STATE OF MAINE

GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 1999

MAINE

GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 1999

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, 1999.

The State's financial condition continues its positive trend. At fiscal year end the Rainy Day fund reached its new cap, approximately $132 million, up from $99 million in FY98. Interest earned on the Treasurer's cash pool was again greater than any year since 1990, and for the second year in a row the State showed a positive unreserved General Fund fund balance on a GAAP basis. Overall, the State's General Fund fund balance increased from approximately $315 million in FY98 to $344 million in FY99.

For fiscal year 2000, our plan is to format this *Report* as the Comprehensive Annual Financial Report or CAFR for the State. The CAFR has a significant introductory section, financials and notes on a GAAP basis followed by a statistical section. The budgetary report will continue to be published as a supplement to the GAAP CAFR.

The General Accounting Standards Board (GASB) has mandated certain *Report* changes, based on a GASB reporting model that resembles private sector annual reporting. Writing the *Report* for citizens as well as other audiences is emphasized and will demand more and better readability. Other mandates include a significantly expanded Management Discussion and Analysis section, along with an enhanced Statistical section. Although this is a challenge for virtually all states to meet, we will enthusiastically begin moving toward the GASB model format in next year's *Report.*

Work on the State's fixed asset program continues with the only area of noncompliance being certain parcels of land and buildings that require tracking of original cost. Segregation of capital leases requires updating and finalized procedures for ongoing maintenance. Both fixed assets and capital leases are not expected to be qualifications by the State Auditor in the FY00 *Report.*

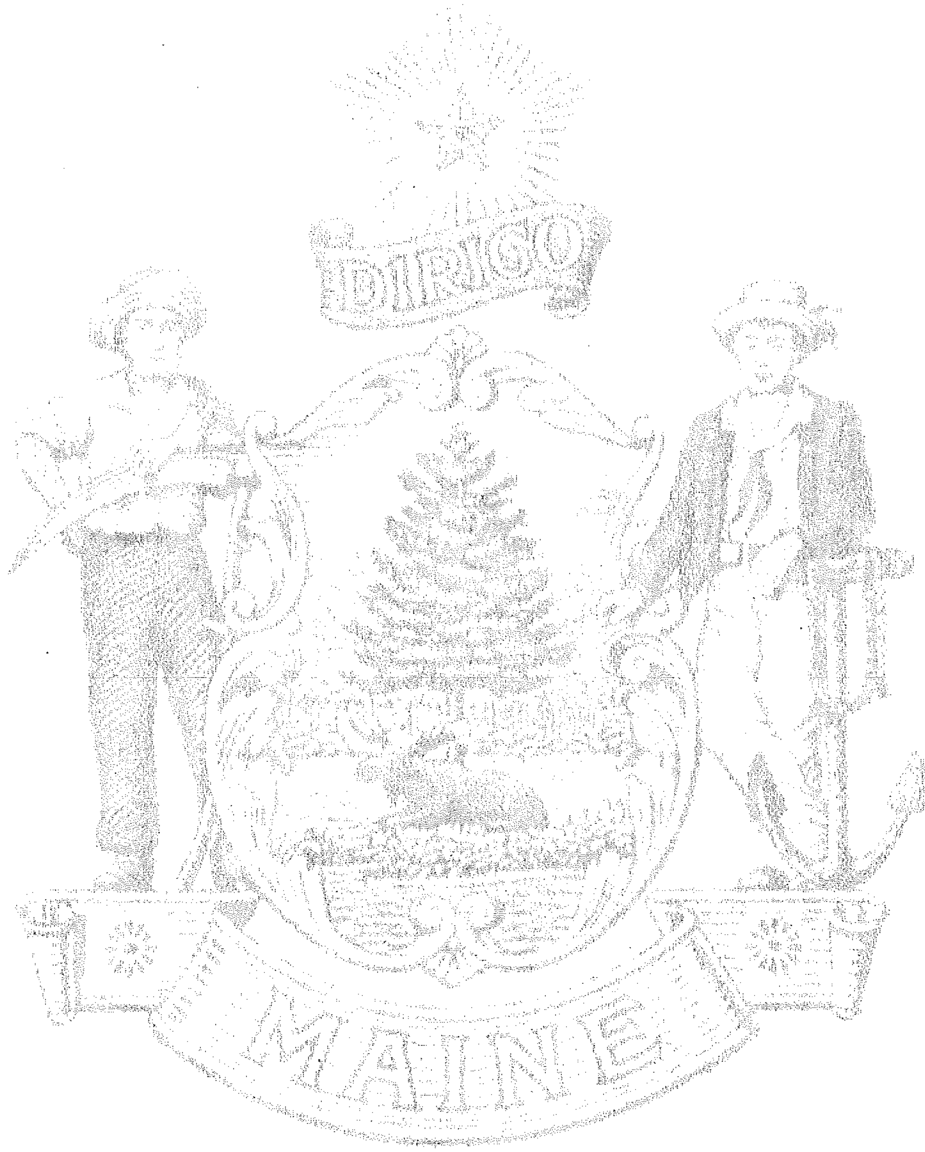
We believe that the information in this *Report* presents fairly and accurately the financial position of the State with the exception of fixed assets and capital leases, mentioned herein, plus any other qualifications of the State Auditor in the Opinion Letter. Responsibility for the accuracy and the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

Preparation of this report was made possible by the dedicated staffs 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
MAINE

STATE OF MAINE
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

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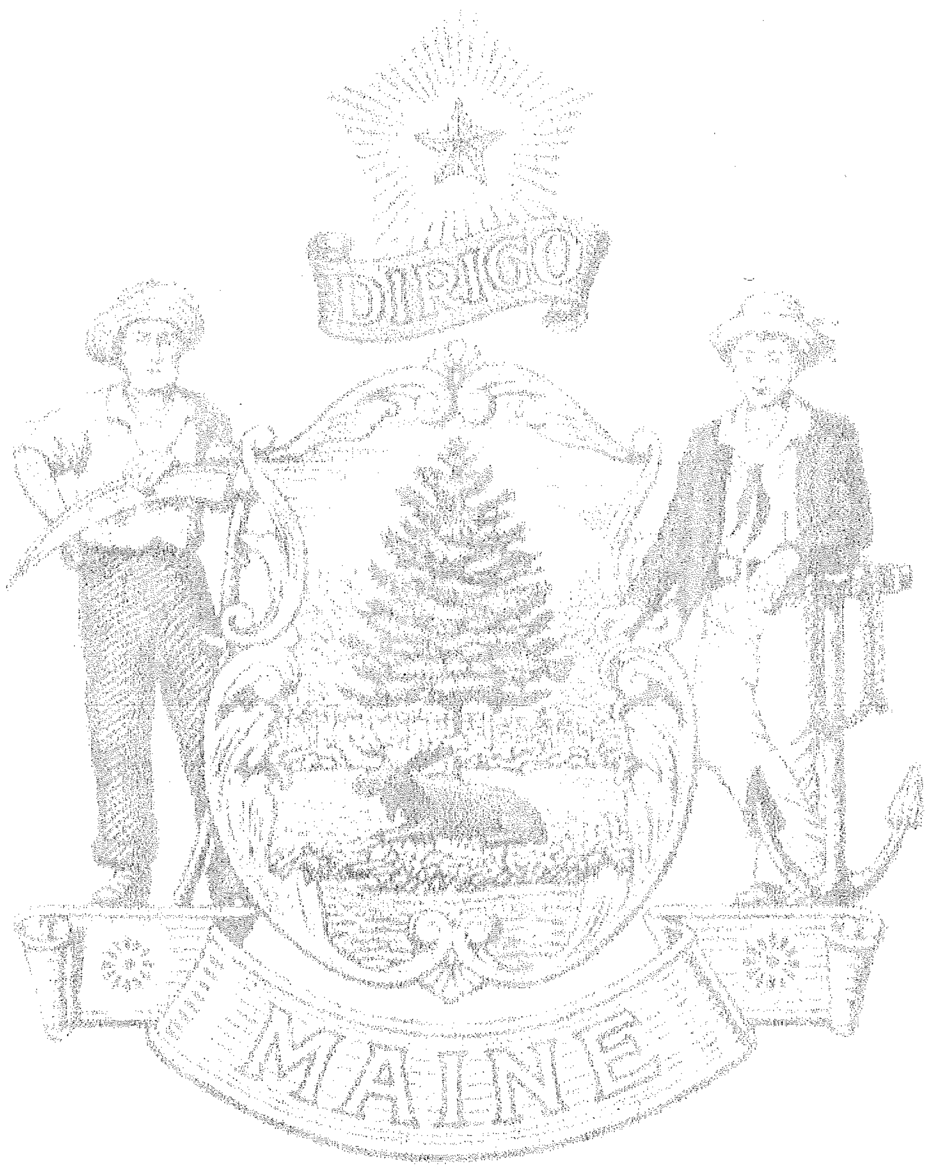
DIRIGO
MAINE

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STATE AUDITOR

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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, 1999, 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 .07 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 $44.9 million), and obligations under capital leases (stated at $1.5 million) 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 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 Maine State Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries, and that the System is therefore regarded as administering a single plan for reporting purposes. The State's legal counsel does not agree 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 statements of the omission and representation described in the first preceding paragraph, the omissions described in the second preceding paragraph, 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 third 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, 1999, 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 January 31, 2000, 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 19 to the financial statements, the State of Maine implemented Governmental Accounting Standards Board Statement No.32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.*

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 General Fund, Special Revenue Fund, Expendable Trust Fund, and the retained earnings and contributed capital of the Internal Service Fund, have been restated. In addition, the fund balance and retained earnings of the Component Units have been restated.

