	-	-	-	3,600
Net Increase (Decrease) for the Year	9,860	4,650	906	14,107	12,030	41,553
Fund Balance June 30, 1997	32,873	20,745	37,719	81,429	297,477	470,243
Fund Balance June 30, 1998	$ 42,733	$ 25,395	$ 38,625	$ 95,536	$ 309,507	$ 511,796

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, 1998
(Dollars in Thousands)

	Unrestricted	Restricted	Total
Revenues:			
Tuition and Fees	$ 107,866	$ 296	$ 108,162
Federal Appropriations	200	5,456	5,656
Federal Grants and Contracts	1,466	46,941	48,407
Private Gifts, Grants and Contracts	3,114	22,903	26,017
Endowment Income	350	3,175	3,525
Sales and Services of Auxiliary Enterprise	55,015	21	55,036
Other Income	29,974	1,733	31,707
Total Current Fund Revenues	197,985	80,525	278,510
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	124,837	11,604	136,441
Research	8,785	22,066	30,851
Public Service	15,867	19,189	35,056
Academic Support	45,758	4,405	50,163
Student Services	32,344	2,294	34,638
Institutional Support	42,567	831	43,398
Operational and Maintenance of Plant	32,372	351	32,723
Scholarships and Fellowships	9,466	36,383	45,849
Total Expenditures	311,996	97,123	409,119
Mandatory Transfers:			
Principal and Interest	3,823	-	3,823
Loan Fund	140	-	140
Total Mandatory Transfers	3,963	-	3,963
Total Educational and General	315,959	97,123	413,082
Auxiliary Enterprises:			
Expenditures	49,471	5	49,476
Mandatory Transfer for Principal and Interest	2,241	-	2,241
Total Auxiliary Enterprises	51,712	5	51,717
Total Expenditures and Mandatory Transfers	367,671	97,128	464,799
Other Transfers and Additions (Deductions):			
Excess of Restricted Receipts over Transfers to Revenues	-	3	3
Net Allocation of Resources (to) from Other Funds	(1,109)	(1,318)	(2,427)
Transfer from PG	178,825	22,605	201,430
Other Deductions	(1,754)	(37)	(1,791)
Total Transfers and Additions	175,962	21,253	197,215
Net Increase (Decrease) in Fund Balance	$ 6,276	$ 4,650	$ 10,926

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

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 (GAAP) 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 one component unit.

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 eleven 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 Governmental Facilities Authority (MGFA), the Maine Health and Higher Education Facilities Authority (MHHEFA), 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, which is a component unit, has 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 Governmental Facilities Authority has been blended within the financial statements of the primary government.

The Authority was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, state office or state activity space 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:

Governmental Type
The Maine Health and Higher Education Facilities Authority assists Maine health care institutions and institutions of higher education in the undertaking of projects involving the acquisition, construction, improvement, reconstruction, and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, also has the power to finance student loan programs of institutions of higher education.

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 collecting and disbursing 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 [illegible] 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 nominated by the Governor and of which twelve are confirmed by the Maine Senate.

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 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 combined financial statements of the system include the activity of seven colleges, the central administrative office, and the Maine Career Advantage.

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 41 percent of the System budget, and University revenues (primarily tuition and fees) that make up the budgetary difference of 59 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 Governmental 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 Veterans' 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 most 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.

<u>Fund Types</u>

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 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 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.

<u>Account Group</u>

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.

<u>Component Units</u>

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.

1. *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.

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

3. *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 for individual income taxes, or within 60 days for all other revenues) 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 are assessed by the State Tax Assessor on properties located in the Unorganized Territories of Maine and on telecommunications personal properties statewide. Property taxes levied during the current fiscal year for the subsequent period are recorded as deferred revenue during the current year. 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 fair 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 fair value. Donated investments are stated at fair value at the date of donation.

Certain component units participate in the cash pool and record the transactions 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 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 unemployment benefits.

F. Restricted Deposits

Restricted deposits represent funds that have been invested in Certificates of Deposit at various financial institutions within the State. The financial institutions lend these deposits 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 and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements for the construction and modernization of agricultural storage facilities and local commercial enterprises. The receivables in the Component Units column are amounts that have arisen in the normal course of business. 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, 1998, interfund receivables or payables have been recorded. Receivables and payables resulting from transactions between funds are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet.

The Bureau of Alcoholic Beverages and Lottery Operations is statutorily required to transfer all net earnings to the General Fund. For fiscal year 1998, these transfers totaled $63.9 million.

Advances to and from other funds are long-term loans made by one fund to another. Receivables and payables resulting from transactions between funds are classified as "Working Capital Receivable" or "Working Capital Payable" on the balance sheet. 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." Due primarily to a difference in presentation between the primary government and a component unit the "Transfers to Component Units" and "Transfers from Primary Government" do not balance by $4.7 million. The component unit reports a revolving loan fund, $62 million at June 30, 1998, as a liability. The State presents the transactions as transfers out. Because the State does not expect the funds to be returned, a receivable is not recorded.

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 (using 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 10-40 years for buildings and improvements and 2-25 years for equipment except for the Portland dry-dock which is depreciated over 40 years. 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 1997 calendar year tax liabilities. Tax refunds are accrued based on payments and estimates.

L. Claims Payable

Claims payable represent workers' compensation and other claims payable at June 30, 1998. 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, 1998, amounts Due From/To Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due to Other Governments are primarily amounts owed to municipalities for Municipal Revenue Sharing and 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 primarily federal grants receivable 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.

Other liabilities in the Enterprise Fund consist primarily of lottery prizes payable.

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, long term liabilities for compensated employee absences, and the net pension obligation.

Also included in the General Long Term Obligations Account Group, as part of General Obligation Bonds, is $19.6 million in bonds issued by the Maine Governmental 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 and health care 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.

Reserved for Tax Relief - identifies amounts reserved to provide tax relief for Maine residents.

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 - identifies 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 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, 1999. 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.

In December 1998, GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources such as most taxes, grants and private donations. In a nonexchange transaction, a government gives or receives value without directly receiving or giving equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The principal issue addressed in this Statement is the timing of recognition of nonexchange transactions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2000. The state may implement this Statement for the year ended June 30, 1999.

