

# MAINE

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*Comprehensive Annual Financial Report  
For The Fiscal Year Ended June 30, 2003*

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**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

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**MAINE**



**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**JOHN ELIAS BALDACCI**  
*Governor*

**REBECCA M. WYKE**  
*Commissioner*  
*Department of Administrative & Financial Services*

**EDWARD A. KARASS**  
*State Controller*

*Prepared by the Office of the State Controller*



*In Dohuk, Iraq, Lt. Michael Flynn tries to pay for a cup of tea. The Kurdish man on the left will not allow him to pay. Lt. Michael Flynn, staff member of the State Controller's Office, is presently deployed in Mosul, Iraq, with the 133rd Engineer Battalion of the Maine Army National Guard.*

With great admiration and respect, the staff members of the Office of the State Controller dedicate the State Of Maine's Comprehensive Annual Financial Report for Fiscal Year 2003 to Lt. Michael Flynn and all of Maine's men and women who are serving in the military deployed in Iraq. We wish all of you a safe and speedy return to your family and friends.

**STATE OF MAINE**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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# INTRODUCTORY SECTION

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STATE OF MAINE  
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES  
**OFFICE OF THE STATE CONTROLLER**  
14 STATE HOUSE STATION AUGUSTA, ME 04333-0014

EDWARD A. KARASS  
STATE CONTROLLER



TERRY E. BRANN, CPA  
DEPUTY STATE CONTROLLER

June 1, 2004

**To the Honorable John Elias Baldacci, Governor,  
the Honorable Members of the Legislature, and  
Citizens of the State of Maine**

We are pleased to present the State of Maine's Fiscal Year 2003 (FY2003) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP). This report represents the second CAFR prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 34. The annual CAFR, required by Title 5 M.R.S.A., §1547 is compiled and published by the Office of the State Controller (OSC). The report is the primary means of reporting the State's financial activities. The objective of this report is to provide a clear picture of our government as a single, unified entity, as well as providing traditional fund based financial statements.

**Responsibility**

The OSC is responsible for the accuracy, fairness and completeness of the financial statements presented in this report. The statements have been prepared in accordance with GAAP. To the best of our knowledge and belief, the information presented is accurate in all material respects and includes all disclosures necessary to enable the reader to gain a reasonable understanding of Maine's financial position and activities.

**Adherence to Generally Accepted Accounting Principles**

As required by State statute, we have prepared the CAFR in accordance with GAAP applicable to State and local governments, as promulgated by the GASB. The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports.

**Format of Report**

This CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory Section contains this letter including an overview of current initiatives, the list of principal elected and appointed officials, and the State government organization chart. The Financial Section contains: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A), which provides an introduction, overview and analysis of the Basic Financial Statements; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds and similar component units, and component units, together with notes to the financial statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules, schedules of pension funding progress, and information about infrastructure assets; and the supplemental financial data, which includes the combining financial statements and schedules.

This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The State's MD&A can be found immediately following the independent auditor's report from the State Auditor. The Statistical Section contains selected trend information, and statistical data on financial, economic and demographic measures.

### **Internal Control Structure**

The Office of the Controller prepares these financial statements and assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Controller has established a comprehensive internal control framework that is designed to protect the State's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the State of Maine's financial statements in conformity with GAAP.

Because the cost of internal controls should not outweigh their benefits, the State's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

As a recipient of federal financial assistance for federal programs, the State is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these federal programs. The internal control structure is subject to periodic evaluation by management and by the State Department of Audit as part of the annual Single Audit.

### **Independent Auditors**

Pursuant to Title 5 M.R.S.A. § 243, the State Auditor has performed an examination of the Basic Financial Statements in accordance with auditing standards generally accepted in the United States of America. The auditor's opinion is presented in the financial section of this report. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the Basic Financial Statements; assessing the accounting principles used and significant estimates made by management; and, evaluating the overall financial statement presentation. The State Auditor rendered an unqualified opinion on the Basic Financial Statements for this fiscal year.

Also, pursuant to § 243 the State Auditor has undertaken a Single Audit of the State as a whole, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, as required by federal law. The standards governing Single Audit engagements require the auditor to report not only on the fair presentation of the financial statements, but also on the government's internal controls and compliance with legal requirements involving the administration of federal awards. This statewide federal Single Audit Report, including the auditor's opinion in accordance with generally accepted auditing standards, is published separately.

We express our appreciation to the staff of the State Auditor for their professionalism. The State Auditor is statutorily mandated to audit all accounts and other financial records of State Government or any department or agency of State Government, including the judiciary and the Executive Department of the Governor, except the Governor's Expense Account, and to report annually, and at such other times as the Legislature may require.

### **Management's Discussion and Analysis (MD&A)**

GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.



## PROFILE OF THE GOVERNMENT

### **Reporting Entity**

The Governor and Legislature govern all funds and accounts for every executive agency, board, commission, public trust, Authority and component unit. The State of Maine financial reporting entity reflected in the CAFR, which is more fully described in Note 2 to the Basic Financial Statements, includes these funds, agencies, organizations, boards, commissions, Authorities and major component units in accordance with GASB Statement 14. There are 11 major component units, two blended component units, and one fiduciary component unit included in the CAFR. The major component units are discretely presented in the financial statements; and the blended component units are included as separate funds in the fund financial statements. The fiduciary component unit is presented in the fiduciary fund and similar component unit financial statements along with the other fiduciary activities of the State. The fiduciary activities are not included in the government-wide financial statements because the resources of these funds are not available to support the State's own programs.

The departments of the primary government record their daily financial operations in the State accounting system called the Maine Financial and Administrative Statewide Information System (MFASIS) operated by the Office of the State Controller.

### **Budgetary Control**

The Governor presents a biennial budget for the General Fund and the Special Revenue Funds to the Legislature for enactment or revision. The State Constitution provides the Governor a "line item" veto, which allows an Executive dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document.

Once passed and signed, the budget becomes the financial plan for the State 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 accordance with statute, the State Budget Officer must use the projections of the Revenue Forecasting Committee to prepare the General Fund and Highway Fund budgets.

The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in Title 5 M.R.S.A. § 1665, subsection 1, plus the average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee. This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits. The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of, this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

The State maintains budgetary control at the account and line category levels. The head of each department and agency of State government must submit a work program to the Bureau of the Budget for the ensuing fiscal year. The work program is classified to show allotments requested for specific amounts for personal services, capital expenditures, and all other departmental expenses. These are the levels at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Controller authorizes all expenditures to be made from the amounts available on the basis of these allotments and not otherwise.

Budget revisions during the year, reflecting program changes or intradepartmental administrative transfers, require the approval of the State Budget Officer and the Governor. Except in specific instances, only the Legislature may transfer appropriations between departments. Agency requests for increases in appropriations, allocations, or funding for new programs are presented to the Legislature as a supplemental budget.

The State uses encumbrance accounting as an extension of formal budgetary control. This requires that purchase orders, contracts, and other commitments be recorded to reserve a portion of an appropriation or allocation for expenditure. Appropriated and allocated balances are available for subsequent expenditure to the extent that there are approved encumbrances at the end of a fiscal year. The State reports encumbrances outstanding at year-end as reservations of fund balances to identify 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 are carried forward to a subsequent year only when authorized by law, otherwise the balances lapse at year-end.

#### **Maine Budget Stabilization Fund**

The Maine Budget Stabilization Fund, established in 2003 in Chapter 451, Public Laws 2003 to replace the Maine Rainy Day Fund, is a General Fund reserve account intended to be used for the prepayment of outstanding General Fund bonds and for major construction (defined as a single project with a total cost of over \$500,000), and may also be used when revenues are under budget and critical services must be preserved. The Governor may also allocate funds from the Budget Stabilization Fund for payment of death benefits for law enforcement officers and firefighters.

Balances in the fund do not lapse; but carry forward each year. The money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. In addition to interest earnings, the fund is capitalized at the close of each fiscal year. As the first priority before any other transfer, the State Controller is required to transfer 32% of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap.

The statutory cap for the fund is 10% of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2003 actual General Fund revenue, the statutory cap at the close of fiscal year 2003 and during fiscal year 2004 was \$239,469,019. At the close of fiscal year 2003, the balance of the Maine Budget Stabilization Fund was \$10,579,345. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

## ECONOMIC CONDITIONS AND OUTLOOK

The Maine economy appears to have stabilized. Following the past few years of robust economic growth, the State's employment actually declined 0.3% in 2002 and 0.2% in 2003. Meanwhile, as layoff announcements became more frequent, the State's jobless rate started to tick upward from its 2002 rate of 4.5% to 5.1% in 2003, but was still 0.9% below the national average of 6%. Income growth slowed 4.4% in 2002 to an estimated 4.1% for 2003. However, the good news is that economists are projecting a positive gain of 0.8% in employment during 2004.

It is interesting to note that even in our period of weakness, Maine's economic growth has, for the most part, outpaced that of both the nation and the region. National employment growth over the period was a negative 0.9% in 2002. With the nation experiencing deeper job cuts than Maine, unemployment spiked to 6%, a full 1.5 percentage points above the Pine Tree State. And for the first time in over a decade, Maine's income gains outpaced the nation's in 2001 and hit the national average in 2002.

The primary reason for Maine's relative "vibrancy" appears to be that our economy is far less invested in the technology sector which has been ravaged through the stock market adjustment, taking its toll on technology-dependent regions like New England and on the nation as a whole. In Maine, during 2003, taxable retail sales and construction contracts continued to improve. Construction contracts increased by 12.4% and taxable retail sales increased 4.6% over 2002.

Businesses invested \$146.3 million in Maine during 2003. Northern Maine saw the addition of 166 new jobs added to the economy in diverse industries that include manufacturing, computer services, and financial services. Central and Western Maine added 126 new jobs in various sectors and saw the investment of \$112.5 million by International Paper at their Jay facility. Southern Maine continued to grow economically as the Gulf of Maine Research Institute invested \$9.0 million and created 55 new jobs at the Portland Marine Research Center. Columbia Air Services retained 15 jobs and invested \$500,000 in their Trenton facility to provide aviation support services.

Maine's employment is expected to grow once more in 2004 at a rate of 0.8%. Most job gains will be in the non-manufacturing sector, led by retail trade, health and other services. Manufacturing employment is projected to continue its descent through the period, though the pace of decline will abate from -7% in 2003 to -3.2% in 2005. Further erosion in manufacturing employment will also constrain income gains through the period.

It appears that Maine was in a period of stabilization in 2003 and the trend will continue through part of 2004 until the US economy can develop enough traction to pull States out of their malaise. Overall, Maine's growth should resume in 2004 at a slow but steady gait.

## **CURRENT DEVELOPMENTS AND INITIATIVES**

During 2003, the Governor proposed landmark legislation to create a health plan that will extend comprehensive health insurance to small employers, self-employed and the uninsured. Legislation was enacted in FY 2004 as a part of the plan establishing Dirigo Health. Dirigo Health is an independent State agency designed to implement the Governor's vision of health care reform in Maine.

## **FINANCIAL INFORMATION**

### **Cash Management**

The State pools cash for a variety of State agencies and public sector entities. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. In accordance with statute, the Treasurer of State may deposit State funds in any of the banking institutions organized under the laws of this State, and any national bank or federal savings and loan association located in the State. All State money in any depository of State Government shall be to the credit of the State but the Treasurer of State shall not withdraw any of the funds except upon the authority of the State Controller.

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. The list of approved pool investments includes: U.S. Treasury Bills, Notes, Bonds and Agency Securities, certain secured repurchase agreements, prime commercial paper, tax-exempt obligations, banker's acceptances, and certain secured shares of an investment company registered under the federal Investment Company Act of 1940.

Deposits with financial institutions are classified by 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 neither collateralized nor insured. More detailed information about deposits can be found in the notes to the financial statements.

### **Debt Administration**

When issuing General Obligation Bonds, the State of Maine pledges its full faith and credit to repay the financial obligation. Unless certain tax revenue streams are specifically restricted, states typically pledge all of their tax-raising powers to secure the obligations. The major bond rating agencies regularly assess the capacity and willingness of the State to repay its general obligation debt. Moody's Investors Service, Standard & Poor's, and FitchRatings make their assessments, in large part, by examining four basic analytical areas:

- Economy
- Financial Performance and Flexibility
- Debt Burden
- Administration

The economic base is the most critical element in determining the rating. Growth and diversity in the demographics, tax base, and employment base of the State over the last decade are indicators of future growth prospects and debt repayment capabilities. Generally, States with higher income levels and diverse economic bases have superior debt repayment capabilities and are better protected from sudden shocks or unexpected volatility in the economy. Because a strong economy does not always ensure a State's ability to meet debt payments, the State's financial management and performance are also key factors.

Financial analysis involves several factors, including: accounting and reporting methods; revenue and expenditure patterns; annual operating and budgetary performance; leverage and equity positions; budget and financial planning; and contingency obligations. These factors present a clear indication of the financial strengths and weaknesses of the State. The rating agencies' analyses of these factors provide the framework for judging Maine's capacity to manage economic, political, and financial uncertainties. Following is a history of Maine's credit ratings from three of the major rating agencies, and a brief explanation of their meanings:

**Standard & Poor's**

"AAA" is the highest Issuer Credit Rating assigned by Standard & Poor's. An obligor rated "AAA" has EXTREMELY strong capacity to meet its financial commitments. An obligor rated "AA" has VERY strong capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree. Ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

| <b><u>Year</u></b> | <b><u>Rating</u></b> |
|--------------------|----------------------|
| 1994               | AA+                  |
| 1995               | AA+                  |
| 1996               | AA+                  |
| 1997               | AA+                  |
| 1998               | AA+                  |
| 1999               | AA+                  |
| 2000               | AA+                  |
| 2001               | AA+                  |
| 2002               | AA+                  |
| 2003               | AA+                  |

**Moody's Investors Service**

Moody's is one of the few major rating agencies that measures total expected credit loss over the life of the security, assessing both the likelihood that the issuer will default and the amount of loss after a default occurs. "Aaa" rated bonds are judged to be of the best quality. Generally referred to as "gilt edge," they carry the smallest degree of risk. "Aa" rated bonds are judged to be of high quality by all standards and together with the "Aaa" group they comprise what is generally known as high grade bonds. Moody's applies one of three numerical modifiers to each generic rating classification from "Aa" to "Caa." The modifier 1 indicates that the issue ranks at the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks at the lower end of its generic category.

| <b><u>Year</u></b> | <b><u>Rating</u></b> |
|--------------------|----------------------|
| 1994               | Aa                   |
| 1995               | Aa                   |
| 1996               | Aa                   |
| 1997               | Aa3*                 |
| 1998               | Aa2                  |
| 1999               | Aa2                  |
| 2000               | Aa2                  |
| 2001               | Aa2                  |
| 2002               | Aa2                  |
| 2003               | Aa2                  |

*\* Refinement of Aa rating, not a downgrade*

### FitchRatings

“AAA” indicates obligations that have the highest rating assigned by FitchRatings on its national rating scale. The capacity for timely repayment of principal and interest is considered extremely strong. “AA” indicates obligations for which capacity for timely repayment of principal and interest is very strong. Obligations rated “A” indicate that the capacity for timely repayment of principal and interest is strong relative to other obligors. However, adverse changes in business, economic or financial conditions are more likely to affect the capacity for timely repayment than for obligations in higher rated categories.

| <u>Year</u> | <u>Rating</u> |
|-------------|---------------|
| 1996        | AA**          |
| 1997        | AA            |
| 1998        | AA            |
| 1999        | AA            |
| 2000        | AA+           |
| 2001        | AA+           |
| 2002        | Aa2           |
| 2003        | Aa2           |

*\*\* Initial rating in 1996, not previously rated*

Various agencies and Authorities, the Maine Technical College System, and the University of Maine System issue revenue and/or lease-backed appropriation bonds. These obligations are supported solely by the revenues received by the issuing entities and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. More detailed information about long-term obligations may be found in Note 11 to the financial statements.

### **Risk Management**

In general, the State is “self-insured” for health and dental insurance, worker’s compensation, tort liability, vehicle liability, marine and aircraft, property losses, and retiree health insurance for State employees and teachers. The Risk Management Division’s activities include analysis of and control over insurance coverage and risk exposure. Risk Management funds the cost of providing claims servicing and claims payment by charging premiums to agencies based on a review of past losses and estimated losses for the current period.

## **OTHER INFORMATION**

### **Acknowledgements and Conclusion**

State government has many accomplishments of which it can be proud. Consistent with the vision of Governor Baldacci to improve and enhance the fiscal administration of governmental operations, the Office of the State Controller initiated the most far reaching reorganization of the Office and refocusing of its mission in modern times. The goal of the reorganization is to improve the skills and analytical capacity of the Office to better serve State agencies, the Governor, the Legislature, and the citizens of the State of Maine; bolster the professionalism of the State’s accountants; improve statewide internal controls over financial operations; and to adopt a code of ethics that will help to ensure accountability to the citizens of Maine. We must maintain this standard to maintain the public trust. We strike this balance between efficiency and integrity of operations through a system of internal controls. We strive to find solutions to many of the State’s financial challenges by partnering with financial and program managers, so that full input is heard.

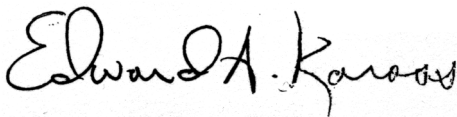
An agency CFO from Massachusetts recently described the budgetary challenges of this fiscal year facing State governments across the nation as the “perfect storm:”

- The pressures on revenues and the demand by citizens to maintain critical services are reducing staff availability throughout State government;
- Fiscal officers and their departments are being challenged with far reaching reorganization efforts in order to maintain critical services and fiscal control over operations; and,
- Once again, in the FY 2006-2007 we be called upon to meet the challenges presented by limited resources and demands for services by our citizens.


In an environment where economic resources are limited and agencies are coping with budget constraints, the challenge of maintaining effective internal controls is greater than ever. We will continue to partner with each department, at its highest levels, to ensure that the tools are available to help each agency assess its risks and target controls to manage those risks effectively and within its budgetary constraints whenever possible.

Each year the preparation of the CAFR requires the efforts of the finance people throughout the State, from virtually all agencies, departments and component units. We sincerely appreciate the dedicated efforts of all of these individuals. I wish to express my appreciation to the Department of Audit for their help and cooperation. I am especially proud of the dedication and contributions of the staff of the Office of the State Controller, who each day makes a contribution to maintaining the public's trust in our financial operations. Their efforts culminate in the CAFR each year, and for the second year running have achieved an unqualified opinion from our auditors.

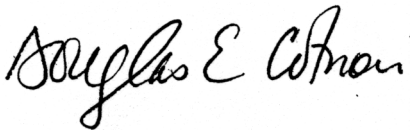
Sincerely,



Edward A. Karass, CGFM  
State Controller



Terry E. Brann, CPA  
Deputy State Controller



Douglas E. Cotnoir, CPA CIA  
Manager, Financial Reporting & Analysis



# STATE OF MAINE

## OFFICIALS OF STATE GOVERNMENT

AS OF JUNE 30, 2003

### EXECUTIVE

**John Elias Baldacci**, *Governor*

### LEGISLATIVE

**Beverly C. Daggett**, *President of the Senate*

**Patrick Colwell**, *Speaker of the House*

#### Constitutional/Statutory Officers

**G. Steven Rowe**, *Attorney General*

**Gail M. Chase**, *State Auditor*

**Dan A. Gwadowsky**, *Secretary of State*

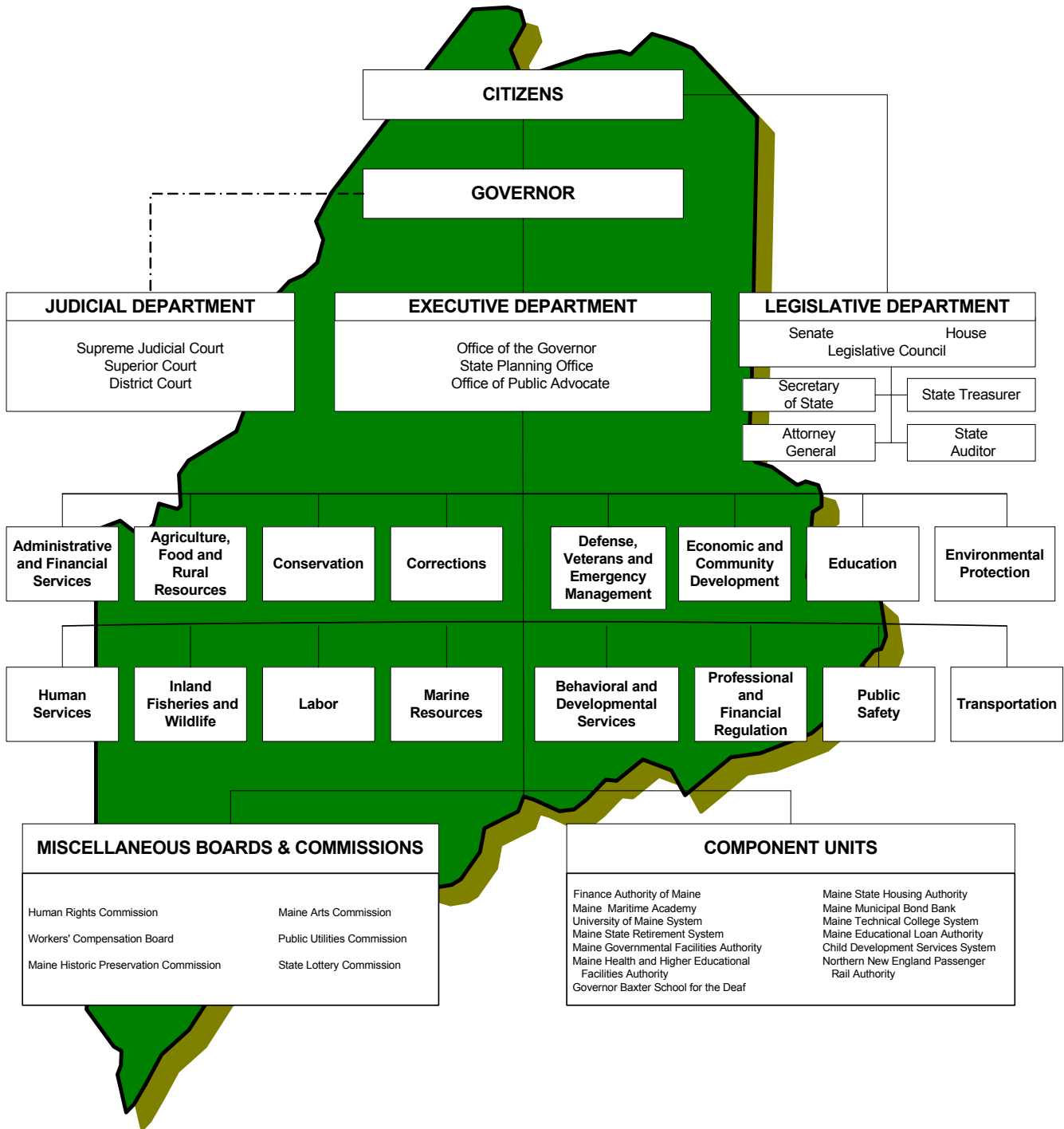
**Dale McCormick**, *State Treasurer*

### JUDICIAL

**Leigh Ingalls Saufley**, *Chief Justice of the State Supreme Court*



# ORGANIZATION CHART OF MAINE STATE GOVERNMENT AS OF JUNE 30, 2003



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**FINANCIAL SECTION**  
**INDEPENDENT AUDITOR'S REPORT**  
**BASIC FINANCIAL STATEMENTS**

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STATE OF MAINE  
DEPARTMENT OF AUDIT

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**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Child Development Services System, Finance Authority of Maine, Governor Baxter School for the Deaf, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Authority, Maine Municipal Bond Bank, Maine State Housing Authority, Maine State Retirement System, Maine Community College System, Northern New England Passenger Rail Authority, and University of Maine System. Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions of the fund financial statements as follows:

| <u>Government-Wide Financial Statements:</u> | <u>Percent of Assets</u> | <u>Percent of Revenues</u> |
|--|--------------------------|----------------------------|
| Primary Government-Governmental Activities   | 4.8%                     | .2%                        |
| Component Units                              | 100%                     | 100%                       |

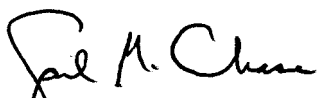
| <u>Fund Financial Statements:</u>           | <u>Percent of Assets</u> | <u>Percent of Revenues<br/>or Additions</u> |
|---|--------------------------|---|
| Proprietary Funds-Governmental Activities-  |                          |   |
| Internal Service Funds                      | 47%                      | 3%  |
| Fiduciary Funds-Pension (and Other Employee |                          |   |
| Benefit) Trust Funds                        | 100%                     | 100%  |
| Component Units                             | 100%                     | 100%  |

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for those component units and funds, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, budgetary comparison schedules and related notes, information about infrastructure assets reported using the modified approach, and information on the schedules of funding progress and employer contributions for the State retirement plan and the Participating Local District plan are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Gail M. Chase, CIA  
State Auditor

April 28, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of Maine's annual financial report presents the State's discussion and analysis of financial performance during the year ended June 30, 2003. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

#### Government-wide:

- The State's net assets increased by less than two percent from the previous fiscal year, as restated. Net assets of governmental activities increased by \$44.2 million, while net assets of business-type activities increased by \$8.3 million. The State's assets exceeded its liabilities by \$3.2 billion at the close of fiscal year 2003. Component units reported net assets of \$1.4 billion, an increase of \$92 million (roughly seven percent) from the previous year.

#### Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of \$348.7 million, a decrease of \$188.8 million from the previous year. The General Fund's total fund balance was a deficit of \$20.4 million, a decrease of \$40.7 million from the previous year.
- The proprietary funds reported net assets at year end of \$624.7 million, an increase of \$57 million.

#### Long-term Debt:

- The State's liability for general obligation bonds increased by \$11.9 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued \$97.1 million in bonds and made principal payments of \$85.2 million.

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

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### Government-wide Statements

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

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

Both government-wide statements report three activities:

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

*Business-type activities* - The State charges fees to customers to help cover all or most of the costs of certain services it provides. Lottery tickets, liquor sales and the State's unemployment compensation services are examples of business-type activities.

*Component units* - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" two component units, the Maine Governmental Facilities Authority (MGFA) and the Maine Military Authority (MMA) as governmental activities as described above. Maine reports 11 other component units as discretely presented component units of the State.

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

- Capital assets used in governmental activities are not reported on governmental fund statements but are included on government-wide statements
- Certain tax revenues that are earned, but not available, are reported as governmental activities, but are reported as deferred revenue on the governmental fund statements
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements
- Internal service funds are reported as governmental activities, but reported as proprietary funds in the fund financial statements
- Governmental fund long-term liabilities, such as certificates of participation, pension obligations, compensated absences, bonds and notes payable, and others appear as liabilities only in the government-wide statements
- Capital outlay spending results in capital assets on the government-wide statements, but is recorded as expenditures on the governmental fund statements
- Proceeds from bonds, notes and other long-term financing arrangements result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements
- Net asset balances are allocated as follows:

*Net Assets* invested in capital assets, net of related debt;

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

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

## **Fund Financial Statements**

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

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

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

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

## **Notes to the Financial Statements**

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

## **Required Supplementary Information**

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

## **Other Supplementary Information**

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements.

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by just under two percent to \$3.2 billion at June 30, 2003, as detailed in Tables A-1 and A-2.

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

|   | <b>Governmental<br/>Activities</b> |                     | <b>Business-type<br/>Activities</b> |                   | <b>Total<br/>Primary Government</b> |                     |
|---|------------------------------------|---------------------|-------------------------------------|-------------------|-------------------------------------|---------------------|
|   | <u>2003</u>                        | <u>2002*</u>        | <u>2003</u>                         | <u>2002*</u>      | <u>2003</u>                         | <u>2002*</u>        |
| Current and other noncurrent assets               | \$ 1,222,403                       | \$ 1,359,027        | \$ 479,243                          | \$ 486,129        | \$ 1,701,646                        | \$ 1,845,156        |
| Capital assets                                    | <u>2,972,419</u>                   | <u>2,727,184</u>    | <u>72,375</u>                       | <u>58,941</u>     | <u>3,044,794</u>                    | <u>2,786,125</u>    |
| Total Assets                                      | <u>4,194,822</u>                   | <u>4,086,211</u>    | <u>551,618</u>                      | <u>545,070</u>    | <u>4,746,440</u>                    | <u>4,631,281</u>    |
| Current liabilities                               | 859,538                            | 706,809             | 17,567                              | 19,259            | 877,105                             | 726,068             |
| Long-term liabilities                             | <u>645,755</u>                     | <u>705,590</u>      | <u>370</u>                          | <u>472</u>        | <u>646,125</u>                      | <u>706,062</u>      |
| Total Liabilities                                 | <u>1,505,293</u>                   | <u>1,412,399</u>    | <u>17,937</u>                       | <u>19,731</u>     | <u>1,523,230</u>                    | <u>1,432,130</u>    |
| Net assets:                                       |                                    |                     |                                     |                   |                                     |                     |
| Investment in capital assets, net of related debt | 2,628,197                          | 2,424,949           | 72,375                              | 53,679            | 2,700,572                           | 2,478,628           |
| Restricted  | 184,809                            | 242,976             | 459,127                             | 464,862           | 643,936                             | 707,838             |
| Unrestricted                                      | <u>(123,477)</u>                   | <u>5,887</u>        | <u>2,179</u>                        | <u>6,798</u>      | <u>(121,298)</u>                    | <u>12,685</u>       |
| Total Net Assets                                  | <u>\$ 2,689,529</u>                | <u>\$ 2,673,812</u> | <u>\$ 533,681</u>                   | <u>\$ 525,339</u> | <u>\$ 3,223,210</u>                 | <u>\$ 3,199,151</u> |

\* As originally stated.

### Changes in Net Assets

The State's fiscal year 2003 revenues totaled \$5.7 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 45.4 percent and 37.4 percent, respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled \$5.6 billion for the year 2003. (See Table A-2) These expenses (69 percent) are predominantly related to health & human services and education activities. The State's governmental support & operations activities accounted for 7.2 percent of total costs. Total net assets increased by \$52.5 million.



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

|   | <b>Governmental Activities</b> |                    | <b>Business-type Activities</b> |                  | <b>Total Primary Government</b> |                  |
|---|--------------------------------|--------------------|---------------------------------|------------------|---------------------------------|------------------|
|   | <u>2003</u>                    | <u>2002*</u>       | <u>2003</u>                     | <u>2002</u>      | <u>2003</u>                     | <u>2002*</u>     |
| <b>Revenues</b>                           |                                |                    |                                 |                  |                                 |                  |
| Program Revenues:                         |                                |                    |                                 |                  |                                 |                  |
| Charges for Services                      | \$ 376,117                     | \$ 301,595         | \$ 377,555                      | \$ 391,506       | \$ 753,672                      | \$ 693,101       |
| Grants/Contributions                      | 2,116,996                      | 1,818,541          | 9,000                           | 36,369           | 2,125,996                       | 1,854,910        |
| General Revenues:                         |                                |                    |                                 |                  |                                 |                  |
| Corporate Income Taxes                    | 182,554                        | 158,493            | -                               | -                | 182,554                         | 158,493          |
| Individual Income Taxes                   | 1,095,143                      | 1,043,312          | -                               | -                | 1,095,143                       | 1,043,312        |
| Fuel Taxes                                | 161,534                        | 149,193            | -                               | -                | 161,534                         | 149,193          |
| Property Taxes                            | 38,179                         | 35,546             | -                               | -                | 38,179                          | 35,546           |
| Sales & Use Taxes                         | 1,012,552                      | 976,618            | -                               | -                | 1,012,552                       | 976,618          |
| Other Taxes                               | 90,769                         | 63,111             | -                               | -                | 90,769                          | 63,111           |
| Investment Earnings                       | 8,521                          | 8,944              | -                               | -                | 8,521                           | 8,944            |
| Other                                     | <u>220,202</u>                 | <u>263,742</u>     | <u>-</u>                        | <u>1,093</u>     | <u>220,202</u>                  | <u>264,835</u>   |
| Total Revenues                            | <u>5,302,567</u>               | <u>4,819,095</u>   | <u>386,555</u>                  | <u>428,968</u>   | <u>5,689,122</u>                | <u>5,248,063</u> |
| <b>Expenses</b>                           |                                |                    |                                 |                  |                                 |                  |
| Governmental Activities:                  |                                |                    |                                 |                  |                                 |                  |
| Governmental Support                      | 403,505                        | 432,206            | -                               | -                | 403,505                         | 432,206          |
| Arts, Heritage & Culture                  | 13,012                         | -                  | -                               | -                | 13,012                          | -                |
| Business Lic & Reg                        | 34,447                         | -                  | -                               | -                | 34,447                          | -                |
| Economic Development & Workforce Training | 206,586                        | 223,829            | -                               | -                | 206,586                         | 223,829          |
| Education                                 | 1,340,614                      | 1,323,259          | -                               | -                | 1,340,614                       | 1,323,259        |
| Health & Human Services                   | 2,522,643                      | 2,367,786          | -                               | -                | 2,522,643                       | 2,367,786        |
| Justice & Protection                      | 301,575                        | 108,742            | -                               | -                | 301,575                         | 108,742          |
| Natural Resources                         | 163,606                        | 132,858            | -                               | -                | 163,606                         | 132,858          |
| Transportation Safety                     | 240,286                        | 240,869            | -                               | -                | 240,286                         | 240,869          |
| Interest                                  | 32,120                         | 24,576             | -                               | -                | 32,120                          | 24,576           |
| Business-Type Activities:                 |                                |                    |                                 |                  |                                 |                  |
| Employment Security                       | -                              | -                  | 124,452                         | 123,606          | 124,452                         | 123,606          |
| Other                                     | <u>-</u>                       | <u>-</u>           | <u>253,761</u>                  | <u>261,042</u>   | <u>253,761</u>                  | <u>261,042</u>   |
| Total Expenses                            | <u>5,258,394</u>               | <u>4,854,125</u>   | <u>378,213</u>                  | <u>384,648</u>   | <u>5,636,607</u>                | <u>5,238,773</u> |
| <b>Increase (Decrease) in Net Assets</b>  | <u>\$ 44,173</u>               | <u>\$ (35,030)</u> | <u>\$ 8,342</u>                 | <u>\$ 44,320</u> | <u>\$ 52,515</u>                | <u>\$ 9,290</u>  |

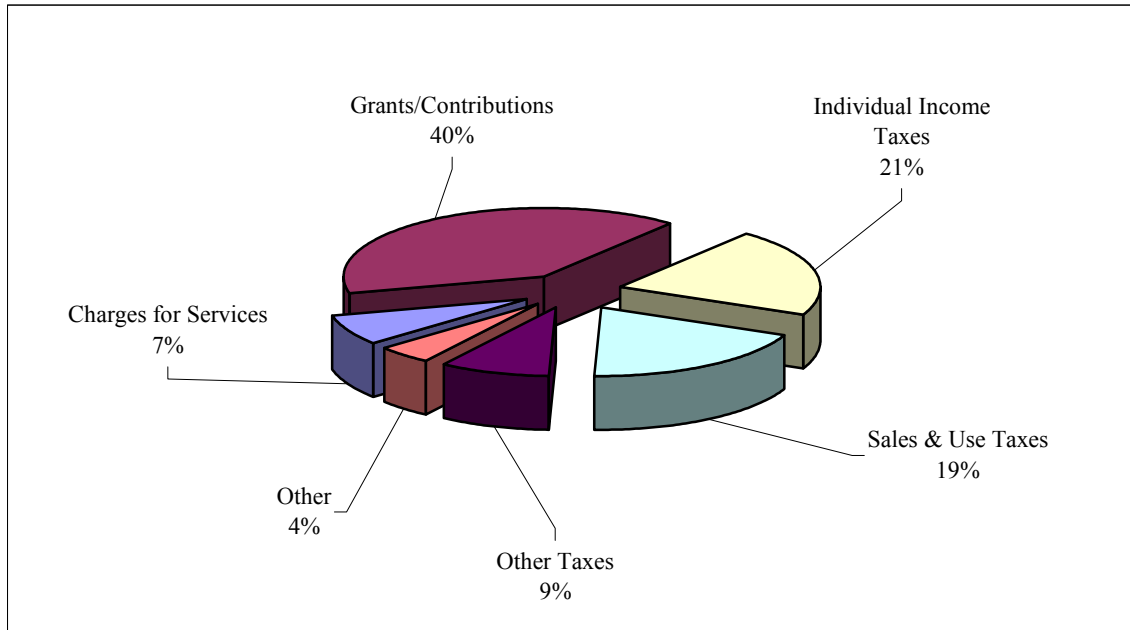
\* Expenses by policy area are not comparable from FY 2002 to 2003 due to statutory realignment of agencies among policy areas for budgeting and reporting purposes.

In tables A-2 and A-3, \$56.8 million of statutorily required profit transfers are included as other revenues in the governmental activities and other expenses in the business-type activities.

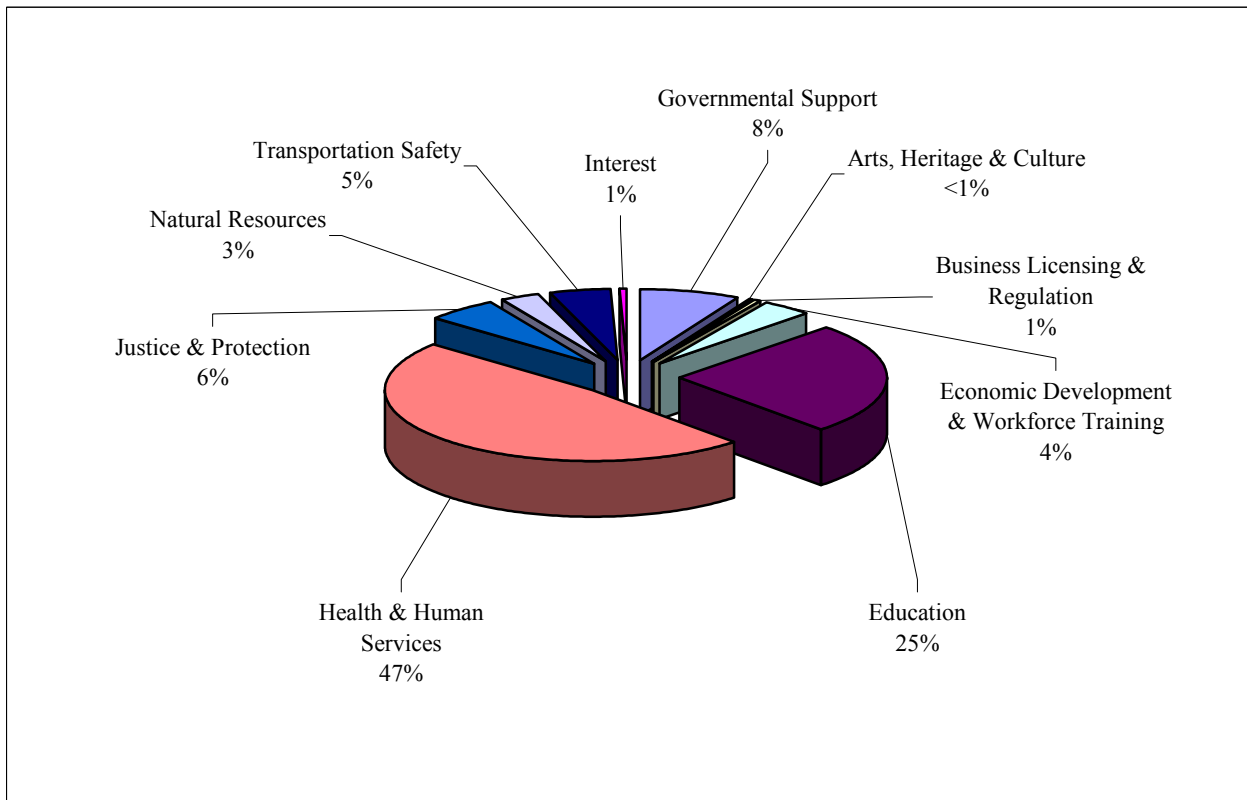
### Governmental Activities

Revenues for the State's governmental activities totaled \$5.3 billion while total expenses equaled \$5.26 billion. Therefore, the increase in net assets for governmental activities was \$44.2 million in 2003. The users of the State's programs financed \$376.1 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of \$2.1 billion. \$2.8 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

**Table A-3: Total Sources of Revenues for Governmental Activities for Fiscal Year 2003**



**Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2003**



## Business-type Activities

Revenues for the State's business-type activities totaled \$386.5 million while total expenses and transfers totaled \$378.2 million. The increase in net assets for business-type activities was \$8.3 million in 2003.