Gail M. Chase
Gail M. Chase, CIA
State Auditor

January 31, 2000

GENERAL PURPOSE FINANCIAL STATEMENTS

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

June 30, 1999
(Dollars in Thousands)

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Cash and Cash Equivalents	$ 146,615	$ 146,022	$ 65,988
Cash with Fiscal Agent	16,406	3,660	-
Investments	201,455	185,958	-
Restricted Deposits	7,330	-	-
Investments of Deferred Compensation Plan	-	-	-
Assets Held in Trust	-	335	-
Unemployment Deposits with US Treasury	-	-	-
Receivables, Net of Allowance for Uncollectibles:			
Taxes Receivable	257,111	18,290	-
Due from Other Governments	-	159,232	-
Loans Receivable	1	1,241	-
Notes Receivable	-	-	-
Other Receivable	30,196	40,693	-
Due from Other Funds	5,509	4,737	-
Due from Primary Government	-	-	-
Inventories	2	20,377	-
Fixed Assets - Net of Depreciation Where Applicable	-	-	-
Working Capital Receivable	1,078	327	-
Other Assets	4,789	140	-
Amount to be Provided for Retirement of General Long-Term Obligations	-	-	-
Total Assets and Other Debits	$ 670,492	$ 581,012	$ 65,988
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	$ 79,492	$ 173,667	$ 169
Accrued Payroll	11,312	13,504	-
Compensated Absences	1,520	1,772	-
Tax Refunds Payable	87,485	-	-
Due to Other Governments	-	41,122	-
Due to Other Funds	5,469	5,687	-
Due to Component Units	21,906	4,317	8,139
Agency Liabilities	-	-	-
Claims Payable	-	-	-
Interest Payable	-	-	-
Other Accrued Liabilities	42,557	15,347	-
Certificates of Participation and Other Financing Arrangements	-	-	-
Obligations under Capital Leases	-	-	-
Pension Obligation	-	-	-
Amounts Held under State Loan Programs	-	-	-
Deferred Revenue	76,283	22,967	-
Undisbursed Grant and Administrative Funds	-	-	-
Bonds and Notes Payable	448	108	-
Working Capital Payable	-	225	-
Total Liabilities	326,472	278,716	8,308
Fund Equity and Other Credits:			
Contributed Capital	-	-	-
Retained Earnings:			
Reserved	-	-	-
Unreserved	-	-	-
Fund Balances (Deficits):			
Reserved for Continuing Appropriations	80,343	297,136	-
Reserved for Unemployment Benefits	-	-	-
Reserved for Nonexpendable Trusts	-	-	-
Reserved for Rainy Day Fund	131,689	-	-
Reserved for Pension Benefits	-	-	-
Reserved for Debt Service	16,235	3,552	-
Reserved for Capital Projects	-	-	57,680
Other Reservations	40,746	1,608	-
Net Investment in Plant	-	-	-
Unreserved	75,007	-	-
Total Fund Equity and Other Credits	344,020	302,296	57,680
Total Liabilities, Fund Equity and Other Credits	$ 670,492	$ 581,012	$ 65,988

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
$ 10,427	$ 51,122	$ 11,195	$ -	$ 431,369	$ 549,195	$ 980,564
-	1,817	2	-	21,885	15,563	37,448
-	-	72,339	-	459,752	7,497,594	7,957,346
-	-	-	-	7,330	-	7,330
-	-	183,363	-	183,363	-	183,363
-	-	43,726	-	44,061	597	44,658
-	-	217,934	-	217,934	-	217,934
2	-	26,852	-	302,255	-	302,255
-	-	-	-	159,232	923,937	1,083,169
6,618	-	-	-	7,860	2,044,036	2,051,896
-	-	-	-	-	33,865	33,865
8,552	966	-	-	80,407	97,596	178,003
8	9,776	3	-	20,033	9,686	29,719
-	-	-	-	-	35,300	35,300
2,984	5,041	-	-	28,404	4,972	33,376
54,807	44,914	-	-	99,721	381,053	480,774
-	-	-	-	1,405	-	1,405
311	457	22	-	5,719	69,765	75,484
-	-	-	606,533	606,533	-	606,533
$ 83,709	$ 114,093	$ 555,436	$ 606,533	$ 2,677,263	$ 11,663,159	$ 14,340,422
$ 7,176	$ 4,673	$ 503	$ -	$ 265,680	$ 23,389	$ 289,069
342	883	-	-	26,041	5,729	31,770
428	1,072	-	28,987	33,779	240	34,019
-	-	-	-	87,485	-	87,485
-	-	-	-	41,122	16,484	57,606
3,279	348	5,250	-	20,033	9,686	29,719
938	-	-	-	35,300	-	35,300
-	-	43,450	-	43,450	-	43,450
-	86,113	-	-	86,113	-	86,113
-	-	-	-	-	29,992	29,992
5,423	202	3,149	-	66,678	142,240	208,918
-	19,281	-	4,281	23,562	-	23,562
-	1,478	-	-	1,478	31	1,509
-	-	-	76,295	76,295	-	76,295
-	-	-	-	-	85,012	85,012
334	5,837	1,770	-	107,191	44,827	152,018
-	-	-	-	-	2,301	2,301
-	-	-	496,970	497,526	3,226,158	3,723,684
1,000	180	-	-	1,405	-	1,405
18,920	120,067	54,122	606,533	1,413,138	3,586,089	4,999,227
56,586	27,376	-	-	83,962		83,962
-	-	-	-	-	366,198	366,198
8,203	(33,350)	-	-	(25,147)	63,071	37,924
-	-	7	-	377,486	-	377,486
-	-	241,968	-	241,968	-	241,968
-	-	20,614	-	20,614	-	20,614
	-	-		131,689	-	131,689
-	-	-	-	-	6,933,090	6,933,090
-	-	-	-	19,787	575	20,362
-	-	-	-	57,680	14,175	71,855
-	-	-	-	42,354	372,118	414,472
-	-	-	-	-	309,095	309,095
-	-	238,725	-	313,732	18,748	332,480
64,789	(5,974)	501,314	-	1,264,125	8,077,070	9,341,195
$ 83,709	$ 114,093	$ 555,436	$ 606,533	$ 2,677,263	$ 11,663,159	$ 14,340,422

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, 1999
(Dollars in Thousands)

	Primary Government						
	Governmental Fund Types			Fiduciary Fund Type			
	General	Special Revenue	Capital Projects	Expendable Trust	Total (Memorandum Only) Primary Government	Component Unit	Total (Memorandum Only) Reporting Entity
Revenues:							
Taxes	$ 2,157,383	$ 193,112	$ -	$ 127,283	$ 2,477,778	$ -	$ 2,477,778
Assessments and Other Revenues	58,982	120,015	-	-	178,997	-	178,997
Federal Grants and Reimbursements	564	1,469,667	-	-	1,470,231	-	1,470,231
Service Charges	26,311	57,328	-	-	83,639	3,426	87,065
Received and Receivable from Institutions	-	-	-	-	-	72,921	72,921
Income from Investments	19,759	9,139	-	33,671	62,569	11,215	73,784
Net Increase in the Fair Value of Investments	-	-	-	3,006	3,006	(44)	2,962
Miscellaneous Revenues	120	50,344	3,378	19,381	73,223	3,814	77,037
Total Revenues	2,263,119	1,899,605	3,378	183,341	4,349,443	91,332	4,440,775
Expenditures:							
General Government	235,004	171,463	956	7,579	415,002	187,347	602,349
Economic Development	22,399	65,916	-	-	88,315	-	88,315
Education and Culture	799,748	96,587	14,205	-	910,540	-	910,540
Human Services	740,883	1,075,227	249	-	1,816,359	-	1,816,359
Labor	12,022	69,990	-	85,451	167,463	-	167,463
Natural Resources	43,713	55,545	12,542	-	111,800	-	111,800
Public Protection	21,482	59,785	826	-	82,093	-	82,093
Transportation	4,286	294,982	40,304	-	339,572	-	339,572
Debt Service:							
Principal Payments	57,235	23,440	-	-	80,675	26,357	107,032
Interest Payments	18,468	8,444	-	-	26,912	46,272	73,184
Total Expenditures	1,955,240	1,921,379	69,082	93,030	4,038,731	259,976	4,298,707
Revenues over (under) Expenditures	307,879	(21,774)	(65,704)	90,311	310,712	(168,644)	142,068
Other Financing Sources (Uses):							
Operating Transfers In	84,942	156,272	1,909	-	243,123	-	243,123
Operating Transfers Out	(153,533)	(20,027)	(5,192)	(6,802)	(185,554)	(12,952)	(198,506)
Bond Proceeds	-	10,350	71,285	-	81,635	229,510	311,145
Transfers from Component Units	1,287	-	-	-	1,287	-	1,287
Transfers to Component Units	(229,293)	(21,661)	(4,000)	-	(254,954)	-	(254,954)
Net Other Financing Sources (Uses)	(296,597)	124,934	64,002	(6,802)	(114,463)	216,558	102,095
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	11,282	103,160	(1,702)	83,509	196,249	47,914	244,163
Fund Balances at Beginning of Year (As Restated)	332,738	199,136	59,382	397,191	988,447	129,885	1,118,332
Fund Balances at End of Year	$ 344,020	$ 302,296	$ 57,680	$ 480,700	$ 1,184,696	$ 177,799	$ 1,362,495

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, 1999
(Dollars in Thousands)

	General Fund			Special Revenue Fund		
	Actual	Budget	Variance Favorable/ (Unfavorable)	Actual	Budget	Variance Favorable/ (Unfavorable)
Revenues:						
Taxes	$ 2,170,663	$ 2,075,661	$ 95,002	$ 210,503	$ 216,974	$ (6,471)
Assessments and Other Revenues	58,982	53,957	5,025	120,015	149,945	(29,930)
Federal Grants and Reimbursements	8,436	9,710	(1,274)	1,367,565	1,657,529	(289,964)
Service Charges	31,997	16,430	15,567	78,566	109,482	(30,916)
Miscellaneous Revenues	17,159	27,563	(10,404)	137,589	96,206	41,383
Total Revenues	2,287,237	2,183,321	103,916	1,914,238	2,230,136	(315,898)
Expenditures:						
General Government	311,876	337,458	25,582	151,154	222,902	71,748
Economic Development	36,942	38,596	1,654	64,455	93,766	29,311
Education and Culture	1,009,444	1,014,458	5,014	98,194	112,184	13,990
Human Services	723,358	751,508	28,150	1,114,993	1,217,749	102,756
Labor	12,603	15,927	3,324	69,405	115,229	45,824
Natural Resources	43,854	47,100	3,246	56,603	94,162	37,559
Public Protection	21,579	23,338	1,759	60,071	76,021	15,950
Transportation	4,286	4,580	294	325,914	456,768	130,854
Total Expenditures	2,163,942	2,232,965	69,023	1,940,789	2,388,781	447,992
Excess Revenues over (under) Expenditures	123,295	(49,644)	172,939	(26,551)	(158,645)	132,094
Other Financing Sources (Uses):						
Operating Transfers In	86,640	72,889	13,751	166,535	145,737	20,798
Operating Transfers Out	(153,533)	(140,122)	(13,411)	(21,227)	(9,522)	(11,705)
Net Other Financing Sources (Uses)	(66,893)	(67,233)	340	145,308	136,215	9,093
Excess Revenues and Other Sources over (under) Expenditures and Other Uses	56,402	$ (116,877)	$ 173,279	118,757	$ (22,430)	$ 141,187
Beginning Fund Balances	445,892			247,643		
Ending Fund Balances	$ 502,294			$ 366,400		