NOTE 2 - BUDGETARY PROCESS

In accordance with statute, the Governor presents a biennial budget for the General Fund and the Special Revenue Funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or 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. In fiscal year 1998, a law was passed that requires the State Budget Officer to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund revenue and expenditure forecasts.

Budgetary control is maintained at the account and line category 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 State Budget Officer and the Governor. 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, 1998, supplemental appropriations of $58.7 million were required for the General Fund.

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, the significant exceptions being sales, income and corporate taxes for which 60-day accruals are recorded at year end. 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, 1998
(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 445,892	$ 247,643
Basis Differences		
Revenue Accruals/Adjustments:		
Taxes Receivable	118,339	15,230
Intergovernmental Receivables	-	(98,843)
Other Receivables	15,973	(47,031)
Due from Other Funds	9,220	11,818
Other Assets	(6,708)	(3,206)
Deferred Revenues	(72,582)	(8,708)
Total Revenue Accruals/Adjustments	64,242	(130,740)
Expenditure Accruals/Adjustments:		
Accounts Payable	(69,099)	83,654
Due to Other Governments	(7,000)	19,419
Accrued Liabilities	(25,235)	(19,354)
Due to Other Funds	(4,386)	2,905
Due to Component Units	(13,536)	3,830
Tax Refunds Payable	(77,212)	-
Total Expenditure Accruals/Adjustments	(196,468)	90,454
Perspective Differences		
Amounts reported in the Debt Service Fund on the budgetary basis and included in the General Fund on the GAAP basis	1,539	-
Entity Differences		
Blended Component Unit included in the Special Revenue Fund on a GAAP basis but not on a budgetary basis	-	1,907
Fund Balances - GAAP Basis	$ 315,205	$ 209,264

NOTE 3 - FUND BALANCE AND RETAINED EARNINGS RESTATEMENTS

Restatement

The restatement of fund balances/retained earnings as of June 30, 1997, is as follows:

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

Fund	Fund Balance/Retained Earnings as Previously Reported, June 30, 1997	Increase (Decrease) for Restatement	Fund Balance/Retained Earnings as Restated, July 1, 1997
General Fund	$ 133,291	$ 15,789	$ 149,080
Special Revenue Fund	132,539	(7,566)	124,973
Internal Service Funds	(20,108)	(282)	(20,390)
Expendable Trust Funds	156,403	9,073	165,476
NonexpendableTrust Funds	12,692	4,204	16,896
Component Units	5,998,679	171,017	6,169,696

The General Fund has been restated primarily to reflect a revised federal participation rate in the Medicaid program.

The Special Revenue Funds have been restated primarily to remove a working capital advance ($13.2 million) and to reduce prior year expenditures by $6.1 million.

The Internal Service Funds have been restated for a reclassification of Retained Earnings as Contributed Capital.

The Expendable Trust Funds and the Nonexpendable Trust Funds have been restated primarily for the reporting of investments at fair value as related to GASB 31.

The component unit fund balance has been restated to reflect the addition of the Maine Health and Higher Education Facilities Authority ($165 million) which was not included in the previous year and increases in investments related to GASB 31.

Restatement of Contributed Capital
(Dollars in Thousands)

Fund	Contributed Capital as Previously Reported, June 30, 1997	Increase (Decrease) for Restatement	Contributed Capital as Restated, July 1, 1997
Internal Service Funds	$15,328	$13,464	$28,792

Contributed Capital for the Internal Service funds has been restated mostly because of a reclassification of a Working Capital Payable to Contributed Capital.

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, 1998. The $82.2 million deficit in the Workers' Compensation Fund reflects the accrual of a $89.4 million actuarial liability for claims payable.

Two Enterprise Funds, the Community Industrial Building Fund and the Alcoholic Beverages fund, had deficit fund balances of $39 thousand and $110 thousand respectively.

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 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, banker's acceptances, or shares of an investment company registered under the federal Investment Company Act of 1940 if the investments of the company are limited to obligations of the United States or repurchase agreements secured by obligations of the United States.

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, the Commissioner of Education, and the Attorney General shall invest the funds in securities that are legal investments in accordance with Title 9-B, M.R.S.A. The investments need not be segregated to the separate trust funds but the identity of each separate trust fund must be maintained. The State may enter into custodial contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

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

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

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, 1998 are as follows:

Primary Government - Deposits
June 30, 1998
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 26,356	$ 3,015	$ 48,978	$ 78,349	$ (21,537)
Cash with Fiscal Agent	-	-	23,383	23,383	23,383
Restricted Deposits	755	-	7,617	8,372	8,372
Total	$ 27,111	$ 3,015	$ 79,978	$110,104	$ 10,218

Component Unit - Deposits
June 30, 1998
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 11,348	$ 7,042	$ 8,630	$ 33,773	$ 21,452
Cash with Fiscal Agent	-	-	-	-	-
[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Other	288	-	-	288	288
Total	$ 11,919	$ 7,042	$ 9,415	$ 35,129	$ 22,808

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, 1998 are as follows:

Primary Government - Investments
June 30, 1998
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Fair Value
U.S. Government and Agency Obligations	$ 17,419	$ 4,120	$ 9,839	$ 31,378
Repurchase Agreements	76,228	-	-	76,228
Commercial Paper	573,379	-	-	573,379
Corporate Bonds and Notes	-	2,554	5,268	7,822
Equity Securities	-	11,518	33,353	44,871
Other	-	2,387	1,320	3,707
Totals	$ 667,026	$ 20,579	$ 49,780	737,385
Deposits with U.S. Treasury				162,416
Deferred Compensation Plan Assets				159,172
Assets Held in Trust				40,425
Total Investments – Primary Government				$ 1,099,398

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.