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

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

| Category            | Total Cost        |                   | Net Cost (Revenue) |                     |
|---------------------|-------------------|-------------------|--------------------|---------------------|
|                     | <u>2003</u>       | <u>2002</u>       | <u>2003</u>        | <u>2002</u>         |
| Employment Security | \$ 124,452        | \$ 123,606        | \$ 5,125           | \$ (57,012)         |
| Alcoholic Beverages | 59,412            | 56,896            | (26,573)           | (24,724)            |
| Lottery             | 125,641           | 120,520           | (41,262)           | (38,613)            |
| Other               | <u>11,918</u>     | <u>13,990</u>     | <u>(2,422)</u>     | <u>7,486</u>        |
| Total               | <u>\$ 321,423</u> | <u>\$ 315,012</u> | <u>\$ (65,132)</u> | <u>\$ (112,863)</u> |

The cost of all business-type activities this year was \$321.4 million. The users of the State's programs financed all of the cost. The State's net revenue from business-type activities was \$65.1 million, of which \$56.8 million was transferred to the State's governmental activities.

## FINANCIAL ANALYSIS OF THE STATE'S FUNDS

At the close of the fiscal year, the State reported fund balances of \$348.7 million in its governmental funds. The Other Special Revenue Fund, at \$218.3 million, comprises just less than 63 percent of the total, while the General Fund, at (\$20.4) million, the Highway Fund, at \$46.7 million, and the Federal Fund, at \$13.3 million comprise just over 11 percent of the total fund balances. Miscellaneous non-major governmental funds, in the aggregate, comprise just over one-quarter of the total. Total fund balances in the governmental funds diminished by \$188.8 million. Almost 80 percent of that decrease occurred in the General, Highway and Other Special Revenue funds, primarily because of lower tax collections as a result of an economic downturn consistent with the national economic condition. Existing resources within the Highway and Other Special Revenue funds were used to offset the declines in revenue yet maintain program service levels. Additionally, resources within the Other Special Revenue fund were transferred to the General Fund to help offset the shortfall. The General Fund carries a deficit balance into the next fiscal year, which will be funded through future revenues or further reductions in program spending.

### Budgetary Highlights

For the 2003 fiscal year, the final budgeted expenditures for the General Fund decreased by about \$138 million from the original budget of approximately \$2.7 billion. The Legislatively approved reduction was made necessary by flagging revenues, primarily on the tax lines. Two budget revisions, Chapter 714, PL 2002 and Chapter 2, PL 2003, were necessary to balance the budget. The programs impacted the most by the reductions fell into the broad categories of general government and social services. Some programs within State government took advantage of other funding sources to help offset the reduction of General Fund support. General Fund revenue estimates decreased by approximately \$198 million.

On the modified accrual basis, General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$40.7 million for the fiscal year. A portion of this difference was funded by resources carried forward from the prior fiscal year, leaving a \$20.4 million deficit in the fund balance. The deficit is, for the most part, related to an accrual in the General Fund to recognize a liability for overdrawn federal Medicaid funds. Reductions in income tax revenues and the effects of Maine's recession contributed to the need to draw upon existing fund balances. Actual revenues were less than the original budget forecasts mainly due to lower than expected personal income tax revenues. Actual expenditures in the General Fund were less than original forecasts, resulting from a concerted effort to reduce spending.

During fiscal year 2003, the State of Maine, as a component of the legislatively authorized budget, transferred available balances from several other funds to the unappropriated surplus of the General Fund. These transfers provided resources to balance the budget. Significant transfers during the fiscal year included: \$34.5 million from the Rainy Day Fund, \$43.2 million from the Fund for a Healthy Maine, \$16.6 million from the Highway Fund, \$14.6 million from the Maine Learning Technology Endowment, \$6.5 million from the Clean Election Fund, and \$3.2 million from the Maine State Housing Authority.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of fiscal year 2003, the State had roughly \$3.1 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2003, the State acquired or constructed more than \$348 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

**Table A-6: Capital Assets**  
(Expressed in Thousands)

|                          | Governmental Activities |                     | Business-type Activities |                  | Total Primary Government |                     |
|--------------------------|-------------------------|---------------------|--------------------------|------------------|--------------------------|---------------------|
|                          | <u>2003</u>             | <u>2002</u>         | <u>2003</u>              | <u>2002</u>      | <u>2003</u>              | <u>2002</u>         |
| Land                     | \$ 303,327              | \$ 277,900          | \$ 6,517                 | \$ 6,403         | \$ 309,844               | \$ 284,303          |
| Buildings                | 418,157                 | 392,803             | 8,746                    | 16,378           | 426,903                  | 409,181             |
| Equipment                | 215,898                 | 204,608             | 18,905                   | 19,410           | 234,803                  | 224,018             |
| Improvements             | 16,162                  | 16,936              | 51,410                   | 44,763           | 67,572                   | 61,699              |
| Infrastructure           | 2,216,788               | 2,027,179           | -                        | -                | 2,216,788                | 2,027,179           |
| Construction in Progress | <u>50,723</u>           | <u>27,267</u>       | <u>19,632</u>            | <u>1,593</u>     | <u>70,355</u>            | <u>28,860</u>       |
| Total Capital Assets     | 3,221,055               | 2,946,693           | 105,210                  | 88,547           | 3,326,265                | 3,035,240           |
| Accumulated Depreciation | <u>(248,636)</u>        | <u>(219,509)</u>    | <u>(32,835)</u>          | <u>(29,606)</u>  | <u>(281,471)</u>         | <u>(249,115)</u>    |
| Capital Assets, net      | <u>\$ 2,972,419</u>     | <u>\$ 2,727,184</u> | <u>\$ 72,375</u>         | <u>\$ 58,941</u> | <u>\$ 3,044,794</u>      | <u>\$ 2,786,125</u> |

### Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets – highways and bridges. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Utilization of this approach requires the State to: 1) maintain an asset management system that includes an up-to-date inventory of infrastructure assets; 2) perform condition assessments that use a measurement scale and document that the infrastructure assets are being preserved at or above the condition level

established; and 3) estimate the annual amounts that must be expended to preserve and maintain the infrastructure at the condition level established by the State. As long as the State meets these requirements, any additions or improvements to infrastructure are capitalized and all other maintenance and preservation costs are expensed.

Highways and bridges are included in the State’s infrastructure. There are 8,712 highway miles or 17,702 lane miles within the State. Bridges have a deck area of 11 million square feet among 2,959 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2003, the actual average condition was 77.6. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 76 at June 30, 2003. Preservation costs for fiscal year 2003 totaled \$34.3 million compared to estimated preservation costs of \$36 million.

Chapter 38, P&S 2001, authorized \$61 million of transportation bonds and Chapter 33, P&S 2003, authorized \$60 million of transportation bonds. These bonds are for improvements to highways and bridges and were approved at referendum. As of June 30, 2003 \$28 million of bonds were issued related to Chapter 38.

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

**Long-Term Debt**

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

At year-end, the State had \$744.5 million in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

**Table A-7: Outstanding Long-Term Debt**  
(Expressed in Thousands)

|                             | Governmental Activities |                   | Business-type Activities |               | Total Primary Government |                   |
|-----------------------------|-------------------------|-------------------|--------------------------|---------------|--------------------------|-------------------|
|                             | <u>2003</u>             | <u>2002</u>       | <u>2003</u>              | <u>2002</u>   | <u>2003</u>              | <u>2002</u>       |
| General Obligation Bonds    | \$ 358,410              | \$ 346,495        | \$ -                     | \$ -          | \$ 358,410               | \$ 346,495        |
| Other Long-Term Obligations | <u>385,685</u>          | <u>362,799</u>    | <u>452</u>               | <u>526</u>    | <u>386,137</u>           | <u>363,325</u>    |
| Total                       | <u>\$ 744,095</u>       | <u>\$ 709,294</u> | <u>\$ 452</u>            | <u>\$ 526</u> | <u>\$ 744,547</u>        | <u>\$ 709,820</u> |

During the year, the State reduced outstanding long-term obligations of \$85.2 million for outstanding general obligation bonds and \$28.1 million for other long-term debt. Also during fiscal year 2003, the State incurred \$147.2 million of additional long-term obligations.

**Credit Ratings**

Three of the major bond rating agencies regularly assess the State’s credit rating. During fiscal year 2003, Moody’s Investors Service rated the State at Aa2, Standard & Poor’s rated it at AA+, and FitchRatings rated it at AA+.

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

The consensus economic forecast for the State of Maine is for little or no employment growth during the first half of 2004, with slow improvement during the second half of the year. As a result, calendar year 2004 employment and income growth are projected to increase by .8% and 4%, respectively. The consensus economic forecast expects that job growth will improve to 1% a year between 2005 and 2007. Personal income growth is forecasted to grow by 4.5% annually over the same period.

The sluggish national economy has impacted Maine's estimated revenues available for appropriation by the legislature. The State has revised its revenue estimates several times during the year causing the enactment of several budget amendments to reduce appropriations and allocations, to meet emergency needs in the Department of Corrections and Department of Human Services, and to make changes in statute to implement revisions to services provided to the public. The major contributors to the sluggish growth rate of revenues include little growth in employment and decline in tax revenue from capital gains, which is a result of the on-going stock market correction, and tax reductions associated with conformity with the federal tax code. The State Budget Office has estimated that the stock market correction has reduced State tax revenues by approximately \$130 million annually.

The revenue estimate for the 2004 – 2005 biennium provides approximately \$4.9 billion in general tax revenues to be available for general purpose spending. This is approximately \$1.2 billion less than what is required to maintain current services levels in the 2004 – 2005 biennium. This will result in an economic and budgetary challenge for the State of Maine.

## **CONTACTING THE STATE'S FINANCIAL MANAGEMENT**

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

State of Maine  
Office of the State Controller  
14 State House Station  
Augusta, ME 04333-0014  
207-626-8420  
Bureau.Accounts-Ctrl@maine.gov



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# **BASIC FINANCIAL STATEMENTS**

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# STATE OF MAINE STATEMENT OF NET ASSETS

June 30, 2003  
(Expressed in Thousands)

|  | Primary Government         |                             |           | Component<br>Units |
|--|----------------------------|-----------------------------|-----------|--------------------|
|  | Governmental<br>Activities | Business-Type<br>Activities | Totals    |                    |
| <b>Assets</b>  |                            |                             |           |                    |
| Current Assets:  |                            |                             |           |                    |
| Cash and Short-Term Investments                                | \$ 58,943                  | \$ 4,736                    | \$ 63,679 | \$ 109,750         |
| Cash with Fiscal Agent   | 35,780                     | -                           | 35,780    | -                  |
| Investments  | 105,274                    | 1,200                       | 106,474   | 648,837            |
| Restricted Deposits and Investments                            | 13,559                     | 434,774                     | 448,333   | -                  |
| Inventories  | 19,915                     | 1,366                       | 21,281    | 1,042              |
| Receivables, Net of Allowance for Uncollectibles:              |                            |                             |           |                    |
| Taxes Receivable   | 342,787                    | -                           | 342,787   | -                  |
| Loans Receivable   | 6,028                      | -                           | 6,028     | 69,217             |
| Notes Receivable   | -                          | -                           | -         | 368                |
| Other Receivables  | 150,366                    | 43,822                      | 194,188   | 37,462             |
| Internal Balances  | 8,260                      | (8,260)                     | -         | -                  |
| Due from Other Governments                                     | 359,250                    | -                           | 359,250   | 123,184            |
| Due from Primary Government                                    | -                          | -                           | -         | 13,858             |
| Other Current Assets   | 5,981                      | 387                         | 6,368     | 50,041             |
| Total Current Assets   | 1,106,143                  | 478,025                     | 1,584,168 | 1,053,759          |
| Noncurrent Assets:   |                            |                             |           |                    |
| Assets Held in Trust   | -                          | -                           | -         | 158                |
| Restricted Deposits and Investments                            | 28,665                     | -                           | 28,665    | 54,267             |
| Investments  | 48,925                     | 1,218                       | 50,143    | 508,154            |
| Receivables, Net of Allowance for Uncollectibles:              |                            |                             |           |                    |
| Taxes Receivable   | 38,670                     | -                           | 38,670    | -                  |
| Loans Receivable   | -                          | -                           | -         | 2,256,902          |
| Notes Receivable   | -                          | -                           | -         | 73,733             |
| Other Receivables  | -                          | -                           | -         | 5,438              |
| Due from Other Governments                                     | -                          | -                           | -         | 1,015,208          |
| Other Noncurrent Assets  | -                          | -                           | -         | 21,393             |
| Capital Assets:  |                            |                             |           |                    |
| Land, Infrastructure, and Other Non-Depreciable Assets         | 2,570,838                  | 26,149                      | 2,596,987 | 165,024            |
| Buildings and Equipment  | 650,217                    | 79,061                      | 729,278   | 679,427            |
| Less: Accumulated Depreciation                                 | (248,636)                  | (32,835)                    | (281,471) | (345,044)          |
| Capital Assets, Net of Accumulated Depreciation                | 2,972,419                  | 72,375                      | 3,044,794 | 499,407            |
| Total Noncurrent Assets  | 3,088,679                  | 73,593                      | 3,162,272 | 4,434,660          |
| Total Assets   | 4,194,822                  | 551,618                     | 4,746,440 | 5,488,419          |
| <b>Liabilities</b>   |                            |                             |           |                    |
| Current Liabilities:   |                            |                             |           |                    |
| Accounts Payable   | 443,256                    | 8,038                       | 451,294   | 47,518             |
| Accrued Payroll  | 43,056                     | 388                         | 43,444    | 643                |
| Compensated Absences   | 3,851                      | 82                          | 3,933     | 495                |
| Tax Refunds Payable  | 119,009                    | -                           | 119,009   | -                  |
| Due to Component Units   | 13,449                     | -                           | 13,449    | -                  |
| Due to Other Governments                                       | 43,953                     | -                           | 43,953    | 4,334              |
| Amounts Held under State Loan Programs                         | -                          | -                           | -         | 68,810             |
| Undistributed Grants and Administrative Funds                  | -                          | -                           | -         | 8,220              |
| Allowances for Losses on Insured Commercial Loans              | -                          | -                           | -         | 6,249              |
| Claims Payable   | 65,912                     | -                           | 65,912    | -                  |
| Bonds Payable  | 84,155                     | -                           | 84,155    | -                  |
| Notes Payable  | 11                         | -                           | 11        | 154,219            |
| Obligations under Capital Leases                               | 6,348                      | -                           | 6,348     | 212                |
| Certificates of Participation and Other Financing Arrangements | 12,297                     | -                           | 12,297    | -                  |
| Accrued Interest Payable                                       | 3,209                      | -                           | 3,209     | 44,716             |
| Deferred Revenue   | 16,939                     | 363                         | 17,302    | 49,271             |
| Other Current Liabilities                                      | 4,093                      | 8,696                       | 12,789    | 38,849             |
| Total Current Liabilities                                      | 859,538                    | 17,567                      | 877,105   | 423,536            |

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

|  | Primary Government         |                             |                     | Component<br>Units  |
|--|----------------------------|-----------------------------|---------------------|---------------------|
|  | Governmental<br>Activities | Business-Type<br>Activities | Totals              |                     |
| Long-Term Liabilities:   |                            |                             |                     |                     |
| Compensated Absences   | \$ 35,616                  | \$ 370                      | \$ 35,986           | \$ -                |
| Due to Other Governments                                       | 759                        | -                           | 759                 | 5,201               |
| Bonds Payable  | 470,638                    | -                           | 470,638             | -                   |
| Notes Payable  | -                          | -                           | -                   | 3,599,744           |
| Obligations under Capital Leases                               | 28,568                     | -                           | 28,568              | 4,642               |
| Certificates of Participation and Other Financing Arrangements | 36,361                     | -                           | 36,361              | -                   |
| Deferred Revenue   | 4,427                      | -                           | 4,427               | 656                 |
| Pension Obligation   | 66,261                     | -                           | 66,261              | -                   |
| Other Noncurrent Liabilities                                   | 3,125                      | -                           | 3,125               | 65,641              |
| Total Long-Term Liabilities                                    | <u>645,755</u>             | <u>370</u>                  | <u>646,125</u>      | <u>3,675,884</u>    |
| Total Liabilities  | <u>1,505,293</u>           | <u>17,937</u>               | <u>1,523,230</u>    | <u>4,099,420</u>    |
| <b>Net Assets</b>  |                            |                             |                     |                     |
| Invested in Capital Assets, Net of Related Debt                | 2,628,197                  | 72,375                      | 2,700,572           | 400,127             |
| Restricted:  |                            |                             |                     |                     |
| Highway Fund Purposes  | 45,250                     | -                           | 45,250              | -                   |
| Federal Programs   | 13,268                     | -                           | 13,268              | -                   |
| Natural Resources  | 19,719                     | -                           | 19,719              | -                   |
| Capital Projects and Debt Service                              | 32,263                     | -                           | 32,263              | -                   |
| Unemployment Compensation                                      | -                          | 459,127                     | 459,127             | -                   |
| Other Purposes   | 16,996                     | -                           | 16,996              | 793,627             |
| Funds Held as Permanent Investments:                           |                            |                             |                     |                     |
| Expendable   | 48,487                     | -                           | 48,487              | -                   |
| Nonexpendable  | 8,826                      | -                           | 8,826               | -                   |
| Unrestricted   | <u>(123,477)</u>           | <u>2,179</u>                | <u>(121,298)</u>    | <u>195,245</u>      |
| Total Net Assets   | <u>\$ 2,689,529</u>        | <u>\$ 533,681</u>           | <u>\$ 3,223,210</u> | <u>\$ 1,388,999</u> |

# STATE OF MAINE STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

| <u>Functions/Programs</u>                              | <u>Expenses</u>     | <u>Program Revenues</u>         |   |   |
|--|---------------------|---------------------------------|---|---|
|  |                     | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> | <u>Capital<br/>Grants and<br/>Contributions</u> |
| <b>Primary government:</b>                             |                     |                                 |   |   |
| Governmental activities:                               |                     |                                 |   |   |
| Governmental Support & Operations                      | \$ 403,505          | \$ 46,501                       | \$ 35,327   | \$ -  |
| Arts, Heritage & Cultural Enrichment                   | 13,012              | 712                             | 4,657   | -   |
| Business Licensing & Regulation                        | 34,447              | 35,159                          | 92  | -   |
| Economic Development & Workforce Training              | 206,586             | 3,552                           | 103,458   | -   |
| Education  | 1,340,614           | 465                             | 153,157   | -   |
| Health & Human Services                                | 2,522,643           | 57,627                          | 1,545,210   | -   |
| Justice & Protection                                   | 301,575             | 52,009                          | 51,355  | -   |
| Natural Resources Development & Protection             | 163,606             | 75,312                          | 30,562  | -   |
| Transportation Safety & Development                    | 240,286             | 104,780                         | 28,251  | 164,927   |
| Interest Expense                                       | 32,120              | -                               | -   | -   |
| Total Governmental Activities                          | <u>5,258,394</u>    | <u>376,117</u>                  | <u>1,952,069</u>                                  | <u>164,927</u>                                  |
| Business-Type Activities:                              |                     |                                 |   |   |
| Employment Security                                    | 124,452             | 119,327                         | -   | -   |
| Alcoholic Beverages                                    | 59,412              | 85,985                          | -   | -   |
| Lottery  | 125,641             | 166,903                         | -   | -   |
| Other  | 11,918              | 5,340                           | -   | 9,000   |
| Total Business-Type Activities                         | <u>321,423</u>      | <u>377,555</u>                  | <u>-</u>  | <u>9,000</u>                                    |
| Total Primary Government                               | <u>\$ 5,579,817</u> | <u>\$ 753,672</u>               | <u>\$ 1,952,069</u>                               | <u>\$ 173,927</u>                               |
| <b>Component Units:</b>                                |                     |                                 |   |   |
| Child Development Services                             | \$ 24,108           | \$ 3,906                        | \$ 18,891   | \$ -  |
| Governor Baxter School for the Deaf                    | 5,891               | 55                              | 79  | -   |
| Finance Authority of Maine                             | 23,368              | 3,572                           | 20,222  | -   |
| Maine Community College System                         | 82,459              | 18,605                          | 20,357  | 4,040   |
| Maine Educational Loan Authority                       | 3,926               | 2,949                           | -   | -   |
| Maine Health & Higher Educational Facilities Authority | 67,185              | 54,568                          | 8,541   | 19,709  |
| Maine Maritime Academy                                 | 19,704              | 8,429                           | 1,796   | 3,755   |
| Maine Municipal Bond Bank                              | 60,441              | 51,946                          | 1,470   | 21,937  |
| Maine State Housing Authority                          | 201,483             | 91,996                          | 107,675   | -   |
| Northern New England Passenger Rail Authority          | 4,269               | 27                              | 3,226   | 399   |
| University of Maine System                             | 535,024             | 209,707                         | 148,679   | 2,055   |
| Total Component Units                                  | <u>\$ 1,027,858</u> | <u>\$ 445,760</u>               | <u>\$ 330,936</u>                                 | <u>\$ 51,895</u>                                |

General Revenues:

|   |
|---|
| Taxes:  |
| Corporate   |
| Individual Income   |
| Fuel  |
| Property  |
| Sales & Use   |
| Other   |
| Assessments   |
| Unrestricted Investment Earnings                            |
| Non-Program Specific Grants, Contributions & Appropriations |
| Miscellaneous Income  |
| Loss on Assets Held for Sale                                |
| Tobacco Settlement  |
| Transfers - Internal Activities                             |
| Total General Revenues and Transfers                        |
| Change in Net Assets  |
| Net Assets - Beginning (as Restated)                        |
| Net Assets - Ending   |

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

| <b>Net (Expenses) Revenues and<br/>Changes in Net Assets</b> |                                     |                     |                            |
|--|-------------------------------------|---------------------|----------------------------|
| <b>Primary Government</b>                                    |                                     |                     |                            |
| <b>Governmental<br/>Activities</b>                           | <b>Business-type<br/>Activities</b> | <b>Total</b>        | <b>Component<br/>Units</b> |
| \$ (321,677)   | \$ -                                | \$ (321,677)        | \$ -                       |
| (7,643)  | -                                   | (7,643)             | -                          |
| 804  | -                                   | 804                 | -                          |
| (99,576)   | -                                   | (99,576)            | -                          |
| (1,186,992)  | -                                   | (1,186,992)         | -                          |
| (919,806)  | -                                   | (919,806)           | -                          |
| (198,211)  | -                                   | (198,211)           | -                          |
| (57,732)   | -                                   | (57,732)            | -                          |
| 57,672   | -                                   | 57,672              | -                          |
| (32,120)   | -                                   | (32,120)            | -                          |
| <u>(2,765,281)</u>   | <u>-</u>                            | <u>(2,765,281)</u>  | <u>-</u>                   |
| -  | (5,125)                             | (5,125)             | -                          |
| -  | 26,573                              | 26,573              | -                          |
| -  | 41,262                              | 41,262              | -                          |
| -  | 2,422                               | 2,422               | -                          |
| <u>-</u>   | <u>65,132</u>                       | <u>65,132</u>       | <u>-</u>                   |
| <u>(2,765,281)</u>   | <u>65,132</u>                       | <u>(2,700,149)</u>  | <u>-</u>                   |
| -  | -                                   | -                   | (1,311)                    |
| -  | -                                   | -                   | (5,757)                    |
| -  | -                                   | -                   | 426                        |
| -  | -                                   | -                   | (39,457)                   |
| -  | -                                   | -                   | (977)                      |
| -  | -                                   | -                   | 15,633                     |
| -  | -                                   | -                   | (5,724)                    |
| -  | -                                   | -                   | 14,912                     |
| -  | -                                   | -                   | (1,812)                    |
| -  | -                                   | -                   | (617)                      |
| -  | -                                   | -                   | (174,583)                  |
| <u>-</u>   | <u>-</u>                            | <u>-</u>            | <u>(199,267)</u>           |
| 182,554  | -                                   | 182,554             | -                          |
| 1,095,143  | -                                   | 1,095,143           | -                          |
| 161,534  | -                                   | 161,534             | -                          |
| 38,179   | -                                   | 38,179              | -                          |
| 1,012,552  | -                                   | 1,012,552           | -                          |
| 90,769   | -                                   | 90,769              | -                          |
| -  | -                                   | -                   | 35,348                     |
| 8,521  | -                                   | 8,521               | 11,170                     |
| -  | -                                   | -                   | 242,628                    |
| 119,825  | -                                   | 119,825             | 2,211                      |
| -  | -                                   | -                   | (174)                      |
| 43,587   | -                                   | 43,587              | -                          |
| 56,790   | (56,790)                            | -                   | -                          |
| <u>2,809,454</u>   | <u>(56,790)</u>                     | <u>2,752,664</u>    | <u>291,183</u>             |
| 44,173   | 8,342                               | 52,515              | 91,916                     |
| 2,645,356  | 525,339                             | 3,170,695           | 1,297,083                  |
| <u>\$ 2,689,529</u>  | <u>\$ 533,681</u>                   | <u>\$ 3,223,210</u> | <u>\$ 1,388,999</u>        |



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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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## MAJOR FUNDS

General Fund – This is the State's primary operating fund. Its purpose is to account for all financial resources obtained and used for general government operations, which are not required to be accounted for in another fund.

Highway Fund – This fund is used primarily to account for motor fuel tax revenues, motor vehicle license and registration fees, and special State appropriations that are legally restricted to the construction and maintenance of State highways and bridges.

Federal Fund – This fund is used to account for grants, block grants and other financial assistance received from the federal government, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

Other Special Revenue Fund – This fund is used to account for revenue sources that are legally restricted to expenditures for specified purposes, including some major capital projects that are not accounted for in the Highway and Federal Funds.

## NON-MAJOR FUNDS

Other *Non-major Special Revenue Funds* are used to account for revenue sources that are legally restricted to expenditures for specified purposes, including some major capital projects and funds held in trust for public purposes.

Non-major governmental funds are presented, by fund type, beginning on page 91.

**STATE OF MAINE  
BALANCE SHEET  
GOVERNMENTAL FUNDS**

June 30, 2003  
(Expressed in Thousands)

|   | General           | Highway          | Federal           | Other<br>Special<br>Revenue | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|------------------|-------------------|-----------------------------|--------------------------------|--------------------------------|
| <b>Assets</b>   |                   |                  |                   |                             |                                |                                |
| Current Assets:                                       |                   |                  |                   |                             |                                |                                |
| Cash and Short-Term Investments                       | \$ 135            | \$ 5,385         | \$ 4              | \$ 1,135                    | \$ 2,742                       | \$ 9,401                       |
| Cash with Fiscal Agent                                | 9,123             | 9,722            | -                 | 16,774                      | -                              | 35,619                         |
| Investments   | -                 | 9,180            | -                 | -                           | 59,125                         | 68,305                         |
| Restricted Deposits and Investments                   | -                 | -                | -                 | 5,651                       | 32,337                         | 37,988                         |
| Inventories   | 457               | 2                | 15,647            | -                           | -                              | 16,106                         |
| Receivables, Net of Allowance for Uncollectibles:     |                   |                  |                   |                             |                                |                                |
| Taxes Receivable                                      | 321,408           | 15,695           | -                 | 5,683                       | -                              | 342,786                        |
| Loans Receivable                                      | -                 | 121              | -                 | 5,906                       | -                              | 6,027                          |
| Other Receivable                                      | 46,458            | 2,298            | 33,046            | 64,014                      | -                              | 145,816                        |
| Due from Other Funds                                  | 45,782            | 32,847           | 36,702            | 209,245                     | -                              | 324,576                        |
| Due from Other Governments                            | 1,609             | -                | 343,570           | -                           | -                              | 345,179                        |
| Other Current Assets                                  | 5,025             | 1                | 31                | -                           | -                              | 5,057                          |
| Total Current Assets                                  | <u>429,997</u>    | <u>75,251</u>    | <u>429,000</u>    | <u>308,408</u>              | <u>94,204</u>                  | <u>1,336,860</u>               |
| Noncurrent Assets                                     |                   |                  |                   |                             |                                |                                |
| Investments   | -                 | 9,315            | -                 | -                           | 2,104                          | 11,419                         |
| Taxes Receivable, Net of Allowance for Uncollectibles | 38,670            | -                | -                 | -                           | -                              | 38,670                         |
| Working Capital Advances Receivable                   | 1,136             | -                | -                 | -                           | -                              | 1,136                          |
| Total Noncurrent Assets                               | <u>39,806</u>     | <u>9,315</u>     | <u>-</u>          | <u>-</u>                    | <u>2,104</u>                   | <u>51,225</u>                  |
| Total Assets  | <u>\$ 469,803</u> | <u>\$ 84,566</u> | <u>\$ 429,000</u> | <u>\$ 308,408</u>           | <u>\$ 96,308</u>               | <u>\$ 1,388,085</u>            |
| <b>Liabilities and Fund Balances</b>                  |                   |                  |                   |                             |                                |                                |
| Current Liabilities:                                  |                   |                  |                   |                             |                                |                                |
| Accounts Payable                                      | \$ 116,007        | \$ 19,041        | \$ 231,462        | \$ 29,877                   | \$ 3,693                       | \$ 400,080                     |
| Accrued Payroll                                       | 18,992            | 7,457            | 7,948             | 7,166                       | -                              | 41,563                         |
| Tax Refunds Payable                                   | 119,009           | -                | -                 | -                           | -                              | 119,009                        |
| Due to Other Governments                              | -                 | -                | 43,951            | -                           | -                              | 43,951                         |
| Due to Other Funds                                    | 189,930           | 4,574            | 109,275           | 21,670                      | -                              | 325,449                        |
| Due to Component Units                                | 3,305             | -                | 4,805             | 3,545                       | 1,794                          | 13,449                         |
| Compensated Absences                                  | 1,867             | 684              | 533               | 573                         | -                              | 3,657                          |
| Deferred Revenue                                      | -                 | -                | 17,758            | 23,912                      | -                              | 41,670                         |
| Notes Payable   | -                 | 11               | -                 | -                           | -                              | 11                             |
| Other Accrued Liabilities                             | 2,438             | 187              | 4                 | 99                          | 1                              | 2,729                          |
| Total Current Liabilities                             | <u>451,548</u>    | <u>31,954</u>    | <u>415,736</u>    | <u>86,842</u>               | <u>5,488</u>                   | <u>991,568</u>                 |
| Long-Term Liabilities:                                |                   |                  |                   |                             |                                |                                |
| Working Capital Advances Payable                      | -                 | -                | -                 | 25                          | -                              | 25                             |
| Deferred Revenue                                      | 38,670            | 5,885            | -                 | 3,263                       | -                              | 47,818                         |
| Total Long-Term Liabilities                           | <u>38,670</u>     | <u>5,885</u>     | <u>-</u>          | <u>3,288</u>                | <u>-</u>                       | <u>47,843</u>                  |
| Total Liabilities                                     | <u>490,218</u>    | <u>37,839</u>    | <u>415,736</u>    | <u>90,130</u>               | <u>5,488</u>                   | <u>1,039,411</u>               |
| Fund Balances:  |                   |                  |                   |                             |                                |                                |
| Reserved  |                   |                  |                   |                             |                                |                                |
| Continuing Appropriations                             | 49,116            | 60,473           | 53,550            | 211,180                     | 58                             | 374,377                        |
| Debt Service  | 9,123             | 3,220            | -                 | -                           | -                              | 12,343                         |
| Capital Projects                                      | -                 | -                | -                 | -                           | 19,920                         | 19,920                         |
| Permanent Trusts                                      | -                 | -                | -                 | -                           | 8,826                          | 8,826                          |
| Other   | 2,707             | 121              | -                 | 30,303                      | 62,016                         | 95,147                         |
| Unreserved  | <u>(81,361)</u>   | <u>(17,087)</u>  | <u>(40,286)</u>   | <u>(23,205)</u>             | <u>-</u>                       | <u>(161,939)</u>               |
| Total Fund Balances                                   | <u>(20,415)</u>   | <u>46,727</u>    | <u>13,264</u>     | <u>218,278</u>              | <u>90,820</u>                  | <u>348,674</u>                 |
| Total Liabilities and Fund Balances                   | <u>\$ 469,803</u> | <u>\$ 84,566</u> | <u>\$ 429,000</u> | <u>\$ 308,408</u>           | <u>\$ 96,308</u>               | <u>\$ 1,388,085</u>            |

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

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

June 30, 2003  
(Expressed in Thousands)

|  |                  |                         |
|--|------------------|-------------------------|
| Total fund balances for governmental funds   | \$               | 348,674                 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because:   |                  |                         |
| Capital assets that were acquired in current & prior periods are recognized as governmental fund economic resources net of accumulated depreciation.   | 3,026,478        |                         |
| Less: Accumulated depreciation   | <u>(141,604)</u> | 2,884,874               |
| Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. The balances at the beginning of the fiscal year were recorded as follows, as restated:        |                  |                         |
| Bonds Payable  | (346,495)        |                         |
| Interest Payable Related to Long-term Financing  | (2,883)          |                         |
| Certificates of Participation and Other Financing Arrangements   | (7,441)          |                         |
| Compensated Absences   | (33,142)         |                         |
| Pension Obligation   | <u>(76,099)</u>  | (466,060)               |
| Current year additions to compensated absences are recognized as a liability when the expense is incurred under full-accrual accounting.   |                  | (1,301)                 |
| Current year bond issue proceeds are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Net Assets.  |                  | (97,080)                |
| Principal payments on bond indebtedness are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Net Assets.   |                  | 85,165                  |
| Principal payments on other financing arrangements are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Net Assets.  |                  | 3,069                   |
| Current year proceeds from other financing arrangements are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Net Assets.   |                  | (8,416)                 |
| Current year reductions to interest payable are recognized as a liability when the expense is incurred under full-accrual accounting.  |                  | 921                     |
| Claims payable at June 30, 2003 is recognized in the Statement of Net Assets under full-accrual accounting. No accrual is recorded in the governmental fund statements for interest that was not paid from current financial resources.                    |                  | (15,426)                |
| Current year reductions to pension obligations are recognized as a decrease in liability when the obligation is incurred under full-accrual accounting.  |                  | 9,838                   |
| Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.  |                  | 68,467                  |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets, as restated. |                  | (123,196)               |
| Net assets of governmental activities  | \$               | <u><u>2,689,529</u></u> |

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



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

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|  | General            | Highway          | Federal          | Other<br>Special<br>Revenue | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------|------------------|------------------|-----------------------------|--------------------------------|--------------------------------|
| <b>Revenues:</b>   |                    |                  |                  |                             |                                |                                |
| Taxes  | \$ 2,307,439       | \$ 186,177       | \$ 3             | \$ 91,837                   | \$ -                           | \$ 2,585,456                   |
| Assessments and Other Revenue  | 62,010             | 87,025           | -                | 63,304                      | -                              | 212,339                        |
| Federal Grants and Reimbursements                                      | 25,580             | -                | 2,142,732        | 1,607                       | -                              | 2,169,919                      |
| Service Charges  | 35,356             | 7,661            | 5,413            | 79,718                      | -                              | 128,148                        |
| Investment Income  | 2,346              | 1,339            | 573              | 1,270                       | 868                            | 6,396                          |
| Miscellaneous Revenue  | 5,660              | 1,813            | 12,984           | 138,219                     | 6,566                          | 165,242                        |
| <b>Total Revenues</b>  | <b>2,438,391</b>   | <b>284,015</b>   | <b>2,161,705</b> | <b>375,955</b>              | <b>7,434</b>                   | <b>5,267,500</b>               |
| <b>Expenditures</b>  |                    |                  |                  |                             |                                |                                |
| <b>Current:</b>  |                    |                  |                  |                             |                                |                                |
| Governmental Support & Operations                                      | 172,344            | 36,801           | 28,858           | 137,128                     | 8,301                          | 383,432                        |
| Economic Development & Workforce Training                              | 54,292             | -                | 108,735          | 19,630                      | 25,075                         | 207,732                        |
| Education  | 1,143,982          | -                | 149,797          | 9,888                       | 24,269                         | 1,327,936                      |
| Health and Human Services  | 813,105            | -                | 1,618,774        | 162,178                     | 3,794                          | 2,597,851                      |
| Business Licensing & Regulation  | 37                 | -                | 25               | 35,220                      | -                              | 35,282                         |
| Natural Resources Development & Protection                             | 67,315             | 44               | 32,749           | 66,528                      | 8,712                          | 175,348                        |
| Justice and Protection   | 202,653            | 32,149           | 54,056           | 34,183                      | 285                            | 323,326                        |
| Arts, Heritage & Cultural Enrichment                                   | 9,017              | -                | 2,272            | 667                         | 1,118                          | 13,074                         |
| Transportation Safety & Development                                    | 1,603              | 207,172          | 192,542          | 18,036                      | 37,129                         | 456,482                        |
| <b>Debt Service:</b>   |                    |                  |                  |                             |                                |                                |
| Principal Payments   | 63,950             | 21,215           | -                | -                           | -                              | 85,165                         |
| Interest Payments  | 12,953             | 4,004            | -                | -                           | -                              | 16,957                         |
| <b>Total Expenditures</b>  | <b>2,541,251</b>   | <b>301,385</b>   | <b>2,187,808</b> | <b>483,458</b>              | <b>108,683</b>                 | <b>5,622,585</b>               |
| Revenue over (under) Expenditures                                      | (102,860)          | (17,370)         | (26,103)         | (107,503)                   | (101,249)                      | (355,085)                      |
| <b>Other Financing Sources (Uses):</b>                                 |                    |                  |                  |                             |                                |                                |
| Transfer from Other Funds  | 197,119            | 1,854            | 44,398           | 125,164                     | 7,470                          | 376,005                        |
| Transfer to Other Funds  | (135,000)          | (22,862)         | (25,867)         | (106,215)                   | (33,883)                       | (323,827)                      |
| Other  | -                  | -                | -                | 10,546                      | -                              | 10,546                         |
| Bonds and Certificates of Participation Issued                         | -                  | 6,500            | -                | -                           | 97,080                         | 103,580                        |
| <b>Net Other Finance Sources (Uses)</b>                                | <b>62,119</b>      | <b>(14,508)</b>  | <b>18,531</b>    | <b>29,495</b>               | <b>70,667</b>                  | <b>166,304</b>                 |
| Revenues and Other Sources over (under)<br>Expenditures and Other Uses | (40,741)           | (31,878)         | (7,572)          | (78,008)                    | (30,582)                       | (188,781)                      |
| Fund Balances at Beginning of Year (As Restated)                       | 20,326             | 78,605           | 20,836           | 296,286                     | 121,402                        | 537,455                        |
| Fund Balances at End of Year   | <u>\$ (20,415)</u> | <u>\$ 46,727</u> | <u>\$ 13,264</u> | <u>\$ 218,278</u>           | <u>\$ 90,820</u>               | <u>\$ 348,674</u>              |

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

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

June 30, 2003  
(Expressed in Thousands)

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|  |    |           |
|--|----|-----------|
| Net change in fund balances - total governmental funds | \$ | (188,781) |
|--|----|-----------|

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:

|                      |                 |         |
|----------------------|-----------------|---------|
| Capital outlay       | 285,001         |         |
| Depreciation expense | <u>(30,890)</u> | 254,111 |

|   |  |         |
|---|--|---------|
| The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets. |  | (4,509) |
|---|--|---------|

|  |  |         |
|--|--|---------|
| Current year additions to compensated absences are recognized as a liability when the expense is incurred under full-accrual accounting. |  | (1,301) |
|--|--|---------|

|   |  |          |
|---|--|----------|
| Current year bond issue proceeds are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Activities. |  | (97,080) |
|---|--|----------|

|  |  |        |
|--|--|--------|
| Principal payments on bond indebtedness are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Activities. |  | 85,165 |
|--|--|--------|

|   |  |       |
|---|--|-------|
| Principal payments on other financing arrangements are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Activities. |  | 3,069 |
|---|--|-------|

|  |  |          |
|--|--|----------|
| Current year proceeds from other financing arrangements are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Activities. |  | (29,736) |
|--|--|----------|

|  |  |     |
|--|--|-----|
| Current year reductions in interest payable associated with long-term debt decrease interest expense recorded under full-accrual accounting. |  | 921 |
|--|--|-----|

|  |  |          |
|--|--|----------|
| Claims payable at June 30, 2003 is recognized in the Statement of Activities under full-accrual accounting. No accrual is recorded in the governmental fund statements for claims that were not paid from current financial resources. |  | (15,426) |
|--|--|----------|

|   |  |       |
|---|--|-------|
| Current year reduction of pension obligations decreases the pension expense recorded under full-accrual accounting. |  | 9,838 |
|---|--|-------|

|   |  |          |
|---|--|----------|
| Certain revenues are earned but not available and therefore are not reported in the governmental fund statements. |  | (11,628) |
|---|--|----------|

|   |  |        |
|---|--|--------|
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities. |  | 39,530 |
|---|--|--------|

|  |    |                      |
|--|----|----------------------|
| Changes in net assets of governmental activities | \$ | <u><u>44,173</u></u> |
|--|----|----------------------|

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



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# PROPRIETARY FUND FINANCIAL STATEMENTS

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## MAJOR FUNDS

*Unemployment Compensation Fund* - This fund accounts for unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants.