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


DIRIGO
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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, 1999
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Types	Total	
	Enterprise	Internal Service	Nonexpendable Trusts	(Memorandum Only)	Component Units
Operating Revenues:					
Charges for Services	$ 225,871	$ 132,126	$ -	$ 357,997	$ -
Interest on Loans Receivable from Governmental Units	-	-	-	-	46,422
Income from Investments	-	-	856	856	35,384
Fair Value Increases (Decreases)	-	-	1,188	1,188	313
Interest Income from Mortgages and Notes	-	-	-	-	81,426
Grant Revenue from Other Governments	-	-	-	-	45,536
Federal Rent Subsidy Income	-	-	-	-	51,624
Reinsurance Recoveries - Guaranteed Student Loans	-	-	-	-	2,552
Miscellaneous Revenues	148	256	-	404	17,253
Total Operating Revenues	226,019	132,382	2,044	360,445	280,510
Operating Expenses:					
General Operations	167,825	101,508	-	269,333	20,929
Depreciation	2,936	9,097	-	12,033	391
Interest Expense	50	942	-	992	135,293
Grant Related Expenses	-	-	-	-	39,207
Federal Rent Subsidy Expense	-	-	-	-	51,624
Claims/Fees Expense	-	7,646	-	7,646	-
Miscellaneous Expenses	-	-	-	-	16,811
Total Operating Expenses	170,811	119,193	-	290,004	264,255
Operating Income (Loss)	55,208	13,189	2,044	70,441	16,255
Nonoperating Revenue (Expenses):	1,205	1,891	-	3,096	325
Income (Loss) before Operating Transfers	56,413	15,080	2,044	73,537	16,580
Transfers In (Out):					
Transfers In	2,859	-	-	2,859	-
Transfers Out	(60,428)	-	-	(60,428)	(1,141)
Transfers from Primary Government	-	-	-	-	44,420
Transfers to Primary Government	-	-	-	-	(1,287)
Total Operating Transfers	(57,569)	-	-	(57,569)	41,992
Income (Loss) before Extraordinary Item	(1,156)	15,080	2,044	15,968	58,572
Income (Loss) from Extraordinary Item:					
Loss on Bond Redemption	-	-	-	-	(1,466)
Net Income	(1,156)	15,080	2,044	15,968	57,106
Add: Depreciation of Fixed Assets Acquired from Contributed Capital	2,323	338	-	2,661	-
Increase (Decrease) in Retained Earnings/Fund Balances	1,167	15,418	2,044	18,629	57,106
Retained Earnings/Fund Balances at July 1, 1998 (As Restated)	7,036	(48,768)	18,569	(23,163)	372,164
Retained Earnings/Fund Balances at June 30, 1999	$ 8,203	$ (33,350)	$ 20,613	$ (4,534)	$ 429,270
Contributed Capital at July 1, 1998 (As Restated)	54,394	27,330		81,724	
Add: Capital Contributions	4,515	384		4,899	
Less: Depreciation of Fixed Assets Acquired from Contributed Capital	(2,323)	(338)		(2,661)	
Contributed Capital at June 30, 1999	$ 56,586	$ 27,376		$ 83,962	

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, 1999
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type		
	Enterprise	Internal Service	Nonexpendable Trusts	Total (Memorandum Only)	Component Units
Cash Flows from Operating Activities:					
Net Income	$ (1,156)	$ 15,080	$ 2,044	$ 15,968	$ 57,105
Adjustments to Reconcile Net Income to					
Net Cash Provided by Operating Activities:					
Investments and Other Income	-	-	(856)	(856)	(23,152)
Depreciation/Amortization	2,935	9,097	-	12,032	3,003
Amortization	-	-	-	-	439
Accretion on Capital Appreciation of Bonds	-	-	-	-	1,347
Net Increase in Fair Value of Investments	-	-	(1,188)	(1,188)	2,738
Interest on Bonds and Other Investments	-	-	-	-	68,193
Interest Income on Mortgages, Notes and Loans	-	-	-	-	(31,797)
Grants from Federal Government and Primary Government	-	-	-	-	(41,680)
Provision for Losses on Insured Commercial and Student Loans	-	-	-	-	(64)
Extraordinary Loss on Early Extinguishment of Bonds	-	-	-	-	33
Changes in Assets and Liabilities:					
Accounts Receivable	-	-	-	-	(220)
Other Receivable	383	1,558	-	1,941	464
Loans Receivable	1,201	-	-	1,201	(117,647)
Receivable Reserves	(535)	(2)	-	(537)	-
Due from Other Funds	(5)	(872)	-	(877)	-
Inventories	72	(663)	-	(591)	-
Accrued Interest Receivable from Governmental Units	-	-	-	-	30
Other Assets	(261)	171	(21)	(111)	(448)
Accounts Payable	962	(917)	-	45	3,812
Accrued Payroll	142	(142)	-	-	-
Compensated Absences	(43)	86	-	43	-
Due to Other Funds	1,873	(66)	-	1,807	-
Due to Component Unit	(286)	-	-	(286)	-
Deferred Revenue	(32)	2,592	-	2,560	3,246
Working Capital Payable	-	(106)	-	(106)	-
Claims and Judgments	-	(6,466)	-	(6,466)	-
Other Accrued Liabilities	(918)	(269)	21	(1,166)	2,468
Default Payments (Net of Recoveries) on Commercial and Student Loans	-	-	-	-	(1,089)
Principal Payments Received on Notes Receivable	-	-	-	-	10,959
Interest Received on Educational Loans	-	-	-	-	83,583
Disbursements for New Notes Receivable	-	-	-	-	(5,765)
Educational Loans Originated	-	-	-	-	(9,557)
Educational Loans Originated for Sale to Related Party	-	-	-	-	(53,707)
Sale of Educational Loans to Related Party	-	-	-	-	59,764
Increase in Amounts Held in State Revolving Loan Programs	-	-	-	-	2,091
Grant Program Funds Received (Disbursed)	-	-	-	-	(1,987)
Net Cash Provided by Operating Activities	$ 4,332	$ 19,081	$ -	$ 23,413	$ 12,162

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, 1999
(Dollars in Thousands)
(continued)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type		
	Enterprise	Internal Service	Nonexpendable Trusts	Total (Memorandum Only)	Component Units
Cash Flows from Noncapital Financing Activities:					
Proceeds from Bonds & Notes Payable	$ -	$ -	$ -	$ -	$ 282,216
Principal Paid on Bonds & Notes Payable	-	-	-	-	(180,480)
Interest Paid on Bonds & Notes Payable	-	-	-	-	(127,508)
Grant Receipts from Other Governments	-	-	-	-	46,185
Capital Contributions	-	234	-	234	-
Change in Retained Earnings	-	(315)	-	(315)	-
Miscellaneous Noncapital Financing Activities	-	-	-	-	(259)
Net Cash Provided by Noncapital Financing Activities	-	(81)	-	(81)	20,154
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Bonds & Notes Payable	-	9,171	-	9,171	-
Additions to Land and Buildings	(5,459)	(11,014)	-	(16,473)	(100)
Principal Payments on Bonds and Notes	-	(6,111)	-	(6,111)	-
Obligations under Capital Leases	-	1,478	-	1,478	-
Capital Contributions	4,515	150	-	4,665	-
Net Cash Provided by Capital and Related Financing Activities	(944)	(6,326)	-	(7,270)	(100)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	-	-	-	-	289,905
Purchase of Investments	-	-	(1,691)	-	(318,059)
Income Received from Investments	-	-	857	857	32,667
Miscellaneous Activities	-	-	-	-	(729)
Net Cash Provided by Investing Activities	-	-	(834)	(834)	3,784
Increase (Decrease) in Cash and Cash Equivalents	3,388	12,674	(834)	15,228	36,000
Cash and Cash Equivalents at Beginning of Year	7,039	40,265	929	48,233	263,127
Cash and Cash Equivalents at End of Year	10,427	52,939	95	63,461	299,127
Reconciliation to the Combined Balance Sheet:					
Add: Agency Funds	-	-	10,712	10,712	
Expendable Trust Funds	-	-	390	390	
Component Unit Amounts Other Than Proprietary Funds	-	-	-	-	265,631
Cash and Cash Equivalents at End of Year	$ 10,427	$ 52,939	$ 11,197	$ 74,563	$ 564,758

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

Fiscal Year Ended June 30, 1999
(Dollars in Thousands)

Additions:	
Investment Income:	
Interest	$ 87,654
Dividends	21,190
Net Appreciation in the Fair Value of Investments	595,394
Less: Investment Expenses	(12,122)
Net Investment Income	692,116
Contributions:	
Members	112,687
State and Local Agencies	299,694
Total Contributions	412,381
Total Additions	1,104,497
Deductions:	
Benefits Paid	325,989
Refunds and Withdrawals	19,157
Administrative Expenses	7,615
Other	602
Total Deductions	353,363
Net Increase	751,134
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	6,181,956
End of Year	$ 6,933,090