Investments of the discretely presented component units at June 30, 1998 are as follows:

Component Units - Investments
June 30, 1998
(Dollars in thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash and Cash Equivalents	$ 343,484	$ 106,156	$ -	$ 449,640
U.S. Government and Agency Obligations	354,711	152,336	29,959	537,006
Repurchase Agreements	196,523	15,871	1,531	213,925
Commercial Paper	73,129	-	-	73,129
Corporate Bonds and Notes	159,407	2,007	22,893	184,307
Equity Securities	1,453,537	2,660	58,928	1,515,125
Common and Collective Trusts	4,010,479	-	-	4,010,479
Bank Investment Contracts	-	7,803	-	7,803
Guaranteed Investment Contracts	5,664	143,246	-	148,910
Mortgage Backed Securities	588	-	-	558
Other	16,457	1,178	681	18,316
Totals	$ 6,613,979	$ 431,257	$ 113,992	$7,159,228

NOTE 6 - RECEIVABLES

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

Primary Government - Receivables
June 30, 1998
(Dollars in Thousands)

	Taxes	Due from Other Governments	Loans	Other Receivables	Allowance for Uncollectibles	Net Receivables
General Fund	$ 342,164	$ -	$ 1	$ 34,147	$ (127,510)	$ 248,802
Special Revenue Funds	61,956	157,433	1,322	62,422	(19,253)	263,880
Trust and Agency Funds	-	-	-	11,182	(9,946)	1,236
Internal Service Funds	-	-	-	2,524	(2)	2,522
Enterprise Funds	-	-	9,193	9,072	(2,042)	16,223
Subtotal	404,120	157,433	10,516	119,347	$ (158,753)	532,663
Less: Allowance for uncollectibles	(126,893)	-	(1,855)	(30,005)		-
Net Receivables	$ 277,227	$ 157,433	$ 8,661	$ 89,342		$ 532,663

Component Units - Receivables
June 30, 1998

	Due from Other Governments	Loans and Notes	Principal Payments Receivable	Other Types	Allowance for Uncollectibles	Net Receivables
Maine Health & Higher Education Facilities Authority	$ -	$ 847	$689,073	$ 5,516	$ (435)	$ 695,001
Maine Municipal Bond Bank	-	855,508	-	10,750	-	866,258
Maine State Housing Authority	1,967	1,089,294	-	-	(10,847)	1,080,414
Maine Education Loan Authority	-	37,095	-	412	(287)	37,220
Loring Development Authority	771	-	-	185	-	956
University of Maine System	5,320	36,441	-	13,601	(4,377)	50,985
Maine State Retirement System	9,664	-	-	28,090	-	37,754
Finance Authority of Maine	929	35,304	-	1,281	(73)	37,441
Maine Maritime Academy	-	2,522	-	507	(166)	2,863
Maine Technical College System	-	-	-	2,735	(418)	2,317
Subtotal	18,651	2,057,011	689,073	63,077	$(16,603)	2,811,209
Less: Allowance for Uncollectibles	-	(14,691)	-	(1,912)		-
Net Receivables	$18,651	$ 2,042,320	$689,073	$ 61,165		$2,811,209

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, 1998
(Dollars in Thousands)

Fund Type	Due From	Due To	Working Capital Receivable	Working Capital Payable
General Fund	$ 10,469	$ 17,313	$ 1,536	$ -
Special Revenue Fund	15,251	15 517	-	250
Internal Service Fund	8,904	413	-	286
Enterprise Fund	3	1,407	-	1,000
Trust and Agency Funds	23	-	-	-
Total	$ 34,650	$ 34,650	$ 1,536	$ 1,536

Component Units - Due From/Due To
June 30, 1998
(Dollars in Thousands)

	Due From Primary Government	**Due To Component Units**
Primary Government		
General Fund:		
University of Maine System	$ -	$ 5,048
Maine State Retirement System	-	8,488
Loring Development Authority	-	56
Special Revenue Funds:		
University of Maine System	-	3,942
Maine Technical College System	-	588
Maine State Housing Authority	-	472
Capital Project Funds:		
Maine Municipal Bond Bank	-	2,500
Maine Technical College System	-	262
University of Maine System	-	1,500
Enterprise Funds:		
Finance Authority of Maine	-	1,223
Component Units		
Maine State Housing Authority:		
Special Revenue Funds	472	-
Loring Development Authority		
General Fund	56	
Maine Municipal Bond Bank:		
Capital Project	2,500	-
Finance Authority of Maine:		
Enterprise	1,223	-
Maine Technical College System		
Special Revenue Funds	588	-
Capital Project Funds	262	-
University of Maine System:		
General Fund	5,048	-
Special Revenue	3,942	-
Capital Project Funds	1,500	-
Maine State Retirement System:		
General Fund	8,488	-
Total	$ 24,079	$ 24,079

NOTE 8 - FIXED ASSETS

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

Summary of Fixed Assets in Proprietary Funds and
Discretely Presented Component Units
June 30, 1998
(Dollars in Thousands)

	Enterprise Funds	Internal Service Funds
Land	$ 1,523	$ 243
Buildings	32,229	6,105
Equipment	40,730	112,672
Improvement other than buildings	350	119
Construction in progress	2,660	-
Less: Accumulated depreciation	(25,208)	(76,142)
Total fixed assets	$ 52,284	$ 42,997

Component Units - Fixed Assets
June 30, 1998
(Dollars in Thousands)

	Totals
Land and Buildings	$ 378,095
Equipment	138,981
Improvements Other Than Buildings	21,582
Assets Under Capital Leases	196
Library Books	3,565
Construction in Process	27,276
Less: Accumulated Depreciation	(207,015)
Total Fixed Assets	$ 362,679

NOTE 9 - MAINE STATE RETIREMENT SYSTEM

Plan Description

The Maine State Retirement System is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Maine State Retirement System Laws, Title 5 M.R.S.A., C. 421, 423, and 425. The System is a component unit of the State. Financial information for the System is included in the 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 Maine State Retirement System issues a stand-alone financial report.

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. At June 30, 1998, the membership consisted of:

Active vested and nonvested members	48,851
Terminated vested participants	1,444
Retirees and benefit recipients	27,873
Total	76,168

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of ten years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is age 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993, and the monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The system also provides death and disability benefits, which are established by statute for State and public school employees, and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits. The annual rate of interest credited to members' accounts is set by the System's Board of Trustees and is currently 6.50 percent.

