

MAINE



*Comprehensive Annual Financial Report
For The Fiscal Year Ended June 30, 2004*

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

MAINE



FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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<http://www.maine.gov>

STATE OF MAINE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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INTRODUCTORY SECTION

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

April 15, 2005

**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 2004 (FY2004) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP). 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.

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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 State Controller prepared 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 State 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 government 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 12 major component units, one blended component unit, and two fiduciary component units 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 units are 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 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, firefighters and emergency medical services persons.

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 2004 actual General Fund revenue, the statutory cap at the close of fiscal year 2004 and during fiscal year 2005 was \$268,353,956. At the close of fiscal year 2004, the balance of the Maine Budget Stabilization Fund was \$33,158,244. 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 more than recovered from the recession in 2004 and is now experiencing moderate steady growth. The prime movers were an improved national economy and continued low interest rates. The Maine Coincident Economic Index (CEI – which roughly tracks Real Gross State Product) rose 2.3% for the year, the strongest performance since 2000, and a significant improvement over the 0.6% growth measured in 2003

Maine payroll employment increased by 7,100, or 1.2%, the best showing in four years. Maine's average unemployment rate in 2004 was 4.6%, down from 5% in the previous years, and still well below the national rate of 5.5%. As a result, personal income growth was also improved. Personal income growth in 2004 was 5.5%, 24th best in the country. Maine's ability to navigate through the recent recession better than many other states has resulted in Maine's per capita income ranking improving to 30th in the country in 2004.

Very low interest rates enabled a record setting year for national home sales and home refinancing activity again put billions into people's pockets, a boon to retailers. Maine total taxable retail sales increased by 5.3% in 2004, up from 4.6% growth in the previous year. The bulk of this improvement was due to the exceptional strength of the building supply store-type group (up 15.7%).

The February 2005 Maine economic forecast calls for payroll employment growth of 1.7% in 2005 and 1.5% in 2006. The largest jobs gains over this period will be in education and health services, professional and business services, retail and leisure and hospitality. Construction employment is expected to shrink and manufacturing jobs will continue to decline, but at a slower rate than over the past few years.

Personal income is expected to grow a bit more slowly than in the recent past, with growth near 4% for this year and next. Wage and salary income growth will increase by an average of 5% for the period, while growth rates will slow somewhat for "other labor income," proprietors' income, dividends/interest/rent, and transfer payments.

CURRENT DEVELOPMENTS AND INITIATIVES

During 2004, the Governor created a taskforce in response to authorizing legislation to develop a comprehensive plan to combine the Departments of Human Services and Mental Health–Mental Retardation and Substance Abuse to provide a coordinated approach to delivering social services to Maine’s citizens. Legislation will be submitted in the Second Regular Session of the 122nd Legislature to streamline the organizational, operating, and financial management structure of the combined departments.

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 States 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.

<u>Year</u>	<u>Rating</u>
1995	AA+
1996	AA+
1997	AA+
1998	AA+
1999	AA+
2000	AA+
2001	AA+
2002	AA+
2003	AA+
2004	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.

<u>Year</u>	<u>Rating</u>
1995	Aa
1996	Aa
1997	Aa3*
1998	Aa2
1999	Aa2
2000	Aa2
2001	Aa2
2002	Aa2
2003	Aa2
2004	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	AA+
2003	AA+
2004	AA+

*** 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 completed the most far reaching reorganization of the Office refocusing its mission to meet the challenges of financial management of the 21st century. The Office has provided assistance to many state agencies to help insure the integrity and accountability of the program that they deliver to Maine’s citizens. We strive to find solutions to many of the State’s financial challenges by partnering with financial and program managers to ensure that the best solutions are found to our many challenges.

This year we are planning for the implementation of a new financial management system that will encompass purchasing, general ledger accounting, cost allocation, fixed assets, cost accounting, reporting, and an integrated data analysis tool, as well as other modules. We expect the enhanced system to be web-based, more efficient to operate, and an improved financial management tool for all state agencies.

The State of Maine continues to face budgetary challenges as we approach the 2006 – 2007 biennium as do many other states across the country resulting in many challenges.

- 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,

- 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 third 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, 2004

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*

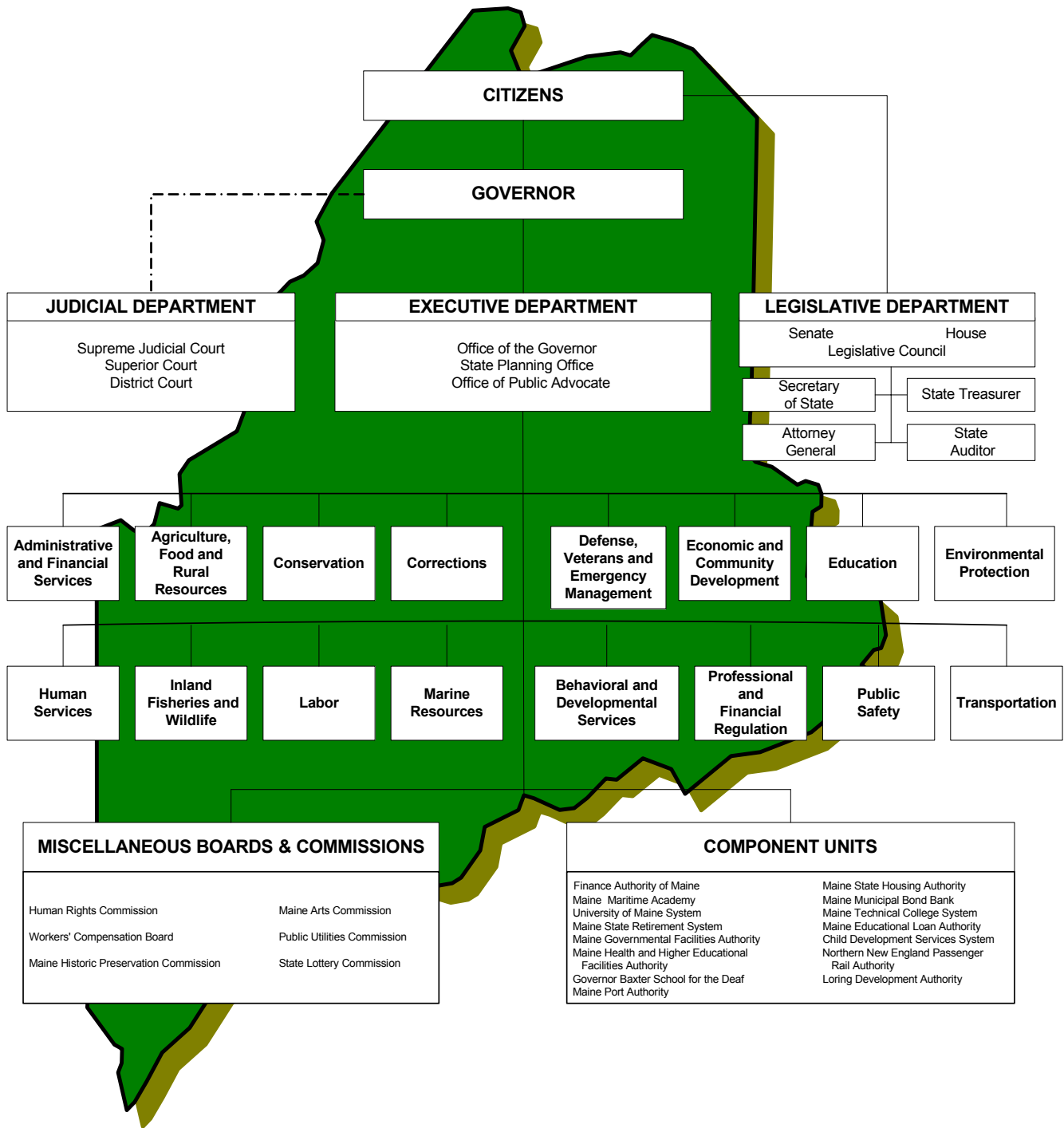
Dan A. Gwadowsky, *Secretary of State*

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, 2004



FINANCIAL SECTION
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS



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DEPARTMENT OF AUDIT

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DEPUTY, SINGLE AUDIT
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDIT AND ADMINISTRATION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2004, 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, Loring Development Authority, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine 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	4.4 %	.2%
Component Units	100%	100%

<u>Fund Financial Statements:</u>	<u>Percent of Assets</u>	<u>Percent of Revenues or Additions</u>
Proprietary Funds-Governmental Activities-		
Internal Service Funds	45%	3%
Fiduciary Funds-Pension (and Other Employee Benefit) Trust Funds		
Maine Health & Higher Educational Facilities Authority	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

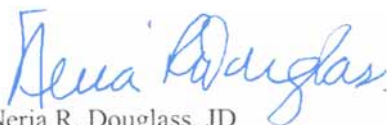
includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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, 2004, 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.