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, 1999
(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	$ 208,972	$ -	$ -	$ -	$ -	$ 208,972
Government Grants and Contracts - Restricted	-	59,541	544	-	2,977	63,062
Private Gifts, Grants and Contracts - Restricted	-	23,023	290	3,093	3,901	30,307
Endowment Income - Restricted	-	3,629	13	388	-	4,030
Investment Income - Restricted	-	1,034	30	-	1,500	2,564
Interest Income on Loans Receivable	-	-	986	-	5	991
Unrealized Gains on Investments	100	9	112	9,782	-	10,003
Expended for Plant Facilities	-	-	-	-	24,300	24,300
Other Additions	-	6,303	2	-	551	6,856
Total Revenues and Other Additions	209,072	93,539	1,977	13,263	33,234	351,085
Expenditures and Other Deductions:						
Educational and General Expenditures	331,444	109,564	-	2,363	-	443,371
Auxiliary Enterprise Expenditures	52,919	6	-	-	-	52,925
Administrative and Collection Costs	-	-	1,273	162	4	1,439
Interest on Indebtedness	-	-	-	-	3,630	3,630
Disposal of Plant Assets	-	-	-	-	453	453
Expended for Plant Facilities	-	-	-	-	6,830	6,830
Write Down of Asset Values	-	-	42	-	26,530	26,572
Total Expenditures and Other Deductions	384,363	109,570	1,315	2,525	37,447	535,220
Transfers Among Funds - Additions (Deductions):						
Mandatory:						
Principal and Interest	(5,951)	-	-	-	5,951	-
Loan Fund Transfers	(176)	-	176	-	-	-
Restricted Resources Allocated	834	(4,006)	6	243	3,166	243
Nonmandatory Transfers from Plant	(5,030)	(68)	-	(12)	5,349	239
Nonmandatory Transfers to Endowment	(27)	(201)	-	(15)	-	(243)
Transfers from Primary Government	184,066	20,384	-	-	4,800	209,250
Other Deductions	(239)	-	-	-	-	(239)
Total Transfers	173,477	16,109	182	216	19,266	209,250
Net Increase (Decrease) for the Year	(1,814)	78	844	10,954	15,053	25,115
Fund Balance June 30, 1998	43,336	24,737	38,626	95,536	309,562	511,797
Fund Balance June 30, 1999	$ 41,522	$ 24,815	$ 39,470	$ 106,490	$ 324,615	$ 536,912

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, 1999
(Dollars in Thousands)

	Unrestricted	Restricted	Total
Revenues:			
Tuition and Fees	$ 116,030	$ 287	$ 116,317
Federal Appropriations	200	5,621	5,821
Federal Grants and Contracts	688	53,816	54,504
Private Gifts, Grants and Contracts	2,776	22,988	25,764
Endowment Income	398	3,769	4,167
Sales and Services of Auxiliary Enterprise	59,342	-	59,342
Other Income	29,638	7,158	36,796
Total Current Fund Revenues	209,072	93,639	302,711
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	130,807	12,288	143,095
Research	13,723	26,319	40,041
Public Service	17,080	18,401	35,481
Academic Support	46,219	4,911	51,130
Student Services	34,332	2,222	36,554
Institutional Support	46,951	420	47,371
Operational and Maintenance of Plant	32,000	233	32,233
Scholarships and Fellowships	10,331	44,703	55,034
Total Expenditures	331,443	109,497	440,940
Mandatory Transfers:			
Principal and Interest	3,974	-	3,974
Loan Fund	176	-	176
Total Mandatory Transfers	4,150	-	4,150
Total Educational and General	335,593	109,497	445,090
Auxiliary Enterprises:			
Expenditures	52,919	6	52,925
Mandatory Transfer for Principal and Interest	1,976	-	1,976
Total Auxiliary Enterprises	54,895	6	54,901
Total Expenditures and Mandatory Transfers	390,488	109,503	499,991
Other Transfers and Additions (Deductions):			
Excess of Restricted Receipts over Transfers to Revenues	-	(95)	(95)
Net Allocation of Resources (to) from Other Funds	(4,462)	(4,276)	(8,738)
Transfer from Primary Government	184,064	20,385	204,449
Other Deductions	-	(72)	(72)
Total Transfers and Additions	179,602	15,942	195,544
Net Increase (Decrease) in Fund Balance	$ (1,814)	$ 78	$ (1,736)

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 Assets Account Group or the reporting of capital leases.

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. Those agencies that meet the criteria for component units and have been included are: 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.

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 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 undertaking projects involving the acquisition, construction, improvement, reconstruction, and equipping of health care and educational facilities and the refinancing of existing indebtedness. The authority consists of 12 members, one of whom must be the Superintendent of Banking ex officio; one of whom must be the Commissioner of Human Services, ex officio; one of whom must be the Commissioner of Education, ex officio; one of whom must be the Treasurer of State, ex officio; and eight of whom must be residents of the State appointed by the Governor. The Authority, pursuant to the Student Loan Corporations Act of 1983, 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 Governor appoints the 15 voting members of the Authority.

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

The Loring Development Authority was created in 1993, after the President of the United States accepted the recommendation of the Base Closure and Realignment Commission to close Loring Air Force Base. It is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the old Loring Air Force Base. The Board of Trustees consists of 13 members nominated by the Governor and of which the Maine Senate confirms 12.

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 34.3 percent of the total operations of the system, University revenues (primarily tuition and fees) that make up 28.8 percent, restricted gifts and grants and income from auxiliary enterprises make up the remaining 36.9 percent of the budget.

Maine Maritime Academy is a college specializing in ocean and marine programs at the undergraduate and graduate levels. The operation of the Academy is subject to review by the federal government. 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 13, Segment Information. Some of the component units eliminate intrafund activity, some do not.

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
5 Community Dr., PO Box 949
Augusta, ME 04332-0949

Maine Educational Loan Authority
PO Box 409
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 04333-0131

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Turnpike Authority, 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.

An account group is used to provide accounting control and accountability for the State's general long-term obligations. It is not considered a fund because it does 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 Assets Account Group is not reported.

Fund Types

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, and include 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 or Special Revenue 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 Nonexpendable 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 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, unemployment compensation, 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 CASH EQUIVALENTS, 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 amortized 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 Cash Equivalents on the balance sheet are comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations with maturities of three months or less when purchased. 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 investments. 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, 1999, 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 1999, these transfers totaled $59.2 million.

Advances to and from other funds are long-term loans made by one fund to another. Receivables and payables resulting from these transactions between funds are classified as "Working Capital Receivable" or "Working Capital Payable" on the balance sheet. The advances are offset by reservations of fund balance indicating that the reserves do not constitute expendable financial resources.

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

I. Inventories

The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Food stamps are stated at coupon value and any unexpended balances at fiscal year end are reported as inventory and deferred revenue in the Special Revenue Fund. Revenues and corresponding expenditures are recognized when the food stamps are issued.

Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost, except for those of the Bureau of Alcoholic Beverages, which are maintained on a current replacement cost basis. Although this basis is not in conformity with GAAP, it does not result in a material misstatement.

Inventories included in the component unit column are stated at the lower of cost (using the first-in, first-out method) or market (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, including the Portland dry-dock and 2-25 years for equipment. 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 1998 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, 1999. 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. Deferred revenue reported in the General Fund is comprised of property tax assessments on telecommunications equipment, sales and income taxes. Deferred revenue in the Special Revenue Fund is primarily for food stamps not yet issued.

N. Due from/to Other Governments

At June 30, 1999, amounts Due from/to Other Governments represent 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, other Human Services Programs, and federal grants receivable for transportation-related expenditures. 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 and a cash overdraft on June 30, 1999. 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. The cash overdraft resulted from the bank failing to debit the State's checking account for daily investments totaling $49.1 million, of which $17 million was corrected at June 30, 1999. This caused the balances available for investment to be overstated by $32 million. The bank then processed the previous day's transactions with the current day investments causing the account to be overdrawn.

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 obligations 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 are bonds and notes issued by the Maine Governmental Facilities Authority, a blended component unit.

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. The State's use of encumbrance accounting is more fully described in Note 2 – Budgetary Process.

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

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

Reserved for Rainy Day Fund – identifies amounts reserved for potential operating deficits or other emergencies. The maximum amount this fund may carry, by law, is six percent of the total General Fund revenues received in the immediately preceding year.

Reserved for Pension Benefits – identifies amounts reserved by the Maine State Retirement System for the payment of pension benefits.

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

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

Other Reservations - identifies fund balance reserved for other specified purposes including amounts for working capital needs, long term loans to other funds, specific telecommunications tax and sales tax reserves, 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 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 will implement this Statement for the year ending June 30, 2001.

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* This statement establishes new financial reporting requirements for State and local governments. It establishes that the basic financial statements and required supplementary information (RSI) for general purpose financial statements should consist of Management's Discussion and Analysis, Basic Financial Statements and Required Supplementary Information. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2001. The State will implement this Statement for the year ending June 30, 2002.

In November 1999, GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* An amendment to GASB Statement No. 34, this statement establishes new financial reporting requirements for public colleges and universities that are consistent with the requirements of GASB Statement No. 34. Because the University of Maine System is a component unit of the State of Maine, the provisions of this statement are effective no later than the year in which the State implements GASB Statement No. 34.