## NON-MAJOR FUNDS

Other *Non-Major Enterprise Funds* are used to account for operations that are financed and operated in a manner similar to private business, where the State intends to finance or recover the costs of providing goods or services to the General Public on a continuing basis primarily through user charges. The State also uses these funds where periodic determination of net income is appropriate for accountability purposes.

Non-major enterprise funds are presented beginning on page 103.

Combining fund statements for the internal service funds, whose combined totals are presented on these statements, begin on page 111.

**STATE OF MAINE**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**

June 30, 2003  
(Expressed in Thousands)

|  | Business-Type Activities        |                                  |                   | Governmental<br>Activities<br>Internal<br>Service<br>Funds |
|--|---------------------------------|----------------------------------|-------------------|--|
|  | Enterprise Funds                |                                  |                   |  |
|  | Major<br>Employment<br>Security | Non-Major<br>Other<br>Enterprise | Totals            |  |
| <b>Assets</b>  |                                 |                                  |                   |  |
| Current Assets:  |                                 |                                  |                   |  |
| Cash and Short-Term Investments                                | \$ 2,583                        | \$ 2,153                         | \$ 4,736          | \$ 49,544  |
| Cash with Fiscal Agent   | -                               | -                                | -                 | 161  |
| Investments  | -                               | 1,200                            | 1,200             | 36,967   |
| Restricted Deposits and Investments                            | 434,774                         | -                                | 434,774           | 4,235  |
| Inventories  | -                               | 1,366                            | 1,366             | 3,808  |
| Receivables, Net of Allowance for Uncollectibles:              |                                 |                                  |                   |  |
| Loans Receivable   | -                               | -                                | -                 | 11,850   |
| Other Receivable   | 24,716                          | 19,106                           | 43,822            | 3,060  |
| Due from Other Funds   | 18                              | 2                                | 20                | 12,554   |
| Other Current Assets   | -                               | 387                              | 387               | 941  |
| Total Current Assets   | <u>462,091</u>                  | <u>24,214</u>                    | <u>486,305</u>    | <u>123,120</u>   |
| Noncurrent Assets  |                                 |                                  |                   |  |
| Investments  | -                               | 1,218                            | 1,218             | 37,507   |
| Receivables, Net of Allowance for Uncollectibles:              |                                 |                                  |                   |  |
| Loans Receivable   | -                               | -                                | -                 | 182,886  |
| Fixed Assets - Net of Depreciation                             | -                               | 72,375                           | 72,375            | 87,545   |
| Total Noncurrent Assets  | <u>-</u>                        | <u>73,593</u>                    | <u>73,593</u>     | <u>307,938</u>   |
| Total Assets   | <u>\$ 462,091</u>               | <u>\$ 97,807</u>                 | <u>\$ 559,898</u> | <u>\$ 431,058</u>  |
| <b>Liabilities</b>   |                                 |                                  |                   |  |
| Current Liabilities:   |                                 |                                  |                   |  |
| Accounts Payable   | \$ 2,658                        | \$ 5,380                         | \$ 8,038          | \$ 16,805  |
| Accrued Payroll  | -                               | 388                              | 388               | 1,494  |
| Due to Other Governments                                       | -                               | -                                | -                 | 765  |
| Due to Other Funds   | -                               | 7,587                            | 7,587             | 2,625  |
| Current Portion of Long-Term Obligations:                      |                                 |                                  |                   |  |
| Certificates of Participation and Other Financing Arrangements | -                               | -                                | -                 | 4,427  |
| Revenue Bonds Payable  | -                               | -                                | -                 | 11,830   |
| Obligations Under Capital Leases                               | -                               | -                                | -                 | 6,348  |
| Claims Payable   | -                               | -                                | -                 | 65,912   |
| Compensated Absences   | -                               | 82                               | 82                | 194  |
| Deferred Revenue   | -                               | 363                              | 363               | 1,048  |
| Other Accrued Liabilities                                      | 306                             | 8,390                            | 8,696             | 2,623  |
| Total Current Liabilities                                      | <u>2,964</u>                    | <u>22,190</u>                    | <u>25,154</u>     | <u>114,071</u>   |
| Long-Term Liabilities:   |                                 |                                  |                   |  |
| Working Capital Advances Payable                               | -                               | 1,000                            | 1,000             | 111  |
| Deferred Revenue   | -                               | -                                | -                 | 1,164  |
| Certificates of Participation and Other Financing Arrangements | -                               | -                                | -                 | 10,124   |
| Revenue Bonds Payable  | -                               | -                                | -                 | 184,553  |
| Obligations Under Capital Leases                               | -                               | -                                | -                 | 28,568   |
| Compensated Absences   | -                               | 370                              | 370               | 1,173  |
| Total Long-Term Liabilities                                    | <u>-</u>                        | <u>1,370</u>                     | <u>1,370</u>      | <u>225,693</u>   |
| Total Liabilities  | <u>2,964</u>                    | <u>23,560</u>                    | <u>26,524</u>     | <u>339,764</u>   |
| <b>Net Assets</b>  |                                 |                                  |                   |  |
| Invested in Capital Assets, Net of Related Debt                | -                               | 72,375                           | 72,375            | 38,077   |
| Restricted for:  |                                 |                                  |                   |  |
| Unemployment Compensation                                      | 459,127                         | -                                | 459,127           | -  |
| Other Purposes   | -                               | -                                | -                 | 50   |
| Unrestricted   | -                               | 1,872                            | 1,872             | 53,167   |
| Total Net Assets   | <u>\$ 459,127</u>               | <u>\$ 74,247</u>                 | <u>533,374</u>    | <u>\$ 91,294</u>   |

Amounts reported for business-type activities in the government-wide Statement of Net Assets are different due to elimination of the State's internal business-type activities

307

Net Assets of Business-Type Activities

\$ 533,681

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

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

June 30, 2003  
(Expressed in Thousands)

|   | Business-Type Activities<br>Enterprise Funds |                     |                   | Governmental<br>Activities<br>Internal<br>Service<br>Funds |
|---|--|---------------------|-------------------|--|
|   | Major  | Non-Major           | Totals            |  |
|   | Employment<br>Security                       | Other<br>Enterprise |                   |  |
| <b>Operating Revenues</b>   |  |                     |                   |  |
| Charges for Services  | \$ -   | \$ 258,332          | \$ 258,332        | \$ 338,190   |
| Assessments   | 91,916                                       | -                   | 91,916            | -  |
| Miscellaneous Revenues  | -  | -                   | -                 | 318  |
| Total Operating Revenues  | <u>91,916</u>                                | <u>258,332</u>      | <u>350,248</u>    | <u>338,508</u>   |
| <b>Operating Expenses</b>   |  |                     |                   |  |
| General Operations  | -  | 193,114             | 193,114           | 263,886  |
| Depreciation  | -  | 3,778               | 3,778             | 17,037   |
| Claims/Fees Expense   | 124,452                                      | -                   | 124,452           | 10,396   |
| Other Operating Expenses  | -  | -                   | -                 | 343  |
| Total Operating Expenses  | <u>124,452</u>                               | <u>196,892</u>      | <u>321,344</u>    | <u>291,662</u>   |
| Operating Income (Loss)   | <u>(32,536)</u>                              | <u>61,440</u>       | <u>28,904</u>     | <u>46,846</u>  |
| <b>Nonoperating Revenues (Expenses)</b>   |  |                     |                   |  |
| Investment Revenue (Expense) - net  | 27,412                                       | -                   | 27,412            | 2,130  |
| Interest Expense  | -  | -                   | -                 | (16,083)   |
| Other Nonoperating Revenues (Expenses)- net   | -  | (107)               | (107)             | 1,302  |
| Total Nonoperating Revenues (Expenses)  | <u>27,412</u>                                | <u>(107)</u>        | <u>27,305</u>     | <u>(12,651)</u>  |
| Income (Loss) Before Capital<br>Contributions and Transfers   | <u>(5,124)</u>                               | <u>61,333</u>       | <u>56,209</u>     | <u>34,195</u>  |
| <b>Capital Contributions and Transfers</b>  |  |                     |                   |  |
| Capital Contributions from Other Funds  | -  | 9,000               | 9,000             | 1,385  |
| Transfers from (to) Other Funds   | (611)  | (56,179)            | (56,790)          | 12,954   |
| Total Capital Contributions<br>and Transfers In (Out)   | <u>(611)</u>                                 | <u>(47,179)</u>     | <u>(47,790)</u>   | <u>14,339</u>  |
| Change in Net Assets  | (5,735)                                      | 14,154              | 8,419             | 48,534   |
| Total Net Assets - Beginning of Year, As Restated   | <u>464,862</u>                               | <u>60,093</u>       | <u>524,955</u>    | <u>42,760</u>  |
| Total Net Assets - End of Year  | <u>\$ 459,127</u>                            | <u>\$ 74,247</u>    | <u>533,374</u>    | <u>\$ 91,294</u>   |
| Amounts reported for business-type activities in the government-wide Statement of Activities<br>are different due to elimination of the State's internal business-type activities |  |                     | 307               |  |
| Net Assets of Business-Type Activities  |  |                     | <u>\$ 533,681</u> |  |

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

**STATE OF MAINE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**

June 30, 2003  
(Expressed in Thousands)

|   | Business-Type Activities<br>Enterprise Funds |                                  |                   | Governmental<br>Activities   |
|---|--|----------------------------------|-------------------|------------------------------|
|   | Major<br>Employment<br>Security              | Non-Major<br>Other<br>Enterprise | Totals            | Internal<br>Service<br>Funds |
|   |  |                                  |                   |                              |
| <b>Cash Flows from Operating Activities</b>   |  |                                  |                   |                              |
| Receipts from Customers and Users   | \$ 96,688                                    | \$ 251,033                       | \$ 347,721        | \$ 333,312                   |
| Payments of Benefits  | (127,478)                                    | -                                | (127,478)         | -                            |
| Payments to Prize Winners   | -  | (99,876)                         | (99,876)          | -                            |
| Payments to Suppliers   | -  | (77,050)                         | (77,050)          | (241,758)                    |
| Payments to Employees   | -  | (8,857)                          | (8,857)           | (26,827)                     |
| Net Cash Provided (Used) by Operating Activities  | <u>(30,790)</u>                              | <u>65,250</u>                    | <u>34,460</u>     | <u>64,727</u>                |
| <b>Cash Flows from Noncapital Financing Activities</b>  |  |                                  |                   |                              |
| Operating Transfers in  |  | 11,430                           | 11,430            | -                            |
| Operating Transfers out   | (611)  | (67,609)                         | (68,220)          | (932)                        |
| Net Cash Provided (Used) by Noncapital Financing Activities                                       | <u>(611)</u>                                 | <u>(56,179)</u>                  | <u>(56,790)</u>   | <u>(932)</u>                 |
| <b>Cash Flows from Capital and Related Financing Activities</b>                                   |  |                                  |                   |                              |
| Payments for Acquisition of Capital Assets  | -  | (17,211)                         | (17,211)          | (19,378)                     |
| Capital Contributions   | -  | 9,000                            | 9,000             | 1,385                        |
| Proceeds from Financing Arrangements  | -  | -                                | -                 | 3,901                        |
| Principal and Interest Paid on Financing Arrangements   | -  | -                                | -                 | (17,150)                     |
| Proceeds from Sale of Capital Assets  | -  | (202)                            | (202)             | 1,304                        |
| Net Cash Provided (Used) by Capital Financing Activities  | <u>-</u>                                     | <u>(8,413)</u>                   | <u>(8,413)</u>    | <u>(29,938)</u>              |
| <b>Cash Flows from Investing Activities</b>   |  |                                  |                   |                              |
| Interest Revenue  | 27,412                                       | 98                               | 27,510            | 2,130                        |
| Payments to Purchase Investments  | -  | (1,144)                          | (1,144)           | (40,192)                     |
| Proceeds from Sale of Investments   | -  | 5                                | 5                 | 97                           |
| Net Cash Provided (Used) by Investing Activities  | <u>27,412</u>                                | <u>(1,041)</u>                   | <u>26,371</u>     | <u>(37,965)</u>              |
| Net Increase (Decrease) in Cash/Cash Equivalents  | (3,989)                                      | (383)                            | (4,372)           | (4,108)                      |
| Cash/Cash Equivalents - Beginning of Year   | 441,346                                      | 2,536                            | 443,882           | 58,048                       |
| Cash/Cash Equivalents - End of Year   | <u>\$ 437,357</u>                            | <u>\$ 2,153</u>                  | <u>\$ 439,510</u> | <u>\$ 53,940</u>             |
| <b>Reconciliation of Operating Income (Loss) to Net Cash<br/>Used by Operating Activities</b>     |  |                                  |                   |                              |
| Operating Income (Loss)   | \$ (32,536)                                  | \$ 61,440                        | \$ 28,904         | \$ 46,846                    |
| <b>Adjustments to Reconcile Operating Income to Net Cash<br/>Provided by Operating Activities</b> |  |                                  |                   |                              |
| Depreciation Expense  | -  | 3,778                            | 3,778             | 17,037                       |
| Decrease (Increase) in Assets   |  |                                  |                   |                              |
| Accounts Receivable   | 4,763  | (8,873)                          | (4,110)           | (5,664)                      |
| Interfund Balances  | (1,036)                                      | 7,819                            | 6,783             | (555)                        |
| Inventories   | -  | 1,263                            | 1,263             | 352                          |
| Increase (Decrease) in Liabilities  |  |                                  |                   |                              |
| Accounts Payable  | (1,718)                                      | (583)                            | (2,301)           | 7,698                        |
| Accrued Payroll Expenses  | -  | (63)                             | (63)              | 150                          |
| Change in Compensated Absences  | -  | (77)                             | (77)              | 19                           |
| Other Accruals  | (263)  | 546                              | 283               | (1,156)                      |
| Total Adjustments   | <u>1,746</u>                                 | <u>3,810</u>                     | <u>5,556</u>      | <u>17,881</u>                |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ (30,790)</u>                           | <u>\$ 65,250</u>                 | <u>\$ 34,460</u>  | <u>\$ 64,727</u>             |

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

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# FIDUCIARY FUND FINANCIAL STATEMENTS

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*Pension (and Other Employee Benefit) Trusts* – accounts for funds held by the Maine State Retirement System (MSRS), a discrete component unit included with Fiduciary Funds per GASB Statement No. 34. MSRS provides pension, death, and disability benefits to its members, including State employees, some public school employees, and employees of approximately 250 local municipalities and other public entities in Maine.

*Other Private-Purpose Trusts and Agency Funds* are used to account for private-purpose assets held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds.

Combining fund statements for fiduciary funds, whose combined totals are presented on these statements, begin on page 119.



**STATE OF MAINE**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**

June 30, 2003  
(Expressed in Thousands)

|  | Pension<br>(and Other<br>Employee<br>Benefit)<br>Trusts | Private<br>Purpose<br>Trusts | Agency<br>Funds  |
|--|---|------------------------------|------------------|
| <b>Assets</b>  |   |                              |                  |
| Cash and Short-Term Investments  | \$ 193,294  | \$ 286                       | \$ 5,434         |
| Receivables, Net of Allowance for Uncollectibles:  |   |                              |                  |
| State and Local Agency Contributions   | 19,434  | -                            | -                |
| Interest and Dividends   | 12,995  | -                            | -                |
| Due from Brokers for Securities Sold   | 141,027   | -                            | -                |
| Other  | -   | -                            | 1,527            |
| Investments at Fair Value:   |   |                              |                  |
| Debt Securities  | 1,013,891   | -                            | -                |
| Equity Securities  | 1,483,546   | -                            | -                |
| Common/Collective Trusts   | 4,372,692   | -                            | -                |
| Other  | 15,713  | 9,897                        | 3,246            |
| Securities Lending Collateral  | 425,562   | -                            | -                |
| Assets Held in Trust   | -   | 11,224                       | 1,712,486        |
| Fixed Assets - Net of Depreciation   | 1,468   | -                            | -                |
|  | <u>7,679,622</u>  | <u>21,407</u>                | <u>1,722,693</u> |
| <b>Liabilities</b>   |   |                              |                  |
| Accounts Payable   | 9,330   | 10                           | 47               |
| Due to Brokers for Securities Purchased  | 260,841   | -                            | -                |
| Agency Liabilities   | -   | -                            | 1,721,142        |
| Obligations Under Securities Lending   | 425,562   | -                            | -                |
| Due to Other Funds   | -   | -                            | 1,489            |
| Other Accrued Liabilities  | 8,644   | -                            | 15               |
|  | <u>704,377</u>  | <u>10</u>                    | <u>1,722,693</u> |
| <b>Net Assets</b>  |   |                              |                  |
| Net Assets Held in Trust for Pension, Disability, Death,<br>Group Life Insurance Benefits and Other Purposes | <u>6,975,245</u>  | <u>21,397</u>                | <u>-</u>         |
| Total Net Assets   | <u>\$ 6,975,245</u>                                     | <u>\$ 21,397</u>             | <u>\$ -</u>      |

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

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

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|   | <b>Pension<br/>(and Other<br/>Employee<br/>Benefit<br/>Trusts)</b> | <b>Private<br/>Purpose<br/>Trusts</b> |
|---|--|---------------------------------------|
| Additions:  |  |                                       |
| Contributions:  |  |                                       |
| Members   | \$ 136,971   | \$ -                                  |
| State and Local Agencies  | 295,370  | -                                     |
| Investment Income:  |  |                                       |
| Net Increase (Decrease) in the Fair Value of Investments  | 272,385  | 1,144                                 |
| Interest and Dividends  | 88,543   | 485                                   |
| Less Investment Expense:  |  |                                       |
| Investment Activity Expense   | 9,240  | -                                     |
| Cost of Securities Lending  | 347  | -                                     |
| Net Investment Income (Loss)  | 783,682  | 1,629                                 |
| Miscellaneous Revenues  | -  | 16,845                                |
| Transfers In  | -  | 494                                   |
| <b>Total Additions</b>  | <b>783,682</b>   | <b>18,968</b>                         |
| Deductions:   |  |                                       |
| Benefits Paid to Participants or Beneficiaries  | 417,181  | 2,167                                 |
| Refunds and Withdrawals   | 13,834   | -                                     |
| Administrative Expenses   | 9,724  | -                                     |
| Transfers Out   | -  | 8,836                                 |
| <b>Total Deductions</b>   | <b>440,739</b>   | <b>11,003</b>                         |
| <b>Net Increase (Decrease)</b>  | <b>342,943</b>   | <b>7,965</b>                          |
| Net Assets Held in Trust for Pension, Disability, Death,<br>Group Life Insurance Benefits and Other Purposes: |  |                                       |
| Beginning of Year, As Restated  | 6,632,302  | 13,432                                |
| End of Year   | <u>\$ 6,975,245</u>  | <u>\$ 21,397</u>                      |

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



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# COMPONENT UNIT FINANCIAL STATEMENTS

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Child Development Services System (CDS) – CDS maintains a coordinated service delivery system for the provision of childfind activities for children, from birth to under age six, early intervention services for eligible children, from birth to under age three, and free, appropriate and public education services for eligible children, from age three to under age six, who have a disability.

Finance Authority of Maine (FAME) – The Authority provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. Additionally, the Authority administers the Maine College Savings Program Fund. The NextGen College Investing Plan is the primary program of the Maine College Savings Program Fund.

Governor Baxter School for the Deaf is a comprehensive educational organization that offers educational, residential, transitional, and outreach services to meet the needs of persons who are deaf or hard of hearing; their families, professionals, service providers, agencies and communities on a local, statewide, regional and national level.

Maine Community College System (MCCS) – The System is Maine’s primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The financial statements of the system include the activity of seven colleges, the central administrative office, and the Maine Career Advantage.

Maine Educational Loan Authority (MELA) – The Authority was created to grant educational loans primarily using funds acquired through issuance of long-term bonds payable.

Maine Health and Higher Educational Facilities Authority (MHHEFA) – The Authority assists Maine health care institutions and institutions of higher education in undertaking projects involving the equipping, improvement, reconstruction, acquisition,

and construction of health care and educational facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, also has the power to finance student loan programs of institutions of higher education.

Maine Maritime Academy (MMA) – The 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.

Maine Municipal Bond Bank (MMBB) – The Bond Bank is authorized to issue bonds providing funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations within the State.

Maine State Housing Authority (MSHA) – The Authority is authorized to issue bonds for the purchase of notes and mortgages on single-family and multi-family 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.

Northern New England Passenger Rail Authority (NNEPRA) – The Authority initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine.

University of Maine System (UMS) – The State University consists of seven campuses and a central administrative office.

**STATE OF MAINE  
STATEMENT OF NET ASSETS  
COMPONENT UNITS**

June 30, 2003  
(Expressed in Thousands)

|   | Child<br>Development<br>Services | Finance<br>Authority of<br>Maine | Governor<br>Baxter<br>School for<br>the Deaf | Maine<br>Community<br>College<br>System | Maine<br>Educational<br>Loan<br>Authority |
|---|----------------------------------|----------------------------------|--|---|---|
| <b>Assets</b>                                     |                                  |                                  |  |   |   |
| Current Assets:                                   |                                  |                                  |  |   |   |
| Cash and Cash Equivalents                         | \$ 1,893                         | \$ 7,568                         | \$ 509                                       | \$ 1,118                                | \$ 2,343                                  |
| Investments                                       | 720                              | 28,498                           | 112  | 14,768                                  | -   |
| Inventories                                       | -                                | -                                | -  | 751                                     | -   |
| Receivables, Net of Allowance for Uncollectibles: |                                  |                                  |  |   |   |
| Loans Receivable                                  | -                                | -                                | -  | -                                       | 6,135                                     |
| Notes Receivable                                  | -                                | 355                              | -  | -                                       | -   |
| Other Receivables                                 | 111                              | 184                              | 17   | 2,734                                   | 484                                       |
| Due from Other Governments                        | 754                              | 291                              | -  | -                                       | -   |
| Due from Primary Government                       | 456                              | 1,800                            | -  | 432                                     | -   |
| Other Current Assets                              | 39                               | 770                              | 9  | 295                                     | 99  |
| Total Current Assets                              | <u>3,973</u>                     | <u>39,466</u>                    | <u>647</u>                                   | <u>20,098</u>                           | <u>9,061</u>                              |
| Noncurrent Assets:                                |                                  |                                  |  |   |   |
| Assets Held in Trust                              | -                                | -                                | -  | -                                       | -   |
| Restricted Deposits and Investments               | -                                | -                                | -  | 580                                     | -   |
| Investments                                       | -                                | 16,937                           | 122  | 5,503                                   | 28,963                                    |
| Receivables, Net of Current Portion:              |                                  |                                  |  |   |   |
| Loans Receivable                                  | -                                | -                                | -  | -                                       | 38,080                                    |
| Notes Receivable                                  | -                                | 28,987                           | -  | -                                       | -   |
| Other Receivables                                 | -                                | -                                | -  | -                                       | -   |
| Due from Other Governments                        | -                                | -                                | -  | -                                       | -   |
| Fixed Assets - Net of Depreciation                | 680                              | 1,997                            | 66   | 79,456                                  | -   |
| Other Noncurrent Assets                           | -                                | -                                | -  | -                                       | 762                                       |
| Total Noncurrent Assets                           | <u>680</u>                       | <u>47,921</u>                    | <u>188</u>                                   | <u>85,539</u>                           | <u>67,805</u>                             |
| Total Assets                                      | <u>4,653</u>                     | <u>87,387</u>                    | <u>835</u>                                   | <u>105,637</u>                          | <u>76,866</u>                             |
| <b>Liabilities</b>                                |                                  |                                  |  |   |   |
| Current Liabilities:                              |                                  |                                  |  |   |   |
| Accounts Payable                                  | 1,941                            | 920                              | 63   | 1,709                                   | 96  |
| Accrued Payroll                                   | 283                              | -                                | 211  | -                                       | -   |
| Compensated Absences                              | 353                              | -                                | 142  | -                                       | -   |
| Due to Other Governments                          | -                                | -                                | -  | -                                       | -   |
| Amounts Held under State Loan Programs            | -                                | 43,860                           | -  | -                                       | -   |
| Undistributed Grants and Administrative Funds     | -                                | 8,220                            | -  | -                                       | -   |
| Allowances for Losses on Insured Commercial Loans | -                                | 6,249                            | -  | -                                       | -   |
| Notes Payable                                     | -                                | 51                               | -  | 85                                      | -   |
| Obligations under Capital Leases                  | 6                                | -                                | -  | -                                       | -   |
| Accrued Interest Payable                          | -                                | -                                | -  | -                                       | 171                                       |
| Deferred Revenue                                  | 160                              | 1,677                            | -  | 923                                     | 247                                       |
| Other Current Liabilities                         | 46                               | 182                              | 286  | 7,617                                   | -   |
| Total Current Liabilities                         | <u>2,789</u>                     | <u>61,159</u>                    | <u>702</u>                                   | <u>10,334</u>                           | <u>514</u>                                |
| Long-Term Liabilities:                            |                                  |                                  |  |   |   |
| Due to Other Governments                          | -                                | -                                | -  | -                                       | 771                                       |
| Notes Payable                                     | -                                | 1,192                            | -  | 60                                      | 72,431                                    |
| Obligations under Capital Leases                  | 22                               | -                                | -  | 4,490                                   | -   |
| Deferred Revenue                                  | -                                | -                                | -  | -                                       | 656                                       |
| Other Noncurrent Liabilities                      | -                                | -                                | -  | -                                       | -   |
| Total Long-Term Liabilities                       | <u>22</u>                        | <u>1,192</u>                     | <u>-</u>                                     | <u>4,550</u>                            | <u>73,858</u>                             |
| Total Liabilities                                 | <u>2,811</u>                     | <u>62,351</u>                    | <u>702</u>                                   | <u>14,884</u>                           | <u>74,372</u>                             |
| <b>Net Assets</b>                                 |                                  |                                  |  |   |   |
| Invested in Capital Assets, Net of Related Debt   | 523                              | 1,997                            | 66   | 75,400                                  | -   |
| Restricted  | 1,203                            | -                                | 267  | 6,385                                   | 1,500                                     |
| Unrestricted                                      | 116                              | 23,039                           | (200)  | 8,968                                   | 994                                       |
| Total Net Assets                                  | <u>\$ 1,842</u>                  | <u>\$ 25,036</u>                 | <u>\$ 133</u>                                | <u>\$ 90,753</u>                        | <u>\$ 2,494</u>                           |

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

|    | Maine Health<br>and Higher<br>Educational<br>Facilities<br>Authority | Maine<br>Maritime<br>Academy | Maine<br>Municipal<br>Bond Bank | Maine<br>State<br>Housing<br>Authority | Northern New<br>England<br>Passenger<br>Rail Authority | University<br>of Maine<br>System | Totals       |
|----|--|------------------------------|---------------------------------|--|--|----------------------------------|--------------|
| \$ | 84,246   | \$ 955                       | \$ 191                          | \$ 823                                 | \$ 245   | \$ 9,859                         | \$ 109,750   |
|    | 43,704   | 5,527                        | 167,716                         | 283,760                                | -  | 104,032                          | 648,837      |
|    | -  | 241                          | -                               | -                                      | 50   | -                                | 1,042        |
|    | 35,942   | 238                          | -                               | 26,902                                 | -  | -                                | 69,217       |
|    | -  | -                            | -                               | 13                                     | -  | -                                | 368          |
|    | 979  | 1,258                        | 964                             | 16,725                                 | -  | 14,006                           | 37,462       |
|    | -  | -                            | 109,516                         | 2,863                                  | 277  | 9,483                            | 123,184      |
|    | -  | -                            | 800                             | 1,822                                  | -  | 8,548                            | 13,858       |
|    | 889  | 713                          | 42,125                          | -                                      | 120  | 4,982                            | 50,041       |
|    | 165,760  | 8,932                        | 321,312                         | 332,908                                | 692  | 150,910                          | 1,053,759    |
|    | -  | 158                          | -                               | -                                      | -  | -                                | 158          |
|    | -  | 2,605                        | -                               | -                                      | 4,276  | 46,806                           | 54,267       |
|    | 95,762   | 9,701                        | 122,045                         | 145,951                                | -  | 83,170                           | 508,154      |
|    | 966,779  | 2,822                        | -                               | 1,249,221                              | -  | -                                | 2,256,902    |
|    | 5,548  | -                            | -                               | 1,482                                  | -  | 37,716                           | 73,733       |
|    | 1,328  | 1,024                        | -                               | -                                      | -  | 3,086                            | 5,438        |
|    | -  | -                            | 1,015,208                       | -                                      | -  | -                                | 1,015,208    |
|    | 4,037  | 14,908                       | 896                             | 573                                    | 1,099  | 395,695                          | 499,407      |
|    | 804  | 4,563                        | 10,006                          | 3,696                                  | -  | 1,562                            | 21,393       |
|    | 1,074,258  | 35,781                       | 1,148,155                       | 1,400,923                              | 5,375  | 568,035                          | 4,434,660    |
|    | 1,240,018  | 44,713                       | 1,469,467                       | 1,733,831                              | 6,067  | 718,945                          | 5,488,419    |
|    | 292  | 2,453                        | 457                             | 25,814                                 | 341  | 13,432                           | 47,518       |
|    | 149  | -                            | -                               | -                                      | -  | -                                | 643          |
|    | -  | -                            | -                               | -                                      | -  | -                                | 495          |
|    | 577  | -                            | 3,163                           | 594                                    | -  | -                                | 4,334        |
|    | -  | -                            | 24,950                          | -                                      | -  | -                                | 68,810       |
|    | -  | -                            | -                               | -                                      | -  | -                                | 8,220        |
|    | -  | -                            | -                               | -                                      | -  | -                                | 6,249        |
|    | 36,372   | 90                           | 90,797                          | 21,470                                 | -  | 5,354                            | 154,219      |
|    | -  | -                            | -                               | -                                      | -  | 206                              | 212          |
|    | 25,102   | -                            | 8,690                           | 10,753                                 | -  | -                                | 44,716       |
|    | 1,778  | 112                          | -                               | 28,179                                 | -  | 16,195                           | 49,271       |
|    | 1,305  | 347                          | 8,477                           | 1,050                                  | -  | 19,539                           | 38,849       |
|    | 65,575   | 3,002                        | 136,534                         | 87,860                                 | 341  | 54,726                           | 423,536      |
|    | 1,490  | 1,649                        | 1,291                           | -                                      | -  | -                                | 5,201        |
|    | 1,065,839  | 2,634                        | 937,184                         | 1,397,977                              | -  | 122,427                          | 3,599,744    |
|    | -  | -                            | -                               | -                                      | -  | 130                              | 4,642        |
|    | -  | -                            | -                               | -                                      | -  | -                                | 656          |
|    | -  | -                            | -                               | -                                      | -  | 65,641                           | 65,641       |
|    | 1,067,329  | 4,283                        | 938,475                         | 1,397,977                              | -  | 188,198                          | 3,675,884    |
|    | 1,132,904  | 7,285                        | 1,075,009                       | 1,485,837                              | 341  | 242,924                          | 4,099,420    |
|    | 4,037  | 12,075                       | -                               | -                                      | 1,099  | 304,930                          | 400,127      |
|    | 90,806   | 15,832                       | 331,958                         | 229,592                                | -  | 116,084                          | 793,627      |
|    | 12,271   | 9,521                        | 62,500                          | 18,402                                 | 4,627  | 55,007                           | 195,245      |
| \$ | 107,114  | \$ 37,428                    | \$ 394,458                      | \$ 247,994                             | \$ 5,726   | \$ 476,021                       | \$ 1,388,999 |

**STATE OF MAINE  
STATEMENT OF ACTIVITIES  
COMPONENT UNITS**

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|  | Child<br>Development<br>Services | Finance<br>Authority of<br>Maine | Governor<br>Baxter<br>School for<br>the Deaf | Maine<br>Community<br>College<br>System | Maine<br>Educational<br>Loan<br>Authority |
|--|----------------------------------|----------------------------------|--|---|---|
| <b>Expenses</b>  | \$ 24,108                        | \$ 23,368                        | \$ 5,891                                     | \$ 82,459                               | \$ 3,926                                  |
| <b>Program Revenues</b>  |                                  |                                  |  |   |   |
| Charges for Services   | 3,906                            | 3,572                            | 55   | 18,605                                  | 2,949                                     |
| Program Investment Income  | 28                               | 858                              | 7  | 141                                     | 1,300                                     |
| Operating Grants and Contributions                               | 18,891                           | 20,222                           | 79   | 20,357                                  | -   |
| Capital Grants and Contributions                                 | -                                | -                                | -  | 4,040                                   | -   |
| Net Revenue (Expense)  | (1,283)                          | 1,284                            | (5,750)                                      | (39,316)                                | 323                                       |
| <b>General Revenues</b>  |                                  |                                  |  |   |   |
| Unrestricted Investment Earnings                                 | -                                | -                                | 14   | 917                                     | -   |
| Non-program Specific Grants,<br>Contributions and Appropriations | 3                                | -                                | 5,942  | 41,752                                  | -   |
| Miscellaneous Income   | 121                              | -                                | -  | -                                       | -   |
| Gain (Loss) on Assets Held for Sale                              | -                                | -                                | -  | (57)                                    | -   |
| Total General Revenues   | 124                              | -                                | 5,956  | 42,612                                  | -   |
| Change in Net Assets   | (1,159)                          | 1,284                            | 206  | 3,296                                   | 323                                       |
| Net Assets, Beginning of the Year, As Restated                   | 3,001                            | 23,752                           | (73)   | 87,457                                  | 2,171                                     |
| Net Assets, End of Year  | \$ 1,842                         | \$ 25,036                        | \$ 133                                       | \$ 90,753                               | \$ 2,494                                  |

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

| <b>Maine Health<br/>and Higher<br/>Educational<br/>Facilities<br/>Authority</b> | <b>Maine<br/>Maritime<br/>Academy</b> | <b>Maine<br/>Municipal<br/>Bond Bank</b> | <b>Maine<br/>State<br/>Housing<br/>Authority</b> | <b>Northern New<br/>England<br/>Passenger<br/>Rail Authority</b> | <b>University<br/>of Maine<br/>System</b> | <b>Totals</b>       |
|---|---------------------------------------|--|--|--|---|---------------------|
| \$ 67,185   | \$ 19,704                             | \$ 60,441                                | \$ 201,483                                       | \$ 4,269   | \$ 535,024                                | \$ 1,027,858        |
| 54,568  | 8,429                                 | 51,946                                   | 91,996   | 27   | 209,707                                   | 445,760             |
| -   | 720                                   | 14,242                                   | 18,052   | -  | -   | 35,348              |
| 8,541   | 1,796                                 | 1,470                                    | 107,675  | 3,226  | 148,679                                   | 330,936             |
| 19,709  | 3,755                                 | 21,937                                   | -  | 399  | 2,055                                     | 51,895              |
| 15,633  | (5,004)                               | 29,154                                   | 16,240   | (617)  | (174,583)                                 | (163,919)           |
| 179   | 340                                   | 288                                      | 252  | 81   | 9,099                                     | 11,170              |
| -   | 8,407                                 | -  | -  | -  | 186,524                                   | 242,628             |
| 442   | 648                                   | 1,000                                    | -  | -  | -   | 2,211               |
| -   | (117)                                 | -  | -  | -  | -   | (174)               |
| 621   | 9,278                                 | 1,288                                    | 252  | 81   | 195,623                                   | 255,835             |
| 16,254  | 4,274                                 | 30,442                                   | 16,492   | (536)  | 21,040                                    | 91,916              |
| 90,860  | 33,154                                | 364,016                                  | 231,502  | 6,262  | 454,981                                   | 1,297,083           |
| <u>\$ 107,114</u>   | <u>\$ 37,428</u>                      | <u>\$ 394,458</u>                        | <u>\$ 247,994</u>                                | <u>\$ 5,726</u>  | <u>\$ 476,021</u>                         | <u>\$ 1,388,999</u> |





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# **NOTES TO THE FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. REPORTING ENTITY**

For financial reporting purposes, the State includes all funds, account groups, organizations, agencies, boards, commissions and authorities that make up the State's legal entity. It includes 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 State is financially accountable for those entities for which it appoints a voting majority of the governing board and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government or if the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**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 (MGFA) and the Maine Military Authority have been blended within the financial statements of the primary government.

The MGFA 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. The MGFA is included as an internal service fund in the State's financial statements.

The Maine Military Authority was created in 2001 for the purpose of operating the Maine Readiness Sustainment Maintenance Center. The Center maintains, rebuilds, repairs, stores and manufactures equipment for the United States Departments of Defense, Army, Air Force, Navy and Treasury. The Authority is included in the Federal Fund in the State's financial statements.

**Discrete Component Units** - Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. It includes the financial data of the following entities:

*The Child Development Services System* was established for the purpose of maintaining a coordinated service delivery system for the provision of Childfind activities, early intervention services, and free, appropriate public education services for eligible children with disabilities. CDS as a reporting entity includes a State-level intermediate educational unit and 16 regional intermediate educational units.

*The Finance Authority of Maine*, created in 1983, provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the 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. Additionally, the Authority administers the Maine College Savings Program Fund. The NextGen College Investing Plan is the primary program of the Maine College Savings Program Fund. The Governor appoints the 15 voting members of the Authority.

*The Governor Baxter School for the Deaf* is a comprehensive educational organization that offers educational, residential, transitional, and outreach programs while promoting deaf culture. The school offers services to meet the needs of infants, children and adults who are deaf or hard of hearing; their families, professionals, service providers, agencies and communities on a local, statewide, regional and national level.

*The Maine Community College System*, formerly 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 Maine Educational Loan Authority* was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. The Governor appoints five of the Authority's seven commissioners. The Authority's fiscal year ends on December 31.

*The Maine Health and Higher Educational 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, may finance student loan programs of institutions of higher education.

*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. State appropriations, student fees, and a subsidy from the Maritime Administration support the Academy.

*The Maine Municipal Bond Bank* is authorized to issue bonds providing funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners.

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

*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, including State employees, some public school employees, and employees of approximately 250 local municipalities and other public entities in Maine. The Governor appoints four of the Board's seven voting members.

*The Northern New England Passenger Rail Authority*, established on June 29, 1995 by the State of Maine Legislature, initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine. The Governor appoints the five voting members of the Authority.

*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 103<sup>rd</sup> 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 and a central administrative office.

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

Child Development Services System  
146 State House Station  
Augusta, ME 04333-0146

Finance Authority of Maine  
5 Community Dr., PO Box 949  
Augusta, ME 04332-0949

Governor Baxter School for the Deaf  
Mackworth Island  
Falmouth, ME 04105

Maine Community College System  
131 State House Station, 323 State Street  
Augusta, ME 04330-7131

Maine Educational Loan Authority  
One City Center 11<sup>th</sup> Floor  
Portland, ME 04101-4631

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

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

Maine Maritime Academy  
Castine, ME 04420

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

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

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

Northern New England Passenger Rail Authority  
75 West Commercial St., Suite 204  
Portland, ME 04101

University of Maine System  
107 Maine Avenue  
Bangor, ME 04401-4380

#### Other Component Units

The following entities meet the criteria of component units but have not been included in the financial statements of the primary government. The amounts associated with these component units are not material to the State's financial statements: the Maine Port Authority, the Maine School of Science and Mathematics, the Maine Science and Technology Foundation, the Maine Technology Institute, the Maine Rural Development Authority, and the Loring Development Authority.