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

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 applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by annual actuarial valuations.

The total funds managed by the System are constitutionally restricted as held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan. Because 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, the System is regarded as administering a single plan for reporting purposes. Notwithstanding this, each of its participating entities is responsible for the funding of benefits related to that entity.

The System also provides group life insurance under a plan that is administered by a third party insurance company. Premiums paid by or on behalf of those covered are set and collected by the System. Benefit payments are made by the insurance company. The System remits to the insurance company payments in the amount of benefits paid out and additional payments representing administrative fees.

Funding Policy

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 25-year period from June 30, 1998. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 2 years to 28 years.

The State of Maine is required to remit 25% of its budgetary surplus at the end of its fiscal year to the System, in order to reduce any unfunded pension liability for state employees and teachers. Accordingly, for the year ended June 30, 1998 the System recorded $8,487,572 in additional contributions from the State of Maine, of which $8,487,572 was recorded as due from primary government at June 30, 1998.

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

The actuarially determined contribution rates in effect for 1998 for participating entities are as follows:

State:	
Employees[1]	7.65-8.65%
Employer	16.39%
Teachers:	
Employees	7.65%
Employer	19.30%
Participating Local Entities:	
Employees	6.5%
Employer[1]	4.7-19%

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

By statute, the System maintains separate benefit reserve funds, as well as other reserves the board of trustees

Retirement allowance fund	$4,881,547,693
Member contribution fund	1,269,803,349
Group life reserve	30,605,221
Total	$6,181,956,263

ANNUAL PENSION COST AND NET PENSION OBLIGATION

The employer's annual pension cost and net pension obligation to the System for the current year were as follows:

Net Pension Obligation
(Dollars in thousands)

Annual required contribution	$266,300
Interest on net pension obligation	8,022
Adjustment to annual required contribution	(4,262)
Annual pension cost	270,060
Contributions made	274,788
Increase (decrease) in net pension obligation	(4,728)
Net pension obligation beginning of year	100,274
Net pension obligation end of year	$ 95,546

Analysis of Funding Progress
(Dollars in thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
1998	$ 270,060	101.75%	$ 95,546
1997	$ 253,729	105.57%	$ 100,274
1996	$ 252,210	100.57%	$ 114,399

The annual required contribution for the current year was determined as part of the June 30, 1998 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 8% return on investments and (b) projected salary increases of 5.5% to 9.5% per year, including inflation of 5.5%. The assumptions include post retirement benefit increases of 4% per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 25-year period from June 30, 1998. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 2 years to 28 years.

COMPONENT UNIT PENSION DESCRIPTION

The Maine Municipal Bond Bank, Maine Maritime Academy, Maine State Retirement System, University of Maine, and Maine Health and Higher Educational Facilities Authority 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.

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 contribution 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 Simplified Employee Pension Plans. 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 retired 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.

Effective January 1, 1999, the State will pay 30 percent of health insurance premiums for retired teachers, rather than 25 percent. 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 have been funded on a pay-as-you go basis. For retired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount resulted in an employer contribution rate (4.22 percent for the 1998 fiscal year) that is applied against current employee payrolls. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimated 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. The State's management has proposed funding retiree healthcare benefits using rates which have been developed actuarially beginning in the 2000-2001 biennium.

For the fiscal year ended June 30, 1998, there were 7,257 retired eligible State and Technical College employees and 5,902 retired teachers. In the 1998 fiscal year, the State paid into the Retiree Health Insurance Fund $16.9 million for retired employees and $3.2 million for retired teachers. Premium charges paid were $14.6 million and $[illegible] million, respectively. Overall fund equity increased by $[illegible] million, to $[illegible] million at June 30, 1998.

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 claims totaled $1.7 million and retired teacher claims totaled $1 million for the fiscal year ended June 30, 1998. 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 until the employee retires, resigns, or otherwise leaves 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 will change the current trust document in fiscal year 1999, 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 protection, highway and transportation related projects, agricultural and small business job creation, and acquisition, construction, and renovation of major capital facilities including state parks and historic sites. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues and are repaid in annual installments beginning not more than one year after issuance.

In June 1998, the State issued $84.5 million of general obligation bonds, $54.5 million of which will be repaid from the General Fund and $30 million of which will be repaid from the Special Revenue Fund.

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, 1997	Additions	Retirements	Balance June 30, 1998
General Obligation Debt:				
General Fund	$ 339,620	$ 54,500	$ 56,545	$ 337,575
Special Revenue Fund	149,655	30,000	20,900	158,755
Self Liquidating	811	-	91	720
Total	$ 490,086	$ 84,500	$ 77,536	$ 497,050

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
1999	$ 80,765	$ 26,008	$ 106,773
2000	74,775	21,666	96,441
2001	72,560	17,593	90,153
2002	68,230	13,668	81,898
2003	63,065	9,868	72,933
Thereafter	137,655	18,487	156,142
Total	$ 497,050	$ 107,290	$ 604,340

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, 1998, general obligations bonds authorized and unissued totaled $42.8 million. On June 9, 1998 voters approved an additional $48 million, however the laws underlying this vote were not effective until July of 1998.

BOND AND TAX ANTICIPATION NOTES

During fiscal year 1998, bond anticipation notes (BANs) totaling $46.5 million were issued by the State. Interest rates ranged from 4.00 percent to 6.25 percent. The BANs were issued as a temporary financing [illegible] projects that were ultimately financed with bond issuance proceeds. The BANs are backed by the full faith and credit of the State. There were no TANs issued during the fiscal year. As of June 30, 1998, there were no BANs or TANs outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies and Certificates of Participation (COPs) 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, 1998
(Dollars in Thousands)

	Bonds	COPs and other Financing Arrangements	Compensated Absences	Net Pension Obligation	Total
Balance, July 1, 1997	$490,086	$6,894	$26,180	$100,274	$623,434
Issuances	84,500	974	-	-	85,474
Payments	77,536	1,731	-	-	79,267
Other Increase (Decrease)	-	-	1,707	(4,728)	(3,021)
Balance, June 30, 1998	$497,050	$6,137	$27,887	$95,546	$626,620