As discussed in Notes 1 and 3 to the financial statements, the State of Maine reporting entity changed to include the Loring Development Authority and the Maine Port Authority. Also, a discrete component unit, the Maine Health and Higher Education Facility, has been reclassified as fiduciary in nature and is reported with private purpose trusts.

As discussed in Note 3 to the financial statements, the State has implemented Governmental Accounting Standards Board Statement #39, *Determining Whether Certain Organizations are Component Units*.


Neria R. Douglass, JD
State Auditor

March 18, 2005

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, 2004. 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 nine percent from the previous fiscal year. Net assets of governmental activities increased by \$383.7 million, while net assets of business-type activities decreased by \$94.4 million. The State's assets exceeded its liabilities by \$3.5 billion at the close of fiscal year 2004. Component units reported net assets of \$1.6 billion, an increase of \$84.2 million (roughly six 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 \$446.4 million, an increase of \$109.9 million from the previous year. The General Fund's total fund balance was (\$2.3) million, an increase of \$38.6 million from the previous year.
- The proprietary funds reported net assets at year end of \$543.9 million, a decrease of \$71.9 million.

Long-term Debt:

- The State's liability for general obligation bonds increased by \$58 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued \$130.3 million in bonds and made principal payments of \$72.3 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. Operating costs not covered by customer fees are subsidized by the General Fund. Lottery tickets, transportation services, and the State's unemployment compensation services are examples of business-type activities.

Component units - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" one component unit, the Maine Governmental Facilities Authority (MGFA) with governmental activities as described above. Maine reports 14 other component units as discretely presented component units of the State, two of which are reported with the State's fiduciary funds.

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, the Maine Health and Higher Educational Facilities Authority, both discrete component units, 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 nine percent to \$3.5 billion at June 30, 2004, as detailed in Tables A-1 and A-2.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2004</u>	<u>2003*</u>	<u>2004</u>	<u>2003*</u>	<u>2004</u>	<u>2003*</u>
Current and other noncurrent assets	\$ 1,370,954	\$ 1,216,874	\$ 476,354	\$ 479,243	\$ 1,847,308	\$ 1,696,117
Capital assets	<u>3,262,497</u>	<u>2,972,419</u>	<u>51,434</u>	<u>63,574</u>	<u>3,313,931</u>	<u>3,035,993</u>
Total Assets	<u>4,633,451</u>	<u>4,189,293</u>	<u>527,788</u>	<u>542,817</u>	<u>5,161,239</u>	<u>4,732,110</u>
Current liabilities	823,976	872,155	22,051	17,567	846,027	889,722
Long-term liabilities	<u>754,372</u>	<u>645,755</u>	<u>75,247</u>	<u>370</u>	<u>829,619</u>	<u>646,125</u>
Total Liabilities	<u>1,578,348</u>	<u>1,517,910</u>	<u>97,298</u>	<u>17,937</u>	<u>1,675,646</u>	<u>1,535,847</u>
Net assets:						
Investment in capital assets, net of related debt	2,878,596	2,628,197	51,434	63,574	2,930,030	2,691,771
Restricted	214,026	184,809	450,475	459,127	664,501	643,936
Unrestricted	<u>(37,519)</u>	<u>(141,623)</u>	<u>(71,419)</u>	<u>2,179</u>	<u>(108,938)</u>	<u>(139,444)</u>
Total Net Assets	<u>\$ 3,055,103</u>	<u>\$ 2,671,383</u>	<u>\$ 430,490</u>	<u>\$ 524,880</u>	<u>\$ 3,485,593</u>	<u>\$ 3,196,263</u>

*As restated.

Changes in Net Assets

The State's fiscal year 2004 revenues totaled \$6.4 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 43.5 percent and 39.2 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 \$6.1 billion for the year 2004. (See Table A-2) These expenses (68 percent) are predominantly related to health & human services and education activities. The State's governmental support & operations activities accounted for 7.7 percent of total costs. Total net assets increased by \$289.3 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2004</u>	<u>2003*</u>	<u>2004</u>	<u>2003*</u>	<u>2004</u>	<u>2003*</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 375,087	\$ 370,232	\$ 396,444	\$ 377,555	\$ 771,531	\$ 747,787
Grants/Contributions	2,466,611	2,116,996	27,698	9,000	2,494,309	2,125,996
General Revenues:						
Corporate Income Taxes	216,366	182,554	-	-	216,366	182,554
Individual Income Taxes	1,149,109	1,095,143	-	-	1,149,109	1,095,143
Fuel Taxes	166,174	161,534	-	-	166,174	161,534
Property Taxes	28,412	38,179	-	-	28,412	38,179
Sales & Use Taxes	1,086,049	1,012,552	-	-	1,086,049	1,012,552
Other Taxes	117,168	90,769	-	-	117,168	90,769
Investment Earnings	17,049	8,521	-	-	17,049	8,521
Other	<u>313,158</u>	<u>220,226</u>	<u>-</u>	<u>-</u>	<u>313,158</u>	<u>220,226</u>
Total Revenues	<u>5,935,183</u>	<u>5,296,706</u>	<u>424,142</u>	<u>386,555</u>	<u>6,359,325</u>	<u>5,683,261</u>
Expenses						
Governmental Activities:						
Governmental Support	469,682	414,084	-	-	469,682	414,084
Arts, Heritage & Culture	12,498	13,012	-	-	12,498	13,012
Business Lic & Reg	46,249	34,447	-	-	46,249	34,447
Economic Development & Workforce Training	191,868	206,586	-	-	191,868	206,586
Education	1,357,080	1,340,614	-	-	1,357,080	1,340,614
Health & Human Services	2,775,008	2,527,345	-	-	2,775,008	2,527,345
Justice & Protection	297,619	301,575	-	-	297,619	301,575
Natural Resources	166,167	163,606	-	-	166,167	163,606
Transportation Safety	203,968	240,286	-	-	203,968	240,286
Interest	31,324	32,120	-	-	31,324	32,120
Business-Type Activities:					0	0
Employment Security	-	-	118,965	124,453	118,965	124,453
Alcoholic Beverages	-	-	61,958	59,407	61,958	59,407
Lottery	-	-	146,214	125,633	146,214	125,633
Airport	-	-	819	753	819	753
Marine Ports	-	-	1,415	1,854	1,415	1,854
Ferry Services	-	-	7,296	7,483	7,296	7,483
Military Equip. Maint.	-	-	25,923	-	25,923	0
Transfers and Other	-	-	<u>155,942</u>	<u>58,630</u>	<u>155,942</u>	<u>58,630</u>
Total Expenses	<u>5,551,463</u>	<u>5,273,675</u>	<u>518,532</u>	<u>378,213</u>	<u>6,069,995</u>	<u>5,651,888</u>
Increase (Decrease) in Net Assets	<u>\$ 383,720</u>	<u>\$ 23,031</u>	<u>\$ (94,390)</u>	<u>\$ 8,342</u>	<u>\$ 289,330</u>	<u>\$ 31,373</u>

*As restated

In tables A-2 and A-3, other revenues in the governmental activities includes: \$68.1 million of statutorily required profit transfers and \$75 million of special items; and other expenses in the business-type activities includes \$68.1 million of statutorily required profit transfers and \$85.7 million of special items.