The Loring Development Authority (LDA) is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the former Loring Air Force Base. The United States Air Force transferred title to 2,805 of approximately 3,600 acres of land, associated facilities, infrastructure and personal property to the LDA. It is expected that title to the remaining acreage will be transferred to the LDA over the next 5 years. The LDA has not included these assets in their financial statements and has not prepared a financial report in accordance with GASB Statement No. 34.

The LDA meets the criteria for inclusion as a discretely presented component unit of the State of Maine due, in part, to a reserve fund restoration commitment for outstanding bonded indebtedness of the LDA. However, since the LDA does not currently have any outstanding bonded debt, they have not been included in the financial statements of the primary government.

#### Related Organizations

Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Public Broadcasting Corporation, the Maine Turnpike Authority, and the Maine Veteran's Home. The primary government has no material accountability for these organizations beyond making the board appointments.

#### B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

##### Government-Wide Financial Statements

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

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

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

**Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

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

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

### **Fund Financial Statements**

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

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

#### **Measurement Focus and Basis of Accounting**

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

As allowed by GASB Statement No. 20, the State's proprietary funds follows all GASB pronouncements and those Financial Accounting Standards Board (FASB)

Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the State generally considers revenues as available if they are collected within 60 days of the end of the fiscal year. Individual income, corporate income, and sales and use taxes are considered available if collected within 12 months of the end of the fiscal year. Significant revenues susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

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

#### **Financial Statement Presentation**

The State reports the following major governmental funds:

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

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

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

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally restricted to expenditures for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal Funds.

The State reports the following major enterprise fund:

The *Maine Employment Security Fund* accounts for contributions received from employers and unemployment compensation benefits paid to eligible unemployed workers.

Additionally, the State reports the following fund types:

#### **Governmental Fund Types:**

*Special Revenue Funds* include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. Examples include learning technology, funds for acquisition of public reserved lands, and other activities.

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

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

#### **Proprietary Fund Types:**

*Enterprise Funds* report the activities for which fees are charged to external users for goods or services, such as alcoholic beverages, lottery operations, and transportation services, as well as the State's unemployment compensation program.

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

#### **Fiduciary Fund Types:**

*Pension (and Other Employee Benefit) Trust Funds* report those resources that are required to be held in trust for members and beneficiaries of the State's pension, death and disability benefit plans. These resources are managed by the Maine State Retirement System, which was previously reported as a discrete component unit, but is now presented with the State's fiduciary funds in accordance with GASB Statement No. 34.

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

*Agency Funds* report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples include amounts held for payroll withholdings, inmate and student guardianship accounts, college investment plan funds, and investments of certain discretely presented component units.

#### **D. FISCAL YEAR-ENDS**

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

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

##### **Cash and Cash Equivalents**

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 pooled balances are reported at fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds and proceeds of Certificates of Participation that have not been spent. Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.



Short-term investments reported as Cash and Short-Term Investments on the balance sheet are comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, 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 their balances as cash and investments. Component units' funds have been removed from cash and investments of the primary government and shown as component unit cash and investments for purposes of note disclosure. Component units' investments are shown at fair value.

#### **Assets Held in Trust**

These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. The State also holds \$142 million of Workers' Compensation and \$20 million of Employment Security surety bonds and letters of credit which are not reflected on the financial statements.

#### **Restricted Deposits and Investments**

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

#### **Inventories**

The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Unexpended balances of food stamps (stated at coupon value), and undistributed vaccines and food commodities at fiscal year end are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when the food stamps, vaccines and food commodities are issued.

Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost, except for those of the Alcoholic Beverages Fund, which are valued 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.

#### **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, as well as Department of Transportation loans to local governments. 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 that are determined based upon past collection experience and aging of the accounts.

#### **Interfund Transactions and Balances**

Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that transactions between funds were not completed as of June 30, interfund receivables and payables have been recorded in the fund financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Long-term loans made by one fund to another are classified as "Working Capital Advances Receivable" and "Working Capital Advances Payable". In the fund financial statements, advances receivable are offset by 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."

#### **Due from/to Other Governments**

Due from/to Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other 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, bond repayment and

retirement benefits. Due to Other Governments are primarily amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers and Temporary Assistance for Needy Families.

**Fixed Assets**

Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at \$1 million or more and proprietary fund buildings valued at \$10 thousand or more. Governmental fund equipment is capitalized at \$10 thousand or more and proprietary fund equipment is capitalized \$3 thousand or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if not purchased, at fair value as of the date of acquisition. The historical cost for some capital assets is not available. The cost of these assets, at the date of acquisition, has been estimated. No interest has been capitalized on self-constructed assets, since non-capitalization of interest does not materially affect the financial statements.

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

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 5-60 years for structures and improvements and 3-15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them.

**Tax Refunds Payable**

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

**Claims Payable**

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

**Compensated Employee Absences**

In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as expenses and liabilities as they accrue. In the governmental fund financial statements, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

**Deferred Revenue**

In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. Deferred revenue reported in the General Fund is comprised of sales and income taxes. Deferred revenue in the Federal Fund is primarily for food stamps and vaccines not yet issued.

**Long-Term Obligations**

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

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

**Net Assets/Fund Balance**

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

**Fund Balance Reservations**

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: funds legally restricted for a specific future use or assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund.

The State has reported the following fund balance reservations:

*Continuing Appropriations* - indicates appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year, if unexpended.

*Debt Service* - indicates amounts reserved for payment of future debt service obligations.

*Capital Projects* - indicates a legally segregated portion of funds available to finance the construction of major capital facilities.

*Permanent Trusts* - indicates assets reserved for the purpose of the permanent fund.

*Other* - indicates fund balance reserved for other specified purposes including amounts for working capital needs, long-term loans to other funds, transfers to other funds, and contingency funds from which the Governor may allocate sums for various purposes.

**F. REVENUES AND EXPENDITURES/EXPENSES**

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., governmental support & operations, education, health & human services, etc). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "dedicated" or "undedicated." Undedicated revenues are available to fund any activity accounted for in the fund. Dedicated revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused dedicated revenues at year-end are recorded as reservations of fund balance. When both dedicated and undedicated funds are available for use, it is the State's policy to use dedicated resources first.

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

**NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE**

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

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

The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in 5 M.R.S.A. § 1665, subsection 1, plus the

average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee. This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased state spending; court orders or decrees that require additional state resources to comply with the orders or decrees; and sudden or significant increases in demand for existing state services that are not the result of legislative changes that increased eligibility or increased benefits. The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of, this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

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 balance the budget for the year ended June 30, 2003, deappropriations of \$117.3 million were required for the General Fund.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation, is employed in governmental fund types. For financial statement purposes, encumbrances outstanding at June 30 are shown as reservations of fund balance. Unencumbered appropriations in the General Fund and in the Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. Amounts carried forward are shown as reservations of fund balance.

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

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

### **NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS**

The Highway Fund was decreased by \$2.2 million and the Motor Transport Service Internal Service Fund was increased by \$2.2 to correct amounts recorded as working capital advances in prior periods.

The Maine Governmental Facilities Authority Internal Service Fund, a blended component unit, was decreased by \$30.3 million, and the Other Special Revenue Fund was increased by \$30.3 million to reflect that the State reclassified the funds and accounts included in the General Bond Resolution fund.

In the entity-wide Statement of Activities, Beginning Net Assets of the Governmental Activities decreased by \$2.1 million to record financing arrangements that were not previously reported, decreased by \$6.7 million to correct the capitalization of software in the prior period, and

decreased by \$19.7 million to reflect a change in the method the State used to accrue tobacco settlement proceeds from the prior fiscal year.

In the current period, results of operations decreased by \$9.6 million in the Federal Fund and increased by \$9.6 million in the General Fund as the result of a change in estimated receivables and payables associated with funds overdrawn from the TANF program.

Beginning Net Assets for the discretely presented component units decreased by \$73 thousand to reflect the inclusion of the Governor Baxter School for the Deaf, which was not previously reported in the financial statements of the State of Maine reporting entity.

In the Fiduciary funds financial statements, Beginning Net Assets of the Private Purpose Trusts was increased by \$4 million to reflect the elimination of an accrued

escheat property liability, which is no longer required as a result of clarification provided by GASB Statement Number 37.

#### **NOTE 4 - DEFICIT FUND BALANCES/RETAINED EARNINGS**

Two internal service funds showed deficit Retained Earnings for the fiscal year ended June 30, 2003. The Workers' Compensation Fund was at a deficit of \$48.4 million, which reflects accruals for actuarially determined claims payable. The Property Lease Fund was at a deficit of \$2.6 million, which reflects the recording of capital lease depreciation. These deficits are expected to be funded by future service charges.

The General Fund showed a deficit of \$20.4 million for the fiscal year ended June 30, 2003. The deficit is, for the most part, related to an accrued liability for overdrawn federal Medicaid funds. This deficit will be funded by subsequent legislative action.

#### **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 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 may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and the consent of the Governor. Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 36 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 months; prime commercial paper; tax-exempt obligations; banker's acceptances; and shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the United States Security Act of 1933, only if the investments of the company are limited to obligations of the United States or repurchase agreements secured by obligations of the United States. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by 5 M.R.S.A. § 138. The Treasurer, with the approval of the Commissioner of Administrative and Financial

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

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

Maine State Retirement System (The System) makes investments in a combination of equities, fixed income securities, mutual funds, commingled mutual and index funds, 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.

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 by 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 neither collateralized nor insured.

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to the vendors. During fiscal year 2003, these disbursements, on average, exceeded \$110 million per month. Until the vendor receives payment, the State retains some liability. The funds in transit were not collateralized during FY 2003 and, because they were not held by the State Treasurer, they are not included in the preceding risk categories.

The following tables categorize the deposits of the primary government and discretely presented component units at the close of fiscal year 2003:

#### Primary Government Deposits (Expressed in Thousands)

|                           | Category<br>1    | Category<br>2    | Category<br>3    | Bank<br>Balance   | Carrying<br>Amount |
|---------------------------|------------------|------------------|------------------|-------------------|--------------------|
| Cash and Cash Equivalents | \$ 53,277        | \$ -             | \$ 4,737         | \$ 58,014         | \$ 539             |
| Cash with Fiscal Agent    | -                | 19,006           | 16,774           | 35,780            | 35,780             |
| Restricted Deposits       | 42,115           | 1,027            | 2,349            | 45,491            | 45,508             |
| Total                     | <u>\$ 95,392</u> | <u>\$ 20,033</u> | <u>\$ 23,860</u> | <u>\$ 139,285</u> | <u>\$ 81,827</u>   |

#### Component Unit Deposits (Expressed in Thousands)

|                           | Category<br>1   | Category<br>2    | Category<br>3    | Bank<br>Balance   | Carrying<br>Amount |
|---------------------------|-----------------|------------------|------------------|-------------------|--------------------|
| Cash and Cash Equivalents | \$ 3,722        | \$ 87,617        | \$ 11,389        | \$ 102,728        | \$ 95,322          |
| Restricted Deposits       | 100             | 4,276            | 47,286           | 51,662            | 51,662             |
| Total                     | <u>\$ 3,822</u> | <u>\$ 91,893</u> | <u>\$ 58,675</u> | <u>\$ 154,390</u> | <u>\$ 146,984</u>  |

### 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 includes 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 its trust department or agent, but not in the State's name.

The following table categorizes the investments of the primary government at June 30, 2003:

**Primary Government Investments**  
(Expressed in Thousands)

|  | <u>Category<br/>1</u> | <u>Category<br/>2</u> | <u>Category<br/>3</u> | <u>Fair<br/>Value</u> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Cash & Cash Equivalents                        | \$ 41,420             | \$ 2,549              | \$ 3,214              | \$ 47,183             |
| U.S. Government and Agency Obligations         | 106,666               | -                     | 8,472                 | 115,138               |
| Commercial Paper                               | 23,915                | -                     | -                     | 23,915                |
| Corporate Bonds and Notes                      | -                     | 5,913                 | 3,722                 | 9,635                 |
| Equity Securities                              | -                     | 9,866                 | 32,855                | 42,721                |
| Other Restricted Investments                   | <u>7,072,728</u>      | <u>3,153</u>          | -                     | <u>7,075,881</u>      |
| Totals   | <u>\$ 7,244,729</u>   | <u>\$ 21,481</u>      | <u>\$ 48,263</u>      | 7,314,473             |
| Unemployment Fund Deposits with US<br>Treasury |                       |                       |                       | 434,774               |
| Assets Held in Trust                           |                       |                       |                       | <u>1,723,709</u>      |
| Total Investments – Primary Government         |                       |                       |                       | <u>\$ 9,472,956</u>   |

**As reported on the Statement of Net Assets and Statement of Fiduciary Net Assets**

|                          | <u>Current<br/>Investments</u> | <u>Non-Current<br/>Investments</u> | <u>Restricted<br/>Investments</u> | <u>Assets Held<br/>In Trust</u> | <u>Short-Term<br/>Investments</u> |
|--------------------------|--------------------------------|------------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Governmental activities  | \$ 105,274                     | \$ 48,925                          | \$ 16,701                         | \$ -                            | \$ 68,843                         |
| Business-type activities | 1,200                          | 1,218                              | 434,774                           | -                               | -                                 |
| Fiduciary                | 13,143                         | -                                  | -                                 | 1,723,710                       | -                                 |
| Fiduciary- Pension (1)   | <u>-</u>                       | <u>-</u>                           | <u>6,885,841</u>                  | <u>-</u>                        | <u>173,327</u>                    |
|                          | \$ 119,617                     | \$ 50,143                          | \$ 7,337,316                      | \$ 1,723,710                    | \$ 242,170                        |
|                          |                                |                                    |                                   | Total                           | <u>\$ 9,472,956</u>               |

(1) Represents investments of the Maine State Retirement System, a discrete component unit, included with Fiduciary Funds per GASB Statement No. 34.

**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.

At the close of fiscal year 2003, investments of the discretely presented component units were:

**Component Unit Investments**  
(Expressed in thousands)

|  | <u>Category<br/>1</u> | <u>Category<br/>2</u> | <u>Category<br/>3</u> | <u>Fair<br/>Value</u> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Cash and Cash Equivalents              | \$ 18,901             | \$ 84,027             | \$ -                  | \$ 102,928            |
| U.S. Government and Agency Obligations | 255,465               | 208,239               | -                     | 463,704               |
| Repurchase Agreements                  | 200,657               | 61,688                | -                     | 262,345               |
| Commercial Paper                       | 8,670                 | -                     | -                     | 8,670                 |
| Corporate Bonds and Notes              | 7,678                 | -                     | -                     | 7,678                 |
| Equity Securities                      | 11,623                | -                     | 99,276                | 110,899               |
| Investment Contracts                   | -                     | 136,961               | -                     | 136,961               |
| Other                                  | 48                    | -                     | -                     | 48                    |
| Restricted                             | <u>29,888</u>         | <u>-</u>              | <u>51,061</u>         | <u>80,949</u>         |
| Totals                                 | <u>\$ 532,930</u>     | <u>\$ 490,915</u>     | <u>\$ 150,337</u>     | <u>\$1,174,182</u>    |

The State's internal investment pool consists primarily of commercial paper with maturities of up to 90 days and U.S. Government and Agency obligations with maturities of up to two years. Certain component units also invest in the pool and comprise approximately 32 percent of pool assets. The component units reported their participation as Cash and Cash Equivalents on their financial statements. The State has reclassified \$48

million of the component units' participation as investments on the State's financials. In addition to the amounts reported, the State Treasurer's Cash Pool includes \$18 million dollars, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements.

## NOTE 6 - RECEIVABLES

Receivable balances are segregated by type, classified as current and noncurrent, and presented in the fund financial statements net of allowance for uncollectibles.

The following tables disaggregate amounts considered to be uncollectible by fund and type of receivable as of the close of the fiscal year:

### Primary Government – Receivables (Expressed in Thousands)

|                              | <u>Taxes</u>      | <u>Accounts</u>   | <u>Loans</u>      | <u>Allowance<br/>for<br/>Uncollectibles</u> | <u>Net<br/>Receivables</u> |
|------------------------------|-------------------|-------------------|-------------------|---|----------------------------|
| <b>Governmental Funds:</b>   |                   |                   |                   |   |                            |
| General                      | \$ 477,187        | \$ 58,469         | \$ -              | \$ (129,120)                                | \$ 406,536                 |
| Highway                      | 18,612            | 2,316             | 121               | (2,935)                                     | 18,114                     |
| Federal                      | -                 | 33,307            | -                 | (261)                                       | 33,046                     |
| Other Special Revenue        | 6,880             | 66,469            | 11,387            | (9,133)                                     | 75,603                     |
| Nonmajor Governmental        | -                 | -                 | -                 | -   | -                          |
| Total Governmental Funds     | 502,679           | 160,561           | 11,508            | (141,449)                                   | 533,299                    |
| Allowance for uncollectibles | (121,223)         | (14,745)          | (5,481)           | -   | -                          |
| Net Receivables              | <u>\$ 381,456</u> | <u>\$ 145,816</u> | <u>\$ 6,027</u>   |   | <u>\$ 533,299</u>          |
| <b>Proprietary Funds:</b>    |                   |                   |                   |   |                            |
| Employment Security          | \$ -              | \$ 32,319         | \$ -              | \$ (7,603)                                  | \$ 24,716                  |
| Nonmajor Enterprise          | -                 | 19,183            | 169               | (246)                                       | 19,106                     |
| Internal Service             | -                 | 3,061             | 194,736           | (1)   | 197,796                    |
| Total Proprietary Funds      | -                 | 54,563            | 194,905           | (7,850)                                     | 241,618                    |
| Allowance for Uncollectibles | -                 | (7,603)           | (247)             | -   | -                          |
| Net Receivables              | <u>\$ -</u>       | <u>\$ 46,960</u>  | <u>\$ 194,658</u> |   | <u>\$ 241,618</u>          |

### Component Units - Receivables (Expressed in Thousands)

|  | <u>Accounts</u>  | <u>Loans</u>        | <u>Notes</u>     | <u>Allowance for<br/>Uncollectibles</u> | <u>Net<br/>Receivables</u> |
|--|------------------|---------------------|------------------|---|----------------------------|
| Child Development Services System                      | \$ 111           | \$ -                | \$ -             | \$ -                                    | \$ 111                     |
| Finance Authority of Maine                             | 183              | -                   | 33,213           | (3,870)                                 | 29,526                     |
| Governor Baxter School for the Deaf                    | 17               | -                   | -                | -                                       | 17                         |
| Maine Educational Loan Authority                       | 484              | 44,965              | -                | (750)                                   | 44,699                     |
| Maine Health & Higher Educational Facilities Authority | 5,319            | 1,002,721           | 5,548            | (3,012)                                 | 1,010,576                  |
| Maine Maritime Academy                                 | 2,462            | 3,298               | -                | (418)                                   | 5,342                      |
| Maine Municipal Bond Bank                              | 964              | -                   | -                | -                                       | 964                        |
| Maine State Housing Authority                          | 16,725           | 1,288,631           | 1,587            | (12,600)                                | 1,294,343                  |
| Maine Community College System                         | 3,056            | -                   | -                | (322)                                   | 2,734                      |
| University of Maine System                             | 19,474           | -                   | 38,163           | (2,829)                                 | 54,808                     |
| Total Component Units                                  | 48,795           | 2,339,615           | 78,511           | (23,801)                                | 2,443,120                  |
| Allowance for Uncollectibles                           | (5,895)          | (13,496)            | (4,410)          | -                                       | -                          |
| Net Receivables  | <u>\$ 42,900</u> | <u>\$ 2,326,119</u> | <u>\$ 74,101</u> |   | <u>\$ 2,443,120</u>        |



**NOTE 7 - INTERFUND TRANSACTIONS**

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

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2003 were:

**Interfund Receivables**  
(Expressed in Thousands)

| <b>Due to Other Funds</b>          |                                   |                                    |                                |                                     |                                      |
|------------------------------------|-----------------------------------|------------------------------------|--------------------------------|-------------------------------------|--------------------------------------|
| <b><u>Due from Other Funds</u></b> | <b><u>General</u></b>             | <b><u>Highway</u></b>              | <b><u>Federal Fund</u></b>     | <b><u>Other Special Revenue</u></b> | <b><u>Non-Major Governmental</u></b> |
| General                            | \$ -                              | \$ 1,468                           | \$ 36,672                      | \$ 2                                | \$ -                                 |
| Highway                            | 22,247                            | -                                  | 10,599                         | -                                   | -                                    |
| Federal                            | 17,740                            | -                                  | 212                            | 18,748                              | -                                    |
| Other Special Revenue              | 146,408                           | 154                                | 59,942                         | 293                                 | -                                    |
| Non-Major Governmental             | -                                 | -                                  | -                              | -                                   | -                                    |
| Employment Security                | 17                                | -                                  | 1                              | -                                   | -                                    |
| Non-Major Enterprise               | 2                                 | -                                  | -                              | -                                   | -                                    |
| Internal Service                   | <u>3,516</u>                      | <u>2,952</u>                       | <u>1,849</u>                   | <u>2,627</u>                        | <u>-</u>                             |
| Total                              | <u>\$ 189,930</u>                 | <u>\$ 4,574</u>                    | <u>\$ 109,275</u>              | <u>\$ 21,670</u>                    | <u>\$ -</u>                          |
| <b><u>Due from Other Funds</u></b> | <b><u>Employment Security</u></b> | <b><u>Non-Major Enterprise</u></b> | <b><u>Internal Service</u></b> | <b><u>Fiduciary</u></b>             | <b><u>Total</u></b>                  |
| General                            | \$ -                              | \$ 7,098                           | \$ 542                         | \$ -                                | \$ 45,782                            |
| Highway                            | -                                 | -                                  | 1                              | -                                   | 32,847                               |
| Federal                            | -                                 | -                                  | 2                              | -                                   | 36,702                               |
| Other Special Revenue              | -                                 | -                                  | 959                            | 1,489                               | 209,245                              |
| Non-Major Governmental             | -                                 | -                                  | -                              | -                                   | -                                    |
| Employment Security                | -                                 | -                                  | -                              | -                                   | 18                                   |
| Non-Major Enterprise               | -                                 | -                                  | -                              | -                                   | 2                                    |
| Internal Service                   | <u>-</u>                          | <u>489</u>                         | <u>1,121</u>                   | <u>-</u>                            | <u>12,554</u>                        |
| Total                              | <u>\$ -</u>                       | <u>\$ 7,587</u>                    | <u>\$ 2,625</u>                | <u>\$ 1,489</u>                     | <u>\$ 337,150</u>                    |

Not included in the table above are the following interfund loans/advances, which are not expected to be repaid within one year. Various funds owe a total of \$1.1 million to the General Fund for operating capital: Alcoholic Beverages (an enterprise fund) \$1 million; Department of Economic and Community Development (a special revenue fund) \$25 thousand; and, Postal Printing & Supply (an internal service fund) \$111 thousand.

Intra-entity receivables and payables represent amounts owed to discretely presented component units by the primary government (the State) at the end of the fiscal year. Amounts are owed for undistributed grants and appropriations, outstanding tuition fees, and undistributed accrued shared tax revenues. At the end of fiscal year 2003, receivables and related liabilities between the primary government and the discretely presented component units, disaggregated by fund and component unit, were:

**Component Units - Due From/Due To**  
(Expressed in Thousands)

|  | <b><u>Due From<br/>Primary<br/>Government</u></b> | <b><u>Due To<br/>Component<br/>Units</u></b> |
|--|---|--|
| <b>Primary Government:</b>               |   |  |
| <u>General Fund</u>                      |   |  |
| Child Development Services System        | \$ -  | \$ 455                                       |
| University of Maine System               | -   | 2,850  |
| <u>Special Revenue Fund</u>              |   |  |
| Child Development Services System        | -   | 1  |
| University of Maine System               | -   | 5,136  |
| Maine State Housing Authority            | -   | 1,413  |
| FAME                                     | -   | 1,800  |
| <u>Capital Projects Fund</u>             |   |  |
| Maine Community College System           | -   | 432  |
| Maine Municipal Bond Bank                | -   | 800  |
| University of Maine System               | -   | 562  |
| <b>Component Units:</b>                  |   |  |
| <u>Child Development Services System</u> |   |  |
| General Fund                             | 455   | -  |
| Special Revenue Fund                     | 1   | -  |
| <u>Maine Municipal Bond Bank</u>         |   |  |
| Capital Projects                         | 800   | -  |
| <u>Maine Community College System</u>    |   |  |
| Capital Projects                         | 432   | -  |
| <u>University of Maine System</u>        |   |  |
| General Fund                             | 2,850   | -  |
| Special Revenue Fund                     | 5,136   | -  |
| Capital Projects                         | 562   | -  |
| <u>FAME</u>                              |   |  |
| Special Revenue Fund                     | 1,800   | -  |
| <u>Maine State Housing Authority</u>     |   |  |
| Special Revenue Fund                     | <u>1,822</u>                                      | <u>-</u>                                     |
| <b>Total</b>                             | <b><u>\$ 13,858</u></b>                           | <b><u>\$ 13,449</u></b>                      |

Receivables and related liabilities between the primary government and the discretely presented component units do not agree because the Maine State Housing Authority has a calendar year end.

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

During fiscal year 2003, the State of Maine, as a component of the legislatively authorized budget, transferred available balances from several other funds to the unappropriated surplus of the General Fund. These transfers provided resources to balance the budget. Significant transfers during the fiscal year included: \$34.5 million from the Rainy Day Fund, \$43.2 million from the Fund for a Healthy Maine, \$16.6 million from the Highway Fund, \$14.6 million from the Maine Learning Technology Endowment, \$6.5 million from the Clean Election Fund, and \$3.2 million from the Maine State Housing Authority.

Interfund transfers for the year ended June 30, 2003, consisted of the following:

**Interfund Transfers**  
(Expressed in Thousands)

| <u>Transferred To</u>  | <u>Transferred From</u> |                  |                  |                                      |                                   |
|------------------------|-------------------------|------------------|------------------|--------------------------------------|-----------------------------------|
|                        | <u>General</u>          | <u>Highway</u>   | <u>Federal</u>   | <u>Other<br/>Special<br/>Revenue</u> | <u>Non-Major<br/>Governmental</u> |
| General                | \$ -                    | \$ 17,987        | \$ 3,706         | \$ 79,077                            | \$ 20,821                         |
| Highway                | -                       | -                | 1                | 1,853                                | -                                 |
| Federal                | 17,809                  | 4                | 12,370           | 13,604                               | -                                 |
| Other Special Revenue  | 107,802                 | 2,032            | 7,520            | -                                    | 6,572                             |
| Non-Major Governmental | -                       | -                | -                | 980                                  | 6,490                             |
| Employment Security    | -                       | -                | -                | -                                    | -                                 |
| Non-Major Enterprise   | 3,108                   | -                | -                | 8,440                                | -                                 |
| Internal Service       | 6,281                   | 2,839            | 2,270            | 1,767                                | -                                 |
| Fiduciary              | -                       | -                | -                | 494                                  | -                                 |
| Total                  | <u>\$ 135,000</u>       | <u>\$ 22,862</u> | <u>\$ 25,867</u> | <u>\$ 106,215</u>                    | <u>\$ 33,883</u>                  |

| <u>Transferred To</u>  | <u>Transferred From</u>        |                                 |                             |                  |                   |
|------------------------|--------------------------------|---------------------------------|-----------------------------|------------------|-------------------|
|                        | <u>Employment<br/>Security</u> | <u>Non-Major<br/>Enterprise</u> | <u>Internal<br/>Service</u> | <u>Fiduciary</u> | <u>Total</u>      |
| General                | \$ -                           | \$ 66,947                       | \$ 407                      | \$ 8,174         | \$ 197,119        |
| Highway                | -                              | -                               | -                           | -                | 1,854             |
| Federal                | 611                            | -                               | -                           | -                | 44,398            |
| Other Special Revenue  | -                              | 576                             | -                           | 662              | 125,164           |
| Non-Major Governmental | -                              | -                               | -                           | -                | 7,470             |
| Employment Security    | -                              | -                               | -                           | -                | -                 |
| Non-Major Enterprise   | -                              | -                               | -                           | -                | 11,548            |
| Internal Service       | -                              | 204                             | 525                         | -                | 13,886            |
| Fiduciary              | -                              | -                               | -                           | -                | 494               |
| Total                  | <u>\$611</u>                   | <u>\$ 67,727</u>                | <u>\$ 932</u>               | <u>\$ 8,836</u>  | <u>\$ 401,933</u> |

**NOTE 8 - CAPITAL ASSETS**

The following schedule details capital asset activity of the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2003:

**Primary Government - Capital Assets**  
(Expressed in Thousands)

|  | <u>Beginning<br/>Balance</u> | <u>Increases and<br/>Other Additions</u> | <u>Decreases and<br/>Other Deletions</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|--|--|---------------------------|
| <b>Governmental Activities:</b>              |                              |  |  |                           |
| Capital assets, not being depreciated:       |                              |  |  |                           |
| Land   | \$ 277,900                   | \$ 29,372                                | \$ 3,945                                 | \$ 303,327                |
| Construction in progress                     | 20,560                       | 30,163                                   | -  | 50,723                    |
| Infrastructure                               | <u>2,027,179</u>             | <u>189,609</u>                           | <u>-</u>                                 | <u>2,216,788</u>          |
| Total capital assets, not being depreciated  | 2,325,639                    | 249,144                                  | 3,945                                    | 2,570,838                 |
| Capital assets, being depreciated            |                              |  |  |                           |
| Buildings                                    | 392,803                      | 25,354                                   | -  | 418,157                   |
| Equipment                                    | 204,608                      | 48,797                                   | 37,507                                   | 215,898                   |
| Improvements other than buildings            | <u>16,936</u>                | <u>11</u>                                | <u>785</u>                               | <u>16,162</u>             |
| Total capital assets, being depreciated      | <u>614,347</u>               | <u>74,162</u>                            | <u>38,292</u>                            | <u>650,217</u>            |
| Less accumulated depreciation for:           |                              |  |  |                           |
| Buildings                                    | 88,437                       | 13,314                                   | -  | 101,751                   |
| Equipment                                    | 126,156                      | 52,274                                   | 37,507                                   | 140,923                   |
| Improvements other than buildings            | <u>4,916</u>                 | <u>1,347</u>                             | <u>301</u>                               | <u>5,962</u>              |
| Total accumulated depreciation               | <u>219,509</u>               | <u>66,935</u>                            | <u>37,808</u>                            | <u>248,636</u>            |
| Total capital assets being depreciated, net  | <u>394,838</u>               | <u>7,227</u>                             | <u>484</u>                               | <u>401,581</u>            |
| Governmental Activities Capital Assets, net  | <u>\$ 2,720,477</u>          | <u>\$ 256,371</u>                        | <u>\$ 4,429</u>                          | <u>\$ 2,972,419</u>       |
| <b>Business-Type Activities:</b>             |                              |  |  |                           |
|  |                              | <u>Net Additions</u>                     | <u>Net Deletions</u>                     |                           |
| Capital assets, not being depreciated        |                              |  |  |                           |
| Land   | \$ 6,403                     | \$ 114                                   | \$ -                                     | \$ 6,517                  |
| Construction in progress                     | <u>1,593</u>                 | <u>18,039</u>                            | <u>-</u>                                 | <u>19,632</u>             |
| Total capital assets, not being depreciated  | 7,996                        | 18,153                                   | -  | 26,149                    |
| Capital assets, being depreciated            |                              |  |  |                           |
| Buildings                                    | 16,378                       | -  | 7,632                                    | 8,746                     |
| Equipment                                    | 19,410                       | -  | 505                                      | 18,905                    |
| Improvements other than buildings            | <u>44,763</u>                | <u>6,647</u>                             | <u>-</u>                                 | <u>51,410</u>             |
| Total capital assets, being depreciated      | <u>80,551</u>                | <u>6,647</u>                             | <u>8,137</u>                             | <u>79,061</u>             |
| Less accumulated depreciation                |                              |  |  |                           |
|  | <u>29,606</u>                | <u>3,229</u>                             | <u>-</u>                                 | <u>32,835</u>             |
| Total capital assets, being depreciated, net | <u>50,945</u>                | <u>3,418</u>                             | <u>8,137</u>                             | <u>46,226</u>             |
| Business-Type Activities Capital Assets, net | <u>\$ 58,941</u>             | <u>\$ 21,571</u>                         | <u>\$ 8,137</u>                          | <u>\$ 72,375</u>          |

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

**Governmental Activities - Depreciation Expense**  
(Expressed in Thousands)

|  | <u>Amount</u>   |
|--|-----------------|
| <b>Governmental Activities:</b>                      |                 |
| Arts, Heritage and Cultural Enrichment               | \$ 140          |
| Business Licensing and Regulation                    | 538             |
| Economic Development and Workforce Training          | 1,890           |
| Education  | 642             |
| Governmental Support and Operations                  | 5,409           |
| Health and Human Services                            | 5,981           |
| Justice and Protection                               | 10,918          |
| Natural Resources Development and Protection         | 8,002           |
| Transportation Safety and Development                | <u>14,223</u>   |
| Total Depreciation Expense – Governmental Activities | <u>\$47,743</u> |

**Discretely Presented Component Units**

The following table summarizes net capital assets reported by the discretely presented component units (Expressed in Thousands):

**Component Unit - Capital Assets**  
(Expressed in Thousands)

|  |                   |
|--|-------------------|
| Land   | \$ 14,367         |
| Buildings  | 535,434           |
| Equipment  | 143,993           |
| Improvements other than buildings                          | 47,489            |
| Library books and materials                                | 56,358            |
| Construction in progress                                   | 46,061            |
| Infrastructure   | <u>749</u>        |
| Total  | 844,451           |
| Less accumulated depreciation                              | <u>(345,044)</u>  |
| Capital assets, net – discretely presented component units | <u>\$ 499,407</u> |

**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 Statement of Fiduciary Net Assets and in the Statement of Changes in Fiduciary Net Assets. 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 benefit 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, 2003, the membership consisted of:

|                                     |               |
|-------------------------------------|---------------|
| Active vested and nonvested members | 51,848        |
| Terminated vested participants      | 5,056         |
| Retirees and benefit recipients     | <u>30,774</u> |
| Total                               | <u>87,678</u> |

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is age 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993 (effective October 1, 1999, the prior ten-year requirement was reduced to five years by legislative action). 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 employee and teacher members, 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 and membership rights. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 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.

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

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 period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2003, the Legislature relengthened the period to the full extent of the then-remaining Constitutional years for the 2004-2005 biennium and reshortened the period effective July 1, 2005 to the 14 years that will then remain in the earlier shortened period.

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, and the amount of the unfunded liability. Amortization periods range from 7 years to 23 years.

In order to reduce any unfunded pension liability for State employees and teachers, the State is required to remit 32% of its General Fund unappropriated surplus to the System at year end. For fiscal 2003, this additional contribution was approximately \$10.6 million. The amount will be paid by the State after year end.

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 2003 for participating entities are:

|                                      |              |
|--------------------------------------|--------------|
| <u>State:</u>                        |              |
| Employees <sup>1</sup>               | 7.65-8.65%   |
| Employer <sup>1</sup>                | 12.43-37.12% |
| <u>Teachers:</u>                     |              |
| Employees                            | 7.65%        |
| Employer                             | 17.71%       |
| <u>Participating Local Entities:</u> |              |
| Employees <sup>1</sup>               | 3.0-8.0%     |
| Employer <sup>1</sup>                | 1.7-6.5%     |

<sup>1</sup> Contribution rates vary depending on specific terms of plan benefits for certain classes of employees and/or, in the case of PLDs, in 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:

**Net Pension Obligation**  
(Expressed in Thousands)

|   |                  |
|---|------------------|
| Annual required contribution                  | \$252,709        |
| Interest on net pension obligation            | 6,089            |
| Adjustment to annual required contribution    | <u>(5,427)</u>   |
| Annual pension cost                           | 253,371          |
| Contributions made                            | <u>263,209</u>   |
| Increase (decrease) in net pension obligation | (9,838)          |
| Net pension obligation beginning of year      | <u>76,099</u>    |
| Net pension obligation end of year            | <u>\$ 66,261</u> |

**Analysis of Funding Progress**  
(Expressed in Thousands)

| <u>Year</u> | <u>Annual Pension Cost</u> | <u>Percentage Covered</u> | <u>Net Pension Obligation</u> |
|-------------|----------------------------|---------------------------|-------------------------------|
| 2003        | \$ 253,370                 | 103.88%                   | \$ 66,261                     |
| 2002        | 243,244                    | 99.69%                    | 76,099                        |
| 2001        | 254,978                    | 99.57%                    | 75,341                        |
| 2000        | 241,189                    | 100.85%                   | 74,243                        |

The annual required contribution for the current year was determined as part of the June 30, 2003 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 cost of living. 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 the amortization period then in effect under statutory and constitutional requirements. 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 4 to 16 years.

**COMPONENT UNIT PENSION DESCRIPTION**

The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine State Retirement System have

defined benefit pension plans. All are participants in plans administered by the Maine State Retirement System. Employees of the Maine Community College System, Governor Baxter School for the Deaf, and the Northern New England Passenger Rail Authority 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**

The University of Maine System and the Maine Community College System also have optional programs with the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), which is a defined contribution plan. The University of Maine System 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. The Maine Community College System contributes 12.88 percent of total salaries for participating employees or 6.04 percent for Maine Educational Association employees.

The University of Maine System (UMS) also offers several defined contribution and defined benefit pension plans. Defined contribution plans include the Basic Retirement Plan and the Optional Retirement Savings Plan. Defined benefit plans include the UMS Defined Benefit Plan and the Incentive Retirement Plan.

The Finance Authority of Maine and Child Development Services have Simplified Employee Pension plans. The Maine State Housing Authority has a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(a).

The Maine Health and Higher Educational Facilities Authority has a discretionary contributory profit sharing plan and a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(k).

**NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS****POST RETIREMENT HEALTH CARE BENEFITS**

The State of Maine funds postretirement health care benefits for most retired State employees and legislators, as authorized by 5 M.R.S.A. § 285, and for a portion of the premiums for teachers, as authorized by 20-A M.R.S.A. § 13451. Pursuant to 5 M.R.S.A., § 285, most retired employees of the Maine Turnpike Authority, the Maine Community College System, the Maine Maritime Academy, the Maine State Retirement System, and the Governor Baxter School for the Deaf are eligible to participate in the health plan but are not funded by the State. Specifically excluded (5 M.R.S.A., § 285 1-B) are members of the Maine Municipal Association, 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 on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. 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. Effective August 1, 2003, the State contribution to retired teacher health premium was increased to 40 %.

The State had been in the process of changing funding of retiree health care benefits from a pay-as-you-go basis to an actuarial funding method. For retired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount (which averaged approximately 6.5% for the calendar years of 2001 and 2002), is generated using a contribution rate, authorized by 5 MRSA § 286-A, multiplied by the value of the current employee payroll. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual

amount necessary to pay its 40 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in the General Fund. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed. Due to budgetary constraints and difficulties accumulating sufficient resources to fund retiree health care benefits on an actuarial basis, Chapter 673 PL 2003 authorizes the State to manage the retiree health insurance fund on a cost-reimbursement basis beginning June 30, 2005.

As of June 30, 2003, there were 7,533 retired eligible State employees and 7,898 retired teachers. In fiscal year 2003, the State paid into the Retiree Health Insurance Fund \$49.1 million for retired employees and \$9.7 million for retired teachers. Premium charges paid were \$27.6 million and \$8 million, respectively. Overall Net Assets increased by \$24.5 million to \$74.4 million at June 30, 2003.

The most recent actuarial study, issued for the fiscal year ended July 1, 2003, estimated the liability for current and future retirees at \$1.2 billion. This includes 13,945 retirees and 42,528 active employees expected to retire in the future.

**POST RETIREMENT LIFE INSURANCE BENEFITS**

The Maine State Retirement System provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of ten years. Payments of claims are made from a fund containing 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. For the fiscal year ended June 30, 2003, claims totaled \$2.3 million for retired State employees and \$1.2 million for retired teachers. The number of participants eligible to receive benefits at fiscal year end was 8,278 retired State employees and 5,601 retired teachers.



**NOTE 11 - LONG-TERM OBLIGATIONS**

**Primary Government**

The State records its liability for general obligation bonds in the Governmental Activities column on the Statement of Net Assets. Other long-term obligations recognized by the State include: revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit; obligations under Certificates of Participation and other financing arrangements; compensated employee absences; and, the State's net pension obligation.

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.