Changes in COPs and Other Financing Arrangements reported in Proprietary Fund Types are as follows:

Certificates of Participation and Other Financing Arrangements
June 30, 1998
(Dollars in Thousands)

Outstanding July 1, 1997	Additions	Retirements	Outstanding June 30, 1998
$19,917	$4,887	$8,583	$16,221

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, 1998
(Dollars in Thousands)

	Minimum Payments	
Fiscal Year Ending June 30,	Governmental Funds	Internal Service Funds
1999	$ 2,181	$ 6,700
2000	2,081	7,148
2001	1,940	2,319
2002	216	1,334
2003	182	-
Thereafter	202	-
Total Minimum Payments	$ 6,802	$ 17,500
Less: Amount Representing Interest	665	1,279
Present Value of Future Minimum Payments	$ 6,137	$ 16,221

OBLIGATIONS UNDER CAPITAL LEASES

At June 30, 1998, 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 Unit Bonds Outstanding
June 30, 1998
(Dollars in Thousands)

	Purpose	Interest Rates	Amount	Maturity Dates
Maine Municipal Bond Bank	General Tax-Exempt Fund Group	3.00 - 9.75%	$ 813,823	1989 - 2020
	Sewer and Water Fund Group	2.75 - 7.30%	74,352	1991 - 2017
	Special Obligation Taxable Fund Group	6.10 - 10.25%	3,595	1991 - 2009
Subtotal			891,770	
University of Maine System	1993 Series A Revenue Bonds	2.30 - 5.20%	11,705	1994 - 2008
	1993 Series B Refunding Bonds	3.15 - 5.25%	14,295	1995 - 2009
Subtotal			26,000	
Maine State Housing Authority	Mortgage Purchase Program	2.75 - 9.25%	1,149,105	1998 - 2037
	Mortgage Acquisition Program	6.10 -7.15%	15,190	1998 - 2021
	Housing Finance Revenue Program	3.95 - 6.30%	33,043	1997 - 2018
Subtotal			1,197,338	
Maine Health and Higher Education Facilities Authority	General Bond Resolution	4.75 - 7.75%	96,287	1987 - 2021
	Reserve Fund Resolution	2.5 - 7.1%	591,210	1992 – 2028
	Medium Term Financing Reserve Fund Resolution	4.0 - 8.25%	7,255	1993 – 2003
	Taxable Reserve Fund Resolution	7.03 - 9.35%	108,065	1993 – 2016
Subtotal			802,817	
Finance Authority of Maine	Construction bonds	1.0 - 6.29%	1,398	1998 – 2025
Maine Educational Loan Authority	Educational Loan Revenue Bonds	3.95 - 7.75%	55,912	1996 - 2027
Other	Revenue and Building Construction Bonds		3,657	
Total			$2,978,892	

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, 1998
(Dollars in Thousands)

Fiscal Year Ending June 30 (December 30 for MSHA, MELA)	FAME	MELA	MMA	MTCS	MMBB	UM	MSHA	MHHEFA	Totals
1998	$ -	$ 2,535	$ -	$ -	$ -	$ -	$ 12,140	$ -	$ 14,675
1999	487	2,495	101	85	71,285	1,515	16,900	28,562	120,500
2000	171	2,405	76	85	72,015	1,525	19,820	28,840	124,937
2001	55	2,210	81	85	70,170	1,450	21,875	28,040	123,966
2002	55	2,155	80	85	73,745	1,495	24,245	28,485	130,345
2003	55	-	79	85	64,935	1,455	-	30,160	96,690
Thereafter	575	44,545	2,829	145	566,805	18,560	1,116,580	658,730	2,409,067
Less amounts deferred or unamortized	-	(433)	(157)	-	(27,185)	-	(14,222)	-	(41,687)
Total Principal Payments	$1,398	$55,912	$3,087	$570	$891,770	$26,000	$1,197,338	$802,817	$2,978,893

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, 1998, $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, 1998
(Dollars in Thousands)

	1998	1997
Liability at beginning of year	$3,135	$2,179
Current year claims and changes in estimate	1,741	2,403
Claims payments	1,741	1,753
Other Adjustment	-	*306
Liability at end of year	$3,135	$3,135

* 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. Therefore, from 1997 on the risk management activities will be reported in one Internal Service Fund.

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 $766 thousand for the fiscal year ended June 30, 1998.

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 1998 were as follows:

Workers' Compensation Fund Changes in Claims Payable
June 30, 1998
(Dollars in Thousands)

	1998	1997
Liability at Beginning of Year	$ 51,878	$ 50,200
Current Year Claims and Changes in Estimates	50,660	14,468
Claims Payments	(13,093)	(12,790)
Liability at End of Year	$ 89,445	$ 51,878

Based on actuarial calculations as of June 30, 1998, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $102.7 million. The discounted amount is $89.4 million and was calculated [illegible]

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 $91.5 million, of which the State's share was 93 percent. The contract agreement with Blue Cross/Blue Shield was effective from July 1, 1996 through December 31, 1997. This contract was extended through March 31, 1998. At the end of the contract period the final settlement amount was $2.1 million.

The current contract with Healthsource Maine is effective from April 1, 1998 through March 31, 2000. Under this contract the carrier assumes all risk of any loss.