Governmental Activities

Revenues for the State's governmental activities totaled \$5.9 billion while total expenses equaled \$5.6 billion. Therefore, the increase in net assets for governmental activities was \$383.7 million in 2004. This is due, primarily, to increases in employment, construction and taxable retail sales, which resulted in higher-than-expected revenues in the major tax lines. The users of the State's programs financed \$375.1 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of \$2.5 billion. \$3.1 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 2004

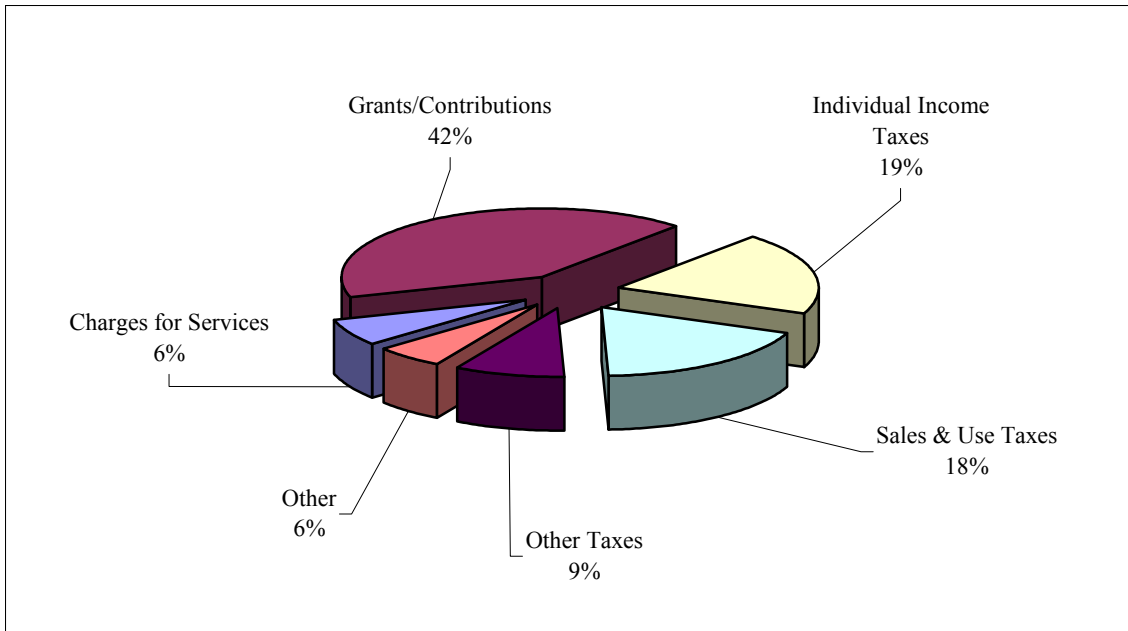
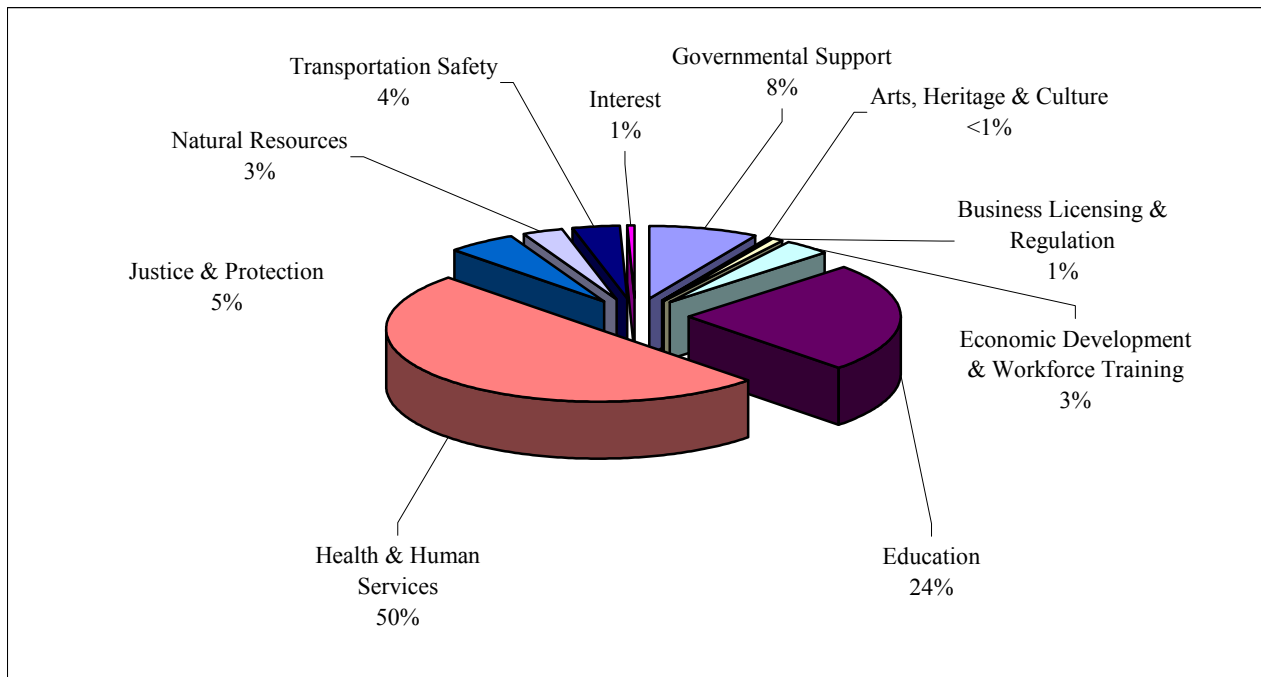


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2004



Business-type Activities

Revenues for the State's business-type activities totaled \$424.1 million while total expenses and transfers totaled \$518.5 million. The decrease in net assets for business-type activities was \$94.4 million in 2004. Two events, recorded as Special Items, contributed to the decrease: 1) the State of Maine entered into a contract with a vendor to manage and operate wholesale liquor distribution as the State's agent and recorded the transfer of \$75 million of proceeds from the sale of those operating rights from the Alcoholic Beverages enterprise fund to the General Fund; and, 2) the State transferred the remaining \$10.7 million of assets associated with the construction of the Mack Point Pier facility from the Marine Ports enterprise fund to the Maine Port Authority, a discretely presented component unit.

Table A-5 presents the cost of State business-type activities: employment security, alcoholic beverages, lottery, airport, marine ports, ferry services, military equipment maintenance, 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	
	2004	2003*	2004	2003*
Employment Security	\$ 118,965	\$ 124,453	\$ (6,905)	\$ (5,125)
Alcoholic Beverages	61,958	59,407	27,129	26,573
Lottery	146,214	125,633	42,457	41,262
Airport	819	753	(672)	(212)
Marine Ports	1,415	1,854	99	5,304
Ferry Services	7,296	7,483	(3,854)	(2,682)
Military Equip. Maint.	25,923	-	1,420	3
Other	2,107	1,840	(229)	9
Total	<u>\$ 364,697</u>	<u>\$ 321,423</u>	<u>\$ 59,445</u>	<u>\$ 65,132</u>

*As restated.

The cost of all business-type activities this year was \$364.7 million. The users of the State's programs financed most of the cost. The State's net revenue from business-type activities was \$59.4 million. The State's business-type activities transferred \$143.1 million (net) to the governmental activities, which includes \$68.1 in statutorily required profit transfers and \$75 million of proceeds from the sale of operating rights from the Alcoholic Beverages enterprise fund.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

At the close of the fiscal year, the State reported fund balances of \$446.4 million in its governmental funds. The Other Special Revenue Fund, at \$276.7 million, comprises just less than 62 percent of the total, while the General Fund, at (\$2.3) million, the Highway Fund, at \$50.4 million, and the Federal Fund, at \$33.9 million comprise just over 18 percent of the total fund balances. Miscellaneous non-major governmental funds, in the aggregate, comprise just under one-fifth of the total. Total fund balances in the governmental funds increased by \$109.9 million. More than 56 percent of that increase occurred in the Other Special Revenue fund, while 35 percent occurred in the General Fund. Proceeds from the sale of operating rights for the State's wholesale liquor distribution accounted for \$75 million, or 68 percent of the increase in total fund balances in the governmental funds. The General Fund carries a small deficit balance into the next fiscal year, which will be funded through the final installment on the sale of operating rights for wholesale liquor distribution.