**GENERAL OBLIGATION BONDS**

Programs for which the State issues general obligation bonds include: adaptive equipment loan programs;

Changes in general obligation bonds of the primary government during fiscal year 2003 were:

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

|                          | <u>Balance</u><br><u>July 1, 2002</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u><br><u>June 30, 2003</u> | <u>Due Within</u><br><u>One Year</u> |
|--------------------------|---------------------------------------|------------------|--------------------|--|--------------------------------------|
| General Obligation Debt: |                                       |                  |                    |  |                                      |
| General Fund             | \$ 260,790                            | \$ 97,080        | \$ 63,880          | \$ 293,990                             | \$ 56,240                            |
| Special Revenue Fund     | 85,335                                | -                | 21,215             | 64,120                                 | 16,015                               |
| Self Liquidating         | 370                                   | -                | 70                 | 300                                    | 70                                   |
| Total                    | <u>\$ 346,495</u>                     | <u>\$ 97,080</u> | <u>\$ 85,165</u>   | <u>\$ 358,410</u>                      | <u>\$ 72,325</u>                     |

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary

government, from June 30, 2003 until maturity, are summarized in the following table:

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

| <u>Fiscal Year</u> | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>      |
|--------------------|-------------------|------------------|-------------------|
| 2004               | \$ 72,325         | \$ 15,609        | \$ 87,934         |
| 2005               | 59,560            | 12,207           | 71,767            |
| 2006               | 57,475            | 9,458            | 66,933            |
| 2007               | 44,750            | 6,891            | 51,641            |
| 2008               | 35,885            | 4,955            | 40,840            |
| 2009-2013          | 88,415            | 7,506            | 95,921            |
| Total              | <u>\$ 358,410</u> | <u>\$ 56,626</u> | <u>\$ 415,036</u> |

**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, 2003, general obligations bonds authorized and unissued totaled \$261.3 million. The Maine Governmental Facilities Authority, a blended component unit, may not issue securities in excess of \$211 million

outstanding, at any one time, except for the issuance of certain revenue refunding securities.

**REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY**

The State has included \$196.4 million in other financing arrangements to reflect revenue 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.

#### 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, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or

any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

#### OTHER LONG-TERM OBLIGATIONS

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Assets, the State has recorded long-term obligations for its compensated employee absences and net pension obligation.

The following schedule shows the changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2003:

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

|  | <u>Balance<br/>July 1, 2002</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance<br/>June 30, 2003</u> | <u>Due Within<br/>One Year</u> |
|--|---------------------------------|------------------|-------------------|----------------------------------|--------------------------------|
| <b>Governmental Activities:</b>        |                                 |                  |                   |                                  |                                |
| MGFA Revenue Bonds                     | \$ 191,646                      | \$ 10,978        | \$ 6,240          | \$ 196,383                       | \$ 11,830                      |
| COP's and Other Financing Arrangements | 22,626                          | 34,054           | 8,022             | 48,658                           | 12,297                         |
| Compensated Absences                   | 38,323                          | 5,118            | 3,974             | 39,467                           | 3,851                          |
| Net Pension Obligation                 | 76,099                          | -                | 9,838             | 66,261                           |                                |
| Total Governmental Activities          | <u>\$ 328,694</u>               | <u>\$ 50,150</u> | <u>\$ 28,074</u>  | <u>\$ 350,769</u>                |                                |
| <b>Business-Type Activities:</b>       |                                 |                  |                   |                                  |                                |
| Compensated Absences                   | \$ 526                          | \$ -             | \$ 74             | \$ 452                           | \$ 82                          |
| Total Business-Type Activities         | <u>\$ 526</u>                   | <u>\$ -</u>      | <u>\$ 74</u>      | <u>\$ 452</u>                    | <u>\$ 82</u>                   |

Debt service requirements (principal and interest) for all COP's and other financing arrangements of the primary

government, from June 30, 2003 until maturity, are summarized in the following table:

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

| <u>Fiscal Year</u> | <u>Governmental Funds</u> |                 |                  | <u>Internal Service Funds</u> |                  |                   |
|--------------------|---------------------------|-----------------|------------------|-------------------------------|------------------|-------------------|
|                    | <u>Principal</u>          | <u>Interest</u> | <u>Total</u>     | <u>Principal</u>              | <u>Interest</u>  | <u>Total</u>      |
| 2004               | \$ 7,870                  | \$ 1,424        | \$ 9,295         | \$ 16,257                     | \$ 9,403         | \$ 25,660         |
| 2005               | 8,927                     | 1,041           | 9,968            | 15,964                        | 9,286            | 25,250            |
| 2006               | 9,310                     | 630             | 9,940            | 15,900                        | 8,603            | 24,503            |
| 2007               | 3,599                     | 264             | 3,863            | 13,490                        | 7,973            | 21,463            |
| 2008               | 1,935                     | 173             | 2,108            | 12,395                        | 6,825            | 19,220            |
| 2009 - 2013        | 2,465                     | 228             | 2,693            | 57,663                        | 25,993           | 83,656            |
| 2014 - 2018        | -                         | -               | -                | 54,083                        | 12,622           | 66,705            |
| 2019 - 2023        | -                         | -               | -                | 25,183                        | 1,887            | 27,070            |
| Total              | <u>\$ 34,106</u>          | <u>\$ 3,760</u> | <u>\$ 37,867</u> | <u>\$ 210,935</u>             | <u>\$ 82,592</u> | <u>\$ 293,527</u> |

**SHORT TERM OBLIGATIONS**

The State of Maine issued and retired \$250 million in Tax Anticipation Notes and \$97.1 million in Bond Anticipation Notes during fiscal year 2003. At June 30, 2003 there were no outstanding Tax Anticipation Notes nor Bond Anticipation Notes.

**OBLIGATIONS UNDER CAPITAL LEASES**

The State of Maine leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases, which are in substance purchases, are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception at the lower of fair market value or the present value of the minimum lease payments. The principle portion of lease payments reduces the liability; the interest portion is expensed.

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

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

Future payments to MGFA are, therefore, not included in the schedule of lease commitments below. At June 30, 2003, property acquired under capital leases totaled \$54.3 million in the internal service funds, with related accumulated depreciation of \$22 million.

**OBLIGATIONS UNDER OPERATING LEASES**

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

The following schedule includes the future minimum lease payments for capital leases reported in proprietary funds, and the future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year from June 30, 2003:

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

| Fiscal Year                              | <u>Capital<br/>Leases</u> | <u>Operating<br/>Leases</u> |
|--|---------------------------|-----------------------------|
| 2004                                     | \$ 6,348                  | \$ 2,299                    |
| 2005                                     | 5,025                     | 1,728                       |
| 2006                                     | 4,598                     | 1,143                       |
| 2007                                     | 4,409                     | 616                         |
| 2008                                     | 4,162                     | 530                         |
| 2009-2013                                | 14,897                    | 1,368                       |
| 2014-2018                                | 4,373                     | 1,160                       |
| 2019-2023                                | <u>747</u>                | <u>-</u>                    |
| Total Minimum Payments                   | 44,559                    | <u>\$ 8,844</u>             |
| Less: Amount Representing Interest       | <u>9,643</u>              |                             |
| Present Value of Future Minimum Payments | <u>\$ 34,916</u>          |                             |

**Component Units**

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State. The following table

summarizes bonds outstanding for the discretely presented component units as reported in their separately issued financial statements, utilizing their respective fiscal year ends:

**Component Unit Bonds Outstanding**  
(Expressed in Thousands)

| <u>Component Unit</u>  | <u>Purpose</u>                        | <u>Interest Rates</u> | <u>Amount</u>      | <u>Maturity Dates</u> |
|--|---------------------------------------|-----------------------|--------------------|-----------------------|
| Maine Health and Higher Educational<br>Facilities Authority                            | General Resolution                    | 4.5 - 7.55%           | \$ 60,350          | 1988 - 2043           |
|  | Reserve Fund                          | 2.25 - 6.20%          | 1,000,196          | 1993 - 2032           |
|  | Taxable Reserve Fund                  | 7.03 - 7.04%          | <u>41,665</u>      | 1993 - 2016           |
| Subtotal   |                                       |                       | 1,102,211          |                       |
| Finance Authority of Maine<br>Maine Municipal Bond Bank                                | Construction Bonds                    | 1.0 %                 | 1,243              | 2003 - 2025           |
|  | General Tax-Exempt Fund Group         | 2.0 - 6.50%           | 952,334            | 1993 - 2032           |
|  | Sewer and Water Fund Group            | 1.05 - 7.2%           | 74,402             | 1991 - 2028           |
|  | Special Obligation Taxable Fund Group | 6.1 - 10.25%          | <u>1,245</u>       | 1991 - 2009           |
| Subtotal   |                                       |                       | 1,027,981          |                       |
| Maine Educational Loan Authority<br>Maine State Housing Authority                      | Educational Loan Revenue Bonds        | 1.43 - 3.65%          | 72,431             | 2005 - 2032           |
|  | Mortgage Purchase Program             | 1.6 - 8.13%           | 1,389,828          | 2003 - 2037           |
|  | Housing Finance Revenue Program       | 4.4 - 6.3%            | <u>29,619</u>      | 2003 - 2030           |
| Subtotal   |                                       |                       | 1,419,447          |                       |
| Maine Maritime Academy<br>Maine Community College System<br>University of Maine System | Revenue Bonds and Other Obligations   | 2.6 - 5.8%            | 2,724              | 2004 - 2023           |
|  | Building Construction Bonds           | 8.16%                 | 145                | 2005                  |
|  | 1998 Series A Revenue Bonds           | 3.95 - 5.0%           | 26,201             | 2000 - 2024           |
|  | 2000 Series A Revenue Bonds           | 4.5 - 5.75%           | 36,634             | 2001 - 2030           |
|  | 2002 Series A Revenue Bonds           | 2.0 - 5.375%          | 45,132             | 2002 - 2012           |
| 2003 Series A Revenue Bonds  | 3.0 - 4.75%                           | <u>19,814</u>         | 2004 - 2032        |                       |
| Subtotal   |                                       |                       | <u>127,781</u>     |                       |
| Total  |                                       |                       | <u>\$3,753,963</u> |                       |

The University of Maine System (UMS) entered into an interest rate exchange agreement to lower its borrowing costs in connection with the 2002 Series A Revenue Bonds. The agreement calls for UMS to make monthly payments based on the weighted average rate per the Bond Market Municipal Swap Index. In return, the counterparty pays UMS twice per year on a fixed rate. This is designed to give UMS the coupon rate payable by UMS to bondholders each March 1 and September 1. UMS credit risk exposure is limited to the amount of the swap's fair value at the valuation date. As of June 30, 2003, this was \$3.4 million.

To mitigate credit risk, if the counterparty's credit rating falls below certain levels, UMS may require the counterparty to provide and maintain collateral in the form of cash or U.S. Treasury securities. The agreement terminates when the 2002 Series A bonds mature, on March 1, 2012.

Debt service principal maturities for outstanding bonds of the discretely presented component units, from June 30, 2003 until maturity, are summarized in the following table:

**Component Units Principal Maturities**  
(Expressed in Thousands)

| <u>Fiscal Year Ending</u>               | <u>MHHEFA</u>      | <u>FAME</u>    | <u>MMBB</u>        | <u>MELA</u>     | <u>MSHA</u>        | <u>MMA</u>     | <u>MCCS</u>  | <u>UMS</u>       | <u>Totals</u>      |
|---|--------------------|----------------|--------------------|-----------------|--------------------|----------------|--------------|------------------|--------------------|
| 2004                                    | \$ 36,372          | \$ 51          | \$ 92,912          | \$ -            | \$ 21,470          | \$ 90          | \$ 85        | \$ 5,145         | \$ 156,125         |
| 2005                                    | 38,798             | 52             | 86,043             | -               | 29,365             | 92             | 60           | 5,305            | 159,715            |
| 2006                                    | 40,081             | 52             | 87,931             | 5,310           | 38,170             | 98             | -            | 5,505            | 177,147            |
| 2007                                    | 41,621             | 53             | 79,300             | -               | 37,945             | 95             | -            | 5,430            | 164,444            |
| 2008                                    | 42,734             | 53             | 78,334             | -               | 40,755             | 100            | -            | 5,700            | 167,676            |
| 2009-2013                               | 227,580            | 275            | 317,809            | 11,615          | 262,185            | 585            | -            | 56,690           | 876,739            |
| 2014-2018                               | 218,630            | 289            | 190,164            | -               | 298,165            | 775            | -            | 20,075           | 728,098            |
| 2019-2023                               | 198,200            | 303            | 102,670            | -               | 314,460            | 1,015          | -            | 13,945           | 630,593            |
| 2024-2028                               | 169,705            | 115            | 1,990              | 22,500          | 231,015            | -              | -            | 5,235            | 430,560            |
| 2029-2033                               | 84,060             | -              | 250                | 34,000          | 164,815            | -              | -            | 2,900            | 286,025            |
| 2034-2038                               | 1,775              | -              | -                  | -               | 935                | -              | -            | -                | 2,710              |
| 2039-2043                               | 2,375              | -              | -                  | -               | 100                | -              | -            | -                | 2,475              |
| 2044-2048                               | 280                | -              | -                  | -               | -                  | -              | -            | -                | 280                |
| Less amounts deferred<br>or unamortized | -                  | -              | (9,422)            | (994)           | (19,933)           | (126)          | -            | 1,851            | (28,624)           |
| Total Principal Payments                | <u>\$1,102,211</u> | <u>\$1,243</u> | <u>\$1,027,981</u> | <u>\$72,431</u> | <u>\$1,419,447</u> | <u>\$2,724</u> | <u>\$145</u> | <u>\$127,781</u> | <u>\$3,753,963</u> |

**NOTE 12 - SELF-INSURANCE****A. RISK MANAGEMENT**

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

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professional, and a variety of other insurance products. Not all departments elect to insure through the Risk Management Division; specifically, the Department of Human Services and the Department of Transportation have elected not to purchase general liability insurance.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is \$200 million per occurrence. The State retains \$2 million of this risk per occurrence, with the remainder being covered by a private insurance carrier (excess insurance). Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

| <u>Type of Insurance</u>         | <u>Coverage Per Occurrence</u> | <u>Risk Retention Per Occurrence</u> | <u>Excess Insurance Per Occurrence</u> |
|----------------------------------|--------------------------------|--------------------------------------|--|
| Property *                       | \$200 million                  | \$2 million                          | \$200 million                          |
| Ocean Marine Boat Liability *    | 10 million                     | 10 thousand                          | 10 million                             |
| Loss of Software and Data *      | 8 million                      | 25 thousand                          | 8 million                              |
| Boiler and Machinery             | 2 million                      | 2 million                            | none                                   |
| General Liability Including      |                                |                                      |  |
| Employment Practices             | 400 thousand                   | 400 thousand                         | none                                   |
| Police Professionals             | 400 thousand                   | 400 thousand                         | none                                   |
| Vehicular Liability              | 400 thousand                   | 400 thousand                         | none                                   |
| Bonding                          | 500 thousand                   | 500 thousand                         | none                                   |
| Foster Parents                   | 300 thousand                   | 300 thousand                         | none                                   |
| Inland Marine (various policies) | 2 million                      | 2 million                            | none                                   |

\* These lines of insurance have commercial excess insurance covering losses above the risk retention amount up to the per occurrence amount listed. All other insurance programs are wholly self-insured.

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

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of June 30, 2003. This cost of claims includes case reserves, the development of known claims and incurred-but-not-reported claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis and 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.

At June 30, 2002, the present value of the claims payable for the State's self-insurance plan was estimated between \$3.0 and \$3.5 million. At June 30, 2003, the State has estimated the present value of the loss at \$4.1 million. The actuary calculated this based on a 4.0 percent yield on investments.

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

|   | <u>2003</u>    | <u>2002</u>    |
|---|----------------|----------------|
| Liability at Beginning of Year                  | \$3,337        | \$3,219        |
| Current Year Claims and<br>Changes in Estimates | 2,505          | 1,529          |
| Claims Payments                                 | <u>1,769</u>   | <u>1,411</u>   |
| Liability at End of Year                        | <u>\$4,073</u> | <u>\$3,337</u> |

As of June 30, 2003, fund assets of \$16 million exceeded fund liabilities of \$4.7 million by \$11.3 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added \$50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to \$400 thousand. The effect of this change has not been incorporated into the estimate used to determine claims payable as of June 30, 2003.

**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 \$850 thousand for the fiscal year ended June 30, 2003.

**C. WORKERS' COMPENSATION**

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

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but

not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The balance of claims liabilities is based on an actuarial study as of June 30, 2003:

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

|   | <u>2003</u>      | <u>2002</u>      |
|---|------------------|------------------|
| Liability at Beginning of Year                  | \$ 75,726        | \$ 75,726        |
| Current Year Claims and<br>Changes in Estimates | (5,260)          | 9,170            |
| Claims Payments                                 | <u>8,627</u>     | <u>9,170</u>     |
| Liability at End of Year                        | <u>\$ 61,839</u> | <u>\$ 75,726</u> |

Current year claims and changes in estimates include a \$13.8 million reduction in estimated outstanding claims. In prior periods, changes in the estimate of outstanding claims were not material and were reported as an increase or decrease to claims expense. The significant change in the current year estimate is partially due to a change in the June 30, 2002 estimate, which resulted in excess premiums being charged to user funds. These excess premiums have been reported as an operating transfer. Current year premium revenue and claims expense reflect actual operating activity for the fiscal year.

Based on the actuarial calculation as of June 30, 2003, the State is liable for unfunded claims, and incurred but not reported claims, of approximately \$73.4 million. The discounted amount is \$61.8 million and was calculated based on a 4.0 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 1,062 confidential employees at June 30, 2003. The liability amount for this benefit cannot be determined.

**NOTE 13 - JOINT VENTURES**

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The State of Maine participates in 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 and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members.

The Commission 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 Tri-State Lotto Commission financial report for fiscal year 2003, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

| <b>Tri-State Lotto Commission</b><br>(Expressed in Thousands)            |                   |
|--|-------------------|
| Current Assets   | \$ 46,582         |
| Noncurrent Assets  | <u>187,031</u>    |
| Total Assets   | <u>\$ 233,613</u> |
| Current Liabilities  | \$ 40,308         |
| Long-term Liabilities  | <u>160,111</u>    |
| Total Liabilities  | <u>200,419</u>    |
| Designated Prize Reserves  | 4,996             |
| Unrealized Gain on Investments Held for<br>Installment Prize Obligations | <u>28,198</u>     |
| Total Net Assets   | <u>33,194</u>     |
| Total Liabilities and Net Assets   | <u>\$ 233,613</u> |
| Total Revenue  | \$ 77,216         |
| Unrealized Gain on Investment Held for<br>Installment Prize Obligations  | 10,356            |
| Total Expenses   | 52,246            |
| Allocation of Funds to Member States                                     | <u>24,970</u>     |
| Increase in Net Assets   | <u>\$ 10,356</u>  |

**NOTE 14 - RELATED PARTY TRANSACTIONS****PRIMARY GOVERNMENT**

Title 20 MRSA, §11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage

the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code. By statute, the program assets and liabilities are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a

management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen College Investing Plan had approximately \$1.7 billion in net assets at June 30, 2003, which have been recorded in an Agency Fund on the financial statements of the State.

In 1999, the Legislature established the Maine Learning Technology Endowment to enable the full integration of appropriate learning technologies into teaching and learning for the State's elementary and secondary students. At June 30, 2003, the value of this fund, invested with the Maine State Retirement System, a discretely presented component unit, was approximately \$14 million. The investment and related liability, recorded in the MSRS financial statements, have been eliminated for purposes of including MSRS as a component unit of the State of Maine, as the State has recorded the assets in a special revenue fund in its financial statements.

General Obligation Bonds of the State include \$300 thousand 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.

The State of Maine has entered into contracts for health care claims processing services with a local vendor through the State's competitive bidding process. The President and Chief Executive Officer of the company also serves as Minority Floor Leader in the Maine House of Representatives. During fiscal year 2003, the State of Maine paid \$10.7 million for services under these contracts. At fiscal year end, the State accrued a total of \$971 thousand as accounts payable for services provided under these contracts: \$394 thousand in the General Fund, \$530 thousand in the Federal Fund; and \$47 thousand in the Other Special Revenue Fund.

The State of Maine pays a local company as a provider for prescription drugs through the MaineCare program. The Minority Floor Leader in the Maine House of Representatives is a member of the Board of the controlling group for this single-partner LP. During fiscal year 2003, the State paid \$15.5 million to this company; \$6.2 million from the General Fund and \$9.3 million from the Federal Fund.

The State of Maine pays a local company as a provider for mental health and independent living services through the MaineCare program. The Executive Director of the company also serves as House Chair of the Joint

Standing Committee on Appropriations and Financial Affairs in the Maine Legislature. During fiscal year 2003, the State paid \$8.3 million for these services; \$3.6 million from the General Fund and \$4.7 million from the Federal Fund.

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

#### COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, \$205.3 million; Child Development Services, \$18.4 million; Maine Community College System, \$47.5 million; Maine Municipal Bond Bank, \$2.5 million; Finance Authority of Maine, \$13.6 million; Maine Maritime Academy, \$7.5 million; Maine State Housing Authority, \$8.8 million; and the Governor Baxter School for the Deaf, \$6.0 million. FAME returned \$2.2 million to the State from the Underground Storage and Agriculture Marketing revolving loan funds.

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 of Maine System (System). Total gifts and income received by the System from the Foundation during the fiscal year ended June 30, 2003 was approximately \$3.6 million. The reported fair market value of the Foundation's assets at June 30, 2003 was approximately \$108.4 million. In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB 39 establishes new criteria for evaluating the need to include the Foundation as a component unit of the System. The Foundation appears to meet these revised criteria and is expected to be included as a component in the future.

The Finance Authority of Maine (FAME) administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total \$32.5 million at June 30, 2003, as a liability in Amounts Held Under State Revolving Loan Programs in their financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2003, the



State expended \$8 million to FAME for State revolving loan funds.

Title 20-A M.R.S.A. Chapter 419-A establishes the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2003, FAME paid approximately \$6.5 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

The State of Maine has contributed the use of land and buildings to the Governor Baxter School for the Deaf, a discretely presented component unit, for the operations of the School. The School does not recognize contribution revenue and the corresponding lease expense related to the contributed use of the property.

The State of Maine has capitalized costs associated with Mack Point pier facilities based on monies the State expended from bond funds issued for this project. The completed Mack Point facility will be owned by and is managed by the Maine Port Authority, a component unit of the State.

As part of the Mack Point Redevelopment Project, the Authority has granted a license and operating agreement to a commercial enterprise which requires the enterprise to operate the facility and pay license fees. The fees begin one month after the redevelopment is substantially complete. Subsequent to year end, the Authority notified the operator of the substantial completion of the project. As part of the agreement with the operator, the Authority granted an option to the operator to acquire the Mack Point facility upon the payment of \$16.2 million. All license fees paid over the term of the agreement will be applied to the option price.

#### RELATED ORGANIZATIONS

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 2003.

### NOTE 15 - COMMITMENTS AND CONTINGENCIES

#### PRIMARY GOVERNMENT

##### 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 funds approved for that purpose. State expenditures for landfill remediation projects totaled \$704 thousand for FY 2003.

During the 2003 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects, which completed work before January 1, 2000. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills except the Commissioner may make grants or payments up to 30%, if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. No additional cost share eligible closures have been approved by DEP. Consequently, the DEP expects no further expenditures for municipal landfill closures.

During the 2003 fiscal year, the State expended \$704 thousand of general obligation bond funds for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue for 90% of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50% for structures constructed after that date. The DEP recognizes that, in the future, post closure investigation and remediation activities may be necessary at landfills that will require State funds. The DEP has estimated the amount of these potential costs to be approximately \$1 million, based on current site knowledge.

#### **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 \$22.5 million. This consists of approximately \$13.1 million for State-owned facilities and approximately \$9.4 million for the State's share, under a cost sharing arrangement, for municipal facilities.

#### **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 2003 fiscal year, \$5.24 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2003, amounts encumbered for pollution abatement projects totaled \$2.74 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled \$9.13 million. At June 30, 2003, DEP estimated the total cost (federal, State, and local) of future projects to be \$345 million.

#### **DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY**

The State has been identified as a potentially responsible party at three hazardous waste clean-up sites in Maine. These sites are located in Plymouth, Casco and Ellsworth. The amount or range of potential liability has not been determined.

#### **GROUND WATER OIL CLEAN-UP FUND**

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA §569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for clean up of oil spills. The program is funded by a per barrel assessment on petroleum products imported into the State. Coverage is up to \$1 million per

occurrence for both aboveground and underground storage tanks. Third party injury coverage may not exceed \$200,000 per claimant.

A report to the legislature dated December 15, 2000, submitted by the Maine Department of Environmental Protection (DEP), identified 356 long-term remediation sites as of August 2000 that are covered by the insurance program. At June 30, 2003 there were 448 sites on the long-term remediation priority list. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

#### **CONSTRUCTION COMMITMENTS**

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes approximately 72% of the annual payments. As of June 30, 2003, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled \$786.3 million.

At June 30, 2003, the Department of Transportation had contractual commitments of approximately \$86.5 million for construction of various highway projects. The State's share of that amount is expected to be approximately \$17.8 million. Of these amounts, \$15.9 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

#### **TOBACCO SETTLEMENTS**

On November 23, 1998, Maine along with 45 other states and five 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 states and jurisdictions. 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 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 certain states and jurisdictions for their contribution to the overall settlement. These payments are subject to the adjustments referred to above.

Maine's share is approximately \$114 million and will be received in ten annual payments beginning in 2008.

#### **BAXTER COMPENSATION AUTHORITY**

Chapter 439 PL 2001 established the Baxter Compensation Authority to provide monetary compensation to former students of the Baxter School for the Deaf who, while students, were subjected to abuse by a State employee or by inaction of the State. The Authority is established by the provisions of Title 5 MRSA, Chapter 601 as public instrumentality of the State, limiting any liabilities to its available resources. The Authority was initially capitalized by the legislature with \$6 million, to settle cases and provide for its administrative expenses. As of June 30, 2003, the Authority had expended \$2.3 million, with an additional \$2.5 million in claims paid in fiscal year 2004. In Chapter 673 PL 2003, the Legislature provided an additional \$6 million on a one-time basis to pay all remaining claims that may come forward. The Authority has a statutory sunset of July 1, 2007.

#### **DISPROPORTIONATE SHARE PAYMENTS TO HOSPITALS**

Aroostook Medical Center, alone, filed suit in State court demanding a payment of \$660 thousand in State funds, after receiving a letter from DHS saying that they were eligible for a disproportionate share payment for FY 2000, but that the payment would not be made until final settlement. There are other hospitals in the identical situation, covering several fiscal years. The State accrued a liability of \$21 million in the governmental activities in the entity-wide financial statements; \$6.9 million in State funds and \$14.1 million in federal funds.

#### **DISCRETELY PRESENTED COMPONENT UNITS**

##### **NURSING HOME LOANS**

The owners of certain financially troubled nursing homes, with the concurrence of The Maine Health and Higher Educational Facilities Authority (MHHEFA), have begun refinancing portions of MHHEFA's loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of MHHEFA expects that these refinancings will reduce annual debt service requirements, thereby eliminating its exposure in the Taxable Financing Reserve Fund and reducing its overall exposure. Through June 30, 2003, HUD completed refinancings for eight institutions which, at the time they were refinanced, had combined bond-related loans and advances due MHHEFA of approximately \$37.8 million. As part of the refinancing completed by HUD, MHHEFA agreed to issue 8% subordinated notes receivable to these eight institutions from its operating fund. These notes totaled \$5.6 million at June 30, 2003, earn interest only to the extent that cash payments are received and are subordinate to all HUD

loans. If these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid.

Management of the Authority expects the owners of three other facilities, with combined amounts due the Authority of approximately \$11.7 million at June 30, 2003, will complete refinancings during fiscal 2004. If the refinancings are not completed, it is likely that a number of nursing homes included in the taxable financing reserve fund resolution will have difficulty in fully meeting their debt service obligations to the Authority.

In addition to the subordinated notes receivable from the eight institutions described above, the Authority has advanced approximately \$4.3 million from the operating fund as of June 30, 2003, to certain financially troubled institutions. The outstanding loans owed to the Authority total approximately \$28.4 million. These advances were made to assist these institutions in meeting debt service requirements. The Authority established a \$3 million reserve in its operating fund related to amounts that have been advanced or are expected to require an advance to troubled institutions.

##### **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, 2003, loans outstanding pursuant to these authorizations are \$41.5 million, less than \$1 million, and less than \$1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2003.

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, 2003.

**MORAL OBLIGATIONS**

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

On or before December first of each year, the Authority is required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the

amounts necessary for restoration. The Governor shall certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then-current State fiscal year.

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

The following summarizes information regarding outstanding Moral Obligations:

**Moral Obligation Bonds**  
(Expressed in Thousands)

| <u>Issuer</u>  | <u>Bonds Outstanding</u> | <u>Required Debt Reserve</u> | <u>Obligation Debt Limit</u> | <u>Legal Citation</u> |
|--|--------------------------|------------------------------|------------------------------|-----------------------|
| Maine Health and Higher Educational Facilities Authority | \$ 1,102,211             | \$ 83,666                    | no limit                     | 22 MRSA § 2075        |
| Finance Authority of Maine                               | 176,257                  | 36,441                       | 1,075,000                    | 10 MRSA § 1032, 1053  |
| Loring Development Authority                             | -                        | -                            | 100,000                      | 5 MRSA § 13080-N      |
| Maine Municipal Bond Bank                                | 1,037,404                | 119,067                      | no limit                     | 30-A MRSA § 6006      |
| Maine Educational Loan Authority                         | 32,115                   | 752                          | 50,000                       | 20-A MRSA § 11424     |
| Maine State Housing Authority                            | <u>1,437,280</u>         | <u>116,975</u>               | 2,150,000                    | 30-A MRSA § 4906      |
| Total  | <u>\$ 3,785,267</u>      | <u>\$ 356,901</u>            |                              |                       |

**NOTE 16 - LITIGATION**

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

*Aroostook Medical Center v. Peter Walsh (TAMC I).* This case is in State court. Plaintiffs are six Maine hospitals, and the claims, worth \$7 - 10 million in State funds, cover four fiscal years. The litigation deals with alleged violations of federal Medicaid law by dealing with supplemental disproportionate share payments, third party liability payments offsets and reimbursements, and

adjustments to the hospitals' prospective payment rates. If these hospitals prevail, the Attorney General believes that other hospitals may file similar claims.

In various lawsuits, Plaintiffs seek damages in excess of \$1 million against the State or against State officials, and various notices of claim also specify damages in excess of \$1 million where no lawsuit has been filed. In none of these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed \$1 million.

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

some cases spouse), it is difficult to estimate the total potential liability to the State.

In addition to the foregoing, various other suits are pending against the State, State agencies and State officials involving damages or other potential costs. Since the amounts sought are less than \$1 million, these suits have not been individually identified.

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 17 - SUBSEQUENT EVENTS

### PRIMARY GOVERNMENT

On July 1, 2003, October 1, 2003, January 8, 2004 and April 1, 2004, the State issued \$25.8 million, \$26.1 million, \$25.5 million, and \$52.9 million respectively of Bond Anticipation Notes. The BAN's will mature on June 24, 2004.

On July 1, 2003 the State issued \$275 million of Tax Anticipation Notes which become due on June 30, 2004.

On November 11, 2003, December 15, 2003, and March 1, 2004, the State issued Certificates of Participation in the following amounts: \$1.6 million, \$2.3 million, and \$1.2 million. Proceeds were used to purchase, respectively, a budget management system through the State's Information Services Internal Service Fund; school buses for the Department of Education through the General Fund; and police vehicles through the Highway Fund. On December 12, 2003, the State entered into a lease purchase agreement totaling \$793,200 to purchase a new ARAN vehicle for the Department of Transportation through the Highway Fund.

Chapter 20 PL 2003 amended 5 MRSA §17151 such that the unfunded liability attributable to state employees and teachers must be retired in no more than 25 years from June 30, 2003. It had previously been 19 years from June 30, 2000. The amount of the unfunded liability attributable to state employees and teachers as of July 1, 2004, as certified by the board or as that amount may be revised in accordance with the terms of the certification, must be retired in no more than 14 years from June 30, 2005.

Title 36 MRSA, Chapter 914, established the 2003 Maine Tax Amnesty Program, which was intended to encourage delinquent taxpayers to comply with the State's tax law, to enable the State Tax Assessor to identify and collect previously unreported taxes, and to accelerate collection of certain tax liabilities. The long-term goal of the program is to improve taxpayer compliance with the State's tax law.

The program applies to tax liabilities delinquent as of August 31, 2003. To be eligible for the program, a taxpayer must file a 2003 amnesty return between September 1, 2003 and November 30, 2003. Under the program, a taxpayer is absolved from criminal or civil prosecution or civil penalties plus ½ of the interest associated with the liability.

Chapter 20 PL 2003 amended 28-A MRSA to authorize the State of Maine to close the remaining State-run liquor stores and enter into an 10 year lease agreement, with two five-year renewal options, with a vendor to manage and operate wholesale liquor distribution as the State's agent. Chapter 20 included estimated revenues amounting to \$125 million to be counted toward balancing the fiscal year 2004 – 2005 biennial budget. The amount payable to the State by the contractor is to be made in two installments, with the first payment of \$75 million by June 30, 2004 and \$50 million in fiscal year 2005. Upon the bid award, the unsuccessful bidders filed appeals, but the award was upheld by the State appeals panel that heard the complaints. The unsuccessful bidders then filed actions in Kennebec County Superior Court. The State Of Maine is in possession of a letter from the contractor stating that all interested parties have reached a settlement, making court action unlikely. While a settlement has been reached, as of May 6, 2004, the case has not been removed from the Kennebec County Superior Court. The State of Maine and the contractor intend to execute a contract for services on May 14, 2004.

### COMPONENT UNITS

On April 8, 2003, the Maine State Housing Authority (MSHA) issued \$23.3 million of its 2003 Series A bonds. The bonds carry interest rates ranging from 1.25% to 5.0%, with maturities from 2004 – 2033. On February 13, 2003 and March 6, 2003, MSHA redeemed, at par, \$33.2 million and \$42.9 million of its Mortgage Purchase Program bonds, with interest rates from 4.25% to 8.125%, and maturities from 2007 – 2032.

On July 24, 2003, Maine Health and Higher Education Facilities Authority (MHHEFA) issued \$65.1 million of 2003B and 2003C Series Revenue Bonds. The bonds carry interest rates from 2.0% to 5.0%, with maturities from 2004 – 2033. The bonds are secured by loans made to institutions within the State of Maine. On August 12, 2003, MHHEFA issued \$6.4 million of 2003 Taxable II Series Revenue Bonds. The bonds mature in 2014 – 2023 and carry variable interest rates. These bonds are secured by subordinated loans to various institutions and MHHEFA's operating fund.

On September 11, 2003, Maine Governmental Facilities Authority issued \$18.4 million of Series 2003 Lease Rental Revenue Bonds. These bonds carry interest rates from 2.0% to 5.0%, with maturities from 2004 – 2023.