For the fiscal years 1995 and 1996, contracts were not fully insured and contract settlements exceeded insurance coverage as follows:

Fiscal Year	Cumulative Deficit (Dollars in Millions)
1995	$5.1
1996	$0.6

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 1022 confidential employees at June 30, 1998. 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, 1998
(Dollars in Thousands)

	State Lottery Bureau	Bureau of Alcoholic Beverages	Transportation Related	Agriculture Related	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues	$ 151,961	$ 70,655	$ 2,922	$ 296	$ 923	$ 226,757
Depreciation Expense	12	65	3,151	63	12	3,303
Operating Income (Loss)	40,988	22,030	(4,643)	(1,335)	(87)	56,953
Net Nonoperating Revenues	876	-	103	561	16	1,556
Net Income (Loss)	16	(110)	(2,083)	(389)	(170)	(2,736)
Operating Transfers in (out)	(41,847)	(22,140)	2,457	387	(100)	(61,245)
Additions (Deletions) to Property, Plant and Equipment	(25)	528	635	-	(27)	1,111
Total Assets	8,619	6,744	52,524	10,148	618	78,653
Total Long-Term Liabilities	-	1,000	-	-	-	1,000
Total Liabilities	8,603	6,854	364	1,310	92	17,223
Total Equity	16	(110)	52,160	8,839	525	61,430
Net Working Capital	(44)	152	1,617	607	477	2,809
Current Capital Contributions	-	-	822	-	-	822

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, 1998
(Dollars in Thousands)

	LDA	MELA	FAME	MHHEFA	MSHA	MMBB	MSRS	MMA	MTCS	U of ME	Total
Assets:											
Cash	$ 1,710	$ 1,829	$ 50,006	$ 109,373	$ 209,365	$ 217	$ 347,558	$ 149	$ 2,417	$ 59,875	$ 782,499
Investments	-	18,048	20,078	212,278	110,337	191,614	5,846,108	13,618	12,023	82,502	6,506,606
Due from primary government	56	-	1,223	-	472	2,500	8,488	-	850	10,490	24,079
Due from other governments	771	-	929	-	1,967	-	9,664	-	-	5,320	18,651
Loans and notes receivable	-	36,808	35,231	628	1,078,447	855,508	-	2,377	-	33,321	2,042,320
Other receivables	185	412	1,281	694,373	-	10,750	28,090	485	2,319	12,343	750,238
Fixed assets	73	-	299	5,098	829	1,102	1,142	37,775	60,491	255,870	362,679
Other assets	1	272	14	11,061	20,349	43,976	-	5,282	869	9,337	91,161
Total assets	$ 2,796	$57,369	$109,061	$ 1,032,811	$1,421,766	$1,105,667	$ 6,241,050	$59,686	$ 78,969	$ 469,058	$ 10,578,233
Liabilities:											
Accounts payable	102	25	1,759	925	1,425	1,340	52,306	423	1,329	8,888	68,522
Due to other governments	1,473	-	-	-	3,939	2,644	-	-	-		8,056
Deferred revenues	172	-	5,105	118	30,643	-	-	211	604	8,206	45,059
Amounts held under state loan programs	-	-	62,061	-	-	-	-	-	-		62,061
Bonds and notes payable	-	55,912	10,098	802,817	1,197,338	891,770	-	3,087	570	26,000	2,987,592
Other accrued liabilities	177	1,338	12,589	31,738	29,229	19,659	6,788	2,871	10,374	33,353	148,116
Total Liabilities	1,924	57,275	91,612	835,598	1,262,574	915,413	59,094	6,592	12,877	76,447	3,319,406
Equity:											
Retained Earnings:											
Reserved	-	-	1,608	-	153,426	4,671	-	-	-	-	159,705
Unreserved	872	94	15,841	4,483	5,766	185,583	-	-	-	-	212,639
Reserved for debt service	-	-	-	107,801	-	-	-	-	-	832	108,633
Net investment in plant	-	-	-	-	-	-	-	34,633	55,247	207,896	297,776
Reserved for pension benefits	-	-	-	-	-	-	6,181,956	-	-	-	6,181,956
Other reservation	-	-	-	84,929	-	-	-	11,248	2,535	179,300	278,012
Unrestricted/unreserved	-	-	-	-	-	-	-	7,213	8,310	4,583	20,106
Total Equity	872	94	17,449	197,213	159,192	190,254	6,181,956	53,094	66,092	392,611	7,258,827
Total Liabilities and Equity	$ 2,796	$57,369	$ 109,061	$ 1,032,811	$ 1,421,766	$ 1,105,667	$ 6,241,050	$ 59,686	$ 78,969	$ 469,058	$10,578,233

Component Unit Statement of Revenues, Expenses, and Changes in Fund Balance Equity
June 30, 1998
(Dollars in Thousands)

	LDA	MELA	FAME	MSHA	MMBB	Total
Operating revenues	$ 4,526	$ 4,510	$ 27,342	$ 173,580	$ 83,930	$ 293,888
Operating expenses	4,652	4,103	33,523	165,138	52,826	260,242
Operating income (loss)	(126)	407	(6,181)	8,442	31,104	33,646
Non-operating revenues (expenses)	-	-	(8,212)	1,471	-	(6,741)
Extraordinary Loss	-	(19)	-	(512)	-	(531)
Transfers from primary government	382	-	9,793	5,909	4,900	20,984
Net income (loss)	256	388	(4,600)	15,310	36,004	47,358
Retained Earnings, July 1, 1997 (as restated)	615	(293)	22,045	143,883	154,249	320,499
Retained Earnings, June 30, 1998	$ 871	$ 95	$ 17,445	$ 159,193	$ 190,253	$ 367,857

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 be 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, 1998, the following selected financial information was reported in the audited financial statements of the Tri-State Lotto Commission:

Tri-State Lotto Commission
June 30, 1998
(Dollars in Thousands)

Current Assets	$	39,558
Noncurrent Assets		233,839
Total Assets	$	273,397
Current Liabilities	$	34,784
Long-term Liabilities		213,176
Total Liabilities		247,960
Designated Prize Reserves		4,995
Unrealized Gain on Investments Held for Installment Prize Obligations		20,442
Total Retained Earnings		25,437
Total Liabilities and Retained Earnings	$	273,397
Total Revenue	$	87,190
Total Expenses	$	56,573
Allocation of Funds to Member States	$	31,199
Increase in Retained Earnings	$	10,997

NOTE 16 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature has defined operating surplus within the Maine Turnpike Authority Statute to be the total operating revenues of the Authority after money has been set aside to pay reasonable operating expenses and to meet the requirements of any resolution authorizing bonds. The Authority, with the concurrence of the Maine Department of Transportation, has established the operating surplus at $4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 1998.