Budgetary Highlights

For the 2004 fiscal year, the final budgeted expenditures for the General Fund increased by about \$80 million from the original budget of approximately \$2.6 billion. Actual expenditures on the budgetary basis were \$91.8 million less than those authorized in the final budget, resulting from a concerted effort to reduce spending, primarily in the broad categories of education and social services. Actual revenues exceeded final budget forecasts by \$52 million mainly due to higher than expected personal income tax and sales tax revenues.

On the modified accrual basis, General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$38.6 million for the fiscal year. All of this difference was funded through a legislatively authorized contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The State recorded the transfer of \$75 million of proceeds from the sale of those operating rights from the Alcoholic Beverages enterprise fund to the General Fund. The General Fund ended the year with a \$2.3 million deficit, which will be funded through the final installment on the sale of operating rights for wholesale liquor distribution.

During fiscal year 2004, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers, which affected the General Fund: \$38.8 million from the General Fund to the Federal Fund to offset the federal unfunded liability in the MaineCare program from prior years; \$53 million from the General Fund to the Other Special Revenue Fund to capitalize the Dirigo Health Fund; \$13.6 million from the Highway Fund to the Other Special Revenue Fund for distribution to municipalities for highway-related purposes; and, \$13.6 million from the Other Special Revenue Fund to the General Fund to return amounts that would otherwise have been distributed to municipalities in the absence of the transfer from the Highway Fund. The legislature also authorized the State to recognize \$10 million of interfund borrowing from the Retiree Health Insurance Fund as revenue in the General Fund in order to close the budget gap.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2004, the State had roughly \$3.3 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2004, the State acquired or constructed more than \$300 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>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003*</u>	<u>2004</u>	<u>2003*</u>
Land	\$ 366,443	\$ 303,327	\$ 6,517	\$ 6,517	\$ 372,960	\$ 309,844
Buildings	463,165	418,157	8,747	8,746	471,912	426,903
Equipment	223,229	215,898	18,864	18,905	242,093	234,803
Improvements	24,372	16,162	51,410	51,410	75,782	67,572
Infrastructure	2,429,192	2,216,788	-	-	2,429,192	2,216,788
Construction in Progress	<u>34,211</u>	<u>50,723</u>	<u>1,904</u>	<u>10,831</u>	<u>36,115</u>	<u>61,554</u>
Total Capital Assets	3,540,612	3,221,055	87,442	96,409	3,628,054	3,317,464
Accumulated Depreciation	<u>(278,115)</u>	<u>(248,636)</u>	<u>(36,008)</u>	<u>(32,835)</u>	<u>(314,123)</u>	<u>(281,471)</u>
Capital Assets, net	<u>\$ 3,262,497</u>	<u>\$ 2,972,419</u>	<u>\$ 51,434</u>	<u>\$ 63,574</u>	<u>\$ 3,313,931</u>	<u>\$ 3,035,993</u>

* As Restated.

Modified Approach for Infrastructure

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

Highways and bridges are included in the State's infrastructure. There are 8,716 highway miles or 17,707 lane miles within the State. Bridges have a deck area of 11.3 million square feet among approximately 2,968 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2004, the actual average condition was 78.2. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 77 at June 30, 2004. Preservation costs for fiscal year 2004 totaled \$29.7 million compared to estimated preservation costs of \$30 million.

Chapter 38, P&S 2001, authorized \$37.4 million of transportation bonds and Chapter 33, P&S 2003, authorized \$42 million of transportation bonds. These bonds are for improvements to highways and bridges and were approved at referendum. At June 30, 2004 \$57.4 million in transportation bonds were issued related to Chapter 38. After year end the State issued an additional \$22.2 million in bonds.

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 \$784.4 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>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General Obligation						
Bonds	\$ 416,360	\$ 358,410	\$ -	\$ -	\$ 416,360	\$ 358,410
Other Long-Term						
Obligations	<u>368,003</u>	<u>385,685</u>	<u>277</u>	<u>452</u>	<u>368,280</u>	<u>386,137</u>
Total	<u>\$ 784,363</u>	<u>\$ 744,095</u>	<u>\$ 277</u>	<u>\$ 452</u>	<u>\$ 784,640</u>	<u>\$ 744,547</u>

During the year, the State reduced outstanding long-term obligations by \$72.3 million for outstanding general obligation bonds and \$83.7 million for other long-term debt. Also during fiscal year 2004, the State incurred \$191 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 2004, Moody's Investors Service rated the State at Aa2, Standard & Poor's rated it at AA, and Fitch Ratings 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 approximately 1.7% employment growth during 2005. As a result, calendar year 2005 employment and income growth are projected to increase by 1.7% and 4%, respectively. The consensus economic forecast expects that job growth will improve to 1.5% in 2006 and 1% a year from 2007 and 2009. Personal income growth is forecasted to grow by 4% annually over the same period.

The modest turn-around in Maine's economy has allowed the State's Revenue Forecasting Committee to increase revenue estimates by \$2 million for 2005; estimated revenues available for appropriation by the legislature.

The revenue estimate for the 2006 – 2007 biennium provides approximately \$5.47 billion in general fund revenues to be available for general purpose spending an increase over prior estimates of \$19 million. This is approximately \$733 million less than what is required to maintain current services levels in the 2006 – 2007 biennia. 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

BASIC FINANCIAL STATEMENTS

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2004
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 180,642	\$ 5,100	\$ 185,742	\$ 52,767
Cash with Fiscal Agent	31,762	-	31,762	-
Investments	89,187	588	89,775	671,805
Restricted Deposits and Investments	2,724	428,464	431,188	-
Inventories	6,326	846	7,172	1,175
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	332,010	-	332,010	-
Loans Receivable	5,725	-	5,725	29,604
Notes Receivable	-	-	-	23
Other Receivables	164,723	41,970	206,693	39,956
Internal Balances	2,633	(2,633)	-	-
Due from Other Governments	394,514	-	394,514	155,543
Due from Primary Government	-	-	-	11,422
Due from Component Units	1,000	-	1,000	-
Other Current Assets	1,746	1	1,747	10,965
Total Current Assets	<u>1,212,992</u>	<u>474,336</u>	<u>1,687,328</u>	<u>973,260</u>
Noncurrent Assets:				
Assets Held in Trust	-	-	-	2
Restricted Deposits and Investments	33,996	-	33,996	417,338
Investments	86,702	2,018	88,720	404,311
Receivables, Net of Current Portion:				
Taxes Receivable	37,264	-	37,264	-
Loans Receivable	-	-	-	1,134,749
Notes Receivable	-	-	-	70,568
Other Receivables	-	-	-	3,439
Due from Other Governments	-	-	-	1,079,871
Due From Primary Government	-	-	-	3,400
Other Noncurrent Assets	-	-	-	39,624
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	2,829,846	8,421	2,838,267	114,802
Buildings and Equipment	710,766	79,021	789,787	846,887
Less: Accumulated Depreciation	(278,115)	(36,008)	(314,123)	(330,613)
Capital Assets, Net of Accumulated Depreciation	<u>3,262,497</u>	<u>51,434</u>	<u>3,313,931</u>	<u>631,076</u>
Total Noncurrent Assets	<u>3,420,459</u>	<u>53,452</u>	<u>3,473,911</u>	<u>3,784,378</u>
Total Assets	<u>4,633,451</u>	<u>527,788</u>	<u>5,161,239</u>	<u>4,757,638</u>
Liabilities				
Current Liabilities:				
Accounts Payable	466,887	10,158	477,045	53,404
Accrued Payroll	32,246	724	32,970	691
Compensated Absences	4,112	30	4,142	513
Tax Refunds Payable	119,034	-	119,034	-
Due to Component Units	18,770	-	18,770	-
Due to Other Governments	47,303	-	47,303	4,913
Due to Primary Government	-	-	-	1,000
Amounts Held under State & Federal Loan Programs	-	-	-	26,593
Undistributed Grants and Administrative Funds	-	-	-	6,312
Allowances for Losses on Insured Commercial Loans	-	-	-	10,305
Claims Payable	26,220	-	26,220	-
Bonds and Notes Payable	66,790	-	66,790	123,301
Revenue Bonds Payable	11,045	-	11,045	37
Obligations under Capital Leases	5,864	-	5,864	272
Certificates of Participation and Other Financing Arrangements	15,305	-	15,305	-
Accrued Interest Payable	2,979	-	2,979	17,518
Deferred Revenue	2,904	385	3,289	56,833
Other Current Liabilities	4,517	10,754	15,271	29,472
Total Current Liabilities	<u>823,976</u>	<u>22,051</u>	<u>846,027</u>	<u>331,164</u>