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 program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. In order to provide sufficient funding for several programs during the year ended June 30, 1999 supplemental appropriations of $145.7 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. Significant exceptions include sales, income, corporate and fuel 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, 1999
(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 502,294	$ 366,400
Basis Differences		
Revenue Accruals/Adjustments:		
Taxes Receivable	128,597	(2,648)
Intergovernmental Receivables	-	159,157
Other Receivables	13,461	25,996
Due from Other Funds	1,975	3,566
Other Assets	(17,908)	(33,185)
Deferred Revenues	(75,762)	(2,208)
Total Revenue Accruals/Adjustments	50,363	150,678
Expenditure Accruals/Adjustments:		
Accounts Payable	(72,600)	(152,985)
Due to Other Governments	(104)	(41,122)
Accrued Liabilities	(24,720)	(15,999)
Due to Other Funds	(5,365)	(3,252)
Due to Component Units	(19,654)	(1,666)
Tax Refunds Payable	(87,485)	-
Total Expenditure Accruals/Adjustments	(209,928)	(215,024)
Perspective Differences		
Amounts reported in the Debt Service Fund on the budgetary basis and in the General Fund on the GAAP basis	1,291	-
Entity Differences		
Blended Component Unit included in the Special Revenue Fund on the GAAP basis but not on the budgetary basis	-	242
Fund Balances - GAAP Basis	$ 344,020	$ 302,296

NOTE 3 - FUND BALANCE AND RETAINED EARNINGS RESTATEMENTS

The restatements of fund balances/retained earnings as of June 30, 1998 are as follows:

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

Fund	Fund Balance/Retained Earnings as Previously Reported, June 30, 1998	Increase (Decrease) for Restatement	Fund Balance/Retained Earnings as Restated, July 1, 1998
General Fund	$315,205	$17,533	$332,738
Special Revenue Fund	209,264	(10,128)	199,136
Internal Service Funds	(50,686)	1,918	(48,768)
Expendable Trust Funds	217,545	179,646	397,191
Component Units:			
Governmental Types	197,213	(67,328)	129,885
Proprietary Types	367,860	4,304	372,164

The General Fund has been restated to reflect additional corporate income tax accruals for the prior year and to recognize prior period Medicaid reimbursements in the appropriate fund.

The Special Revenue Fund has been restated to recognize prior period Medicaid reimbursements in the appropriate fund and to properly reflect assets of a blended component unit that had previously been reported as assets held in trust.

The Internal Service Funds have been restated primarily for prior year depreciation on contributed capital.

The Expendable Trust Funds have been restated because the State of Maine implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* in Fiscal Year 1999. As a result, the Deferred Compensation Plan Fund, reported as an Agency Fund in previous fiscal years, was reclassified as an Expendable Trust Fund in fiscal year 1999. Expendable Trusts have also been restated to reflect the accrual of unemployment compensation taxes received within 60 days of year end, and to recognize the liability for escheat property claims in accordance with GASB Statement No. 21.

The component unit (proprietary type) fund balance has been restated to reflect the adoption by MSHA of Statement No. 31 of the Governmental Accounting Standards Board (GASB 31) *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* GASB 31 requires investments held by Governmental entities to be reported on the balance sheet at fair value, with changes in fair value being recognized in the statement of revenues, expenses and changes in fund balances. Additionally, MHHEFA (governmental type) fund balances have been restated because amounts held in the debt service reserve funds are no longer considered funds held in trust, but rather a reduction in the amounts due from institutions.

Contributed Capital for the Internal Service Funds has been restated (dollars in thousands) from $29,565, as previously reported at June 30, 1998, to $27,330 at July 1, 1998 to record prior year depreciation on contributed assets.

NOTE 4 - DEFICIT FUND BALANCES/RETAINED EARNINGS

One Internal Service Fund, the Workers' Compensation Fund, had deficit Retained Earnings for the fiscal year ended June 30, 1999. The deficit of $75.4 million in the Workers' Compensation Fund reflects accruals for actuarially determined claims payable.

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 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, 1999 are as follows:

Primary Government - Deposits
June 30, 1999
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 1,629	$ 900	$ 19,021	$ 21,550	$(24,352)
Cash with Fiscal Agent	-	-	21,885	21,885	21,885
Restricted Deposits	810	-	6,520	7,330	7,330
Total	$ 2,439	$ 900	$ 47,426	$ 50,765	$ 4,863

Component Unit - Deposits
June 30, 1999
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 107,456	$ 686	$ 15,888	$ 124,030	$113,080
Cash with Fiscal Agent	-	-	15,563	15,563	15,563
Restricted Deposits	90	-	728	818	818
Total	$ 107,546	$ 686	$ 32,179	$ 140,411	$ 129,461

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, 1999 are as follows:

Primary Government - Investments
June 30, 1999
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Fair Value
U.S. Government and Agency Obligations	$ 345,450	$ 3,510	$ 11,229	$ 360,189
Repurchase Agreements	52,807	-	-	52,807
Commercial Paper	444,877	-	-	444,877
Corporate Bonds and Notes	-	3,064	5,907	8,971
Equity Securities	-	13,134	34,685	47,819
Other	-	810	-	810
Totals	$ 843,134	$ 20,518	$ 51,821	915,473
Deposits with U.S. Treasury				217,934
Deferred Compensation Plan Assets				183,363
Assets Held in Trust				44,061
Total Investments – Primary Government				$ 1,360,831

COMPONENT UNITS

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

Maine State Retirement System (The System) makes investments in a combination of stocks, bonds, fixed income securities, mutual funds, commingled mutual and index funds, collateralized mortgage obligations, derivative financial instruments, and other investment securities established by the Trustee's investment policy. The System prohibits its investment managers from using leverage in its derivative financial instruments or from investing in speculative positions. The System has also entered into agreements for securities lending transactions, which are collateralized in an amount at least equal to 102 percent (105 percent for international securities) of the market value of the securities loaned.

Investments of the discretely presented component units at June 30, 1999 are as follows:

Component Units - Investments
June 30, 1999
(Dollars in thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash and Cash Equivalents	$ 923	$ 145,131	$ 4,029	$ 150,083
U.S. Government and Agency Obligations	586,463	142,076	6,800	735,339
Repurchase Agreements	207,860	21,115	1,296	230,271
Commercial Paper	49,651	-	-	49,651
Corporate Bonds and Notes	365,315	-	24,437	389,752
Equity Securities	1,523,617	-	73,135	1,596,752
Common and Collective Trusts	4,559,866	-	-	4,559,866
Other	10,433	204,549	6,195	221,177
Totals	$ 7,304,128	$ 512,871	$ 115,892	$7,932,891

NOTE 6 - RECEIVABLES

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

Primary Government - Receivables
June 30, 1999
(Dollars in Thousands)

	Taxes	Due from Other Governments	Loans	Other Receivables	Allowance for Uncollectibles	Net Receivables
General Fund	$ 380,078	$ -	$ 1	$ 40,306	$ (133,077)	$ 287,308
Special Revenue Funds	29,535	159,232	1,241	44,676	(15,228)	219,456
Trust and Agency Funds	36,591	-	-	-	(9,739)	26,852
Internal Service Funds	-	-	-	967	(1)	966
Enterprise Funds	2	-	7,991	8,686	(1,507)	15,172
Subtotal	446,206	159,232	9,233	94,635	$ (159,552)	549,754
Less: Allowance for uncollectibles	(143,951)	-	(1,373)	(14,228)		-
Net Receivables	$ 302,255	$ 159,232	$ 7,860	$ 80,407		$ 549,754

Component Units - Receivables
June 30, 1999
(Dollars in Thousands)

	Other Governments	Loans and Notes	Other Types	Allowance for Uncollectibles	Net Receivables
Maine Health & Higher Education Facilities Authority	$ -	$ 829,221	$ 4,896	$ (471)	$ 833,646
Maine Municipal Bond Bank	905,182	-	1,241	-	906,423
Maine State Housing Authority	1,903	1,155,147	-	-	1,157,050
Maine Education Loan Authority	-	41,543	461	(405)	41,599
Loring Development Authority	707	-	230	-	937
University of Maine System	6,771	16,079	29,179	-	52,029
Maine State Retirement System	9,374	-	57,740	-	67,114
Finance Authority of Maine	-	33,983	2,026	(119)	35,890
Maine Maritime Academy	-	2,845	351	(195)	3,011
Maine Technical College System	-	-	1,745	-	1,745
Subtotal	923,937	2,078,818	97,869	$ (1,190)	3,099,434
Less: Allowance for Uncollectibles	-	(917)	(273)		-
Net Receivables	$ 923,937	$ 2,077,901	$ 97,596		$ 3,099,434

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, 1999
(Dollars in Thousands)

Fund Type	Due From	Due To	Working Capital Receivable	Working Capital Payable
General Fund	$ 5,509	$ 5,469	$ 1,078	$ -
Special Revenue Fund	4,737	5,687	327	225
Enterprise Fund	8	3,279	-	1,000
Internal Service Fund	9,776	348	-	180
Trust and Agency Funds	3	5,250	-	-
Total	$ 20,033	$ 20,033	$ 1,405	$ 1,405

Component Units - Due From/Due To
June 30, 1999
(Dollars in Thousands)

	Due From Primary Government	Due To Component Units
Primary Government		
General Fund:		
University of Maine System	$ -	$ 2,252
Maine State Retirement System	-	19,654
Special Revenue Funds:		
University of Maine System	-	2,977
Maine Technical College System	-	404
Maine State Housing Authority	-	936
Capital Project Funds:		
Maine Municipal Bond Bank	-	3,600
University of Maine System		4,539
Enterprise Funds:		
Finance Authority of Maine	-	938
Component Units		
Maine State Housing Authority:		
Special Revenue Funds	936	-
Maine Municipal Bond Bank:		
Capital Projects Funds	3,600	-
Finance Authority of Maine:		
Enterprise Funds	938	-
Maine Technical College System:		
Special Revenue Funds	404	-
University of Maine System:		
General Fund	2,252	-
Special Revenue Funds	2,977	-
Capital Projects Funds	4,539	-
Maine State Retirement System:		
General Fund	19,654	-
Total	$ 35,300	$ 35,300

NOTE 8 - FIXED ASSETS

The following schedules detail fixed assets that are recorded in the Proprietary Funds and discretely presented component units:

Proprietary Funds - Fixed Assets
June 30, 1999
(Dollars in Thousands)

	Enterprise Funds	Internal Service Funds
Land	$ 5,520	$ 243
Buildings	25,141	5,310
Equipment	41,483	118,941
Improvement other than buildings	7,548	66
Construction in progress	3,123	-
Less: Accumulated depreciation	(28,008)	(79,646)

Total fixed assets	$ 54,807	$ 44,914

Component Units - Fixed Assets
June 30, 1999
(Dollars in Thousands)

	Totals
Land and Buildings	$ 421,868
Equipment	144,607
Improvements Other Than Buildings	13,623
Assets Under Capital Leases	196
Library Books	3,615
Construction in Process	16,751
Less: Accumulated Depreciation	(219,607)
Total Fixed Assets	$ 381,053

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 13. 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, 1999, the membership consisted of:

Active vested and nonvested members	49,765
Terminated vested participants	1,859
Retirees and benefit recipients	28,509
Total	80,133

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 (effective October 1, 1999, the ten-year requirement was reduced to five years by legislative action) 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 terminated members' accounts is set by the System's Board of Trustees and is currently 6.0 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. The Maine State Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries, and that the System is therefore regarded as administering a single plan for reporting purposes. The State's legal counsel does not concur with the accumulated assets representation. Additional disclosures would be necessary to report this as more than one plan in conformity with generally accepted accounting principles.