General Obligation Bonds of the State includes $720,000 of self-liquidating bonds of the 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 $3.2 million and $1.6 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, 1998 and 1997 were approximately $2.5 million and $2.1 million, respectively. The reported fair market value of the Foundation's assets at June 30, 1998 and 1997 was approximately $86.9 million and $74.0 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 1997 and 1996, approximately $49.6

million and $50.7 million, respectively, of educational loans were originated by the Authority and purchased by MELMAC as described above. The Authority received approximately $248,000 and $254,000 in 1997 and 1996, 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 (DEP) 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. After January 1, 2000, the State will not be liable for the costs relating to the post closure and closure of landfills, unless these costs are specifically identified in an agreement and approved by DEP prior to January 1, 2000.

During the 1998 fiscal year, $[illegible].0 million of general obligation bond funds were expended for solid waste landfill closure projects. At June 30, 1998, DEP estimates the State's share of future costs relating to the postclosure and closure of landfills to be $4.3 million.

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 $35-45 million through the year 2003. This consists of approximately $15-20 million for State owned facilities and $20-25 million for the State's share, under a cost sharing arrangement, for municipal facilities. The amount of the potential commitment may be less, if the legislature enacts statutory changes to the program.

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, 1998, outstanding commitments by municipalities for school bond issues that are eligible for state subsidy totaled $696.8 million.

At June 30, 1998, the Department of Transportation had contractual commitments of approximately $107 million for construction of various highway projects. The State's share of that amount is expected to be approximately $21 million. Funding for these future expenditures is expected to be provided from federal funds, State funds, and bond proceeds.

Title 38 M.R.S.A. §411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 1998 fiscal year, $5.4 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 1998 the State's contractual commitment for pollution abatement projects totaled $13 million. DEP estimates the total cost (federal, State, and local) of future projects to be $287 million. At June 30, 1998, general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $11.7 million.

TREATMENT OF WASTEWATER FROM THE STATE'S CORRECTIONAL FACILITIES

At June 30, 1998, 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 1998 expenditures totaled $359,156. 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, 1998, the Maine Department of Transportation (MDOT) had unreimbursed expenditures paid from the Highway Fund in fiscal years 1998 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, 1998, $48.1 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, $63,000 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, 1998, $1.3 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, 1998, there were no amounts issued pursuant to these authorizations.

MORAL OBLIGATIONS

The State of Maine, through statute, enables certain authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the authority to issue debt that is not secured by these funds. On or before December first of each year, the authority is required to certify to the governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The governor shall certify any remaining unpaid amounts to the legislature, which is then required to appropriate and pay the remaining amounts to the authority during the then current state fiscal year. These moral obligations are not considered to be "full faith and credit" obligations, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.
The following summarizes information regarding Moral Obligations as of June 30, 1998.

Moral Obligation Bonds
June 30, 1998
(Dollars in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Finance Authority of Maine	$ 283,322	$ 36,441	$757,000	10 MRSA § 1032, 1053
Maine Educational Loan Authority	37,285	2,379	50,000	20-A MRSA § 11424
Maine Municipal Bond Bank	918,955	107,753	No Limit	30-A MRSA § 6006
Maine Health and Higher Education Facilities Authority	706,530	54,300	No Limit	22 MRSA § 2075
Loring Development Authority	-	-	100,000	5 MRSA § 13080-N
Maine State Housing Authority	1,231,568	87,251	1,650,000	30-A MRSA § 4906
Total	$3,177,660	$288,124		

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 and the allocation of pension costs, the State or its agencies or employees have valid defenses, and that, even if liability is found, the damages awarded will be for less than the amounts sought. Other than the pension case, 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. This is the former Pineland Consent Decree and is now officially called the Community Consent Decree. The Department of Mental Health, Mental Retardation and Substance Abuse Services filed a motion to terminate the consent decree in July of 1998, and the parties are now engaged in negotiations to attempt to bring about a negotiated end to this 20-year old decree. There remains some hope that by the summer of 1999, the U.S. District Court will hand down an order terminating this case, though possibly with several conditions. It is possible that additional funds could be required as a result of further court orders.

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.

State of Maine v. Shalala 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. The state has filed an appeal in the U.S. District Court. As the scope of review is narrow, the possibility of success on appeal is limited.

Alden v. State This case involves claims by probation officers against the State for violations of the federal Fair Labor Standards Act. The State has successfully defended this suit in state and federal court but it is now before the Supreme Court of the United States, scheduled to be argued in March of 1999. The outstanding claims, interest and attorney fees would be well over $1 million. Observers of the Supreme Court view this as a close case in view of the 11^{th} amendment implications.

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, 1998, the State issued $39.4 million of bond anticipation notes with interest rates ranging from 3.5 percent to 5.5 percent.

In July1998, the State entered into a lease financing arrangement for the purchase of a mainframe and fleet vehicles. Both are recorded in Internal Service Funds. The amount financed was $3.0 million.

On November 23, 1998, Maine along with 49 other states and jurisdictions agreed to an out of court settlement with certain Participating Tobacco Manufacturers (PMs) to recover smoking related Medicaid costs. The PMs agreed to pay $206 billion to the 50 states. In return, the states have agreed to relinquish claims to further damages resulting from Medicaid costs. Maine's percentage of the total settlement payment is 0.7693505%, which equals $1.58 billion. Annual payments (2000 and thereafter) will fluctuate subject to various adjustments and litigation offsets and are contingent on the passage and enforcement of a state statute imposing economic conditions on the PMs. This settlement should result in an ongoing revenue stream to the State, which will continue into perpetuity. The Federal government may claim two thirds of all of the states' settlement payments to recover their share of costs previously paid by Medicaid for tobacco related illnesses.

As compensation, the PMs have also agreed to pay $8.6 billion to the 50 states and jurisdictions for their contribution to the overall settlement. These payments are subject to the adjustments referred to above. Maine's share equals approximately $114 million and will be received in ten annual payments beginning in 2008.

COMPONENT UNITS

On August 15, 1998, the Maine Municipal Bond Bank issued $4,795,000 of 1998 Series A Sewer and Water Revenue Bonds – Drinking Water Program. The bonds mature between 1999 – 2028, and carry interest rates ranging from 3.65% to 5.20%.