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

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
Long-Term Liabilities:				
Compensated Absences	\$ 34,398	\$ 247	\$ 34,645	\$ -
Due to Other Governments	743	-	743	3,933
Amounts Held under State & Federal Loan Programs	-	-	-	40,411
Claims Payable	56,996	-	56,996	-
Bonds and Notes Payable	349,570	-	349,570	2,733,836
Revenue Bonds Payable	186,905	-	186,905	2,590
Obligations under Capital Leases	34,273	-	34,273	4,958
Certificates of Participation and Other Financing Arrangements	30,041	-	30,041	-
Deferred Revenue	15,386	75,000	90,386	602
Pension Obligation	46,060	-	46,060	-
Other Noncurrent Liabilities	-	-	-	74,272
Total Long-Term Liabilities	<u>754,372</u>	<u>75,247</u>	<u>829,619</u>	<u>2,860,602</u>
Total Liabilities	<u>1,578,348</u>	<u>97,298</u>	<u>1,675,646</u>	<u>3,191,766</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,878,596	51,434	2,930,030	509,533
Restricted:				
Highway Fund Purposes	49,307	-	49,307	-
Federal Programs	33,925	-	33,925	-
Natural Resources	19,429	-	19,429	-
Capital Projects and Debt Service	32,685	-	32,685	-
Unemployment Compensation	-	450,475	450,475	-
Other Purposes	14,534	-	14,534	872,836
Funds Held as Permanent Investments:				
Expendable	53,970	-	53,970	-
Nonexpendable	10,176	-	10,176	-
Unrestricted	<u>(37,519)</u>	<u>(71,419)</u>	<u>(108,938)</u>	<u>183,503</u>
Total Net Assets	<u>\$ 3,055,103</u>	<u>\$ 430,490</u>	<u>\$ 3,485,593</u>	<u>\$ 1,565,872</u>

STATE OF MAINE STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	\$ 469,682	\$ 148,707	\$ 29,860	\$ -
Arts, Heritage & Cultural Enrichment	12,498	1,308	2,062	-
Business Licensing & Regulation	46,249	54,920	723	-
Economic Development & Workforce Training	191,868	2,242	103,573	-
Education	1,357,080	924	170,314	-
Health & Human Services	2,775,008	14,722	1,877,881	-
Justice & Protection	297,619	63,475	37,989	-
Natural Resources Development & Protection	166,167	78,870	34,000	19,657
Transportation Safety & Development	203,968	9,919	9,455	181,097
Interest Expense	31,324	-	-	-
Total Governmental Activities	<u>5,551,463</u>	<u>375,087</u>	<u>2,265,857</u>	<u>200,754</u>
Business-Type Activities:				
Employment Security	118,965	86,143	25,917	-
Alcoholic Beverages	61,958	89,087	-	-
Lottery	146,214	188,671	-	-
Airport	819	147	-	-
Marine Ports	1,415	14	-	1,500
Ferry Services	7,296	3,168	3	271
Military Equipment Maintenance	25,923	27,336	7	-
Other	2,107	1,878	-	-
Total Business-Type Activities	<u>364,697</u>	<u>396,444</u>	<u>25,927</u>	<u>1,771</u>
Total Primary Government	<u>\$ 5,916,160</u>	<u>\$ 771,531</u>	<u>\$ 2,291,784</u>	<u>\$ 202,525</u>
Component Units:				
Child Development Services	\$ 25,854	\$ 4,561	\$ 21,199	\$ -
Finance Authority of Maine	30,399	5,004	24,094	-
Governor Baxter School for the Deaf	5,791	39	100	-
Loring Development Authority	5,493	1,068	2,625	1,394
Maine Community College System	88,486	20,166	25,103	5,006
Maine Educational Loan Authority	2,619	2,445	549	-
Maine Maritime Academy	20,433	9,471	794	2,554
Maine Municipal Bond Bank	62,765	47,504	(2,837)	30,775
Maine Port Authority	811	69	201	-
Maine State Housing Authority	213,913	86,811	123,206	-
Northern New England Passenger Rail Authority	4,471	43	3,564	489
University of Maine System	564,141	220,914	189,989	25,758
Total Component Units	<u>\$ 1,025,176</u>	<u>\$ 398,095</u>	<u>\$ 388,587</u>	<u>\$ 65,976</u>
General Revenues:				
Taxes:				
Corporate				
Individual Income				
Fuel				
Property				
Sales & Use				
Other				
Unrestricted Investment Earnings				
Non-Program Specific Grants, Contributions & Appropriations				
Miscellaneous Income				
Loss on Assets Held for Sale				
Tobacco Settlement				
Special Items				
Transfers - Internal Activities				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning (as Restated)				
Net Assets - Ending				

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

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (291,115)	\$ -	\$ (291,115)	\$ -
(9,128)	-	(9,128)	-
9,394	-	9,394	-
(86,053)	-	(86,053)	-
(1,185,842)	-	(1,185,842)	-
(882,405)	-	(882,405)	-
(196,155)	-	(196,155)	-
(33,640)	-	(33,640)	-
(3,497)	-	(3,497)	-
(31,324)	-	(31,324)	-
<u>(2,709,765)</u>	<u>-</u>	<u>(2,709,765)</u>	<u>-</u>
-	(6,905)	(6,905)	-
-	27,129	27,129	-
-	42,457	42,457	-
-	(672)	(672)	-
-	99	99	-
-	(3,854)	(3,854)	-
-	1,420	1,420	-
-	(229)	(229)	-
-	<u>59,445</u>	<u>59,445</u>	<u>-</u>
<u>(2,709,765)</u>	<u>59,445</u>	<u>(2,650,320)</u>	<u>-</u>
-	-	-	(94)
-	-	-	(1,301)
-	-	-	(5,652)
-	-	-	(406)
-	-	-	(38,211)
-	-	-	375
-	-	-	(7,614)
-	-	-	12,677
-	-	-	(541)
-	-	-	(3,896)
-	-	-	(375)
-	-	-	(127,480)
-	-	-	<u>(172,518)</u>
216,366	-	216,366	-
1,149,109	-	1,149,109	-
166,174	-	166,174	-
28,412	-	28,412	-
1,086,049	-	1,086,049	-
117,168	-	117,168	-
17,049	-	17,049	7,222
-	-	-	236,301
124,043	-	124,043	2,876
(3,035)	-	(3,035)	(432)
49,018	-	49,018	-
75,000	(85,703)	(10,703)	10,703
68,132	(68,132)	-	-
<u>3,093,485</u>	<u>(153,835)</u>	<u>2,939,650</u>	<u>256,670</u>
383,720	(94,390)	289,330	84,152
2,671,383	524,880	3,196,263	1,481,720
<u>\$ 3,055,103</u>	<u>\$ 430,490</u>	<u>\$ 3,485,593</u>	<u>\$ 1,565,872</u>



GOVERNMENTAL FUND FINANCIAL STATEMENTS

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 93.

**STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2004
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Current Assets:						
Cash and Short-Term Investments	\$ 121	\$ 37,381	\$ 4	\$ 64,854	\$ 142	\$ 102,502
Cash with Fiscal Agent	8,929	7,746	-	14,555	-	31,230
Investments	-	5,039	353	9,252	63,978	78,622
Restricted Deposits and Investments	-	-	-	4,433	29,163	33,596
Inventories	918	-	2,049	-	-	2,967
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	305,581	20,072	-	6,357	-	332,010
Loans Receivable	1	105	-	5,618	-	5,724
Other Receivables	52,867	2,620	34,581	68,107	-	158,175
Due from Other Funds	16,211	3,810	28,331	148,751	-	197,103
Due from Other Governments	1,463	-	347,304	-	-	348,767
Due from Component Units	-	-	-	-	1,000	1,000
Other Current Assets	381	3	93	3	-	480
Total Current Assets	<u>386,472</u>	<u>76,776</u>	<u>412,715</u>	<u>321,930</u>	<u>94,283</u>	<u>1,292,176</u>
Noncurrent Assets						
Investments	-	17,319	1,213	31,798	61	50,391
Taxes Receivable	37,264	-	-	-	-	37,264
Working Capital Advances Receivable	536	-	-	-	-	536
Total Noncurrent Assets	<u>37,800</u>	<u>17,319</u>	<u>1,213</u>	<u>31,798</u>	<u>61</u>	<u>88,191</u>
Total Assets	<u>\$ 424,272</u>	<u>\$ 94,095</u>	<u>\$ 413,928</u>	<u>\$ 353,728</u>	<u>\$ 94,344</u>	<u>\$ 1,380,367</u>
Liabilities and Fund Balances						
Current Liabilities:						
Accounts Payable	\$ 135,444	\$ 24,322	\$ 228,634	\$ 27,881	\$ 1,556	\$ 417,837
Accrued Payroll	14,537	7,674	3,998	5,010	-	31,219
Tax Refunds Payable	119,034	-	-	-	-	119,034
Due to Other Governments	-	-	47,295	-	-	47,295
Due to Other Funds	112,050	3,278	91,348	7,909	-	214,585
Due to Component Units	3,276	154	5,790	4,350	5,200	18,770
Compensated Absences	1,918	745	575	619	-	3,857
Deferred Revenue	-	-	2,359	23,977	-	26,336
Other Accrued Liabilities	3,015	262	4	211	35	3,527
Total Current Liabilities	<u>389,274</u>	<u>36,435</u>	<u>380,003</u>	<u>69,957</u>	<u>6,791</u>	<u>882,460</u>
Long-Term Liabilities:						
Working Capital Advances Payable	-	-	-	25	-	25
Deferred Revenue	37,264	7,211	-	7,053	-	51,528
Total Long-Term Liabilities	<u>37,264</u>	<u>7,211</u>	<u>-</u>	<u>7,078</u>	<u>-</u>	<u>51,553</u>
Total Liabilities	<u>426,538</u>	<u>43,646</u>	<u>380,003</u>	<u>77,035</u>	<u>6,791</u>	<u>934,013</u>
Fund Balances:						
Reserved						
Continuing Appropriations	54,966	61,978	56,872	250,165	224	424,205
Maine Budget Stabilization Fund	33,158	-	-	-	-	33,158
Debt Service	8,868	3,134	-	-	-	12,002
Capital Projects	-	-	-	-	20,683	20,683
Permanent Trusts	-	-	-	-	10,176	10,176
Other	25,448	13,290	-	14,514	56,470	109,722
Unreserved	<u>(124,706)</u>	<u>(27,953)</u>	<u>(22,947)</u>	<u>12,014</u>	<u>-</u>	<u>(163,592)</u>
Total Fund Balances	<u>(2,266)</u>	<u>50,449</u>	<u>33,925</u>	<u>276,693</u>	<u>87,553</u>	<u>446,354</u>
Total Liabilities and Fund Balances	<u>\$ 424,272</u>	<u>\$ 94,095</u>	<u>\$ 413,928</u>	<u>\$ 353,728</u>	<u>\$ 94,344</u>	<u>\$ 1,380,367</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, 2004
(Expressed in Thousands)

Total fund balances for governmental funds		\$ 446,354
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.	3,332,455	
Less: Accumulated depreciation	(159,683)	3,172,772
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	(358,410)	
Interest Payable Related to Long-term Financing	(1,963)	
Certificates of Participation and Other Financing Arrangements	(34,108)	
Claims Payable	(15,426)	
Compensated Absences	(34,443)	
Pension Obligation	(66,261)	(510,611)
Current year reductions to compensated absences are recognized as a liability when the expense is incurred under full-accrual accounting.		1,112
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.		(130,275)
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.		72,325
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.		7,888
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.		(4,426)
Current year reductions to interest payable are recognized as a liability when the expense is incurred under full-accrual accounting.		464
Current year decreases to claims payable are recognized as a liability when the expense is incurred under full-accrual accounting. No accrual is recorded in the governmental fund statements for claims not paid from current financial resources.		(2,404)
Current year reductions to pension obligations are recognized as a decrease in liability when the obligation is incurred under full-accrual accounting.		20,201
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		66,206
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.		(84,503)
Net assets of governmental activities		\$ 3,055,103

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, 2004
(Expressed in Thousands)

	<u>General</u>	<u>Highway</u>	<u>Federal</u>	<u>Other Special Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Taxes	\$ 2,453,800	\$ 215,320	\$ -	\$ 95,564	\$ -	\$ 2,764,684
Assessments and Other Revenue	81,852	89,093	-	89,280	-	260,225
Federal Grants and Reimbursements	25,230	-	2,434,031	1,943	-	2,461,204
Service Charges	44,049	6,649	1,670	79,503	-	131,871
Investment Income	5,837	720	337	696	7,657	15,247
Miscellaneous Revenue	45,008	2,028	475	100,498	528	148,537
Total Revenues	<u>2,655,776</u>	<u>313,810</u>	<u>2,436,513</u>	<u>367,484</u>	<u>8,185</u>	<u>5,781,768</u>
Expenditures						
Current:						
Governmental Support & Operations	263,839	29,560	27,614	136,935	16,225	474,173
Economic Development & Workforce Training	47,095	-	106,776	20,924	19,584	194,379
Education	1,144,907	-	170,943	15,691	35,873	1,367,414
Health and Human Services	777,074	-	1,880,795	171,974	226	2,830,069
Business Licensing & Regulation	-	-	860	46,842	-	47,702
Natural Resources Development & Protection	66,692	34	52,896	69,484	11,322	200,428
Justice and Protection	203,360	33,457	41,131	25,669	42	303,659
Arts, Heritage & Cultural Enrichment	8,352	-	2,494	1,108	761	12,715
Transportation Safety & Development	3,338	211,636	190,422	8,115	45,168	458,679
Debt Service:						
Principal Payments	56,310	16,015	-	-	-	72,325
Interest Payments	12,458	3,022	-	-	-	15,480
Total Expenditures	<u>2,583,425</u>	<u>293,724</u>	<u>2,473,931</u>	<u>496,742</u>	<u>129,201</u>	<u>5,977,023</u>
Revenue over (under) Expenditures	<u>72,351</u>	<u>20,086</u>	<u>(37,418)</u>	<u>(129,258)</u>	<u>(121,016)</u>	<u>(195,255)</u>
Other Financing Sources (Uses):						
Transfer from Other Funds	127,525	2,135	75,938	227,801	1,535	434,934
Transfer to Other Funds	(238,637)	(19,704)	(29,789)	(47,993)	(13,676)	(349,799)
Other	-	-	-	11,246	-	11,246
Bonds Issued	2,335	1,205	-	-	130,275	133,815
Net Other Finance Sources (Uses)	<u>(108,777)</u>	<u>(16,364)</u>	<u>46,149</u>	<u>191,054</u>	<u>118,134</u>	<u>230,196</u>
Special Items:						
Purchase of Landfill	(26,000)	-	-	-	-	(26,000)
Sale of Landfill Capacity	26,000	-	-	-	-	26,000
Proceeds from Sale of Liquor Operating Rights	75,000	-	-	-	-	75,000
Net Special Items	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
Revenues and Other Sources over (under) Expenditures and Other Uses	<u>38,574</u>	<u>3,722</u>	<u>8,731</u>	<u>61,796</u>	<u>(2,882)</u>	<u>109,941</u>
Fund Balances at Beginning of Year (As Restated)	<u>(40,840)</u>	<u>46,727</u>	<u>25,194</u>	<u>214,897</u>	<u>90,435</u>	<u>336,413</u>
Fund Balances at End of Year	<u>\$ (2,266)</u>	<u>\$ 50,449</u>	<u>\$ 33,925</u>	<u>\$ 276,693</u>	<u>\$ 87,553</u>	<u>\$ 446,354</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, 2004
(Expressed in Thousands)

Net change in fund balances - total governmental funds	\$	109,941
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		315,229
Depreciation expense		(27,210)
		288,019
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(121)
Current year reductions to compensated absences are recognized as a liability when the expense is incurred under full-accrual accounting.		1,112
Current year bond issue proceeds are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Activities.		(130,275)
Principal payments on bond indebtedness are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Activities.		72,325
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.		7,888
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.		(4,426)
Current year reductions in interest payable associated with long-term debt decrease interest expense recorded under full-accrual accounting.		464
Claims payable at June 30, 2004 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.		(2,404)
Current year reduction of pension obligations decreases the pension expense recorded under full-accrual accounting.		20,201
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		1,756
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.		19,240
Changes in net assets of governmental activities	\$	383,720

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



PROPRIETARY FUND FINANCIAL STATEMENTS

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 105.