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**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

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Required Supplementary Information - Budgetary Reporting

**STATE OF MAINE  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS**

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|  | General Fund        |                     |                    |                               | Highway Fund       |                    |                    |                               |
|--|---------------------|---------------------|--------------------|-------------------------------|--------------------|--------------------|--------------------|-------------------------------|
|  | Original<br>Budget  | Final Budget        | Actual             | Variance with<br>Final Budget | Original<br>Budget | Final Budget       | Actual             | Variance with<br>Final Budget |
| <b>Revenues</b>  |                     |                     |                    |                               |                    |                    |                    |                               |
| Taxes  | \$ 2,465,450        | \$ 2,261,417        | \$ 2,285,272       | \$ 23,855                     | \$ 182,472         | \$ 187,440         | \$ 187,909         | \$ 469                        |
| Assessments and Other  | 61,404              | 66,134              | 62,288             | (3,846)                       | 85,758             | 86,174             | 89,728             | 3,554                         |
| Federal Grants   | 19,015              | 24,657              | 25,580             | 923                           | -                  | -                  | -                  | -                             |
| Service Charges  | 21,306              | 26,196              | 33,968             | 7,772                         | 8,894              | 9,104              | 5,125              | (3,979)                       |
| Income from Investments  | 10,014              | 1,889               | 2,346              | 457                           | 3,000              | 1,418              | 1,339              | (79)                          |
| Miscellaneous Revenue  | 5,223               | 4,223               | 5,728              | 1,505                         | -                  | 111                | 1,813              | 1,702                         |
| <b>Total Revenues</b>  | <u>2,582,412</u>    | <u>2,384,516</u>    | <u>2,415,182</u>   | <u>30,666</u>                 | <u>280,124</u>     | <u>284,247</u>     | <u>285,914</u>     | <u>1,667</u>                  |
| <b>Expenditures</b>  |                     |                     |                    |                               |                    |                    |                    |                               |
| Government Support and Operations  | 334,986             | 276,078             | 260,920            | 15,158                        | 30,455             | 33,760             | 32,288             | 1,472                         |
| Economic Development and Workforce Training  | 61,167              | 57,317              | 53,878             | 3,439                         | -                  | -                  | -                  | -                             |
| Education  | 1,200,041           | 1,176,516           | 1,142,036          | 34,480                        | -                  | -                  | -                  | -                             |
| Health and Human Services  | 862,316             | 806,348             | 791,825            | 14,523                        | -                  | -                  | -                  | -                             |
| Business Licensing and Regulation  | 11                  | -                   | -                  | -                             | -                  | -                  | -                  | -                             |
| Natural Resources Development and Protection   | 72,521              | 72,570              | 67,992             | 4,578                         | 45                 | 45                 | 45                 | -                             |
| Justice and Protection   | 206,106             | 211,016             | 204,311            | 6,705                         | 31,172             | 32,671             | 32,175             | 496                           |
| Arts, Heritage and Cultural Enrichment   | 9,701               | 9,217               | 9,031              | 186                           | -                  | -                  | -                  | -                             |
| Transportation Safety and Development  | 4,598               | 4,360               | 4,328              | 32                            | 227,588            | 297,372            | 237,529            | 59,843                        |
| <b>Total Expenditures</b>  | <u>2,751,447</u>    | <u>2,613,422</u>    | <u>2,534,321</u>   | <u>79,101</u>                 | <u>289,260</u>     | <u>363,848</u>     | <u>302,037</u>     | <u>61,811</u>                 |
| <b>Revenues Over (Under) Expenditures</b>  | <u>(169,035)</u>    | <u>(228,906)</u>    | <u>(119,139)</u>   | <u>109,767</u>                | <u>(9,136)</u>     | <u>(79,601)</u>    | <u>(16,123)</u>    | <u>63,478</u>                 |
| <b>Other Financing Sources (Uses)</b>  |                     |                     |                    |                               |                    |                    |                    |                               |
| Operating Transfers Net  | (33,879)            | (8,133)             | 89,350             | 97,483                        | 170                | (1,740)            | (18,169)           | (16,429)                      |
| Other Budgeted Resources   | -                   | -                   | -                  | -                             | -                  | -                  | -                  | -                             |
| <b>Net Other Financing Sources (Uses)</b>  | <u>(33,879)</u>     | <u>(8,133)</u>      | <u>89,350</u>      | <u>97,483</u>                 | <u>170</u>         | <u>(1,740)</u>     | <u>(18,169)</u>    | <u>(16,429)</u>               |
| <b>Excess of Revenues and Other Sources<br/>Over (Under) Expenditures<br/>and Other Uses</b> | <u>\$ (202,914)</u> | <u>\$ (237,039)</u> | <u>\$ (29,789)</u> | <u>\$ 207,250</u>             | <u>\$ (8,966)</u>  | <u>\$ (81,341)</u> | <u>\$ (34,292)</u> | <u>\$ 47,049</u>              |
| Fund Balances at Beginning of Year (As Restated)   |                     |                     | 138,614            |                               |                    |                    | 118,129            |                               |
| Fund Balances at End of Year   |                     |                     | <u>\$ 108,825</u>  |                               |                    |                    | <u>\$ 83,837</u>   |                               |

| Federal Funds      |                    |                     |                            | Other Special Revenue Fund |                    |                    |                            |
|--------------------|--------------------|---------------------|----------------------------|----------------------------|--------------------|--------------------|----------------------------|
| Original Budget    | Final Budget       | Actual              | Variance with Final Budget | Original Budget            | Final Budget       | Actual             | Variance with Final Budget |
| \$ -               | \$ -               | \$ 3                | \$ 3                       | \$ 51,609                  | \$ 54,167          | \$ 87,213          | \$ 33,046                  |
| -                  | -                  | -                   | -                          | 78,393                     | 79,141             | 63,259             | (15,882)                   |
| 1,834,683          | 2,242,185          | 1,899,313           | (342,872)                  | 12,961                     | 15,412             | 5,164              | (10,248)                   |
| 629                | 2,147              | 5,413               | 3,266                      | 96,341                     | 106,343            | 105,158            | (1,185)                    |
| -                  | -                  | 573                 | 573                        | 3,900                      | 4,852              | 2,954              | (1,898)                    |
| 7,956              | 7,915              | 654                 | (7,261)                    | 214,120                    | 250,742            | 163,146            | (87,596)                   |
| <u>1,843,268</u>   | <u>2,252,247</u>   | <u>1,905,956</u>    | <u>(346,291)</u>           | <u>457,324</u>             | <u>510,657</u>     | <u>426,894</u>     | <u>(83,763)</u>            |
| 5,878              | 31,290             | 28,390              | 2,900                      | 138,978                    | 150,309            | 126,669            | 23,640                     |
| 129,826            | 159,138            | 108,573             | 50,565                     | 20,895                     | 21,681             | 15,230             | 6,451                      |
| 111,317            | 182,678            | 145,377             | 37,301                     | 10,704                     | 11,962             | 9,356              | 2,606                      |
| 1,385,620          | 1,580,145          | 1,444,554           | 135,591                    | 243,152                    | 272,046            | 216,682            | 55,364                     |
| 21                 | 21                 | 9                   | 12                         | 39,121                     | 48,304             | 34,810             | 13,494                     |
| 29,063             | 48,911             | 33,219              | 15,692                     | 84,763                     | 98,495             | 65,413             | 33,082                     |
| 45,121             | 80,853             | 55,493              | 25,360                     | 35,022                     | 41,858             | 30,745             | 11,113                     |
| 2,734              | 3,462              | 2,269               | 1,193                      | 895                        | 1,343              | 663                | 680                        |
| 210,275            | 234,640            | 180,048             | 54,592                     | 14,726                     | 19,798             | 13,529             | 6,269                      |
| <u>1,919,855</u>   | <u>2,321,138</u>   | <u>1,997,932</u>    | <u>323,206</u>             | <u>588,256</u>             | <u>665,796</u>     | <u>513,097</u>     | <u>152,699</u>             |
| (76,587)           | (68,891)           | (91,976)            | (23,085)                   | (130,932)                  | (155,139)          | (86,203)           | 68,936                     |
| (1,442)            | (1,574)            | 3,706               | 5,280                      | 121,313                    | 124,861            | 26,549             | (98,312)                   |
| -                  | -                  | -                   | -                          | -                          | -                  | -                  | -                          |
| <u>(1,442)</u>     | <u>(1,574)</u>     | <u>3,706</u>        | <u>5,280</u>               | <u>121,313</u>             | <u>124,861</u>     | <u>26,549</u>      | <u>(98,312)</u>            |
| <u>\$ (78,029)</u> | <u>\$ (70,465)</u> | <u>\$ (88,270)</u>  | <u>\$ (17,805)</u>         | <u>\$ (9,619)</u>          | <u>\$ (30,278)</u> | <u>\$ (59,654)</u> | <u>\$ (29,376)</u>         |
|                    |                    | (12,336)            |                            |                            |                    | 278,333            |                            |
|                    |                    | <u>\$ (100,606)</u> |                            |                            |                    | <u>\$ 218,679</u>  |                            |

|   |
|---|
| <b>Required Supplementary Information - Budgetary Reporting</b> |
|---|

**STATE OF MAINE  
BUDGETARY COMPARISON SCHEDULE  
BUDGET TO GAAP RECONCILIATION  
MAJOR GOVERNMENTAL FUNDS**

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|  | <u>General Fund</u> | <u>Highway Fund</u> | <u>Federal Fund</u> | <u>Special<br/>Revenue Fund</u> |
|--|---------------------|---------------------|---------------------|---------------------------------|
| Fund Balances - Non-GAAP Budgetary Basis | \$ 108,825          | \$ 83,837           | \$ (100,606)        | \$ 218,679                      |
| <b>Basis Differences</b>                 |                     |                     |                     |                                 |
| Revenue Accruals/Adjustments:            |                     |                     |                     |                                 |
| Taxes Receivable                         | 171,841             | (1,588)             | -                   | 4,764                           |
| Intergovernmental Receivables            | 1,609               | -                   | 343,357             | (28,348)                        |
| Other Receivables                        | 21,144              | (14,932)            | 32,694              | 903                             |
| Due from Other Funds                     | 27,722              | 10,599              | 30,212              | 90,265                          |
| Other Assets                             | 454                 | -                   | -                   | 16,774                          |
| Deferred Revenues                        | (38,670)            | (5,885)             | (1,868)             | (23,912)                        |
| Total Revenue Accruals/Adjustments       | <u>184,100</u>      | <u>(11,806)</u>     | <u>404,395</u>      | <u>60,446</u>                   |
| Expenditure Accruals/Adjustments:        |                     |                     |                     |                                 |
| Accounts Payable                         | (110,189)           | (19,089)            | (228,715)           | (27,893)                        |
| Due to Component Units                   | (3,305)             | -                   | (4,805)             | (3,545)                         |
| Bonds Issued                             | -                   | 6,500               | -                   | -                               |
| Accrued Liabilities                      | (20,517)            | (8,141)             | (8,481)             | (7,739)                         |
| Tax Refunds Payable                      | (119,009)           | -                   | -                   | -                               |
| Due to Other Funds                       | (60,320)            | (4,574)             | (48,524)            | (21,670)                        |
| Total Expenditure Accruals/Adjustments   | <u>(313,340)</u>    | <u>(25,304)</u>     | <u>(290,525)</u>    | <u>(60,847)</u>                 |
| Fund Balances - GAAP Basis               | <u>\$ (20,415)</u>  | <u>\$ 46,727</u>    | <u>\$ 13,264</u>    | <u>\$ 218,278</u>               |

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY REPORTING**

**Statutory/Budgetary Presentation**

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most “operating” funds. (Note 2 of the basic financial statements identifies the annually budgeted operating funds.)

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

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

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2002-2003, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 19, 2002, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column. Therefore updated revenue estimates available for appropriations as of September 13, 2003, rather than the amounts shown in the original budget, are reported.

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

|   |
|---|
| <b>Required Supplementary Information – State Retirement Plan</b> |
|---|

### 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, 2003            | 6,085,632,834             | 9,007,851,422                                 | 2,922,218,588       | 67.6%        | 1,442,278,362          | 202.6%                                    |
| June 30, 2002            | 5,920,475,637             | 8,511,834,626                                 | 2,591,358,989       | 69.6%        | 1,413,262,420          | 183.4%                                    |
| June 30, 2001            | 5,844,838,370             | 7,997,931,582                                 | 2,153,093,212       | 73.1%        | 1,326,375,573          | 162.3%                                    |
| June 30, 2000            | 5,528,795,711             | 7,491,075,545                                 | 1,962,279,834       | 73.8%        | 1,271,009,158          | 154.4%                                    |
| 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             | 6,706,620,132                                 | 2,380,756,055       | 64.5%        | 1,165,614,285          | 204.2%                                    |

### Schedule of Employer Contributions

| Year Ended | Annual Required Contribution | Annual Contribution | Percentage Contributed |
|------------|------------------------------|---------------------|------------------------|
| 2003       | 252,709,148                  | 263,209,148         | 104.2%                 |
| 2002       | 242,486,089                  | 242,486,089         | 100.0%                 |
| 2001       | 247,526,221                  | 247,526,221         | 100.0%                 |
| 2000       | 232,878,658                  | 236,878,658         | 101.7%                 |
| 1999       | 246,155,629                  | 268,001,527         | 108.9%                 |
| 1998       | 218,506,594                  | 239,915,051         | 109.8%                 |

|   |
|---|
| <b>Required Supplementary Information – Participating Local District Plan</b> |
|---|

### 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, 2003            | 1,701,572,665             | 1,463,437,856                                 | (238,134,809)       | 116.3%       | 277,032,661            | -86.0%                                    |
| June 30, 2002            | 1,692,033,523             | 1,377,659,381                                 | (314,374,142)       | 122.8%       | 268,161,476            | -117.2%                                   |
| June 30, 2001            | 1,544,720,492             | 1,427,090,054                                 | (117,630,438)       | 108.2%       | 254,155,180            | -46.3%                                    |
| June 30, 2000            | 1,498,729,722             | 1,351,640,782                                 | (147,088,940)       | 110.9%       | 244,163,272            | -60.2%                                    |
| 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%                                     |

### Schedule of Employer Contributions

| Year Ended | Annual Required Contribution | Annual Contribution | Percentage Contributed |
|------------|------------------------------|---------------------|------------------------|
| 2003       | 8,503,871                    | 22,436,866          | 263.8%                 |
| 2002       | 10,017,340                   | 173,065,194         | 1727.7%                |
| 2001       | 17,122,717                   | 17,122,717          | 100.0%                 |
| 2000       | 13,433,467                   | 13,433,467          | 100.0%                 |
| 1999       | 23,475,495                   | 23,475,495          | 100.0%                 |
| 1998       | 27,355,304                   | 27,355,304          | 100.0%                 |

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION PENSION 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, 2003, is as follows:

#### Funding Method

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

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

#### Asset Valuation Method

Assets are valued for funding purposes using a three-year moving average. Under this method, the year-end actuarial asset value equals 1/3 of the current fiscal year-end fair value, as reported in the financial statements, plus 2/3 of the "expected market value." For purposes of this calculation, the "expected market value" is the preceding fiscal year's actuarial asset value, adjusted for the current fiscal year's cash flows with interest accumulated at the actuarial assumed rate of return on investments.

#### Amortization

The unfunded actuarial liability is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements, which is over a 19 year closed period from June 30, 2000. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 14 years remained at June 30, 2003.

The IUUAL of PLDs are amortized over periods established for each PLD separately. During fiscal year 2003 and 2002, various PLD's contributed approximately \$13.9 million and \$163 million to decrease their initial unpooled unfunded actuarial liability, respectively.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2003 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 district members, non-disabled State employee retirees and non-disabled participating local district members with retirement dates on or after July 1, 1998 – UP 1994 Tables; Active teacher members and non-disabled teacher retirees with retirement dates on or after July 1, 1998 – 85% of UP 1994 Tables; Non-disabled State employee retirees and non-disabled participating local district retirees with retirement dates before July 1, 1998 – GAM 1971 Tables; Non-disabled teacher retirees with retirement dates before July 1, 1998 – GAM 1971 Tables set back two years; All recipients of disability benefits with retirement dates before July 1, 1998 – 1964 Commissioners Disability Table; All recipients of disability benefits with retirement dates on or after July 1, 1998 – 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 or \$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, 2003 and 2002, the net assets held in trust for group life insurance benefits were \$39.0 million and \$36.6 million, respectively. At June 30, 2003 and 2002, the plan had the following actuarially determined liabilities:

|                        | (In millions)  |                |
|------------------------|----------------|----------------|
|                        | <u>2003</u>    | <u>2002</u>    |
| Actuarial Liabilities: |                |                |
| Active Members         | \$ 44.6        | \$ 40.3        |
| Retired Members        | <u>42.7</u>    | <u>42.9</u>    |
| Total                  | <u>\$ 87.3</u> | <u>\$ 83.2</u> |



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

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include approximately 8,712 highway miles or 17,702 lane miles of roads and approximately 2,959 bridges having a total deck area of 11.1 million square feet that the State is responsible to maintain.

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

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

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

**Roads**

**Measurement Scale for Highways**

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

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

## **Bridges**

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

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

### **Assessed Conditions**

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

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

MDOT intends to maintain the highway system at an adequacy rating of 60 or higher for both highways and bridges. In FY 2003, MDOT achieved adequacy ratings of 77.6 for highways, and 76.0 for bridges. In FY 2002, the adequacy ratings were 76.6 for highways, and 77.0 for bridges.

### **Budgeted and Estimated Costs to Maintain**

The following table presents the State's preservation costs for the past five fiscal years. It also shows the estimate of spending necessary to preserve and maintain the roads and bridges at, or above, a sufficiency rating of 60 for both highways and bridges (in millions). DOT did not collect estimated information in this format, prior to FY 2003.

| Fiscal Year | Estimated Spending | Actual Spending |
|-------------|--------------------|-----------------|
| 2004        | \$ 30              | \$ -            |
| 2003        | 36                 | 34.3            |
| 2002        | -                  | 41.4            |
| 2001        | -                  | 29.4            |
| 2000        | -                  | 28.9            |
| 1999        | -                  | 24.5            |

### **Transportation Bonds**

Chapter 38, P&S 2001, authorized \$61 million for improvements to highways and bridges. Chapter 33, P&S 2003, authorized \$60 million for improvements to highways and bridges. As of June 30, 2003 \$28 million of bonds were issued related to Chapter 38.



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**COMBINING AND  
INDIVIDUAL FUND  
FINANCIAL STATEMENTS  
AND SCHEDULES  
NON-MAJOR FUNDS**

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**STATE OF MAINE**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**

June 30, 2003  
(Expressed in Thousands)

|                                      | <u>Special<br/>Revenue</u> | <u>Capital<br/>Projects</u> | <u>Permanent<br/>Funds</u> | <u>Totals<br/>Other<br/>Governmental<br/>Funds</u> |
|--------------------------------------|----------------------------|-----------------------------|----------------------------|--|
| <b>Assets</b>                        |                            |                             |                            |  |
| Current Assets:                      |                            |                             |                            |  |
| Cash and Short-Term Investments      | \$ 87                      | \$ 2,654                    | \$ 1                       | \$ 2,742   |
| Investments                          | 48,328                     | 1,973                       | 8,824                      | 59,125   |
| Restricted Deposits and Investments  | 13,559                     | 18,778                      | -                          | 32,337   |
| Total Current Assets                 | <u>61,974</u>              | <u>23,405</u>               | <u>8,825</u>               | <u>94,204</u>                                      |
| Noncurrent Assets:                   |                            |                             |                            |  |
| Investments                          | 101                        | 2,002                       | 1                          | 2,104  |
| Total Noncurrent Assets              | <u>101</u>                 | <u>2,002</u>                | <u>1</u>                   | <u>2,104</u>                                       |
| Total Assets                         | <u>\$ 62,075</u>           | <u>\$ 25,407</u>            | <u>\$ 8,826</u>            | <u>\$ 96,308</u>                                   |
| <b>Liabilities and Fund Balances</b> |                            |                             |                            |  |
| Current Liabilities:                 |                            |                             |                            |  |
| Accounts Payable                     | \$ -                       | \$ 3,693                    | \$ -                       | \$ 3,693   |
| Due to Component Units               | -                          | 1,794                       | -                          | 1,794  |
| Other Accrued Liabilities            | 1                          | -                           | -                          | 1  |
| Total Current Liabilities            | <u>1</u>                   | <u>5,487</u>                | <u>-</u>                   | <u>5,488</u>                                       |
| Total Liabilities                    | <u>1</u>                   | <u>5,487</u>                | <u>-</u>                   | <u>5,488</u>                                       |
| Fund Balances:                       |                            |                             |                            |  |
| Reserved                             |                            |                             |                            |  |
| Continuing Appropriations            | 58                         | -                           | -                          | 58   |
| Capital Projects                     | -                          | 19,920                      | -                          | 19,920   |
| Permanent Trusts                     | -                          | -                           | 8,826                      | 8,826  |
| Other                                | 62,016                     | -                           | -                          | 62,016   |
| Total Fund Balances                  | <u>62,074</u>              | <u>19,920</u>               | <u>8,826</u>               | <u>90,820</u>                                      |
| Total Liabilities and Fund Balances  | <u>\$ 62,075</u>           | <u>\$ 25,407</u>            | <u>\$ 8,826</u>            | <u>\$ 96,308</u>                                   |

**STATE OF MAINE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS - BY FUND TYPE**

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|   | <u>Special<br/>Revenue</u> | <u>Capital<br/>Projects</u> | <u>Permanent<br/>Funds</u> | <u>Totals<br/>Other<br/>Governmental<br/>Funds</u> |
|---|----------------------------|-----------------------------|----------------------------|--|
| Revenues:   |                            |                             |                            |  |
| Investment Income   | \$ (241)                   | \$ 2,505                    | \$ (1,396)                 | \$ 868   |
| Miscellaneous Revenue   | <u>2,882</u>               | <u>3,684</u>                | <u>-</u>                   | <u>6,566</u>                                       |
| Total Revenues  | <u>2,641</u>               | <u>6,189</u>                | <u>(1,396)</u>             | <u>7,434</u>                                       |
| Expenditures:   |                            |                             |                            |  |
| Governmental Support & Operations                                     | 189                        | 8,112                       | -                          | 8,301  |
| Economic Development & Workforce Training                             | -                          | 25,075                      | -                          | 25,075   |
| Education   | -                          | 24,269                      | -                          | 24,269   |
| Health and Human Services   | -                          | 3,794                       | -                          | 3,794  |
| Natural Resources Development & Protection                            | -                          | 8,712                       | -                          | 8,712  |
| Justice and Protection  | -                          | 285                         | -                          | 285  |
| Arts, Heritage, & Cultural Enrichment                                 | -                          | 1,118                       | -                          | 1,118  |
| Transportation Safety & Development                                   | <u>-</u>                   | <u>37,129</u>               | <u>-</u>                   | <u>37,129</u>                                      |
| Total Expenditures  | <u>189</u>                 | <u>108,494</u>              | <u>-</u>                   | <u>108,683</u>                                     |
| Revenue over (under) Expenditures                                     | <u>2,452</u>               | <u>(102,305)</u>            | <u>(1,396)</u>             | <u>(101,249)</u>                                   |
| Other Financing Sources (Uses):                                       |                            |                             |                            |  |
| Transfer from Other Funds   | 980                        | 6,490                       | -                          | 7,470  |
| Transfer to Other Funds   | (20,947)                   | (12,886)                    | (50)                       | (33,883)   |
| Bonds Issued  | <u>-</u>                   | <u>97,080</u>               | <u>-</u>                   | <u>97,080</u>                                      |
| Net Other Finance Sources (Uses)                                      | <u>(19,967)</u>            | <u>90,684</u>               | <u>(50)</u>                | <u>70,667</u>                                      |
| Revenue and Other Sources over (under)<br>Expenditures and Other Uses | <u>(17,515)</u>            | <u>(11,621)</u>             | <u>(1,446)</u>             | <u>(30,582)</u>                                    |
| Fund Balances at Beginning of Year (As Restated)                      | <u>79,589</u>              | <u>31,541</u>               | <u>10,272</u>              | <u>121,402</u>                                     |
| Fund Balances at End of Year  | <u>\$ 62,074</u>           | <u>\$ 19,920</u>            | <u>\$ 8,826</u>            | <u>\$ 90,820</u>                                   |



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# NON-MAJOR GOVERNMENTAL FUNDS

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## Special Revenue Funds

Learning Technology Fund – This fund accounts for funds dedicated by the Legislature and by other private and public sources for the advancement of learning technology for elementary and secondary students in Maine.

Baxter Park Fund – This fund accounts for a gift to the State of Maine by former Governor Baxter, which

allows for the principal and interest to be used to purchase public reserved lands. Interest income may also be used for operations of the Baxter State Park.

Revenue on Permanent Funds Fund – This fund accounts for expendable earnings on permanent fund balances.

## Capital Projects Funds

General Bond Fund – This fund accounts for the acquisition or construction of major capital facilities, other than highways and bridges that are financed primarily from proceeds of general obligation bonds.

The State also includes proceeds from bond issues for purposes other than construction of major capital facilities in this fund.

## Permanent Funds

Baxter Park Trust Fund – This fund accounts for a gift to the State of Maine by former Governor Baxter, calling for principal to be maintained intact and income to be used for operations.

Other Trust Funds – These funds are comprised of numerous small Permanent Funds, the income from which may be used for specified purposes.



**STATE OF MAINE**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR SPECIAL REVENUE FUNDS**

June 30, 2003  
(Expressed in Thousands)

|                                      | <u>Learning<br/>Technology<br/>Endowment</u> | <u>Baxter<br/>Park</u> | <u>Revenue on<br/>Permanent<br/>Funds</u> | <u>Totals<br/>Special<br/>Revenue<br/>Funds</u> |
|--------------------------------------|--|------------------------|---|---|
| <b>Assets</b>                        |  |                        |   |   |
| Current Assets:                      |  |                        |   |   |
| Cash and Short-Term Investments      | \$ 11  | \$ -                   | \$ 76                                     | \$ 87   |
| Investments                          | 8  | 48,263                 | 57  | 48,328  |
| Restricted Deposits and Investments  | 13,559                                       | -                      | -   | 13,559  |
| Total Current Assets                 | <u>13,578</u>                                | <u>48,263</u>          | <u>133</u>                                | <u>61,974</u>                                   |
| Noncurrent Assets                    |  |                        |   |   |
| Investments                          | 9  | -                      | 92  | 101   |
| Total Noncurrent Assets              | <u>9</u>                                     | <u>-</u>               | <u>92</u>                                 | <u>101</u>                                      |
| Total Assets                         | <u>\$ 13,587</u>                             | <u>\$ 48,263</u>       | <u>\$ 225</u>                             | <u>\$ 62,075</u>                                |
| <b>Liabilities and Fund Balances</b> |  |                        |   |   |
| Current Liabilities:                 |  |                        |   |   |
| Other Accrued Liabilities            | -  | -                      | 1   | 1   |
| Total Current Liabilities            | <u>-</u>                                     | <u>-</u>               | <u>1</u>                                  | <u>1</u>  |
| Total Liabilities                    | <u>-</u>                                     | <u>-</u>               | <u>1</u>                                  | <u>1</u>  |
| Fund Balances:                       |  |                        |   |   |
| Reserved                             |  |                        |   |   |
| Continuing Appropriations            | -  | -                      | 58  | 58  |
| Other                                | 13,587                                       | 48,263                 | 166                                       | 62,016  |
| Total Fund Balances                  | <u>13,587</u>                                | <u>48,263</u>          | <u>224</u>                                | <u>62,074</u>                                   |
| Total Liabilities and Fund Balances  | <u>\$ 13,587</u>                             | <u>\$ 48,263</u>       | <u>\$ 225</u>                             | <u>\$ 62,075</u>                                |

**STATE OF MAINE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR SPECIAL REVENUE FUNDS**

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|  | <u>Learning<br/>Technology<br/>Endowment</u> | <u>Baxter<br/>Park</u> | <u>Revenue on<br/>Permanent<br/>Funds</u> | <u>Totals<br/>Special<br/>Revenue<br/>Funds</u> |
|--|--|------------------------|---|---|
| Revenues:  |  |                        |   |   |
| Investment Income (Loss)   | \$ 69  | \$ (893)               | \$ 583                                    | \$ (241)  |
| Miscellaneous Revenue  | <u>2,882</u>                                 | <u>-</u>               | <u>-</u>                                  | <u>2,882</u>                                    |
| Total Revenues   | <u>2,951</u>                                 | <u>(893)</u>           | <u>583</u>                                | <u>2,641</u>                                    |
| Expenditures:  |  |                        |   |   |
| General Government   | <u>112</u>                                   | <u>-</u>               | <u>77</u>                                 | <u>189</u>                                      |
| Total Expenditures   | <u>112</u>                                   | <u>-</u>               | <u>77</u>                                 | <u>189</u>                                      |
| Revenue over (under) Expenditures                                      | <u>2,839</u>                                 | <u>(893)</u>           | <u>506</u>                                | <u>2,452</u>                                    |
| Other Financing Sources (Uses):  |  |                        |   |   |
| Transfer from Other Funds  | -  | -                      | 980                                       | 980   |
| Transfer to Other Funds  | <u>(19,632)</u>                              | <u>-</u>               | <u>(1,315)</u>                            | <u>(20,947)</u>                                 |
| Net Other Finance Sources (Uses)                                       | <u>(19,632)</u>                              | <u>-</u>               | <u>(335)</u>                              | <u>(19,967)</u>                                 |
| Revenues and Other Sources over (under)<br>Expenditures and Other Uses | <u>(16,793)</u>                              | <u>(893)</u>           | <u>171</u>                                | <u>(17,515)</u>                                 |
| Fund Balances at Beginning of Year (As Restated)                       | <u>30,380</u>                                | <u>49,156</u>          | <u>53</u>                                 | <u>79,589</u>                                   |
| Fund Balances at End of Year   | <u>\$ 13,587</u>                             | <u>\$ 48,263</u>       | <u>\$ 224</u>                             | <u>\$ 62,074</u>                                |

**STATE OF MAINE  
BALANCE SHEET  
NON-MAJOR CAPITAL PROJECTS FUND**

June 30, 2003  
(Expressed in Thousands)

|                                      | <b>General Bond<br/>Fund</b> |
|--------------------------------------|------------------------------|
| <b>Assets</b>                        |                              |
| Current Assets:                      |                              |
| Cash and Short-Term Investments      | \$ 2,654                     |
| Investments                          | 1,973                        |
| Restricted Deposits and Investments  | 18,778                       |
| Total Current Assets                 | 23,405                       |
| Noncurrent Assets                    |                              |
| Investments                          | 2,002                        |
| Total Noncurrent Assets              | 2,002                        |
| Total Assets                         | \$ 25,407                    |
| <b>Liabilities and Fund Balances</b> |                              |
| Current Liabilities:                 |                              |
| Accounts Payable                     | \$ 3,693                     |
| Due to Component Units               | 1,794                        |
| Total Current Liabilities            | 5,487                        |
| Total Liabilities                    | 5,487                        |
| Fund Balances:                       |                              |
| Reserved                             |                              |
| Capital Projects                     | 19,920                       |
| Total Fund Balances                  | 19,920                       |
| Total Liabilities and Fund Balances  | \$ 25,407                    |

**STATE OF MAINE**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR CAPITAL PROJECTS FUND**

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|  | <b>General Bond<br/>Fund</b> |
|--|------------------------------|
| Revenues:  |                              |
| Investment Income  | \$ 2,505                     |
| Miscellaneous Revenue  | 3,684                        |
| Total Revenues   | 6,189                        |
| Expenditures:  |                              |
| Governmental Support & Operations                                      | 8,112                        |
| Economic Development & Workforce Training                              | 25,075                       |
| Education  | 24,269                       |
| Health and Human Services  | 3,794                        |
| Natural Resources Development & Protection                             | 8,712                        |
| Justice and Protection   | 285                          |
| Arts, Heritage & Cultural Enrichment                                   | 1,118                        |
| Transportation Safety & Development                                    | 37,129                       |
| Total Expenditures   | 108,494                      |
| Revenue over (under) Expenditures                                      | (102,305)                    |
| Other Financing Sources (Uses):  |                              |
| Transfer from Other Funds  | 6,490                        |
| Transfer to Other Funds  | (12,886)                     |
| Bonds Issued   | 97,080                       |
| Net Other Finance Sources (Uses)                                       | 90,684                       |
| Revenues and Other Sources over (under)<br>Expenditures and Other Uses | (11,621)                     |
| Fund Balances at Beginning of Year (As Restated)                       | 31,541                       |
| Fund Balances at End of Year   | \$ 19,920                    |

**STATE OF MAINE**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR PERMANENT FUNDS**

June 30, 2003  
(Expressed in Thousands)

|                                 | <u>Baxter<br/>Trust</u> | <u>Other<br/>Trusts</u> | <u>Totals<br/>Permanent<br/>Funds</u> |
|---------------------------------|-------------------------|-------------------------|---------------------------------------|
| <b>Assets</b>                   |                         |                         |                                       |
| Current Assets:                 |                         |                         |                                       |
| Cash and Short-Term Investments | \$ -                    | \$ 1                    | \$ 1                                  |
| Investments                     | 4,176                   | 4,648                   | 8,824                                 |
| Total Current Assets            | <u>4,176</u>            | <u>4,649</u>            | <u>8,825</u>                          |
| Noncurrent Assets:              |                         |                         |                                       |
| Investments                     | -                       | 1                       | 1                                     |
| Total Noncurrent Assets         | <u>-</u>                | <u>1</u>                | <u>1</u>                              |
| Total Assets                    | <u>\$ 4,176</u>         | <u>\$ 4,650</u>         | <u>\$ 8,826</u>                       |
| <b>Fund Balances</b>            |                         |                         |                                       |
| Reserved:                       |                         |                         |                                       |
| Permanent Trusts                | <u>\$ 4,176</u>         | <u>\$ 4,650</u>         | <u>\$ 8,826</u>                       |

**STATE OF MAINE**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NON-MAJOR PERMANENT FUNDS**

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|  | <u>Baxter<br/>Trust</u> | <u>Other<br/>Trusts</u> | <u>Totals<br/>Permanent<br/>Funds</u> |
|--|-------------------------|-------------------------|---------------------------------------|
| Revenues:  |                         |                         |                                       |
| Investment Income (Loss)   | \$ (312)                | \$ (1,084)              | \$ (1,396)                            |
| Total Revenues   | <u>(312)</u>            | <u>(1,084)</u>          | <u>(1,396)</u>                        |
| Expenditures   |                         |                         |                                       |
| Total Expenditures   | <u>-</u>                | <u>-</u>                | <u>-</u>                              |
| Revenues over (under) Expenditures                                     | <u>(312)</u>            | <u>(1,084)</u>          | <u>(1,396)</u>                        |
| Net Other Finance Sources (Uses)                                       | <u>-</u>                | <u>(50)</u>             | <u>(50)</u>                           |
| Revenues and Other Sources over (under)<br>Expenditures and Other Uses | <u>(312)</u>            | <u>(1,134)</u>          | <u>(1,446)</u>                        |
| Fund Balances at Beginning of Year (As Restated)                       | <u>4,488</u>            | <u>5,784</u>            | <u>10,272</u>                         |
| Fund Balances at End of Year   | <u>\$ 4,176</u>         | <u>\$ 4,650</u>         | <u>\$ 8,826</u>                       |



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# NON-MAJOR ENTERPRISE FUNDS

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Alcoholic Beverages Fund – This 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.

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

Seed Potato Board Fund – This 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.

State Airport Fund – This 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.

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

State Ferry Service Fund – This 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.

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

Community Industrial Building Fund – This 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.



**STATE OF MAINE**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR ENTERPRISE FUNDS**

June 30, 2003  
(Expressed in Thousands)

|   | <u>Alcoholic<br/>Beverages</u> | <u>Lottery</u> | <u>Seed<br/>Potato</u> | <u>Airport</u>  |
|---|--------------------------------|----------------|------------------------|-----------------|
| <b>Assets</b>                                     |                                |                |                        |                 |
| Current Assets:                                   |                                |                |                        |                 |
| Cash and Short-Term Investments                   | \$ 1,152                       | \$ 500         | \$ 60                  | \$ 107          |
| Investments                                       | 831                            | -              | 44                     | 80              |
| Inventories                                       | 622                            | -              | 1                      | -               |
| Receivables, Net of Allowance for Uncollectibles: |                                |                |                        |                 |
| Other Receivable                                  | 2,777                          | 15,926         | 33                     | -               |
| Due from Other Funds                              | -                              | -              | -                      | -               |
| Other Current Assets                              | -                              | 387            | -                      | -               |
| Total Current Assets                              | <u>5,382</u>                   | <u>16,813</u>  | <u>138</u>             | <u>187</u>      |
| Noncurrent Assets:                                |                                |                |                        |                 |
| Investments                                       | 843                            | -              | 45                     | 81              |
| Fixed Assets - Net of Depreciation                | 7                              | 31             | 688                    | 4,854           |
| Total Noncurrent Assets                           | <u>850</u>                     | <u>31</u>      | <u>733</u>             | <u>4,935</u>    |
| Total Assets                                      | <u>6,232</u>                   | <u>16,844</u>  | <u>871</u>             | <u>5,122</u>    |
| <b>Liabilities</b>                                |                                |                |                        |                 |
| Current Liabilities:                              |                                |                |                        |                 |
| Accounts Payable                                  | 4,419                          | 916            | 10                     | -               |
| Accrued Payroll                                   | 149                            | 83             | -                      | -               |
| Due to Other Funds                                | 19                             | 7,568          | -                      | -               |
| Current Portion of Long-Term Obligations:         |                                |                |                        |                 |
| Compensated Absences                              | 50                             | 12             | -                      | -               |
| Deferred Revenue                                  | -                              | 324            | -                      | -               |
| Other Accrued Liabilities                         | 482                            | 7,854          | 54                     | -               |
| Total Current Liabilities                         | <u>5,119</u>                   | <u>16,757</u>  | <u>64</u>              | <u>-</u>        |
| Long-Term Liabilities:                            |                                |                |                        |                 |
| Working Capital Advances Payable                  | 1,000                          | -              | -                      | -               |
| Compensated Absences                              | 113                            | 87             | -                      | -               |
| Total Long-Term Liabilities                       | <u>1,113</u>                   | <u>87</u>      | <u>-</u>               | <u>-</u>        |
| Total Liabilities                                 | <u>6,232</u>                   | <u>16,844</u>  | <u>64</u>              | <u>-</u>        |
| <b>Net Assets</b>                                 |                                |                |                        |                 |
| Invested in Capital Assets, Net of Related Debt   | 7                              | 31             | 688                    | 4,854           |
| Unrestricted                                      | <u>(7)</u>                     | <u>(31)</u>    | <u>119</u>             | <u>268</u>      |
| Total Net Assets                                  | <u>\$ -</u>                    | <u>\$ -</u>    | <u>\$ 807</u>          | <u>\$ 5,122</u> |

| <u>Marine<br/>Ports</u> | <u>Ferry<br/>Service</u> | <u>Prison<br/>Industries</u> | <u>Community<br/>Industrial<br/>Building</u> | <u>Totals<br/>Other<br/>Enterprise<br/>Funds</u> |
|-------------------------|--------------------------|------------------------------|--|--|
| \$ 169                  | \$ 94                    | \$ 71                        | \$ -   | \$ 2,153   |
| 126                     | 68                       | 51                           | -  | 1,200  |
| -                       | 247                      | 496                          | -  | 1,366  |
| 214                     | 138                      | 18                           | -  | 19,106   |
| -                       | 2                        | -                            | -  | 2  |
| -                       | -                        | -                            | -  | 387  |
| <u>509</u>              | <u>549</u>               | <u>636</u>                   | <u>-</u>                                     | <u>24,214</u>                                    |
| 128                     | 69                       | 52                           | -  | 1,218  |
| 43,767                  | 22,993                   | 35                           | -  | 72,375   |
| <u>43,895</u>           | <u>23,062</u>            | <u>87</u>                    | <u>-</u>                                     | <u>73,593</u>                                    |
| <u>44,404</u>           | <u>23,611</u>            | <u>723</u>                   | <u>-</u>                                     | <u>97,807</u>                                    |
| -                       | -                        | 35                           | -  | 5,380  |
| -                       | 156                      | -                            | -  | 388  |
| -                       | -                        | -                            | -  | 7,587  |
| -                       | 20                       | -                            | -  | 82   |
| -                       | -                        | -                            | 39   | 363  |
| -                       | -                        | -                            | -  | 8,390  |
| <u>-</u>                | <u>176</u>               | <u>35</u>                    | <u>39</u>                                    | <u>22,190</u>                                    |
| -                       | -                        | -                            | -  | 1,000  |
| <u>-</u>                | <u>170</u>               | <u>-</u>                     | <u>-</u>                                     | <u>370</u>                                       |
| <u>-</u>                | <u>170</u>               | <u>-</u>                     | <u>-</u>                                     | <u>1,370</u>                                     |
| <u>-</u>                | <u>346</u>               | <u>35</u>                    | <u>39</u>                                    | <u>23,560</u>                                    |
| 43,767                  | 22,993                   | 35                           | -  | 72,375   |
| <u>637</u>              | <u>272</u>               | <u>653</u>                   | <u>(39)</u>                                  | <u>1,872</u>                                     |
| <u>\$ 44,404</u>        | <u>\$ 23,265</u>         | <u>\$ 688</u>                | <u>\$ (39)</u>                               | <u>\$ 74,247</u>                                 |

**STATE OF MAINE**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**NON-MAJOR ENTERPRISE FUNDS**

June 30, 2003  
(Expressed in Thousands)

|   | <u>Alcoholic<br/>Beverages</u> | <u>Lottery</u>  | <u>Seed<br/>Potato</u> | <u>Airport</u>  |
|---|--------------------------------|-----------------|------------------------|-----------------|
| <b>Operating Revenues</b>                                   |                                |                 |                        |                 |
| Charges for Services  | \$ 85,985                      | \$ 166,847      | \$ 386                 | \$ 73           |
| Total Operating Revenues                                    | <u>85,985</u>                  | <u>166,847</u>  | <u>386</u>             | <u>73</u>       |
| <b>Operating Expenses</b>                                   |                                |                 |                        |                 |
| General Operations  | 59,410                         | 125,633         | 443                    | 299             |
| Depreciation  | <u>2</u>                       | <u>8</u>        | <u>49</u>              | <u>453</u>      |
| Total Operating Expenses                                    | <u>59,412</u>                  | <u>125,641</u>  | <u>492</u>             | <u>752</u>      |
| Operating Income (Loss)                                     | <u>26,573</u>                  | <u>41,206</u>   | <u>(106)</u>           | <u>(679)</u>    |
| <b>Nonoperating Revenues (Expenses)</b>                     |                                |                 |                        |                 |
| Other Nonoperating Revenues (Expenses)- net                 | <u>-</u>                       | <u>56</u>       | <u>(55)</u>            | <u>(150)</u>    |
| Total Nonoperating Revenues (Expenses)                      | <u>-</u>                       | <u>56</u>       | <u>(55)</u>            | <u>(150)</u>    |
| Income (Loss) Before Capital<br>Contributions and Transfers | <u>26,573</u>                  | <u>41,262</u>   | <u>(161)</u>           | <u>(829)</u>    |
| <b>Capital Contributions and Transfers</b>                  |                                |                 |                        |                 |
| Capital Contributions from Other Funds                      | -                              | -               | 25                     | 618             |
| Transfers from (to) Other Funds                             | <u>(26,573)</u>                | <u>(40,996)</u> | <u>243</u>             | <u>310</u>      |
| Total Capital Contributions<br>and Transfers In (Out)       | <u>(26,573)</u>                | <u>(40,996)</u> | <u>268</u>             | <u>928</u>      |
| Change in Net Assets  | -                              | 266             | 107                    | 99              |
| Total Net Assets - Beginning of Year                        | <u>-</u>                       | <u>(266)</u>    | <u>700</u>             | <u>5,023</u>    |
| Total Net Assets - End of Year                              | <u>\$ -</u>                    | <u>\$ -</u>     | <u>\$ 807</u>          | <u>\$ 5,122</u> |

| <u>Marine<br/>Ports</u> | <u>Ferry<br/>Service</u> | <u>Prison</u> | <u>Community<br/>Industrial<br/>Building</u> | <u>Totals<br/>Other<br/>Enterprise<br/>Funds</u> |
|-------------------------|--------------------------|---------------|--|--|
| \$ 285                  | \$ 3,289                 | \$ 1,467      | \$ -   | \$ 258,332                                       |
| <u>285</u>              | <u>3,289</u>             | <u>1,467</u>  | <u>-</u>                                     | <u>258,332</u>                                   |
| 300                     | 5,704                    | 1,325         | -  | 193,114  |
| <u>1,553</u>            | <u>1,699</u>             | <u>14</u>     | <u>-</u>                                     | <u>3,778</u>                                     |
| -                       | -                        | -             | -  | -  |
| <u>1,853</u>            | <u>7,403</u>             | <u>1,339</u>  | <u>-</u>                                     | <u>196,892</u>                                   |
| <u>(1,568)</u>          | <u>(4,114)</u>           | <u>128</u>    | <u>-</u>                                     | <u>61,440</u>                                    |
| <u>11</u>               | <u>18</u>                | <u>13</u>     | <u>-</u>                                     | <u>(107)</u>                                     |
| <u>11</u>               | <u>18</u>                | <u>13</u>     | <u>-</u>                                     | <u>(107)</u>                                     |
| <u>(1,557)</u>          | <u>(4,096)</u>           | <u>141</u>    | <u>-</u>                                     | <u>61,333</u>                                    |
| 6,862                   | 1,495                    | -             | -  | 9,000  |
| <u>8,440</u>            | <u>2,437</u>             | <u>(40)</u>   | <u>-</u>                                     | <u>(56,179)</u>                                  |
| <u>15,302</u>           | <u>3,932</u>             | <u>(40)</u>   | <u>-</u>                                     | <u>(47,179)</u>                                  |
| 13,745                  | (164)                    | 101           | -  | 14,154   |
| <u>30,659</u>           | <u>23,429</u>            | <u>587</u>    | <u>(39)</u>                                  | <u>60,093</u>                                    |
| <u>\$ 44,404</u>        | <u>\$ 23,265</u>         | <u>\$ 688</u> | <u>\$ (39)</u>                               | <u>\$ 74,247</u>                                 |