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

FUNDING POLICY

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 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, 1999 the System recorded $18.8 million in additional contributions from the State of Maine as due from primary government at June 30, 1999.

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 1999 for participating entities are as follows:

State:	
Employees[1]	7.65-8.65%
Employer	16.68%
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.

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	$252,856
Interest on net pension obligation	7,643
Adjustment to annual required contribution	(5,049)
Annual pension cost	255,451
Contributions made	274,702
Increase (decrease) in net pension obligation	(19,251)
Net pension obligation beginning of year	95,546
Net pension obligation end of year	$ 76,295

Analysis of Funding Progress
(Dollars in thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
1999	$ 255,451	107.54%	$ 76,295
1998	241,007	101.96%	95,546
1997	220,876	106.39%	100,274

The annual required contribution for the current year was determined as part of the June 30, 1999 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 POSTEMPLOYMENT 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.

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 (4.76 percent for the 1999 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. Effective January 1, 1999, the State pays 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. 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.

As of July 1, 1998, there were 7,257 retired eligible State and Technical College employees and 5,902 retired teachers. In the 1999 fiscal year, the State paid into the Retiree Health Insurance Fund $20.1 million for retired employees and $3.8 million for retired teachers. Premium charges paid were $15.6 million and $3.3 million, respectively. Overall fund equity increased by $6.3 million, to $18.6 million at June 30, 1999. In Fiscal Year 1999, the State had an actuarial study done and the amount of the liability for current and future retirees, as of July 1, 1998, was $583 million. This includes benefits for 14,292 current retirees as well as 39,727 currently active employees expected to retire in the future. It does not consider employees not yet hired as of July 1, 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 $1.5 million and retired teacher claims totaled $1.2 million for the fiscal year ended June 30, 1999. The number of participants eligible to receive benefits at fiscal year end cannot be readily determined.

NOTE 11 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT

The State records its liability for bonds in the General Long-Term Obligations Account Group (GLTOAG). The State has also included in the GLTOAG, $10.4 million in notes payable, and $17.6 million in bonds issued by the Maine Governmental Facilities Authority, a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. 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 1999, the State issued $71.3 million of general obligation bonds, $54.4 million of which will be repaid from the General Fund and $16.9 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
June 30, 1999
(Dollars in Thousands)

	Balance July 1, 1998	Additions	Retirements	Adjustments	Balance June 30, 1999
General Obligation Debt:					
General Fund	$ 337,575	$ 54,385	$ 57,235	$ -	$ 334,725
Special Revenue Fund	158,755	16,900	23,440	(950)	151,265
Self Liquidating	720	-	90	-	630
Total	$ 497,050	$ 71,285	$ 80,765	$ (950)	$ 486,620

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

Future Debt Service on General Obligation Bonds
June 30, 1999
(Dollars in Thousands)

Fiscal Year	Principal	Interest	Total
2000	$ 83,470	$25,002	$108,472
2001	81,255	20,393	101,648
2002	76,925	16,053	92,978
2003	71,760	11,839	83,599
2004	49,270	8,491	57,761
Thereafter	123,940	15,827	139,767
Total	$486,620	$97,605	$584,225

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, 1999, general obligations bonds authorized and unissued totaled $46.5 million. The Maine Governmental Facilities Authority, a blended component unit, may not issue securities in excess of $168 million outstanding at any one time except for the issuance of certain revenue refunding securities. The Legislature may increase this limit as necessary to meet the Authority's needs.

BOND ANTICIPATION NOTES

Two Bond Anticipation Note issues were issued during fiscal year 1999, $5.7 million in August 1998 and $33.7 in January 1999. The $5.7 million was paid off at the time of the second issue. Interest rates ranged from 3.5 to 5.5%. There were no BAN's outstanding at June 30, 1999.

The BAN's were issued as a temporary financing vehicle for new projects that were ultimately financed with bond issuance proceeds. The BAN's are backed by the full faith and credit of the State.

The State, through its component unit, Maine Governmental Facilities Authority, entered into a $25 million revolving credit agreement on October 30, 1998. At June 30, 1999, there was an outstanding amount of $10.4 million that was included in the General Long-Term Obligations Account Group. The amount due was paid in full on September 1, 1999 when bonds of $86.9 million were issued (see Note 18 - Subsequent Events).

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies, Certificates of Participation (COP's) and lease/purchase agreements to finance the construction of certain State buildings, and to purchase equipment and vehicles. 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, 1999
(Dollars in Thousands)

	Bonds	Notes	COP's and other Financing Arrangements	Compensated Absences	Net Pension Obligation	Total
Balance, July 1, 1998	$497,050	$ -	$6,137	$27,887	$95,546	$626,620
Issuances	71,285	10,350		-	-	81,635
Payments	80,765	-	1,856	-	-	82,621
Other Increase (Decrease)	(950)	-	-	1,100	(19,251)	(19,101)
Balance, June 30, 1999	$486,620	$10,350	$4,281	$28,987	$ 76,295	$606,533

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

Certificates of Participation and Other Financing Arrangements
June 30, 1999
(Dollars in Thousands)

Outstanding July 1, 1998	Additions	Retirements	Outstanding June 30, 1999
$16,221	$ 9,489	$6,429	$19,281

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, 1999
(Dollars in Thousands)

	Minimum Payments	
	Governmental Funds	Internal Service Funds
Fiscal Year Ending June 30,		
2000	$ 2,081	$ 8,401
2001	1,940	4,913
2002	216	3,854
2003	182	2,001
2004	182	692
Thereafter	21	1,105
Total Minimum Payments	4,622	20,966
Less: Amount Representing Interest	341	1,685
Present Value of Future Minimum Payments	$ 4,281	$19,281

OBLIGATIONS UNDER CAPITAL LEASES

At June 30, 1999, the State was not able to identify, classify and report capital leases in conformity with generally accepted accounting principles. As a result, the required financial statement reporting and the related disclosures applicable to capital and operating leases are not presented.

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

Component Unit Bonds Outstanding
June 30, 1999
(Dollars in Thousands)

	Purpose	Interest Rates	Amount	Maturity Dates
Maine Municipal Bond Bank	General Tax-Exempt Fund Group	3.00 - 9.75%	$ 825,698	1990- 2028
	Sewer and Water Fund Group	2.75 - 7.30%	75,281	1991 - 2018
	Special Obligation Taxable Fund Group	6.10 - 10.25%	3,070	1991 - 2009
Subtotal			904,049	
University of Maine System	1993 Series A Revenue Bonds	2.30 - 5.20%	10,565	1994 - 2008
	1993 Series B Refunding Bonds	3.15 - 5.50%	13,920	1995 – 2020
	1998 Series A Revenue Bonds	3.95 5.00%	28,535	2000 - 2024
Subtotal			53,020	
Maine State Housing Authority	Mortgage Purchase Program	2.75 - 9.25%	1,251,590	1999 - 2037
	Mortgage Acquisition Program	6.20 -7.15%	5,289	1999 - 2011
	Housing Finance Revenue Program	3.95 - 6.30%	41,614	1999 - 2030
Subtotal			1,298,493	
Maine Health and Higher Education Facilities Authority	General Bond Resolution	4.50 - 7.75%	50,805	1986 - 2025
	Reserve Fund Resolution	2.5 - 6.50%	755,900	1992 – 2030
	Medium Term Financing Reserve Fund Resolution	4.0 - 8.25%	5,930	1993 – 2003
	Taxable Reserve Fund Resolution	7.03 - 9.35%	102,985	1994 – 2016
Subtotal			915,620	
Finance Authority of Maine	Construction bonds	1.0 - 6.29%	1,226	1999 – 2025
Maine Educational Loan Authority	Educational Loan Revenue Bonds	3.80 - 7.75%	50,273	1999 - 2027
Other	Revenue and Building Construction Bonds	2.60 – 10.00%	3,477	1999 - 2023
Total			$3,226,158	

Maturities of principal for component units are as follows.

Component Units Principal Maturities
June 30, 1999
(Dollars in Thousands)

Fiscal Year Ending June 30 (December 30 for MSHA, MELA)	FAME	MELA	MMA	MTCS	MMBB	UM	MSHA	MHHEFA	Totals
1999	$ -	$ 2,200	$ -	$ -	$ 73,230	$ -	$ 15,375	$ -	$ 90,805
2000	51	2,140	76	85	74,400	2,185	18,495	30,780	128,212
2001	52	1,965	81	85	78,085	2,135	20,445	30,625	133,473
2002	52	2,140	80	85	69,425	2,210	23,615	32,705	130,312
2003	53	2,065	79	85	66,015	2,200	29,450	33,925	133,872
2004	54	-	84	85	63,620	2,205	-	33,380	99,428
Thereafter	964	39,763	2,745	58	504,440	43,090	1,191,113	754,205	2,536,378
Less amounts deferred or unamortized	-	-	(151)	-	(25,166)	(1,005)	-	-	(26,322)
Total Principal Payments	$1,226	$50,273	$2,994	$483	$904,049	$53,020	$1,298,493	$915,620	$3,226,158

NOTE 12 - 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.

At June 30, 1999, $3.5 million was reported as the present value of the estimated claims payable for the State's self-insurance plan. This was calculated based on a 5 percent yield on investments. The non-discounted amount was $3.8 million.