Combining fund statements for the internal service funds, whose combined totals are presented on these statements, begin on page 113.

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2004
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities Internal
	Major	Non-Major	Totals	Service Funds
	Employment Security	Other Enterprise		
Assets				
Current Assets:				
Cash and Short-Term Investments	\$ -	\$ 5,100	\$ 5,100	\$ 78,140
Cash with Fiscal Agent	-	-	-	532
Investments	-	588	588	10,565
Restricted Deposits and Investments	428,464	-	428,464	3,124
Inventories	-	846	846	3,359
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	11,045
Other Receivables	24,589	17,381	41,970	6,548
Due from Other Funds	21	2,341	2,362	22,558
Other Current Assets	-	1	1	1,266
Total Current Assets	<u>453,074</u>	<u>26,257</u>	<u>479,331</u>	<u>137,137</u>
Noncurrent Assets				
Investments	-	2,018	2,018	36,311
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	186,905
Fixed Assets - Net of Depreciation	-	51,434	51,434	89,725
Total Noncurrent Assets	<u>-</u>	<u>53,452</u>	<u>53,452</u>	<u>312,941</u>
Total Assets	<u>453,074</u>	<u>79,709</u>	<u>532,783</u>	<u>450,078</u>
Liabilities				
Current Liabilities:				
Accounts Payable	2,471	7,687	10,158	8,268
Accrued Payroll	-	724	724	1,027
Due to Other Governments	-	-	-	751
Due to Other Funds	-	4,841	4,841	2,597
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	5,385
Revenue Bonds Payable	-	-	-	11,045
Obligations Under Capital Leases	-	-	-	5,864
Claims Payable	-	-	-	8,390
Compensated Absences	-	30	30	255
Deferred Revenue	-	385	385	545
Other Accrued Liabilities	128	10,626	10,754	2,470
Total Current Liabilities	<u>2,599</u>	<u>24,293</u>	<u>26,892</u>	<u>46,597</u>
Long-Term Liabilities:				
Working Capital Advances Payable	-	400	400	111
Deferred Revenue	-	75,000	75,000	1,122
Non-Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	9,315
Revenue Bonds Payable	-	-	-	186,905
Obligations Under Capital Leases	-	-	-	34,273
Claims Payable	-	-	-	56,996
Compensated Absences	-	247	247	1,067
Total Long-Term Liabilities	<u>-</u>	<u>75,647</u>	<u>75,647</u>	<u>289,789</u>
Total Liabilities	<u>2,599</u>	<u>99,940</u>	<u>102,539</u>	<u>336,386</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	51,434	51,434	34,888
Restricted for:				
Unemployment Compensation	450,475	-	450,475	-
Other Purposes	-	-	-	20
Unrestricted	<u>-</u>	<u>(71,665)</u>	<u>(71,665)</u>	<u>78,784</u>
Total Net Assets	<u>\$ 450,475</u>	<u>\$ (20,231)</u>	<u>\$ 430,244</u>	<u>\$ 113,692</u>

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, 2004
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Major	Non-Major		
	Employment Security	Other Enterprise	Totals	
Operating Revenues				
Charges for Services	\$ -	\$ 310,207	\$ 310,207	\$ 321,066
Assessments	86,143	1	86,144	-
Miscellaneous Revenues	-	15	15	192
Total Operating Revenues	<u>86,143</u>	<u>310,223</u>	<u>396,366</u>	<u>321,258</u>
Operating Expenses				
General Operations	-	242,406	242,406	256,166
Depreciation	-	3,265	3,265	16,246
Claims/Fees Expense	118,965	-	118,965	10,591
Other Operating Expenses	-	-	-	481
Total Operating Expenses	<u>118,965</u>	<u>245,671</u>	<u>364,636</u>	<u>283,484</u>
Operating Income (Loss)	<u>(32,822)</u>	<u>64,552</u>	<u>31,730</u>	<u>37,774</u>
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	25,917	-	25,917	1,802
Interest Expense	-	-	-	(16,412)
Other Nonoperating Revenues (Expenses)- net	-	88	88	(761)
Total Nonoperating Revenues (Expenses)	<u>25,917</u>	<u>88</u>	<u>26,005</u>	<u>(15,371)</u>
Income (Loss) Before Capital Contributions, Transfers and Special Items	<u>(6,905)</u>	<u>64,640</u>	<u>57,735</u>	<u>22,403</u>
Capital Contributions, Transfers and Special Items				
Capital Contributions from Other Funds	-	1,771	1,771	-
Transfers from (to) Other Funds	(1,747)	(66,385)	(68,132)	(5)
Special Items	-	(85,703)	(85,703)	-
Total Capital Contributions, Transfers In (Out) and Special Items	<u>(1,747)</u>	<u>(150,317)</u>	<u>(152,064)</u>	<u>(5)</u>
Change in Net Assets	(8,652)	(85,677)	(94,329)	22,398
Total Net Assets - Beginning of Year	<u>459,127</u>	<u>65,446</u>	<u>524,573</u>	<u>91,294</u>
Total Net Assets - End of Year	<u>\$ 450,475</u>	<u>\$ (20,231)</u>	430,244	<u>\$ 113,692</u>
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			246	
Net Assets of Business-Type Activities			<u>\$ 430,490</u>	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2004
(Expressed in Thousands)

	Business-Type Activities			Governmental Activities Internal Service Funds
	Enterprise Funds			
	Major Employment Security	Non-Major Other Enterprise	Totals	
Cash Flows from Operating Activities				
Receipts from Customers and Users	\$ 86,267	\$ 310,231	\$ 396,498	\$ 304,676
Other Operating Cash Receipts (Payments)	-	-	-	-
Payments of Benefits	(119,330)	-	(119,330)	-
Payments to Prize Winners	-	(116,826)	(116,826)	-
Payments to Suppliers	-	(106,730)	(106,730)	(250,043)
Payments to Employees	-	(17,185)	(17,185)	(27,510)
Net Cash Provided (Used) by Operating Activities	<u>(33,063)</u>	<u>69,490</u>	<u>36,427</u>	<u>27,123</u>
Cash Flows from Noncapital Financing Activities				
Operating Transfers in	-	3,121	3,121	-
Operating Transfers out	(1,747)	(69,506)	(71,253)	(5)
Special Item - Proceeds from Sale of Right to Operate Liquor Business	-	75,000	75,000	-
Special Item - Transfer of Proceeds to General Fund	-	(75,000)	(75,000)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,747)</u>	<u>(66,385)</u>	<u>(68,132)</u>	<u>(5)</u>
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(61)	(61)	(9,484)
Capital Contributions	-	-	-	-
Proceeds from Financing Arrangements	-	-	-	55,690
Principal and Interest Paid on Financing Arrangements	-	-	-	(74,870)
Proceeds from Sale of Capital Assets	-	4	4	2
Net Cash Provided (Used) by Capital Financing Activities	<u>-</u>	<u>(57)</u>	<u>(57)</u>	<u>(28,662)</u>
Cash Flows from Investing Activities				
Interest Revenue	25,917	87	26,004	1,802
Payments to Purchase Investments	-	(482)	(482)	-
Proceeds from Sale of Investments	-	294	294	27,598
Net Cash Provided (Used) by Investing Activities	<u>25,917</u>	<u>(101)</u>	<u>25,816</u>	<u>29,400</u>
Net Increase (Decrease) in Cash/Cash Equivalents	(8,893)	2,947	(5,946)	27,856
Cash/Cash Equivalents - Beginning of Year	<u>437,357</u>	<u>2,153</u>	<u>439,510</u>	<u>53,940</u>
Cash/Cash Equivalents - End of Year	<u>\$ 428,464</u>	<u>\$ 5,100</u>	<u>\$ 433,564</u>	<u>\$ 81,796</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	\$ (32,822)	\$ 64,552	\$ 31,730	\$ 37,774
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	3,265	3,265	16,246
Decrease (Increase) in Assets				
Accounts Receivable	127	1,725	1,852	(16,706)
Interfund Balances	(3)	(5,085)	(5,088)	(28)
Inventories	-	520	520	449
Increase (Decrease) in Liabilities				
Accounts Payable	(187)	2,307	2,120	(8,551)
Accrued Payroll Expenses	-	336	336	(467)
Change in Compensated Absences	-	(175)	(175)	(45)
Other Accruals	(178)	2,045	1,867	(1,549)
Total Adjustments	<u>(241)</u>	<u>4,938</u>	<u>4,697</u>	<u>(10,651)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (33,063)</u>	<u>\$ 69,490</u>	<u>\$ 36,427</u>	<u>\$ 27,123</u>
Non Cash Investing, Capital and Financing Activities				
Property Leased or Acquired	-	-	-	9,705
Contributed Capital Assets	-	1,771	1,771	-
Special Item - Transfer of Pier	-	(10,703)	(10,703)	-