**STATE OF MAINE**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NON-MAJOR ENTERPRISE FUNDS**

June 30, 2003  
(Expressed in Thousands)

|   | <u>Alcoholic<br/>Beverages</u> | <u>Lottery</u>   | <u>Seed<br/>Potato</u> | <u>Airport</u>  |
|---|--------------------------------|------------------|------------------------|-----------------|
| <b>Cash Flows from Operating Activities</b>   |                                |                  |                        |                 |
| Receipts from Customers and Users   | \$ 86,222                      | \$ 159,542       | \$ 381                 | \$ 73           |
| Payments to Prize Winners   | -                              | (99,876)         | -                      | -               |
| Payments to Suppliers   | (55,992)                       | (17,372)         | (159)                  | (393)           |
| Payments to Employees   | (2,890)                        | (1,205)          | (400)                  | -               |
| Net Cash Provided (Used) by Operating Activities  | <u>27,340</u>                  | <u>41,089</u>    | <u>(178)</u>           | <u>(320)</u>    |
| <b>Cash Flows from Noncapital Financing Activities</b>  |                                |                  |                        |                 |
| Operating Transfers in  | -                              | -                | 243                    | 310             |
| Operating Transfers out   | (26,573)                       | (40,996)         | -                      | -               |
| Net Cash Provided (Used) by Noncapital Financing Activities                                       | <u>(26,573)</u>                | <u>(40,996)</u>  | <u>243</u>             | <u>310</u>      |
| <b>Cash Flows from Capital and Related Financing Activities</b>                                   |                                |                  |                        |                 |
| Payments for Acquisition of Capital Assets  | -                              | -                | 31                     | (455)           |
| Capital Contributions   | -                              | -                | 25                     | 618             |
| Proceeds from Sale of Capital Assets  | -                              | -                | (58)                   | (154)           |
| Net Cash Provided (Used) by Capital Financing Activities  | <u>-</u>                       | <u>-</u>         | <u>(2)</u>             | <u>9</u>        |
| <b>Cash Flows from Investing Activities</b>   |                                |                  |                        |                 |
| Interest Revenue  | -                              | 57               | 3                      | 6               |
| Payments to Purchase Investments  | (940)                          | -                | (61)                   | (61)            |
| Proceeds from Sale of Investments   | -                              | -                | -                      | -               |
| Net Cash Provided (Used) by Investing Activities  | <u>(940)</u>                   | <u>57</u>        | <u>(58)</u>            | <u>(55)</u>     |
| Net Increase (Decrease) in Cash/Cash Equivalents  | (173)                          | 150              | 5                      | (56)            |
| Cash/Cash Equivalents - Beginning of Year   | <u>1,325</u>                   | <u>350</u>       | <u>55</u>              | <u>163</u>      |
| Cash/Cash Equivalents - End of Year   | <u>\$ 1,152</u>                | <u>\$ 500</u>    | <u>\$ 60</u>           | <u>\$ 107</u>   |
| <b>Reconciliation of Operating Income (Loss) to Net Cash<br/>Used by Operating Activities</b>     |                                |                  |                        |                 |
| Operating Income (Loss)   | \$ 26,573                      | \$ 41,206        | \$ (106)               | \$ (679)        |
| <b>Adjustments to Reconcile Operating Income to Net Cash<br/>Provided by Operating Activities</b> |                                |                  |                        |                 |
| Depreciation Expense  | 2                              | 8                | 49                     | 453             |
| Decrease (Increase) in Assets   |                                |                  |                        |                 |
| Accounts Receivable   | (1,210)                        | (7,432)          | (5)                    | -               |
| Interfund Balances  | 351                            | 7,468            | -                      | -               |
| Inventories   | 1,330                          | -                | -                      | -               |
| Increase (Decrease) in Liabilities  |                                |                  |                        |                 |
| Accounts Payable  | 310                            | (676)            | (8)                    | (94)            |
| Accrued Payroll Expenses  | (43)                           | 10               | (28)                   | -               |
| Change in Compensated Absences  | (71)                           | 1                | (24)                   | -               |
| Other Accruals  | 98                             | 504              | (56)                   | -               |
| Total Adjustments   | <u>767</u>                     | <u>(117)</u>     | <u>(72)</u>            | <u>359</u>      |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ 27,340</u>               | <u>\$ 41,089</u> | <u>\$ (178)</u>        | <u>\$ (320)</u> |

|    | <b>Marine<br/>Ports</b> | <b>Ferry<br/>Service</b> | <b>Prison</b> | <b>Totals<br/>Other<br/>Enterprise<br/>Funds</b> |
|----|-------------------------|--------------------------|---------------|--|
| \$ | 71                      | \$ 3,278                 | \$ 1,466      | \$ 251,033                                       |
|    | -                       | -                        | -             | (99,876)   |
|    | (301)                   | (1,831)                  | (1,002)       | (77,050)   |
|    | -                       | (3,990)                  | (372)         | (8,857)  |
|    | (230)                   | (2,543)                  | 92            | 65,250   |
|    | 8,440                   | 2,437                    | -             | 11,430   |
|    | -                       | -                        | (40)          | (67,609)   |
|    | 8,440                   | 2,437                    | (40)          | (56,179)   |
|    | (15,303)                | (1,436)                  | (48)          | (17,211)   |
|    | 6,862                   | 1,495                    | -             | 9,000  |
|    | -                       | -                        | 10            | (202)  |
|    | (8,441)                 | 59                       | (38)          | (8,413)  |
|    | 12                      | 16                       | 4             | 98   |
|    | -                       | (36)                     | (46)          | (1,144)  |
|    | 5                       | -                        | -             | 5  |
|    | 17                      | (20)                     | (42)          | (1,041)  |
|    | (214)                   | (67)                     | (28)          | (383)  |
|    | 383                     | 161                      | 99            | 2,536  |
| \$ | <u>169</u>              | <u>\$ 94</u>             | <u>\$ 71</u>  | <u>\$ 2,153</u>                                  |
| \$ | <u>(1,568)</u>          | <u>\$ (4,114)</u>        | <u>\$ 128</u> | <u>\$ 61,440</u>                                 |
|    | 1,553                   | 1,699                    | 14            | 3,778  |
|    | (214)                   | (11)                     | (1)           | (8,873)  |
|    | -                       | -                        | -             | 7,819  |
|    | -                       | (22)                     | (45)          | 1,263  |
|    | (1)                     | (137)                    | 23            | (583)  |
|    | -                       | 15                       | (17)          | (63)   |
|    | -                       | 27                       | (10)          | (77)   |
|    | -                       | -                        | -             | 546  |
|    | 1,338                   | 1,571                    | (36)          | 3,810  |
| \$ | <u>(230)</u>            | <u>\$ (2,543)</u>        | <u>\$ 92</u>  | <u>\$ 65,250</u>                                 |



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# INTERNAL SERVICE FUNDS

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Motor Transport Service Fund – This fund accounts for all the equipment and vehicle operations of the Department of Transportation.

Postal, Printing and Supply Fund – This fund accounts for the purchase of general office supplies, materials and photocopiers required by any State department or agency, the purchase of and contract for all postal and mailing services, duplicating needs, and the acquisition and disposition of State and federal surplus property. This fund is also used to administer the State’s Procurement Card Program.

Information Services Fund – This fund accounts for the costs of providing information services in data processing and telecommunications and for coordinating data processing services including computer operations, programming and applications systems development, technical support and networking services.

Risk Management Fund – This fund accounts for resources generated and used to provide insurance advice and services for all forms of insurance except health and workers’ compensation. This includes insurance for automobile, fire, liability and any other type of coverage that may be necessary to protect the State against financial loss.

Workers’ Compensation Fund – This fund accounts for resources generated and used to provide workers’ compensation advice and insurance services.

Central Fleet Management Fund – This fund accounts for the cost of administering a uniform program for the operation and maintenance of all State vehicles except those of the Department of Transportation and Public Safety.

Leased Space Fund – This fund accounts for State facilities leasing activities and maintains records of State agency property, leasing needs and all available space owned, leased and potentially available for lease.

Revenue Services Fund – This fund accounts for the resources generated and used to provide up-to-date information to facilitate compliance with Maine tax law and to help reduce common mistakes in filing tax forms.

Retiree Health Insurance Fund – This fund accounts for post retirement health care premiums and benefits for most retired state employees and Legislators, and for a portion of the premiums for teachers.

Employee Health Insurance Fund – This fund accounts for health care premiums and benefits for most state employees.

Statewide Radio & Network System Fund – This fund accounts for resources generated and used to acquire, expand, upgrade and replace a statewide radio and network system for use by State agencies.

Governmental Facilities Authority Fund – This fund includes the operations of the Maine Governmental Facilities Authority, a blended component unit. The Authority was created to assist in the financing, equipping, improvement, reconstruction, acquisition, and construction of additions to structures designed for use as a court facility, State office or State activity space.



**STATE OF MAINE**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**

June 30, 2003  
(Expressed in Thousands)

|  | <b>Motor<br/>Transport<br/>Service</b> | <b>Postal<br/>Printing &amp;<br/>Supply</b> | <b>Information<br/>Services</b> | <b>Risk<br/>Management</b> |
|--|--|---|---------------------------------|----------------------------|
| <b>Assets</b>  |  |   |                                 |                            |
| Current Assets:  |  |   |                                 |                            |
| Cash and Short-Term Investments                                | \$ 1,936                               | \$ 122                                      | \$ 1,552                        | \$ 5,760                   |
| Cash with Fiscal Agent   | 98                                     | -   | -                               | -                          |
| Investments  | 1,444                                  | 91  | 1,158                           | 4,298                      |
| Restricted Deposits and Investments                            | -                                      | -   | -                               | -                          |
| Inventories  | 2,970                                  | 817   | -                               | -                          |
| Receivables, Net of Allowance for Uncollectibles:              |  |   |                                 |                            |
| Loans Receivable   | -                                      | -   | -                               | -                          |
| Other Receivable   | 12                                     | 92  | 174                             | 4                          |
| Due from Other Funds   | 1,156                                  | 2,631                                       | 5,866                           | 1,363                      |
| Other Current Assets   | -                                      | 8   | 536                             | 252                        |
| Total Current Assets   | <u>7,616</u>                           | <u>3,761</u>                                | <u>9,286</u>                    | <u>11,677</u>              |
| Noncurrent Assets  |  |   |                                 |                            |
| Investments  | 1,465                                  | 92  | 1,175                           | 4,361                      |
| Receivables, Net of Allowance for Uncollectibles:              |  |   |                                 |                            |
| Loans Receivable   | -                                      | -   | -                               | -                          |
| Fixed Assets - Net of Depreciation                             | 38,250                                 | 85  | 3,778                           | -                          |
| Total Noncurrent Assets  | <u>39,715</u>                          | <u>177</u>                                  | <u>4,953</u>                    | <u>4,361</u>               |
| Total Assets   | <u>47,331</u>                          | <u>3,938</u>                                | <u>14,239</u>                   | <u>16,038</u>              |
| <b>Liabilities</b>   |  |   |                                 |                            |
| Current Liabilities:   |  |   |                                 |                            |
| Accounts Payable   | 122                                    | 2,888                                       | 2,893                           | 1                          |
| Accrued Payroll  | 441                                    | 136   | 743                             | 24                         |
| Due to Other Governments                                       | -                                      | -   | -                               | -                          |
| Due to Other Funds   | 58                                     | 185   | 153                             | 158                        |
| Current Portion of Long-Term Obligations:                      |  |   |                                 |                            |
| Certificates of Participation and Other Financing Arrangements | 1,408                                  | -   | -                               | -                          |
| Revenue Bonds Payable  | -                                      | -   | -                               | -                          |
| Obligations Under Capital Leases                               | -                                      | -   | -                               | -                          |
| Claims Payable   | -                                      | -   | -                               | 4,073                      |
| Compensated Absences   | 46                                     | 12  | 117                             | 3                          |
| Deferred Revenue   | -                                      | -   | 391                             | 439                        |
| Other Accrued Liabilities                                      | -                                      | -   | -                               | -                          |
| Total Current Liabilities                                      | <u>2,075</u>                           | <u>3,221</u>                                | <u>4,297</u>                    | <u>4,698</u>               |
| Long-Term Liabilities:   |  |   |                                 |                            |
| Working Capital Advances Payable                               | -                                      | 111   | -                               | -                          |
| Deferred Revenue   | -                                      | -   | -                               | -                          |
| Certificates of Participation and Other Financing Arrangements | 4,319                                  | -   | -                               | -                          |
| Revenue Bonds Payable  | -                                      | -   | -                               | -                          |
| Obligations Under Capital Leases                               | -                                      | -   | -                               | -                          |
| Compensated Absences   | 401                                    | 97  | 566                             | 14                         |
| Total Long-Term Liabilities                                    | <u>4,720</u>                           | <u>208</u>                                  | <u>566</u>                      | <u>14</u>                  |
| Total Liabilities  | <u>6,795</u>                           | <u>3,429</u>                                | <u>4,863</u>                    | <u>4,712</u>               |
| <b>Net Assets</b>  |  |   |                                 |                            |
| Invested in Capital Assets, Net of Related Debt                | 32,523                                 | 85  | 3,778                           | -                          |
| Restricted for:  |  |   |                                 |                            |
| Other Purposes   | -                                      | -   | -                               | -                          |
| Unrestricted   | 8,013                                  | 424   | 5,598                           | 11,326                     |
| Total Net Assets   | <u>\$ 40,536</u>                       | <u>\$ 509</u>                               | <u>\$ 9,376</u>                 | <u>\$ 11,326</u>           |

|                          |                             |                   |                     |                                |                                 |   |   | Totals                       |
|--------------------------|-----------------------------|-------------------|---------------------|--------------------------------|---------------------------------|---|---|------------------------------|
| Workers'<br>Compensation | Central Fleet<br>Management | Leased<br>Space   | Revenue<br>Services | Retiree<br>Health<br>Insurance | Employee<br>Health<br>Insurance | Statewide<br>Radio &<br>Network<br>System | Governmental<br>Facilities<br>Authority | Internal<br>Service<br>Funds |
| \$ 5,107                 | \$ 1                        | \$ 93             | \$ 97               | \$ 29,718                      | \$ 5,138                        | \$ 20                                     | \$ -                                    | \$ 49,544                    |
| -                        | 63                          | -                 | -                   | -                              | -                               | -   | -                                       | 161                          |
| 3,811                    | -                           | 69                | 72                  | 22,175                         | 3,834                           | 15  | -                                       | 36,967                       |
| -                        | -                           | -                 | -                   | -                              | -                               | -   | 4,235                                   | 4,235                        |
| -                        | 21                          | -                 | -                   | -                              | -                               | -   | -                                       | 3,808                        |
| -                        | -                           | -                 | -                   | -                              | -                               | -   | 11,850                                  | 11,850                       |
| -                        | 10                          | -                 | -                   | -                              | 130                             | -   | 2,638                                   | 3,060                        |
| 767                      | 642                         | 98                | 31                  | -                              | -                               | -   | -                                       | 12,554                       |
| 145                      | -                           | -                 | -                   | -                              | -                               | -   | -                                       | 941                          |
| <u>9,830</u>             | <u>737</u>                  | <u>260</u>        | <u>200</u>          | <u>51,893</u>                  | <u>9,102</u>                    | <u>35</u>                                 | <u>18,723</u>                           | <u>123,120</u>               |
| 3,866                    | -                           | 70                | 74                  | 22,499                         | 3,890                           | 15  | -                                       | 37,507                       |
| -                        | -                           | -                 | -                   | -                              | -                               | -   | 182,886                                 | 182,886                      |
| 3                        | 13,198                      | 32,231            | -                   | -                              | -                               | -   | -                                       | 87,545                       |
| <u>3,869</u>             | <u>13,198</u>               | <u>32,301</u>     | <u>74</u>           | <u>22,499</u>                  | <u>3,890</u>                    | <u>15</u>                                 | <u>182,886</u>                          | <u>307,938</u>               |
| <u>13,699</u>            | <u>13,935</u>               | <u>32,561</u>     | <u>274</u>          | <u>74,392</u>                  | <u>12,992</u>                   | <u>50</u>                                 | <u>201,609</u>                          | <u>431,058</u>               |
| 174                      | 4                           | 21                | -                   | -                              | 10,692                          | -   | 10                                      | 16,805                       |
| 59                       | 46                          | 11                | -                   | -                              | 34                              | -   | -                                       | 1,494                        |
| -                        | -                           | -                 | -                   | -                              | -                               | -   | 765                                     | 765                          |
| -                        | 941                         | -                 | -                   | -                              | 1,130                           | -   | -                                       | 2,625                        |
| -                        | 3,019                       | -                 | -                   | -                              | -                               | -   | -                                       | 4,427                        |
| -                        | -                           | -                 | -                   | -                              | -                               | -   | 11,830                                  | 11,830                       |
| -                        | -                           | 6,348             | -                   | -                              | -                               | -   | -                                       | 6,348                        |
| 61,839                   | -                           | -                 | -                   | -                              | -                               | -   | -                                       | 65,912                       |
| 5                        | 5                           | 2                 | -                   | -                              | 4                               | -   | -                                       | 194                          |
| -                        | 5                           | 173               | -                   | -                              | -                               | -   | 40                                      | 1,048                        |
| -                        | 61                          | -                 | -                   | -                              | 1                               | -   | 2,561                                   | 2,623                        |
| <u>62,077</u>            | <u>4,081</u>                | <u>6,555</u>      | <u>-</u>            | <u>-</u>                       | <u>11,861</u>                   | <u>-</u>                                  | <u>15,206</u>                           | <u>114,071</u>               |
| -                        | -                           | -                 | -                   | -                              | -                               | -   | -                                       | 111                          |
| -                        | -                           | -                 | -                   | -                              | -                               | -   | 1,164                                   | 1,164                        |
| -                        | 5,805                       | -                 | -                   | -                              | -                               | -   | -                                       | 10,124                       |
| -                        | -                           | -                 | -                   | -                              | -                               | -   | 184,553                                 | 184,553                      |
| -                        | -                           | 28,568            | -                   | -                              | -                               | -   | -                                       | 28,568                       |
| 31                       | 33                          | 7                 | -                   | -                              | 24                              | -   | -                                       | 1,173                        |
| <u>31</u>                | <u>5,838</u>                | <u>28,575</u>     | <u>-</u>            | <u>-</u>                       | <u>24</u>                       | <u>-</u>                                  | <u>185,717</u>                          | <u>225,693</u>               |
| <u>62,108</u>            | <u>9,919</u>                | <u>35,130</u>     | <u>-</u>            | <u>-</u>                       | <u>11,885</u>                   | <u>-</u>                                  | <u>200,923</u>                          | <u>339,764</u>               |
| 3                        | 4,374                       | (2,569)           | -                   | -                              | -                               | -   | -                                       | 38,077                       |
| -                        | -                           | -                 | -                   | -                              | -                               | 50  | -                                       | 50                           |
| <u>(48,412)</u>          | <u>(358)</u>                | <u>-</u>          | <u>274</u>          | <u>74,392</u>                  | <u>1,107</u>                    | <u>-</u>                                  | <u>686</u>                              | <u>53,167</u>                |
| <u>\$ (48,409)</u>       | <u>\$ 4,016</u>             | <u>\$ (2,569)</u> | <u>\$ 274</u>       | <u>\$ 74,392</u>               | <u>\$ 1,107</u>                 | <u>\$ 50</u>                              | <u>\$ 686</u>                           | <u>\$ 91,294</u>             |

**STATE OF MAINE**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**

June 30, 2003  
(Expressed in Thousands)

|   | <u>Motor<br/>Transport<br/>Service</u> | <u>Postal<br/>Printing &amp;<br/>Supply</u> | <u>Information<br/>Services</u> | <u>Risk<br/>Management</u> |
|---|--|---|---------------------------------|----------------------------|
| <b>Operating Revenues</b>                                   |  |   |                                 |                            |
| Charges for Services  | \$ 26,404                              | \$ 37,208                                   | \$ 37,234                       | \$ 4,442                   |
| Miscellaneous Revenues                                      | -                                      | -   | -                               | -                          |
| Total Operating Revenues                                    | <u>26,404</u>                          | <u>37,208</u>                               | <u>37,234</u>                   | <u>4,442</u>               |
| <b>Operating Expenses</b>                                   |  |   |                                 |                            |
| General Operations  | 17,513                                 | 37,334                                      | 31,927                          | 3,691                      |
| Depreciation  | 6,059                                  | 37  | 3,380                           | 5                          |
| Claims/Fees Expense   | -                                      | -   | -                               | 1,769                      |
| Other Operating Expenses                                    | -                                      | -   | -                               | -                          |
| Total Operating Expenses                                    | <u>23,572</u>                          | <u>37,371</u>                               | <u>35,307</u>                   | <u>5,465</u>               |
| Operating Income (Loss)                                     | <u>2,832</u>                           | <u>(163)</u>                                | <u>1,927</u>                    | <u>(1,023)</u>             |
| <b>Nonoperating Revenues (Expenses)</b>                     |  |   |                                 |                            |
| Investment Revenue (Expense) - net                          | 130                                    | (8)   | 36                              | 328                        |
| Interest Expense  | (331)                                  | -   | (20)                            | -                          |
| Other Nonoperating Revenues (Expenses) - net                | 1,571                                  | -   | -                               | -                          |
| Total Nonoperating Revenues (Expenses)                      | <u>1,370</u>                           | <u>(8)</u>                                  | <u>16</u>                       | <u>328</u>                 |
| Income (Loss) Before Capital<br>Contributions and Transfers | <u>4,202</u>                           | <u>(171)</u>                                | <u>1,943</u>                    | <u>(695)</u>               |
| <b>Capital Contributions and Transfers</b>                  |  |   |                                 |                            |
| Capital Contributions from Other Funds                      | 1,385                                  | -   | -                               | -                          |
| Transfers from (to) Other Funds                             | (285)                                  | (46)  | (146)                           | (411)                      |
| Total Capital Contributions<br>and Transfers In (Out)       | <u>1,100</u>                           | <u>(46)</u>                                 | <u>(146)</u>                    | <u>(411)</u>               |
| Change in Net Assets  | 5,302                                  | (217)                                       | 1,797                           | (1,106)                    |
| Total Net Assets - Beginning of Year                        | <u>35,234</u>                          | <u>726</u>                                  | <u>7,579</u>                    | <u>12,432</u>              |
| Total Net Assets - End of Year                              | <u>\$ 40,536</u>                       | <u>\$ 509</u>                               | <u>\$ 9,376</u>                 | <u>\$ 11,326</u>           |

|                              |                                 |                     |                         |                                 |                                  |   |  | <u>Totals</u>                 |
|------------------------------|---------------------------------|---------------------|-------------------------|---------------------------------|----------------------------------|---|--|-------------------------------|
| <u>Workers' Compensation</u> | <u>Central Fleet Management</u> | <u>Leased Space</u> | <u>Revenue Services</u> | <u>Retiree Health Insurance</u> | <u>Employee Health Insurance</u> | <u>Statewide Radio &amp; Network System</u> | <u>Governmental Facilities Authority</u> | <u>Internal Service Funds</u> |
| \$ 15,801                    | \$ 7,155                        | \$ 20,098           | \$ 318                  | \$ 58,868                       | \$ 120,513                       | \$ 349                                      | \$ 9,800                                 | \$ 338,190                    |
| -                            | -                               | -                   | -                       | -                               | -                                | -   | 318                                      | 318                           |
| 15,801                       | 7,155                           | 20,098              | 318                     | 58,868                          | 120,513                          | 349   | 10,118                                   | 338,508                       |
| 2,667                        | 3,783                           | 10,518              | 250                     | 35,638                          | 120,091                          | 299   | 175                                      | 263,886                       |
| 3                            | 2,707                           | 4,846               | -                       | -                               | -                                | -   | -  | 17,037                        |
| 8,627                        | -                               | -                   | -                       | -                               | -                                | -   | -  | 10,396                        |
| -                            | -                               | -                   | -                       | -                               | -                                | -   | 343                                      | 343                           |
| 11,297                       | 6,490                           | 15,364              | 250                     | 35,638                          | 120,091                          | 299   | 518                                      | 291,662                       |
| 4,504                        | 665                             | 4,734               | 68                      | 23,230                          | 422                              | 50  | 9,600                                    | 46,846                        |
| 216                          | (17)                            | 20                  | 6                       | 1,251                           | 114                              | -   | 54                                       | 2,130                         |
| (6)                          | (397)                           | (5,303)             | -                       | -                               | -                                | -   | (10,026)                                 | (16,083)                      |
| -                            | (269)                           | -                   | -                       | -                               | -                                | -   | -  | 1,302                         |
| 210                          | (683)                           | (5,283)             | 6                       | 1,251                           | 114                              | -   | (9,972)                                  | (12,651)                      |
| 4,714                        | (18)                            | (549)               | 74                      | 24,481                          | 536                              | 50  | (372)                                    | 34,195                        |
| -                            | -                               | -                   | -                       | -                               | -                                | -   | -  | 1,385                         |
| 13,867                       | (12)                            | (3)                 | -                       | -                               | (10)                             | -   | -  | 12,954                        |
| 13,867                       | (12)                            | (3)                 | -                       | -                               | (10)                             | -   | -  | 14,339                        |
| 18,581                       | (30)                            | (552)               | 74                      | 24,481                          | 526                              | 50  | (372)                                    | 48,534                        |
| (66,990)                     | 4,046                           | (2,017)             | 200                     | 49,911                          | 581                              | -   | 1,058                                    | 42,760                        |
| <u>\$ (48,409)</u>           | <u>\$ 4,016</u>                 | <u>\$ (2,569)</u>   | <u>\$ 274</u>           | <u>\$ 74,392</u>                | <u>\$ 1,107</u>                  | <u>\$ 50</u>                                | <u>\$ 686</u>                            | <u>\$ 91,294</u>              |

**STATE OF MAINE**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**

June 30, 2003  
(Expressed in Thousands)

|   | <b>Motor<br/>Transport<br/>Service</b> | <b>Postal<br/>Printing &amp;<br/>Supply</b> | <b>Information<br/>Services</b> | <b>Risk<br/>Management</b> |
|---|--|---|---------------------------------|----------------------------|
| <b>Cash Flows from Operating Activities</b>   |  |   |                                 |                            |
| Receipts from Customers and Users   | \$ 26,576                              | \$ 36,536                                   | \$ 37,434                       | \$ 3,324                   |
| Payments to Suppliers   | (7,845)                                | (34,591)                                    | (23,980)                        | (4,092)                    |
| Payments to Employees   | (10,541)                               | (2,241)                                     | (11,495)                        | (339)                      |
| Net Cash Provided (Used) by Operating Activities  | <u>8,190</u>                           | <u>(296)</u>                                | <u>1,959</u>                    | <u>(1,107)</u>             |
| <b>Cash Flows from Noncapital Financing Activities</b>  |  |   |                                 |                            |
| Operating Transfers out   | (285)                                  | (46)  | (146)                           | (411)                      |
| Net Cash Provided (Used) by Noncapital Financing Activities                                       | <u>(285)</u>                           | <u>(46)</u>                                 | <u>(146)</u>                    | <u>(411)</u>               |
| <b>Cash Flows from Capital and Related Financing Activities</b>                                   |  |   |                                 |                            |
| Payments for Acquisition of Capital Assets  | (11,585)                               | (8)   | (1,310)                         | -                          |
| Capital Contributions   | 1,385                                  | -   | -                               | -                          |
| Proceeds From Financing Arrangements  | (1,650)                                | -   | -                               | -                          |
| Principal and Interest Paid on Financing Arrangements   | (332)                                  | -   | (20)                            | -                          |
| Proceeds from Sale of Capital Assets  | 1,571                                  | -   | -                               | -                          |
| Net Cash Provided (Used) by Capital Financing Activities  | <u>(10,611)</u>                        | <u>(8)</u>                                  | <u>(1,330)</u>                  | <u>-</u>                   |
| <b>Cash Flows from Investing Activities</b>   |  |   |                                 |                            |
| Interest Revenue  | 130                                    | (8)   | 36                              | 328                        |
| Payments to Purchase Investments  | (143)                                  | -   | (1,009)                         | (2,526)                    |
| Proceeds from Sale of Investments   | -                                      | 76  | -                               | -                          |
| Net Cash Provided (Used) by Investing Activities  | <u>(13)</u>                            | <u>68</u>                                   | <u>(973)</u>                    | <u>(2,198)</u>             |
| Net Increase (Decrease) in Cash/Cash Equivalents  | (2,719)                                | (282)                                       | (490)                           | (3,716)                    |
| Cash/Cash Equivalents - Beginning of Year, As Restated  | <u>4,753</u>                           | <u>404</u>                                  | <u>2,042</u>                    | <u>9,476</u>               |
| Cash/Cash Equivalents - End of Year   | <u>\$ 2,034</u>                        | <u>\$ 122</u>                               | <u>\$ 1,552</u>                 | <u>\$ 5,760</u>            |
| <b>Reconciliation of Operating Income (Loss) to Net Cash<br/>Used by Operating Activities</b>     |  |   |                                 |                            |
| Operating Income (Loss)   | <u>\$ 2,832</u>                        | <u>\$ (163)</u>                             | <u>\$ 1,927</u>                 | <u>\$ (1,023)</u>          |
| <b>Adjustments to Reconcile Operating Income to Net Cash<br/>Provided by Operating Activities</b> |  |   |                                 |                            |
| Depreciation Expense  | 6,059                                  | 37  | 3,380                           | 5                          |
| Decrease (Increase) in Assets   |  |   |                                 |                            |
| Accounts Receivable   | (209)                                  | (736)                                       | 447                             | (1,071)                    |
| Interfund Balances  | (81)                                   | 58  | (37)                            | 20                         |
| Inventories   | 284                                    | 64  | -                               | -                          |
| Increase (Decrease) in Liabilities  |  |   |                                 |                            |
| Accounts Payable  | (840)                                  | 458   | (2,114)                         | -                          |
| Accrued Payroll Expenses  | 20                                     | 4   | 85                              | 7                          |
| Change in Compensated Absences  | 27                                     | (18)  | (5)                             | 1                          |
| Other Accruals  | 98                                     | -   | (1,724)                         | 954                        |
| Total Adjustments   | <u>5,358</u>                           | <u>(133)</u>                                | <u>32</u>                       | <u>(84)</u>                |
| Net Cash Provided (Used) by Operating Activities  | <u>\$ 8,190</u>                        | <u>\$ (296)</u>                             | <u>\$ 1,959</u>                 | <u>\$ (1,107)</u>          |

|    | <u>Workers' Compensation</u> | <u>Central Fleet Management</u> | <u>Leased Space</u> | <u>Revenue Services</u> | <u>Retiree Health Insurance</u> | <u>Employee Health Insurance</u> | <u>Statewide Radio &amp; Network System</u> | <u>Governmental Facilities Authority</u> | <u>Totals Internal Service Funds</u> |
|----|------------------------------|---------------------------------|---------------------|-------------------------|---------------------------------|----------------------------------|---|--|--------------------------------------|
| \$ | 16,132                       | \$ 7,160                        | \$ 20,052           | \$ 288                  | \$ 59,031                       | \$ 120,644                       | \$ 349                                      | \$ 5,786                                 | \$ 333,312                           |
|    | (10,809)                     | (3,654)                         | (10,433)            | (321)                   | (36,114)                        | (109,127)                        | (299)                                       | (493)                                    | (241,758)                            |
|    | (889)                        | (648)                           | (154)               | -                       | -                               | (520)                            | -   | -  | (26,827)                             |
|    | <u>4,434</u>                 | <u>2,858</u>                    | <u>9,465</u>        | <u>(33)</u>             | <u>22,917</u>                   | <u>10,997</u>                    | <u>50</u>                                   | <u>5,293</u>                             | <u>64,727</u>                        |
|    | (19)                         | (12)                            | (3)                 | -                       | -                               | (10)                             | -   | -  | (932)                                |
|    | (19)                         | (12)                            | (3)                 | -                       | -                               | (10)                             | -   | -  | (932)                                |
|    | (6)                          | (1,311)                         | (5,158)             | -                       | -                               | -                                | -   | -  | (19,378)                             |
|    | -                            | -                               | -                   | -                       | -                               | -                                | -   | -  | 1,385                                |
|    | -                            | -                               | 812                 | -                       | -                               | -                                | -   | 4,739                                    | 3,901                                |
|    | (6)                          | (1,460)                         | (5,305)             | -                       | -                               | -                                | -   | (10,027)                                 | (17,150)                             |
|    | -                            | (267)                           | -                   | -                       | -                               | -                                | -   | -  | 1,304                                |
|    | (12)                         | (3,038)                         | (9,651)             | -                       | -                               | -                                | -   | (5,288)                                  | (29,938)                             |
|    | 216                          | (17)                            | 20                  | 6                       | 1,251                           | 114                              | -   | 54                                       | 2,130                                |
|    | (4,466)                      | -                               | -                   | (46)                    | (24,939)                        | (7,033)                          | (30)  | -  | (40,192)                             |
|    | -                            | -                               | 21                  | -                       | -                               | -                                | -   | -  | 97                                   |
|    | (4,250)                      | (17)                            | 41                  | (40)                    | (23,688)                        | (6,919)                          | (30)  | 54                                       | (37,965)                             |
|    | 153                          | (209)                           | (148)               | (73)                    | (771)                           | 4,068                            | 20  | 59                                       | (4,108)                              |
|    | <u>4,954</u>                 | <u>273</u>                      | <u>241</u>          | <u>170</u>              | <u>30,489</u>                   | <u>1,070</u>                     | <u>-</u>                                    | <u>4,176</u>                             | <u>58,048</u>                        |
| \$ | <u>5,107</u>                 | <u>64</u>                       | <u>93</u>           | <u>97</u>               | <u>29,718</u>                   | <u>5,138</u>                     | <u>20</u>                                   | <u>4,235</u>                             | <u>53,940</u>                        |
| \$ | <u>4,504</u>                 | <u>665</u>                      | <u>4,734</u>        | <u>68</u>               | <u>23,230</u>                   | <u>422</u>                       | <u>50</u>                                   | <u>9,600</u>                             | <u>46,846</u>                        |
|    | 3                            | 2,707                           | 4,846               | -                       | -                               | -                                | -   | -  | 17,037                               |
|    | 19                           | 1                               | (46)                | (31)                    | 163                             | 130                              | -   | (4,331)                                  | (5,664)                              |
|    | -                            | (342)                           | (3)                 | -                       | -                               | (170)                            | -   | -  | (555)                                |
|    | -                            | 4                               | -                   | -                       | -                               | -                                | -   | -  | 352                                  |
|    | (424)                        | (190)                           | (5)                 | (70)                    | (476)                           | 10,601                           | -   | 758                                      | 7,698                                |
|    | 16                           | 8                               | 2                   | -                       | -                               | 8                                | -   | -  | 150                                  |
|    | 5                            | -                               | 3                   | -                       | -                               | 6                                | -   | -  | 19                                   |
|    | <u>311</u>                   | <u>5</u>                        | <u>(66)</u>         | <u>-</u>                | <u>-</u>                        | <u>-</u>                         | <u>-</u>                                    | <u>(734)</u>                             | <u>(1,156)</u>                       |
|    | (70)                         | 2,193                           | 4,731               | (101)                   | (313)                           | 10,575                           | -   | (4,307)                                  | 17,881                               |
| \$ | <u>4,434</u>                 | <u>2,858</u>                    | <u>9,465</u>        | <u>(33)</u>             | <u>22,917</u>                   | <u>10,997</u>                    | <u>50</u>                                   | <u>5,293</u>                             | <u>64,727</u>                        |



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# PRIVATE PURPOSE TRUSTS & AGENCY FUNDS

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## Private Purpose Trust Funds

Abandoned Property Fund - This fund accounts for unclaimed property receipts. All holders of property presumed abandoned must report these properties to the Treasurer annually. The Treasurer will honor claims indefinitely.

Revenue on Private Purpose Trusts Fund – This fund accounts for expendable earnings on private purpose trust fund balances.

Lands Reserved Trust Funds – These funds were established to account for revenue derived from the sale of timber from public lands and from appreciation on investments. The income is to be used for school purposes by townships when they become organized towns or plantations.

Permanent School Fund – This fund is comprised of numerous small private purpose trusts, the income from which may be used for specified purposes.

## Agency Funds

Payroll Withholding Fund – This fund accounts for all payroll taxes and deductions withheld to pay the federal government, other State agencies, and payroll vendors.

Private Trusts Fund – This fund is used to account for assets held by the State acting as an agent for patients of State Mental Health facilities, inmates at State Correctional Institutions, recipients of State-supported elder and adult services, and child support enforcement services. Also included in this fund are insurance company and unemployment guaranty deposits, and assets held in Courts and Corrections restitution escrow accounts.

Other Agency Funds – These funds account for numerous small agency funds which have been combined for financial reporting purposes.

Treasurer's Agency Fund – This fund accounts for deposits of quasi-governmental units placed in the Treasurer's Cash Pool for investment purposes.