Risk Management Fund Changes in Claims Payable
June 30, 1999
(Dollars in Thousands)

	1999	1998
Liability at beginning of year	$3,135	$3,135
Current year claims and changes in estimate	2,673	1,741
Claims payments	2,289	1,741
Liability at end of year	$3,519	$3,135

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 $730 thousand for the fiscal year ended June 30, 1999.

C. WORKERS' COMPENSATION

Workers' compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation. Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the balance of claims and judgments liabilities during fiscal 1999 were as follows:

Workers' Compensation Fund Changes in Claims Payable
June 30, 1999
(Dollars in Thousands)

	1999	1998
Liability at Beginning of Year	$ 89,445	$ 51,878
Current Year Claims and Changes in Estimates	5,357	50,660
Claims Payments	12,134	13,093
Liability at End of Year	$ 82,668	$ 89,445

Based on actuarial calculations as of June 30, 1999, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $94.7 million. The discounted amount is $82.7 million and was calculated based on a 4.25 percent yield on investments.

D. 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 987 confidential employees at June 30, 1999. The expenditure amount for this benefit cannot be determined.

NOTE 13 - SEGMENT INFORMATION - 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

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 lending 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, 1999
(Dollars in Thousands)

	State Lottery Bureau	Bureau of Alcoholic Beverages	Transportation Related	Agriculture Related	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues	$147,548	$73,778	$3,240	$364	$1,089	$226,019
Depreciation Expense	18	408	2,396	54	58	2,936
Operating Income (Loss)	39,123	20,856	(4,225)	(370)	(177)	55,207
Net Nonoperating Revenues	486	6	181	518	14	1,205
Net Income (Loss)	(75)	118	(1,420)	382	(162)	(1,157)
Operating Transfers in (out)	(39,684)	(20,744)	2,624	235	-	(57,569)
Additions (Deletions) to Property, Plant and Equipment	11	822	4,593	36	(3)	5,459
Total Assets	8,449	9,000	55,519	10,223	518	83,709
Total Long-Term Liabilities	-	1,000	-	-	-	1,000
Total Liabilities	8,508	8,992	263	1,002	155	18,920
Total Equity	(59)	8	55,255	9,221	364	64,789
Net Working Capital	(112)	(128)	2,516	1,695	377	4,348
Current Capital Contributions	-	-	4,515	-	-	4,515

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, 1999
(Dollars in Thousands)

	LDA	MELA	FAME	MHHEFA	MSHA	MMBB	MSRS	MMA	MTCS	U of ME	Total
Assets:											
Cash	$ 2,157	$ 2,245	$ 63,078	$ 76,357	$ 231,616	$31	$ 100,835	$ 103	$ 2,980	$ 85,355	$ 564,759
Investments	-	8,634	16,209	201,431	134,249	213,969	6,801,102	16,002	13,122	92,875	7,497,595
Due from primary government	-	-	937	-	936	3,600	19,654	-	404	9,768	35,300
Due from other governments	707	-	-	-	1,903	905,182	9,373	-	-	6,771	923,937
Loans and notes receivable	-	41,138	33,865	829,001	1,155,147	-	-	2,670	-	16,079	2,077,901
Other receivables	230	461	2,026	4,646	-	1,241	38,085	328	1,745	29,179	97,596
Fixed assets	55	-	250	5,031	737	1,056	917	37,992	61,230	273,785	381,053
Other assets	9	258	114	9,045	24,399	39,533	-	5,259	1,483	4,918	85,018
Total assets	$ 3,159	$52,737	$116,480	$ 1,125,511	$ 1,548,987	$ 1,164,613	$ 6,989,620	$ 62,356	$ 80,964	$ 518,733	$ 11,663,159
Liabilities:											
Accounts payable	65	31	2,828	579	2,273	1,051	6,594	588	1,597	7,783	23,389
Due to other governments	1,463	-	6,619	-	5,687	2,704	-	-	-	11	16,484
Deferred revenues	151	715	1,026	234	33,922	-	-	114	737	7,928	44,827
Amounts held under state loan programs	-	-	85,012	-	-	-	-	-	-		85,012
Bonds and notes payable	-	50,273	1,226	915,620	1,298,493	904,049	-	2,994	483	53,020	3,226,158
Other accrued liabilities	254	1,087	1,112	31,279	31,507	25,158	49,937	3,021	11,357	35,507	190,219
Total Liabilities	1,933	52,106	97,823	947,712	1,371,882	932,962	56,531	6,717	14,174	104,249	3,586,089
Equity:											
Retained Earnings:											
Reserved	-	-	-	-	171,036	195,162	-	-	-	-	366,198
Unreserved	1,226	631	18,657	-	6,069	36,489	-	-	(1)	-	63,071
Reserved for debt service	-	-	-	-	-	-	-	-	-	575	575
Net investment in plant	-	-	-	-	-	-	-	34,855	56,181	218,059	309,095
Reserved for pension benefits	-	-	-	-	-	-	6,933,090	-	-	-	6,933,090
Other reservations	-	-	-	171,137	-	-	-	12,727	7,237	195,192	386,293
Unrestricted/unreserved	-	-	-	6,662	-	-	-	8,056	3,373	657	18,748
Total Equity	1,226	631	18,657	177,799	177,105	231,651	6,933,090	55,638	66,790	414,484	8,077,070
Total Liabilities and Equity	$ 3,159	$52,737	$ 116,480	$ 1,125,511	$ 1,548,987	$ 1,164,613	$ 6,989,620	$ 62,356	$ 80,964	$ 518,733	$11,663,159

Component Unit Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balances

June 30, 1999

(Dollars in Thousands)

	LDA	MELA	FAME	MSHA	MMBB	Total
Operating revenues	$ 4,360	$ 4,636	$ 15,124	$ 183,140	$ 73,250	$ 280,510
Operating expenses	4,419	4,067	27,896	171,640	56,233	264,255
Operating income (loss)	(59)	569	(12,772)	11,500	17,017	16,255
Non-operating revenues (expenses)	-	-	471	(146)	-	325
Extraordinary Loss	-	(33)	-	(1,433)	-	(1,466)
Transfers from primary government	414	-	15,155	3,687	25,164	44,420
Transfers to primary government	-		(504)	-	(783)	(1,287)
Other Operating Transfers (Net)	-	-	(1,141)	-	-	(1,141)
Net income (loss)	355	536	1,209	13,608	41,398	57,106
Retained Earnings, July 1, 1998 (as restated)	871	94	17,447	163,498	190,254	372,164
Retained Earnings, June 30, 1999	$ 1,226	$ 630	$ 18,656	$ 177,106	$ 231,652	$ 429,270

NOTE 14 - 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 (Commission).

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

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

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

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

The 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 04333-0008.

As of and for the fiscal year ended June 30, 1999, the following selected financial information was reported in the audited financial statements of the Tri-State Lotto Commission:

Tri-State Lotto Commission
June 30, 1999
(Dollars in Thousands)

Current Assets	$ 42,772
Noncurrent Assets	219,948
Total Assets	$262,720
Current Liabilities	$ 35,557
Long-term Liabilities	206,879
Total Liabilities	242,436
Designated Prize Reserves	4,996
Unrealized Gain on Investments Held for Installment Prize Obligations	15,288
Total Retained Earnings	20,284
Total Liabilities and Retained Earnings	$262,720
Total Revenue	$ 79,603
Total Expenses	$ 52,100
Allocation of Funds to Member States	$ 28,077
Increase in Retained Earnings	$ (5,154)

NOTE 15 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

General Obligation Bonds of the State include $630,000 of self-liquidating bonds of the Maine Veterans' Home. The State issues the bonds and the Maine Veterans' Home remits to the State the debt service as it comes due.

RELATED ORGANIZATIONS

The State provided appropriations to two related organizations. The Maine Science and Technology Foundation received an appropriation of $3.2 million, and the Maine School of Science and Mathematics received an appropriation of $1.6 million.

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 1999.

COMPONENT UNITS

The University of Maine Foundation (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, 1999 and 1998 were approximately $3.1 million and $2.6 million, respectively. The reported fair market value of the Foundation's assets at June 30, 1999 and 1998 were approximately $106.6 million and $86.9 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 (another related party) 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 1998 and 1997, approximately $53.7 million and $49.6 million, respectively, of educational loans were originated by the Authority and purchased by MELMAC as described above. The Authority received approximately $269 thousand and $248 thousand in 1998 and 1997, respectively, in loan premiums from MELMAC.

The advances provided to the Authority by Maine Educational Services are subject to a revolving credit agreement between these two parties. The maximum amount that the Authority can borrow from Maine Educational Services at any given time is $2 million.

NOTE 16 - 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 municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of general obligation bond funds approved for that purpose. During the 1999 fiscal year, $5.4 million of general obligation bond funds were expended for solid waste landfill closure projects.

After January 1, 2000, the State will be not be liable for the costs relating to the closure of municipal solid waste landfills, except, the Commissioner may make grants or payments up to 30% if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000. Reimbursement applications received and approved by DEP total $3.4 million. Remediation funding, subject to the availability of funds, will continue for 90% of the cost of remediation of municipal solid waste landfills. As of June 30, 1999 DEP has recognized that, in the future, some post closure investigation and remediation activities may be necessary at some landfills that will require State funds. DEP has not estimated the amount of these potential costs.

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 $11-14 million through the year 2003. This consists of approximately $8-10 million for State-owned facilities and approximately $6 million for the State's share, under a cost sharing arrangement, for municipal facilities. The amount of the commitment has been reduced since FY 98 due to PL 1999, c. 387.

POLLUTION ABATEMENT PROGRAM

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 1999 fiscal year, $2.6 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 1999 amounts encumbered for pollution abatement projects totaled $7.2 million, and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $7.4 million. At June 30, 1999, DEP estimates the total cost (federal, State, and local) of future projects to be $281 million.

TREATMENT OF WASTEWATER FROM THE STATE'S CORRECTIONAL FACILITIES

At June 30, 1999, 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 1999 expenditures totaled $385 thousand. 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.

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, 1999, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $698.5 million.