The Maine Governmental Facilities Authority entered into a $25,000,000 revolving credit agreement with State Street Bank and Trust Company (the Bank) on October 30, 1998. Under the Agreement, subject to restrictions, the Authority may borrow to provide interim financing for the acquisition, construction, improvement, reconstruction and equipping of structures or facilities for use by the judicial, legislative or executive branches of the State government and related entities. Interest on advanced amounts up to $3,000,000 is payable monthly at the Bond Market Association index plus 0.75%. The agreement is subject to renewal on October 19, 1999.

On July 9, 1998, the Maine Health and Higher Education Facilities Authority issued $100,540,000 of 1998 Series B Revenue Bonds. The bonds mature between 1999 – 2028, and carry interest rates ranging from 3.70% to 5.00%.

On March 4, 1998, the Maine State Housing Authority issued $55,000,000 in 1998 Series A and B bonds. The bonds mature between 2003 – 2038, and carry interest rates ranging from 4.25% to 6.94%.

NOTE 20 - ACCOUNTING CHANGES

In fiscal year 1998, the State of Maine adopted Governmental Accounting Standard Board (GASB) Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

For the fiscal year ended June 30, 1998, the State of Maine adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

REQUIRED SUPPLEMENTARY INFORMATION


DIRIGO
MAINE

Required Supplementary Information – Year 2000 Disclosure

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as fiscal year 1999.

The State of Maine has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting state operations. The state has identified the following systems requiring year 2000 remediation:

	In Process or Completed				
Systems	Awareness	Assessment	Remediation	Validation & Testing	Contracted Amounts as of June 30,1998
MFASIS - Accounting				✔	$790,000
MFASIS - Human Resources			✔		$172,800
MFASIS - Warehouse			✔		$139,000
Lottery - Instant Tickets		✔			
Lottery - Online		✔			
BIS Network Services	✔				
Voice System	✔				
BIS Bull System			✔		$1,930,838
BIS IBM System				✔	$46,000
BIS COMTEN			✔		
Budget System			✔		$130,000
Revenue Services - MATS			✔		$450,000
Education - GPA				✔	
Education - School Nutrition			✔		
Education - Special Education			✔		
Human Services - WELFRE/MMIS/CCOLC			✔		$2,900,000
Human Services - NECSES			✔		$1,200,000
Human Services - WIC			✔		$700,000
Labor - Benefits Payment System			✔		$2,232,888
Labor - DOLARS			✔		
Public Safety - Message Switch			✔		
Transportation - Promis			✔		$130,000

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the State of Maine is or will be Year 2000 ready, that the State of Maine's remediation efforts will be successful in whole or in part, or that parties with whom the State of Maine does business will be Year 2000 ready.

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 1998	$4,325,864,097	$6,706,620,152	$2,380,756,055	64.5%	$1,165,614,285	204.2%
June 30, 1997	3,678,447,543	6,223,290,581	2,544,843,038	59.1%	1,123,165,516	226.6%
June 30, 1996	3,152,547,745	5,978,879,213	2,826,331,468	52.7%	1,184,390,280	238.6%

Schedule of Employer Contributions

Year Ended	Anuual Required Contribution	Annual Contribution	Percentage Contributed
1998	$237,246,612	$245,734,184	103.6%
1997	[illegible]	[illegible]	[illegible]
1996	215,121,717	221,121,717	102.8%

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 1998	$1,066,810,947	$1,147,652,930	$80,841,983	93.0%	$223,525,533	36.2%
June 30, 1997	924,525,993	1,068,530,453	144,004,460	86.5%	218,447,415	65.9%
June 30, 1996	806,819,972	1,006,597,165	199,777,193	80.2%	132,071,920	151.3%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
1998	$29,053,376	$29,053,376	100.0%
1997	32,852,635	32,852,635	100.0%
1996	32,525,079	32,525,079	100.0%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Presentation

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

Actuarial Assumptions and Methods:

The information in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 1998, is as follows:

Funding Method

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

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

Asset Valuation Method

For actuarial purposes, assets are valued by determining the total yield on the investments of the System using the full investment return (including capital gains), which is measured by the difference in the actuarial value of the assets at the beginning of the fiscal year and the market value of the assets at the end of the fiscal year. Prior year's unrecognized gains and losses are added to this amount to develop expected actuarial value. One third of the excess of the yield (using the full investment return) is added to the expected actuarial value to determine the actuarial valuation of assets.

Amortization

The unfunded actuarial liability is amortized on a level percentage of payroll over a legislatively-enacted 25 year closed period from June 30, 1998.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 1998 are as follows:

Investment Return – 8% per annum, compounded annually

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

Mortality Rates – Active State employee members and active participating local entity members – UP 1994 Tables; Active teacher members – 85% of UP 1994 Tables; Non-disabled State employee retirees and non-disabled participating local entity retirees – GAM 1971 Tables; Non-disabled teacher retireees – GAM 1971 Tables set back two years; All current recipients of disability benefits – 1964 Commissioners Disability Table; All disability benefit recipients who begin to receive benefits in 1998 and thereafter – RPA 1994 Table for pre-1995 Disabilites.

Post Retirement Benefit Increases – 4% per annum

Group Life Plan:

The Group Life Insurance Program administered by the System provides for a life insurance benefit for active members equal to a member's annual base compensation as defined by statute. Upon retirement, life insurance coverage in the amount of the member's average final compensation is provided with a reduction of 15% per year until the greater of 40% of the average final compensation of $2,500 is reached. To be covered in retirement, retirees must have participated in the Group Life Program for a minimum of ten years. Premiums are remitted to the System by the employer. The State pays a premium rate of $0.30 per $1,000 of coverage per month for state employees. Teachers and employees of participating local districts pay a premium rate of $0.22 and $0.46 per $1,000 of coverage per month, respectively, some or all of which may be deducted from employees' compensation as per individual agreements with employees. Assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 1998 and 1997, the plan had the following actuarially determined liabilities:

	(In millions)	
	1998	**1997**
Actuarial Liabilities:		
Active Members	$ 42.6	$ 37.8
Retired Members	36.4	38.7
Total	$ 79.0	$ 76.5