**STATE OF MAINE**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**PRIVATE PURPOSE TRUST FUNDS**

June 30, 2003  
(Expressed in Thousands)

|  | <u>Abandoned<br/>Property</u> | <u>Revenue on<br/>Private<br/>Purpose<br/>Trusts</u> | <u>Lands<br/>Reserved</u> | <u>Permanent<br/>School</u> | <u>Totals<br/>Private<br/>Purpose<br/>Trusts</u> |
|--|-------------------------------|--|---------------------------|-----------------------------|--|
| <b>Assets</b>  |                               |  |                           |                             |  |
| Cash and Short-Term Investments  | \$ 64                         | \$ 38  | \$ 184                    | \$ -                        | \$ 286   |
| Investments at Fair Value:   |                               |  |                           |                             |  |
| Other  | 96                            | 74   | 7,416                     | 2,311                       | 9,897  |
| Assets Held in Trust   | 11,224                        | -  | -                         | -                           | 11,224   |
| <br>Total Assets   | <br>11,384                    | <br>112  | <br>7,600                 | <br>2,311                   | <br>21,407                                       |
| <b>Liabilities</b>   |                               |  |                           |                             |  |
| Accounts Payable   | 10                            | -  | -                         | -                           | 10   |
| <b>Net Assets</b>  |                               |  |                           |                             |  |
| Net Assets Held in Trust for Pension, Disability, Death,<br>Group Life Insurance Benefits and Other Purposes | 11,374                        | 112  | 7,600                     | 2,311                       | 21,397   |
| <br>Total Net Assets   | <br>\$ 11,374                 | <br>\$ 112   | <br>\$ 7,600              | <br>\$ 2,311                | <br>\$ 21,397                                    |

**STATE OF MAINE**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PRIVATE PURPOSE TRUST FUNDS**

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|   | <u>Abandoned<br/>Property</u> | <u>Revenue on<br/>Private<br/>Purpose<br/>Trusts</u> | <u>Lands<br/>Reserved</u> | <u>Permanent<br/>School</u> | <u>Totals<br/>Private<br/>Purpose<br/>Trusts</u> |
|---|-------------------------------|--|---------------------------|-----------------------------|--|
| <b>Additions:</b>   |                               |  |                           |                             |  |
| Contributions:  |                               |  |                           |                             |  |
| Investment Income:  |                               |  |                           |                             |  |
| Net Increase (Decrease) in the Fair Value of Investments  | \$ -                          | \$ -   | \$ -                      | \$ 1,144                    | \$ 1,144   |
| Interest and Dividends  | 90                            | 292  | 19                        | 84                          | 485  |
| Net Investment Income (Loss)  | 90                            | 292  | 19                        | 1,228                       | 1,629  |
| Miscellaneous Revenues  | 16,845                        | -  | -                         | -                           | 16,845   |
| Transfers In  | -                             | 494  | -                         | -                           | 494  |
| <br>Total Additions   | <br><u>16,935</u>             | <br><u>786</u>                                       | <br><u>19</u>             | <br><u>1,228</u>            | <br><u>18,968</u>                                |
| <b>Deductions:</b>  |                               |  |                           |                             |  |
| Benefits Paid to Participants or Beneficiaries  | 2,128                         | 39   | -                         | -                           | 2,167  |
| Transfers Out   | 8,173                         | 663  | -                         | -                           | 8,836  |
| <br>Total Deductions  | <br><u>10,301</u>             | <br><u>702</u>                                       | <br><u>-</u>              | <br><u>-</u>                | <br><u>11,003</u>                                |
| <br>Net Increase (Decrease)   | <br>6,634                     | <br>84   | <br>19                    | <br>1,228                   | <br>7,965  |
| <br>Net Assets Held in Trust for Pension, Disability, Death,<br>Group Life Insurance Benefits and Other Purposes: |                               |  |                           |                             |  |
| Beginning of Year, As Restated  | 4,740                         | 28   | 7,581                     | 1,083                       | 13,432   |
| <br>End of Year   | <br><u>\$ 11,374</u>          | <br><u>\$ 112</u>                                    | <br><u>\$ 7,600</u>       | <br><u>\$ 2,311</u>         | <br><u>\$ 21,397</u>                             |

**STATE OF MAINE**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**

June 30, 2003  
(Expressed in Thousands)

|                                 | <b>Payroll<br/>Withholding</b> | <b>Private Trusts</b> | <b>Other<br/>Agency</b> | <b>Treasurer's<br/>Agency</b> | <b>Totals<br/>Agency<br/>Funds</b> |
|---------------------------------|--------------------------------|-----------------------|-------------------------|-------------------------------|------------------------------------|
| <b>Assets</b>                   |                                |                       |                         |                               |                                    |
| Cash and Short-Term Investments | \$ -                           | \$ 5,116              | \$ 306                  | \$ 12                         | \$ 5,434                           |
| Investments at Fair Value:      |                                |                       |                         |                               |                                    |
| Other                           | -                              | 2,226                 | 1,020                   | -                             | 3,246                              |
| Assets Held in Trust            | -                              | 1,712,486             | -                       | -                             | 1,712,486                          |
| Accounts Receivable             | 1,527                          | -                     | -                       | -                             | 1,527                              |
| Total Assets                    | <u>\$ 1,527</u>                | <u>\$ 1,719,828</u>   | <u>\$ 1,326</u>         | <u>\$ 12</u>                  | <u>\$ 1,722,693</u>                |
| <b>Liabilities</b>              |                                |                       |                         |                               |                                    |
| Accounts Payable                | \$ 23                          | \$ 10                 | \$ 14                   | \$ -                          | \$ 47                              |
| Agency Liabilities              | -                              | 1,719,818             | 1,312                   | 12                            | 1,721,142                          |
| Due to Other Funds              | 1,489                          | -                     | -                       | -                             | 1,489                              |
| Other Accrued Liabilities       | 15                             | -                     | -                       | -                             | 15                                 |
| Total Liabilities               | <u>\$ 1,527</u>                | <u>\$ 1,719,828</u>   | <u>\$ 1,326</u>         | <u>\$ 12</u>                  | <u>\$ 1,722,693</u>                |

**STATE OF MAINE**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**

Fiscal Year Ended June 30, 2003  
(Expressed in Thousands)

|                                  | <u>Balance</u><br><u>July 1, 2002</u> | <u>Additions</u>    | <u>Deductions</u>   | <u>Balance</u><br><u>June 30, 2003</u> |
|----------------------------------|---------------------------------------|---------------------|---------------------|--|
| <b>Payroll Withholding</b>       |                                       |                     |                     |  |
| <b>Assets</b>                    |                                       |                     |                     |  |
| Cash & Short-Term Investments    | \$ 40                                 | \$ 229,842          | \$ 229,882          | \$ -                                   |
| Accounts Receivable              | -                                     | 1,527               | -                   | 1,527                                  |
| Total Assets                     | <u>\$ 40</u>                          | <u>\$ 231,369</u>   | <u>\$ 229,882</u>   | <u>\$ 1,527</u>                        |
| <b>Liabilities</b>               |                                       |                     |                     |  |
| Accounts Payable                 | \$ 40                                 | \$ 357,212          | \$ 357,210          | \$ 38                                  |
| Due to Other Funds               | -                                     | -                   | 1,489               | 1,489                                  |
| Total Liabilities                | <u>\$ 40</u>                          | <u>\$ 357,212</u>   | <u>\$ 358,699</u>   | <u>\$ 1,527</u>                        |
| <b>Private Trusts</b>            |                                       |                     |                     |  |
| <b>Assets</b>                    |                                       |                     |                     |  |
| Assets Held in Trust             | \$ 1,261,458                          | \$ 483,024          | \$ 24,654           | \$ 1,719,828                           |
| Total Assets                     | <u>\$ 1,261,458</u>                   | <u>\$ 483,024</u>   | <u>\$ 24,654</u>    | <u>\$ 1,719,828</u>                    |
| <b>Liabilities</b>               |                                       |                     |                     |  |
| Accounts Payable                 | \$ -                                  | \$ -                | \$ 10               | \$ 10                                  |
| Agency Liabilities               | 1,261,458                             | 24,793              | 483,153             | 1,719,818                              |
| Total Liabilities                | <u>\$ 1,261,458</u>                   | <u>\$ 24,793</u>    | <u>\$ 483,163</u>   | <u>\$ 1,719,828</u>                    |
| <b>Other Agency</b>              |                                       |                     |                     |  |
| <b>Assets</b>                    |                                       |                     |                     |  |
| Cash & Short-Term Investments    | \$ 844                                | \$ 10,583           | \$ 10,101           | \$ 1,326                               |
| Other Current Assets             | -                                     | 745                 | 745                 | -                                      |
| Total Assets                     | <u>\$ 844</u>                         | <u>\$ 11,328</u>    | <u>\$ 10,846</u>    | <u>\$ 1,326</u>                        |
| <b>Liabilities</b>               |                                       |                     |                     |  |
| Agency Liabilities               | \$ 844                                | \$ 15,988           | \$ 16,470           | \$ 1,326                               |
| Total Liabilities                | <u>\$ 844</u>                         | <u>\$ 15,988</u>    | <u>\$ 16,470</u>    | <u>\$ 1,326</u>                        |
| <b>Treasurer's Agency</b>        |                                       |                     |                     |  |
| <b>Assets</b>                    |                                       |                     |                     |  |
| Cash & Short-Term Investments    | \$ 12                                 | \$ 286,737          | \$ 286,737          | \$ 12                                  |
| Total Assets                     | <u>\$ 12</u>                          | <u>\$ 286,737</u>   | <u>\$ 286,737</u>   | <u>\$ 12</u>                           |
| <b>Liabilities</b>               |                                       |                     |                     |  |
| Agency Liabilities               | \$ 12                                 | \$ 288,122          | \$ 288,122          | \$ 12                                  |
| Total Liabilities                | <u>\$ 12</u>                          | <u>\$ 288,122</u>   | <u>\$ 288,122</u>   | <u>\$ 12</u>                           |
| <b>Totals - All Agency Funds</b> |                                       |                     |                     |  |
| <b>Assets</b>                    |                                       |                     |                     |  |
| Cash & Short-Term Investments    | \$ 896                                | \$ 527,162          | \$ 526,720          | \$ 1,338                               |
| Assets Held in Trust             | 1,261,458                             | 483,024             | 24,654              | 1,719,828                              |
| Accounts Receivable              | -                                     | 1,527               | -                   | 1,527                                  |
| Other Current Assets             | -                                     | 745                 | 745                 | -                                      |
| Total Assets                     | <u>\$ 1,262,354</u>                   | <u>\$ 1,012,458</u> | <u>\$ 552,119</u>   | <u>\$ 1,722,693</u>                    |
| <b>Liabilities</b>               |                                       |                     |                     |  |
| Accounts Payable                 | \$ 40                                 | \$ 357,212          | \$ 357,220          | \$ 48                                  |
| Agency Liabilities               | 1,262,314                             | 328,903             | 787,745             | 1,721,156                              |
| Due to Other Funds               | -                                     | -                   | 1,489               | 1,489                                  |
| Total Liabilities                | <u>\$ 1,262,354</u>                   | <u>\$ 686,115</u>   | <u>\$ 1,146,454</u> | <u>\$ 1,722,693</u>                    |



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# STATISTICAL SECTION

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TABLE I

**STATE OF MAINE  
EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUND TYPES**

Last Ten Fiscal Years  
(Expressed in Thousands)

| <i>* See Notes *</i>                                  | <u>1994</u>        | <u>1995</u>        | <u>1996</u>        | <u>1997</u>        | <u>1998</u>        | <u>1999</u>        | <u>2000</u>        | <u>2001</u>        | <u>2002</u>        | <u>2003</u>        |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Government Support &amp; Operations</b>            | \$ 312,767         | \$ 273,228         | \$ 257,228         | \$ 259,715         | \$ 313,648         | \$ 407,423         | \$ 431,959         | \$ 555,264         | \$ 481,855         | \$ 383,432         |
| <b>Economic Development &amp; Workforce Training</b>  | 81,407             | 92,381             | 93,329             | 96,141             | 92,173             | 88,315             | 112,079            | 110,304            | 133,320            | 207,732            |
| <b>Education</b>                                      | 901,229            | 957,003            | 979,323            | 817,559            | 845,751            | 910,540            | 966,947            | 993,992            | 1,325,259          | 1,327,936          |
| <b>Health and Human Services</b>                      | 1,445,823          | 1,527,840          | 1,700,472          | 1,697,053          | 1,712,124          | 1,816,359          | 1,934,243          | 2,077,991          | 2,443,949          | 2,597,851          |
| <b>Labor</b>  | 103,161            | 62,389             | 54,651             | 77,793             | 83,613             | 82,012             | 79,690             | 76,389             | 92,191             | -                  |
| <b>Business Licensing &amp; Regulation</b>            | -                  | -                  | -                  | -                  | -                  | -                  | -                  | -                  | -                  | 35,282             |
| <b>Natural Resources Development &amp; Protection</b> | 84,912             | 115,805            | 110,166            | 104,575            | 103,738            | 111,800            | 119,783            | 132,041            | 136,601            | 175,348            |
| <b>Justice &amp; Protection</b>                       | 56,597             | 56,454             | 57,291             | 63,872             | 87,009             | 82,093             | 82,641             | 92,947             | 109,022            | 323,326            |
| <b>Arts, Heritage &amp; Cultural Enrichment</b>       | -                  | -                  | -                  | -                  | -                  | -                  | -                  | -                  | -                  | 13,074             |
| <b>Transportation</b>                                 | 291,631            | 283,171            | 342,133            | 364,978            | 319,123            | 339,572            | 355,801            | 397,588            | 393,985            | 456,482            |
| <b>Debt Service</b>                                   | -                  | 113,063            | 111,825            | 122,275            | 104,220            | 107,587            | 112,980            | 123,407            | 108,384            | 102,122            |
| <b>Total Expenditures</b>                             | <u>\$3,277,527</u> | <u>\$3,481,334</u> | <u>\$3,706,418</u> | <u>\$3,603,961</u> | <u>\$3,661,399</u> | <u>\$3,945,701</u> | <u>\$4,196,123</u> | <u>\$4,559,923</u> | <u>\$5,224,566</u> | <u>\$5,622,585</u> |

Notes: Governmental Fund Types of the primary government are described in Note 1C of the Notes to the Financial Statements. 2003 expenditures depict a statutory realignment of agencies among policy areas. Prior year amounts were not restated. Fiscal Year 1994 data on budgetary basis - GAAP financial information unavailable for that year.

TABLE II

**STATE OF MAINE  
REVENUES BY SOURCE  
ALL GOVERNMENTAL FUND TYPES**

Last Ten Fiscal Years  
(Expressed in Thousands)

|  | <u>1994</u>        | <u>1995</u>        | <u>1996</u>        | <u>1997</u>        | <u>1998</u>        | <u>1999</u>        | <u>2000</u>        | <u>2001</u>        | <u>2002</u>        | <u>2003</u>        |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Taxes</b>                               | \$ 1,934,966       | \$ 1,733,996       | \$ 1,975,208       | \$ 2,113,711       | \$ 2,326,004       | \$ 2,350,495       | \$ 2,632,465       | \$ 2,522,131       | \$ 2,417,458       | \$ 2,585,456       |
| <b>Assessments &amp; Other Revenues</b>    | 134,640            | 223,903            | 147,770            | 150,213            | 175,502            | 178,997            | 189,213            | 208,904            | 212,777            | 212,339            |
| <b>Federal Grants &amp; Reimbursements</b> | 1,064,397          | 1,103,981          | 1,404,181          | 1,324,706          | 1,337,685          | 1,470,231          | 1,555,970          | 1,610,209          | 1,837,347          | 2,169,919          |
| <b>Service Charges</b>                     | 105,504            | 104,125            | 113,477            | 133,886            | 113,442            | 83,639             | 71,398             | 69,350             | 141,584            | 128,148            |
| <b>Income from Investments</b>             | 4,932              | 13,821             | -                  | -                  | 161                | 28,898             | 37,094             | 50,369             | 6,422              | 6,396              |
| <b>Miscellaneous Revenues</b>              | 67,371             | 94,268             | 51,326             | 35,160             | 51,649             | 53,842             | 113,705            | 110,182            | 91,321             | 165,242            |
| <b>Total Revenues</b>                      | <u>\$3,311,810</u> | <u>\$3,274,094</u> | <u>\$3,691,962</u> | <u>\$3,757,676</u> | <u>\$4,004,443</u> | <u>\$4,166,102</u> | <u>\$4,599,845</u> | <u>\$4,571,145</u> | <u>\$4,706,909</u> | <u>\$5,267,500</u> |

Notes: Governmental Fund Types of the primary government are described in Note 1C of the Notes to the Financial Statements. Fiscal Year 1994 data on budgetary basis - GAAP financial information unavailable for that year.

TABLE III

**STATE OF MAINE**  
**NET GENERAL LONG-TERM BONDED DEBT**  
**AND OTHER FINANCING PER CAPITA**

Last Ten Fiscal Years  
(Expressed in Thousands)

| Fiscal Year | Population (1) | Bonded Debt | Notes and Other Financing (2) | Total Debt  | Total Debt Per Capita |
|-------------|----------------|-------------|-------------------------------|-------------|-----------------------|
| 2003        | 1,306          | \$358,410   | \$230,489                     | \$ 588,899  | 451                   |
| 2002        | 1,295          | 346,495     | 197,007                       | 543,502     | 420                   |
| 2001        | 1,285          | 406,490     | 159,870                       | 566,360     | 441                   |
| 2000        | 1,277          | 452,975     | 105,971                       | 558,946     | 438                   |
| 1999        | 1,244          | 486,620     | 14,631                        | 501,251     | 403                   |
| 1998        | 1,244          | 497,050     | 6,137                         | 503,187 (3) | 404                   |
| 1997        | 1,244          | 490,086     | 6,894                         | 496,980     | 399                   |
| 1996        | 1,244          | 515,690     | 8,045                         | 523,735     | 421                   |
| 1995        | 1,244          | 516,060     | 9,870                         | 525,930     | 423                   |
| 1994        | 1,244          | 529,060     | 11,680                        | 540,740     | 435                   |

Notes: (1) Population figures obtained from US Census population estimates released December 2003.

(2) Includes Other Debt of the General and Highway Fund expected to be repaid through general governmental resources Includes revenue bonds of the Maine Governmental Facilities Authority.

(3) In fiscal year 1997, the State adopted GASB Statement No.14. This resulted in \$719,000 of Maine Technical College System bonds being reported with discrete component units and \$15,400,000 of Maine Governmental Facilities Authority bonds (then the Maine Court Facilities Authority) being blended with the primary government.

TABLE IV

**STATE OF MAINE**  
**RATIO OF NET GENERAL LONG-TERM BONDED DEBT**  
**AND OTHER FINANCING TO ASSESSED VALUE**

Last Ten Fiscal Years  
(Expressed in Thousands)

| Fiscal Year | Assessed Value (1) | Bonded Debt | Notes and Other Financing (2) | Total Debt  | Ratio to Assessed Value |
|-------------|--------------------|-------------|-------------------------------|-------------|-------------------------|
| 2003        | \$94,034,050       | \$358,410   | \$230,489                     | \$588,899   | 0.63%                   |
| 2002        | 84,873,180         | 346,495     | 197,007                       | 543,502     | 0.64%                   |
| 2001        | 78,389,000         | 406,490     | 159,870                       | 566,360     | 0.72%                   |
| 2000        | 74,260,000         | 452,975     | 105,971                       | 558,946     | 0.75%                   |
| 1999        | 71,779,350         | 486,620     | 14,631                        | 501,251     | 0.70%                   |
| 1998        | 69,691,900         | 497,050     | 6,137                         | 503,187 (3) | 0.72%                   |
| 1997        | 68,286,600         | 490,086     | 6,894                         | 496,980     | 0.73%                   |
| 1996        | 67,102,926         | 515,690     | 8,045                         | 523,735     | 0.78%                   |
| 1995        | 66,425,500         | 516,060     | 9,870                         | 525,930     | 0.79%                   |
| 1994        | 66,565,500         | 529,060     | 11,680                        | 540,740     | 0.81%                   |

Notes: (1) The Maine Revenue Service valuation of taxable property is filed in January of each year, based on the value of property as of April 1, 21 months prior to the filing date.

(2) Includes Other Debt of the General and Highway Fund expected to be repaid through general governmental resources Includes revenue bonds of the Maine Governmental Facilities Authority.

(3) In fiscal year 1997, the State adopted GASB Statement No.14. This resulted in \$719,000 of Maine Technical College System bonds being reported with discrete component units and \$15,400,000 of Maine Governmental Facilities Authority bonds (then the Maine Court Facilities Authority) being blended with the primary government.



**TABLE V**

**STATE OF MAINE**  
**RATIO OF ANNUAL DEBT SERVICE FOR GENERAL**  
**LONG-TERM BONDED DEBT AND OTHER FINANCING**  
**TO TOTAL GENERAL GOVERNMENT EXPENDITURES**

Last Ten Fiscal Years  
(Expressed in Thousands)

| Fiscal<br>Year | Principal | Interest | Total Debt<br>Service | Total General<br>Government<br>Expenditures<br>(1) | Ratio of Debt<br>Service to<br>General<br>Government<br>Expenditures |
|----------------|-----------|----------|-----------------------|--|--|
| 2003           | \$85,165  | \$16,957 | 102,122               | \$5,622,585  | 1.8%   |
| 2002           | 87,605    | 20,775   | 108,380               | 5,224,565  | 2.1%   |
| 2001           | 87,760    | 23,774   | 111,534               | 4,516,812  | 2.5%   |
| 2000           | 82,280    | 24,359   | 106,639               | 4,155,963  | 2.6%   |
| 1999           | 79,615    | 25,022   | 104,637               | 3,933,125  | 2.7%   |
| 1998           | 76,426    | 25,111   | 101,537               | 3,661,399  | 2.8%   |
| 1997           | 87,917    | 27,486   | 115,403               | 3,603,961  | 3.2%   |
| 1996           | 76,807    | 26,828   | 103,635               | 3,706,418  | 2.8%   |
| 1995           | 74,318    | 29,567   | 103,885               | 3,481,334  | 3.0%   |
| 1994           | 61,964    | 31,528   | 93,492                | 3,277,527  | 2.9%   |

Notes: (1) Includes Other Debt of the General and Highway Fund expected to be repaid through general governmental resources. Does not include debt of the Maine Governmental Facilities Authority.

**TABLE VI**

**STATE OF MAINE**  
**COMPUTATION OF LEGAL DEBT MARGIN**

JUNE 30, 2003

Pursuant to Article IX, Section 14 of the Maine Constitution, the Legislature shall not create any debt or debts on behalf of the State, which shall exceed \$2,000,000 in the aggregate, except to suppress insurrection, to repel invasion, or for purposes of war, and except for temporary loans to be paid out of money raised by taxation during the fiscal year in which they are made. Whenever 2/3 of both Houses shall deem it necessary, by proper enactment ratified by a majority of the electors voting thereon at a general or special election, the Legislature may authorize the issuance of bonds on behalf of the State as approved by such action. Temporary loans to be paid out of moneys raised by taxation during any fiscal year shall not exceed in the aggregate during the fiscal year in question an amount greater than 10% of all the moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, exclusive of proceeds or expenditures from the sale of bonds, or greater than 1% of the total valuation of the State of Maine, whi

There were no temporary loans outstanding at June 30, 2003, which were subject to the Constitutional limitations.

All other general long-term bonds outstanding at June 30, 2003 were issued pursuant to properly ratified legislation.

**TABLE VII**

**STATE OF MAINE  
PRINCIPAL INDUSTRIAL EMPLOYERS  
NOT SEASONALLY ADJUSTED  
RANKED BY NUMBER OF EMPLOYEES IN MAINE**

June 2003

| <b>Company</b>                                   | <b>Number of Employees (1)</b> |
|--|--------------------------------|
| 1 Hannaford Brothers Company.....                | 7,300                          |
| 2 Bath Iron Works Corporation.....               | 6,100                          |
| 3 Wal Mart Associates, Inc.....                  | 5,700                          |
| 4 L.L. Bean, Inc.....                            | 5,300                          |
| 5 Maine Medical Center Foundation.....           | 5,100                          |
| 6 MBNA Marketing Systems, Inc.....               | 3,700                          |
| 7 UNUMPROVIDENT Corp.....                        | 3,300                          |
| 8 Shaw's Supermarkets.....                       | 3,300                          |
| 9 University of Maine at Orono.....              | 3,100                          |
| 10 Eastern Maine Medical Center.....             | 2,500                          |
| 11 International Paper Co.....                   | 2,300                          |
| 12 Banknorth Group, Inc.....                     | 2,300                          |
| 13 MaineGeneral Medical Center - Augusta.....    | 2,100                          |
| 14 University of Southern Maine.....             | 1,900                          |
| 15 Maine Community College Systems.....          | 1,500                          |
| 16 Pratt & Whitney Aircraft Group.....           | 1,300                          |
| 17 Verizon New England, Inc.....                 | 1,300                          |
| 18 Anthem Health Systems.....                    | 1,300                          |
| 19 Home Depot USA, Inc.....                      | 1,300                          |
| 20 Central Maine Power Co.....                   | 1,300                          |
| 21 Central Maine Medical Center.....             | 1,300                          |
| 22 S. D. Warren.....                             | 1,100                          |
| 23 Rite Aid of Maine, Inc.....                   | 1,100                          |
| 24 Jackson Laboratory.....                       | 1,100                          |
| 25 Cianbro Corporation.....                      | 1,100                          |
| 26 Fairchild Semiconductor Corp.....             | 1,100                          |
| 27 Mercy Hospital.....                           | 1,100                          |
| 28 Irving Oil Corporation.....                   | 1,100                          |
| 29 Mead Oxford Corp.....                         | 1,100                          |
| 30 Fraser Papers, Inc.....                       | 900                            |
| 31 Bowdoin College.....                          | 900                            |
| 32 Sweetser Children's Services.....             | 900                            |
| 33 United Parcel Service.....                    | 900                            |
| 34 Kindred Nursing Centers West LLC.....         | 900                            |
| 35 C. N. Brown Co.....                           | 900                            |
| 36 Webber Hospital Association.....              | 900                            |
| 37 Dead River Company.....                       | 900                            |
| 38 Attendant Services, Inc.....                  | 900                            |
| 39 Goodwill Industries of Northern N. E.....     | 700                            |
| 40 New Balance Athletic Shoe, Inc.....           | 700                            |
| 41 Sears Roebuck and Co.....                     | 700                            |
| 42 Maine Business Services, Inc.....             | 700                            |
| 43 Interstate Brands Corporation.....            | 700                            |
| 44 Bates College.....                            | 700                            |
| 45 Penobscot Bay Medical Center.....             | 700                            |
| 46 University of New England.....                | 700                            |
| 47 General Electric Co.....                      | 700                            |
| 48 North Country Associates, Inc.....            | 700                            |
| 49 Community Health and Counseling Services..... | 700                            |
| 50 Manpower.....                                 | 700                            |

Note: (1) Approximate number of employees

Source: Maine State Department of Labor

TABLE VIII

**STATE OF MAINE  
EXPORTS BY INDUSTRY**

June 2003 and 2002  
(Expressed in Thousands)

| <u>Description</u>                                     | <u>2003</u>        | <u>2002</u>        | <u>Percentage<br/>Change</u> |
|--|--------------------|--------------------|------------------------------|
| Computer and Electronic Products                       | \$605,224          | \$535,435          | 13.0 %                       |
| Paper  | 414,834            | 384,880            | 7.8                          |
| Forestry Products                                      | 184,867            | 185,442            | -0.3                         |
| Fish, Fresh, Chilled or Frozen & Other Marine Products | 181,322            | 166,456            | 8.9                          |
| Transportation Equipment                               | 164,442            | 101,234            | 62.4                         |
| Machinery, Except Electrical                           | 88,888             | 88,301             | 0.7                          |
| Food and Kindred Products                              | 84,532             | 66,220             | 27.7                         |
| Wood Products  | 74,155             | 64,990             | 14.1                         |
| Leather and Allied Products                            | 68,147             | 60,548             | 12.6                         |
| Chemicals  | 59,300             | 79,029             | -25.0                        |
| Plastics and Rubber Products                           | 43,078             | 32,160             | 34.0                         |
| Electrical Equipment, Appliances, and Components       | 38,446             | 44,766             | -14.1                        |
| Livestock and Livestock Products                       | 28,585             | 20,721             | 38.0                         |
| Waste and Scrap  | 21,705             | 13,224             | 64.1                         |
| Agricultural Products                                  | 19,604             | 19,584             | 0.1                          |
| Goods Returned to Canada                               | 18,634             | 17,808             | 4.6                          |
| Fabricated Metal Products                              | 14,577             | 13,342             | 9.3                          |
| Miscellaneous Manufactured Commodities                 | 14,522             | 12,974             | 11.9                         |
| Special Classification Provisions                      | 10,293             | 9,573              | 7.5                          |
| Furniture and Fixtures                                 | 7,853              | 5,364              | 46.4                         |
| Primary Metal Manufacturing                            | 7,784              | 8,521              | -8.7                         |
| Nonmetallic Mineral Products                           | 7,626              | 13,594             | -43.9                        |
| Textile and Fabrics                                    | 7,458              | 7,774              | -4.1                         |
| Textile Mill Products                                  | 7,298              | 7,020              | 4.0                          |
| Beverages and Tobacco Products                         | 5,513              | 4,710              | 17.0                         |
| Printing, Publishing and Similar Products              | 2,921              | 3,126              | -6.5                         |
| Apparel and Accessories                                | 2,834              | 3,079              | -8.0                         |
| Petroleum and Coal Products                            | 2,152              | 1,480              | 45.4                         |
| Used or Second Hand Merchandise                        | 1,650              | 1,350              | 22.3                         |
| Minerals and Ores                                      | 157                | 347                | -54.8                        |
| Prepackaged Software                                   | 11                 | -                  | 100.0                        |
| <b>Maine Export Totals</b>                             | <b>\$2,188,412</b> | <b>\$1,973,052</b> | <b>10.9 %</b>                |

TABLE IX

**STATE OF MAINE  
TOP TEN MARKETS**

June 2003 and 2002  
(Expressed in Thousands)

| <u>Country</u>     | <u>2003</u> | <u>2002</u> | <u>Percentage<br/>Change</u> |
|--------------------|-------------|-------------|------------------------------|
| Canada             | \$821,041   | \$791,082   | 3.8 %                        |
| Malaysia           | 236,716     | 167,616     | 41.2                         |
| Singapore          | 224,376     | 248,341     | -9.7                         |
| United Kingdom     | 133,079     | 65,914      | 101.9                        |
| Japan              | 93,005      | 85,908      | 8.3                          |
| Korea, Republic of | 91,178      | 80,682      | 13.0                         |
| China (Mainland)   | 78,307      | 48,236      | 62.3                         |
| Belgium            | 52,857      | 49,942      | 5.8                          |
| Netherlands        | 44,544      | 28,509      | 56.3                         |
| Italy              | 40,268      | 30,125      | 33.7                         |

Source: Maine International Trade Center

TABLE X

**STATE OF MAINE**  
**EMPLOYED AND UNEMPLOYED BY LABOR MARKET**  
**NOT SEASONALLY ADJUSTED**

June 2003 and 2002

| Labor Market Areas           | Civilian Labor Force (1) |         | Employed (2) |         | Unemployed (3) |         | Unemployment Rate (4) |         |
|------------------------------|--------------------------|---------|--------------|---------|----------------|---------|-----------------------|---------|
|                              | June 03                  | June 02 | June 03      | June 02 | June 03        | June 02 | June 03               | June 02 |
| Augusta                      | 48,540                   | 47,880  | 46,550       | 46,127  | 1,990          | 1,753   | 4.1 %                 | 3.7 %   |
| Bangor MSA                   | 53,000                   | 52,690  | 51,500       | 51,399  | 1,500          | 1,291   | 2.8                   | 2.5     |
| Bath-Brunswick               | 35,050                   | 35,342  | 33,900       | 34,185  | 1,150          | 1,157   | 3.3                   | 3.3     |
| Belfast                      | 18,740                   | 18,421  | 18,080       | 17,792  | 670            | 629     | 3.6                   | 3.4     |
| Biddeford                    | 46,700                   | 44,875  | 45,300       | 43,667  | 1,400          | 1,208   | 3.0                   | 2.7     |
| Boothbay Harbor              | 10,510                   | 10,561  | 10,320       | 10,392  | 190            | 169     | 1.8                   | 1.6     |
| Bucksport                    | 5,110                    | 5,061   | 4,900        | 4,891   | 210            | 170     | 4.0                   | 3.4     |
| Calais                       | 5,120                    | 4,848   | 4,550        | 4,500   | 560            | 348     | 11.0                  | 7.2     |
| Dexter-Pittsfield            | 11,570                   | 12,671  | 10,620       | 11,412  | 960            | 1,259   | 8.3                   | 9.9     |
| Dover-Foxcroft               | 7,210                    | 7,165   | 6,700        | 6,728   | 510            | 437     | 7.1                   | 6.1     |
| Ellsworth-Bar Harbor         | 23,690                   | 22,908  | 22,850       | 22,215  | 850            | 693     | 3.6                   | 3.0     |
| Farmington                   | 16,820                   | 16,708  | 15,770       | 15,677  | 1,040          | 1,031   | 6.2                   | 6.2     |
| Fort Kent                    | 4,030                    | 4,061   | 3,620        | 3,832   | 410            | 229     | 10.1                  | 5.6     |
| Greenville                   | 1,190                    | 1,002   | 1,120        | 909     | 70             | 93      | 6.0                   | 9.3     |
| Houlton                      | 6,460                    | 6,211   | 6,090        | 5,933   | 380            | 278     | 5.8                   | 4.5     |
| Jonesport-Milbridge          | 4,200                    | 4,348   | 3,940        | 4,074   | 260            | 274     | 6.2                   | 6.3     |
| Kittery-York (5)             | 22,050                   | 21,013  | 20,940       | 20,269  | 1,110          | 744     | 5.0                   | 3.5     |
| Lewiston-Auburn MSA          | 54,400                   | 53,113  | 52,000       | 50,984  | 2,300          | 2,129   | 4.3                   | 4.0     |
| Lincoln-Howland              | 6,120                    | 5,960   | 5,620        | 5,582   | 500            | 378     | 8.1                   | 6.3     |
| Machias-Eastport             | 6,420                    | 6,721   | 5,910        | 6,173   | 500            | 548     | 7.9                   | 8.2     |
| Madawaska                    | 3,840                    | 3,736   | 3,700        | 3,616   | 130            | 120     | 3.4                   | 3.2     |
| Millinocket-East Millinocket | 4,990                    | 5,120   | 3,510        | 4,761   | 1,480          | 359     | 29.7                  | 7.0     |
| Norway-Paris                 | 12,060                   | 12,051  | 11,360       | 11,386  | 700            | 665     | 5.8                   | 5.5     |
| Outer Bangor                 | 10,200                   | 9,385   | 9,690        | 8,918   | 510            | 467     | 5.0                   | 5.0     |
| Patten-Island Falls          | 1,860                    | 1,792   | 1,650        | 1,647   | 220            | 145     | 11.6                  | 8.1     |
| Portland                     | 141,500                  | 140,833 | 137,600      | 137,154 | 3,800          | 3,679   | 2.7                   | 2.6     |
| Presque Isle-Caribou         | 20,580                   | 20,740  | 19,650       | 19,913  | 930            | 827     | 4.5                   | 4.0     |
| Rockland                     | 25,850                   | 25,510  | 25,000       | 24,908  | 850            | 602     | 3.3                   | 2.4     |
| Rumford                      | 9,820                    | 9,606   | 9,000        | 8,778   | 820            | 828     | 8.4                   | 8.6     |
| Sanford                      | 23,250                   | 23,348  | 21,530       | 21,593  | 1,720          | 1,755   | 7.4                   | 7.5     |
| Sebago Lakes Region          | 15,390                   | 15,000  | 14,770       | 14,477  | 630            | 523     | 4.1                   | 3.5     |
| Skowhegan                    | 16,560                   | 16,816  | 15,270       | 15,617  | 1,290          | 1,199   | 7.8                   | 7.1     |
| Stonington                   | 5,990                    | 6,036   | 5,840        | 5,891   | 150            | 145     | 2.6                   | 2.4     |
| Van Buren                    | 1,420                    | 1,341   | 1,340        | 1,258   | 80             | 83      | 5.5                   | 6.2     |
| Waterville                   | 24,990                   | 24,848  | 23,670       | 23,684  | 1,320          | 1,164   | 5.3                   | 4.7     |
| MAINE                        | 705,100                  | 697,433 | 673,900      | 669,968 | 31,200         | 27,465  | 4.4 %                 | 3.9 %   |
| UNITED STATES (000's)        | 148,117                  | 143,669 | 138,468      | 134,992 | 9,649          | 8,677   | 6.5 %                 | 6.0 %   |

Notes: (1) Civilian labor force, employed, and unemployed estimates are by place of residence. Items may not add due to rounding. All data exclude members of the Armed Forces. MSA stands for Metropolitan Statistical Area.

(2) Total employment includes nonfarm wage and salary workers, agricultural workers, unpaid family workers, domestics, the self employed, and workers involved in labor disputes.

(3) People are classified as unemployed, regardless of their eligibility for unemployment benefits or public assistance, if they meet all of the following: they were not employed during the survey week; they were available for work at that time; and they made specific efforts to find employment some time during the prior four weeks. Persons laid off from their former jobs and awaiting recall and those expecting to report to a job within 30 days need not be looking for work to be counted as unemployed.

(4) The unemployment rate is calculated by dividing the total number of unemployed by the total civilian labor force, and is expressed as a percent.

(5) Kittery-York is the five-town Maine portion of the Portsmouth-Rochester PMSA which includes towns in both Maine and New Hampshire.

Source: Maine Department of Labor, Labor Market Information Services, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

TABLE XI

**STATE OF MAINE  
FINANCIAL INSTITUTION DEPOSITS**

Last Ten Fiscal Years  
(Expressed in Thousands)

|                           | <u>2003</u> |                      | <u>2002</u> |                      | <u>2001</u> |                      | <u>2000</u> |                      |
|---------------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|
|                           | <u>No.</u>  | <u>Bank Deposits</u> | <u>No.</u>  | <u>Bank Deposits</u> | <u>No.</u>  | <u>Bank Deposits</u> | <u>No.</u>  | <u>Bank Deposits</u> |
| Trust Companies           | 10          | \$1,697,078          | 9           | \$1,547,458          | 9           | \$1,424,564          | 10          | \$2,488,507          |
| Limited Purpose Banks     | 8           | -                    | 7           | -                    | 6           | -                    | 5           | -                    |
| National Banks            | 7           | 7,837,742            | 7           | 7,440,908            | 7           | 7,494,223            | 6           | 6,035,433            |
| State Savings Banks       | 15          | 5,302,765            | 15          | 5,010,519            | 16          | 4,690,828            | 16          | 4,269,611            |
| Federal Savings Banks     | 2           | 765,155              | 2           | 739,898              | 2           | 704,563              | 4           | 750,020              |
| State Savings & Loans     | 3           | 110,428              | 3           | 103,550              | 3           | 100,834              | 3           | 94,665               |
| Federal Savings & Loans   | 4           | 211,965              | 4           | 206,822              | 4           | 200,502              | 4           | 179,365              |
| State Credit Unions       | 15          | 782,689              | 15          | 711,205              | 14          | 628,463              | 13          | 502,274              |
| Federal Credit Unions     | 63          | 2,333,734            | 63          | 2,127,767            | 67          | 1,948,491            | 72          | 1,841,490            |
| <b>Total Institutions</b> | 127         | \$19,041,556         | 128         | \$17,888,127         | 128         | \$17,192,468         | 133         | \$16,161,365         |
| State Chartered           | 51          | \$7,892,960          | 49          | \$7,372,732          | 48          | \$6,844,689          | 47          | \$7,355,057          |
| Federally Chartered       | 76          | 11,148,596           | 76          | 10,515,395           | 80          | 10,347,779           | 86          | 8,806,308            |
| <b>Total Chartered</b>    | 127         | \$19,041,556         | 128         | \$17,888,127         | 128         | \$17,192,468         | 133         | \$16,161,365         |

Source: Bureau of Banking, Maine Department of Professional and Financial Regulation.

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| <u>1999</u> |                      | <u>1998</u> |                      | <u>1997</u> |                      | <u>1996</u> |                      | <u>1995</u> |                      | <u>1994</u> |                      |
|-------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|-------------|----------------------|
| <u>No.</u>  | <u>Bank Deposits</u> | <u>No.</u>  | <u>Bank Deposits</u> | <u>No.</u>  | <u>Bank Deposits</u> | <u>No.</u>  | <u>Bank Deposits</u> | <u>No.</u>  | <u>Bank Deposits</u> | <u>No.</u>  | <u>Bank Deposits</u> |
| 11          | \$2,958,142          | 12          | \$2,660,193          | 13          | \$2,790,194          | 14          | \$5,396,641          | 14          | \$5,484,431          | 14          | \$4,909,550          |
| 5           | 772                  | -           | -                    | -           | -                    | -           | -                    | -           | -                    | -           | -                    |
| 5           | 2,920,566            | 5           | 2,915,927            | 6           | 3,433,699            | 5           | 1,032,321            | 5           | 1,051,103            | 6           | 1,744,084            |
| 17          | 6,909,744            | 17          | 6,497,694            | 17          | 5,307,205            | 17          | 5,062,377            | 17          | 4,856,487            | 17          | 4,523,302            |
| 4           | 661,957              | 4           | 613,691              | 4           | 556,835              | 4           | 428,519              | 4           | 405,567              | 5           | 473,484              |
| 3           | 95,868               | 3           | 91,170               | 3           | 88,399               | 3           | 83,630               | 3           | 76,042               | 4           | 101,595              |
| 4           | 178,385              | 4           | 173,879              | 4           | 168,591              | 5           | 243,010              | 5           | 233,024              | 5           | 216,956              |
| 13          | 501,390              | 12          | 422,829              | 11          | 380,613              | 12          | 368,532              | 13          | 352,500              | 13          | 341,875              |
| 75          | 1,816,004            | 77          | 1,721,696            | 80          | 1,650,747            | 82          | 1,579,902            | 83          | 1,463,185            | 84          | 1,404,583            |
| 134         | \$16,042,828         | 138         | \$15,097,079         | 142         | \$14,376,283         | 137         | \$14,194,932         | 144         | \$13,922,339         | 148         | \$13,715,429         |
| 49          | \$10,465,916         | 44          | \$9,671,886          | 44          | \$8,566,411          | 46          | \$10,911,180         | 47          | \$10,769,460         | 48          | \$9,876,322          |
| 88          | 5,576,912            | 90          | 5,425,193            | 94          | 5,809,872            | 96          | 3,283,752            | 97          | 3,152,879            | 100         | 3,839,107            |
| 137         | \$16,042,828         | 134         | \$15,097,079         | 138         | \$14,376,283         | 142         | \$14,194,932         | 144         | \$13,922,339         | 148         | \$13,715,429         |

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