At June 30, 1999, the Department of Transportation had contractual commitments of approximately $86.1million for construction of various highway projects. The State's share of that amount is expected to be approximately $15.7 million. Funding for these future expenditures is expected to be provided from federal funds, State funds, and bond proceeds.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 49 other states and jurisdictions agreed to an out of court settlement with certain Participating Tobacco Manufacturers (PM's) to recover smoking related Medicaid costs. The PM's 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 PM's. This settlement will result in an ongoing revenue stream to the State, which will continue into perpetuity.

As compensation, the PM's 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.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by a resident Maine veteran. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 1999, loans outstanding pursuant to these authorizations are $17 million, less than $1 million, and $1.3 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 1999.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 1999.

MORAL OBLIGATIONS

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

The following summarizes information regarding Moral Obligations as of June 30, 1999.

Moral Obligation Bonds
June 30, 1999
(Dollars in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Finance Authority of Maine	$ 245,844	$ 36,441	$777,000	10 MRSA § 1032, 1053
Maine Educational Loan Authority	49,870	2,541	50,000	20-A MRSA § 11424
Maine Municipal Bond Bank	929,215	109,277	No Limit	30-A MRSA § 6006
Maine Health and Higher Education Facilities Authority	864,815	63,176	No Limit	22 MRSA § 2075
Loring Development Authority	-	-	100,000	5 MRSA § 13080-N
Maine State Housing Authority	1,353,632	99,602	1,650,000	30-A MRSA § 4906
Total	$3,443,376	$311,037		

NOTE 17 - 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 far 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 terms 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, et al., 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. The U.S. District Court is considering 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 cost to the State is approximately $7 million, plus interest of $50 thousand per month. The State filed an appeal in the U.S. District Court, which has now affirmed the Board's ruling. The State is in the process of paying the $7 million judgment, but has filed a notice of appeal to the First Circuit Court of Appeals regarding the interest.

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 before the Supreme Court of the United States on the grounds of the State's sovereign immunity under the 11th Amendment. There is legislation pending which would waive the State's immunity and allow the suit to proceed. The outstanding claims, interest and attorney fees would be well over $1 million.

Nancy Blanchard v. State of Maine Department of Transportation and John Melrose. In this case, the Plaintiff seeks to have the court declare unconstitutional the Department's taking of her property by eminent domain. The Department awarded $600 thousand to the Plaintiff at the time of the taking. If the court upholds the taking, the Plaintiff has indicated that she will contest this award and seek at least an additional $600 thousand as just compensation. If Plaintiff prevails, she will also seek compensation from the Department for the temporary deprivation of her property and for attorney's fees, which may total in excess of $1.5 million.

George West Waste Oil Sites. There are four George West waste oil sites that are in the litigation process. The four sites are Wells, Plymouth, Casco and Ellsworth. The State of Maine Department of Transportation has officially resolved its liability at the Wells site. The potential liability for all state agencies that are responsible at the remaining sites could exceed $1 million.

Kvorjak v. State of Maine Department of Labor. This suit is brought under the Americans with Disabilities Act by a former employee who sought the accommodation of being allowed to work at home. The Plaintiff seeks damages of almost $2 million, which includes economic damages, punitive damages, and compensatory damages. The State believes it has substantial defenses, and has filed a motion for summary judgment, which is pending.

System Automation v. State of Maine is a potential breach of contract action involving the preparation of a database system to keep track of licensing data for boards. The Plaintiff seeks over $2 million in damages. The State believes it has substantial defenses and has filed counterclaims.

Bloom v. Crook is a federal court suit including claims of sex discrimination and civil rights violations. It arises out of the dismissal of an Assistant District Attorney. Plaintiff's claims theoretically could exceed $1 million.

Exxon Mobil is a tax case involving $2.7 million relating to foreign corporate tax issues. Legal counsel cannot predict the outcome of this case.

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 18 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On September 1, 1999, the State, through its blended component unit, Maine Governmental Facilities Authority, issued $86.9 million Bonds for the purpose of improvements to State facilities. The bonds mature from 2000 – 2019, and carry interest rates ranging from 4.5% to 5.625%.

In December, 1999 and January, 2000 Maine received the first of its annual payments from certain Participating Tobacco Manufacturers (PM's) to recover smoking related Medicaid costs as part of an out of court settlement. In return, the State has agreed to relinquish claims to further damages resulting from Medicaid costs. The total amount Maine has received, to date, is $35.8 million. Annual payments will fluctuate subject to various adjustments and litigation offsets, and will result in an ongoing revenue stream to the State, which will continue into perpetuity.

On February 1, 2000, the State, through its Central Fleet Management Internal Service Fund, issued a $4 million Certificate of Participation for the purchase of vehicles.

COMPONENT UNITS

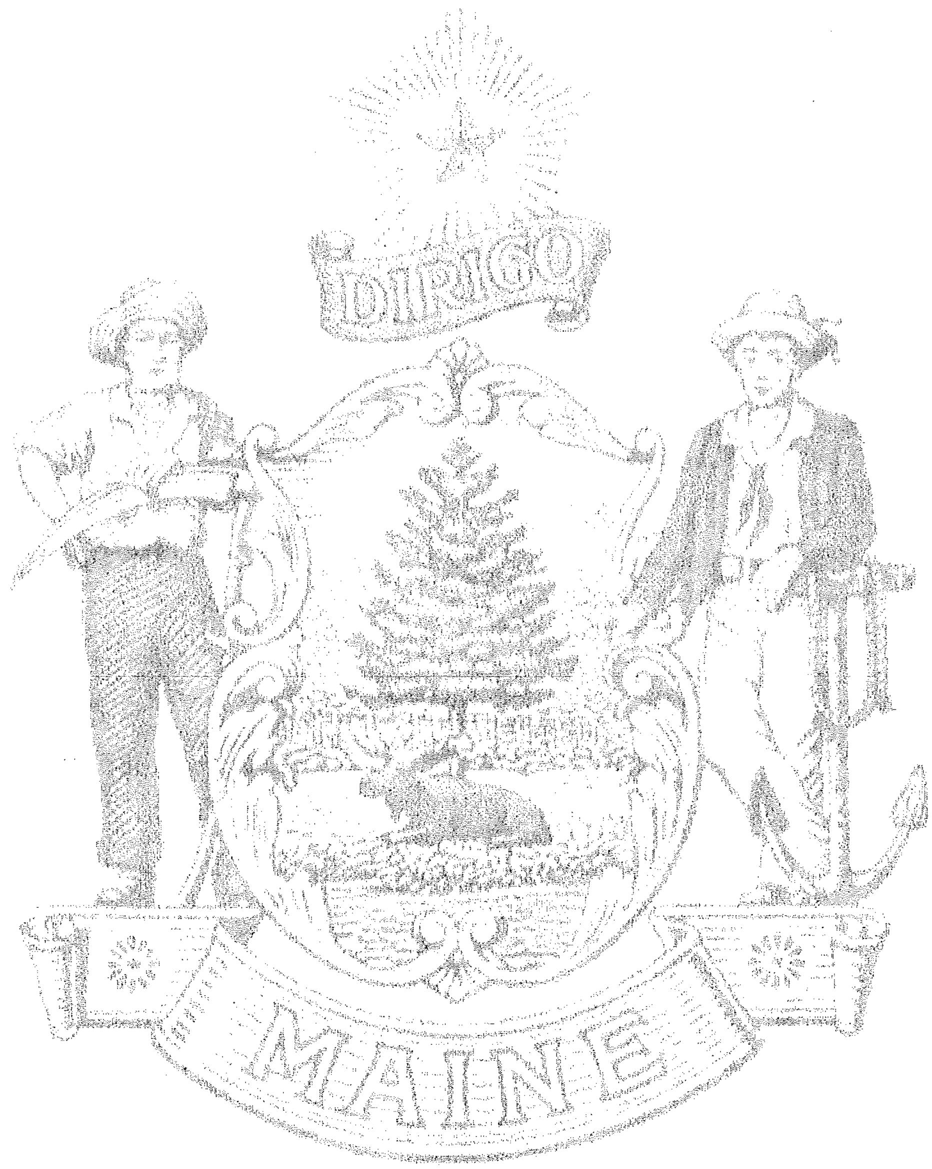
Effective September 18, 1999, the State Legislature authorized the University of Maine System to borrow up to $25 million to fund capital improvements to support research and development in the system. The financing agreement may not exceed 15 years in duration and the interest rate may not exceed 6%.

On January 26, 1999, MELA issued $14 million of Educational Loan Revenue Bonds, with an initial rate of 3.28%, and maturity date of June 1, 2029.

On February 23, 1999, the Maine State Housing Authority issued $15 million in bonds, with interest rates ranging between 4.05% and 5.25%, maturing from 2018 - 2032. They also issued $80 million in bonds on March 24, 1999, with interest rates ranging between 4.15% and 5.3%, maturing from 2012 - 2032. On March 24, 1999, they redeemed, at a premium, $3.7 million of bonds with interest rates between 8.2% and 8.3%, and maturing between 2008 and 2020.

NOTE 19 - ACCOUNTING CHANGES

For the fiscal year ended June 30, 1999, the State of Maine adopted GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.*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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
June 30, 1999	$4,881,389,092	$7,053,934,465	$2,172,545,373	69.2%	$1,209,804,594	179.6%
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%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
1999	$252,856,506	$274,702,404	108.6%
1998	$237,246,612	$245,734,184	103.6%
1997	$216,474,520	$235,001,023	108.6%

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, 1999	$1,354,840,239	$1,278,819,201	$(76,021,038)	105.9%	$233,507,942	-32.6%
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%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
1999	$24,991,863	$24,991,863	100.0%
1998	$29,053,376	$29,053,376	100.0%
1997	$32,852,635	$32,852,635	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, 1999, is as follows:

Funding Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payrolls). 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 payrolls. 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 payrolls 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 retirees – 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 1999 and thereafter – RPA 1994 Table for pre-1995 Disabilities.

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, 1999 and 1998, the plan had the following actuarially determined liabilities:

	(In millions) 1999	1998
Actuarial Liabilities:		
Active Members	$ 47.4	$ 42.6
Retired Members	33.5	36.4
Total	$ 80.9	$ 76.5