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

FIDUCIARY FUND FINANCIAL STATEMENTS

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 270 local municipalities and other public entities in Maine.

Maine Health & Higher Educational Facilities Authority - a discrete component unit included with Fiduciary Funds per GASB Statement No. 34. MHHEFA 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.

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 121.

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2004
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Maine Health & Higher Educational Facilities Authority	Private Purpose Trusts	Agency Funds
Assets				
Cash and Short-Term Investments	\$ 53,494	\$ 81,415	\$ 624	\$ 2,853
Receivables, Net of Allowance for Uncollectibles:				
State and Local Agency Contributions	32,897	-	-	-
Loans to Institutions	-	1,017,230	-	-
Interest and Dividends	2,311	6	-	-
Due from Brokers for Securities Sold	10,560	-	-	-
Other	-	4,750	-	1
Investments at Fair Value:				
Equity Securities	1,408,473	-	-	-
Common/Collective Trusts	6,608,559	-	-	-
Restricted Deposits & Investments	-	97,021	-	-
Other	7,192	47,891	10,617	1,118
Securities Lending Collateral	230,632	-	-	-
Assets Held in Trust	-	-	13,711	2,574,262
Fixed Assets - Net of Depreciation	1,415	3,837	-	-
Total Assets	8,355,533	1,252,150	24,952	2,578,234
Liabilities				
Accounts Payable	911	260	-	39
Due to Brokers for Securities Purchased	11,871	-	-	-
Agency Liabilities	-	-	-	2,578,179
Obligations Under Securities Lending	230,632	-	-	-
Bonds Payable	-	1,117,289	-	-
Other Accrued Liabilities	18,598	27,643	18	16
Total Liabilities	262,012	1,145,192	18	2,578,234
Net Assets				
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	8,093,521	106,958	24,934	-
Total Net Assets	\$ 8,093,521	\$ 106,958	\$ 24,934	\$ -

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, 2004
(Expressed in Thousands)

	Pension (and Other Employee Benefit Trusts)	Maine Health & Higher Educational Facilities Authority	Private Purpose Trusts
Additions:			
Contributions:			
Members	\$ 140,600	\$ -	\$ -
State and Local Agencies	300,112	-	-
Investment Income:			
Net Increase (Decrease) in the Fair Value of Investments	1,108,786	(1,231)	478
Interest and Dividends	47,542	7,431	533
Less Investment Expense:			
Investment Activity Expense	11,661	-	-
Cost of Securities Lending	319	-	-
Net Investment Income	1,144,348	6,200	1,011
Bond and Note Proceeds	-	180,925	-
Received from Institutions	-	94,713	-
Miscellaneous Revenues	-	10,955	19,856
Transfers In	-	-	536
Total Additions	1,585,060	292,793	21,403
Deductions:			
Benefits Paid to Participants or Beneficiaries	441,546	-	332
Construction and Program Costs	-	51,953	-
Bond Refunding and Refinancing Escrows	-	129,650	-
Principal Payments on Bonds	-	37,037	-
Interest Expense	-	54,226	-
Refunds and Withdrawals	15,697	1,581	-
Administrative Expenses	9,540	18,502	-
Transfers Out	-	-	17,534
Total Deductions	466,783	292,949	17,866
Net Increase (Decrease)	1,118,277	(156)	3,537
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:			
Beginning of Year	6,975,244	107,114	21,397
End of Year	<u>\$ 8,093,521</u>	<u>\$ 106,958</u>	<u>\$ 24,934</u>

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



COMPONENT UNIT

FINANCIAL STATEMENTS

Child Development Services System maintains 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.

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; administers several revolving loan programs on behalf of the State; and administers 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.

The Loring Development Authority is responsible for the acquisition, development and management of the properties within the geographical area of the former Loring Air Force Base.

Maine Community College 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 was created to grant educational loans primarily using funds acquired through issuance of long-term bonds payable.

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.

The Maine Port Authority is responsible for acquiring, financing, constructing and operating port and railroad facilities within the State, to improve the global competitiveness of Maine businesses.

Maine Municipal Bond Bank is authorized to issue bonds providing funds to counties, cities, towns, school districts, or other quasi-municipal corporations within the State.

Maine State Housing Authority is authorized to issue bonds for the purchase of notes and mortgages on single- and multi-family residential units to provide 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 initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine.

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

The State has three other component units, which are not included in the discretely presented component unit financial statements. The Maine State Retirement System and Maine Health and Higher Educational Facilities Authority have been included in the State’s Fiduciary Fund Statements, and the Maine Governmental Facilities Authority has been blended with the State’s Internal Service Funds.

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2004
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Governor Baxter School for the Deaf	Loring Development Authority	Maine Community College System
Assets					
Current Assets:					
Cash and Cash Equivalents	\$ 1,304	\$ 24,740	\$ 175	\$ 2,238	\$ 1,415
Investments	1,439	92,421	-	-	17,490
Inventories	-	-	-	-	896
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	-	-	13	-
Other Receivables	51	432	99	171	3,069
Due from Other Governments	-	275	-	453	-
Due from Primary Government	985	900	-	338	1,179
Other Current Assets	44	1,234	3	12	504
Total Current Assets	<u>3,823</u>	<u>120,002</u>	<u>277</u>	<u>3,225</u>	<u>24,553</u>
Noncurrent Assets:					
Assets Held in Trust	-	-	2	-	-
Restricted Deposits and Investments	-	-	-	-	579
Investments	-	9,812	426	-	5,229
Receivables, Net of Current Portion:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	27,143	-	1,181	-
Other Receivables	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Due from Primary Government	-	-	-	-	-
Fixed Assets - Net of Depreciation	704	1,890	55	68,345	81,359
Other Noncurrent Assets	-	570	-	-	-
Total Noncurrent Assets	<u>704</u>	<u>39,415</u>	<u>483</u>	<u>69,526</u>	<u>87,167</u>
Total Assets	<u>4,527</u>	<u>159,417</u>	<u>760</u>	<u>72,751</u>	<u>111,720</u>
Liabilities					
Current Liabilities:					
Accounts Payable	1,891	912	155	89	1,945
Accrued Payroll	256	-	435	-	-
Compensated Absences	332	-	133	43	-
Due to Other Governments	-	-	-	696	-
Due to Primary Government	-	-	-	1,000	-
Amounts Held under State & Federal Loan Programs	-	-	-	-	-
Undistributed Grants and Administrative Funds	-	6,312	-	-	-
Allowances for Losses on Insured Commercial Loans	-	10,305	-	-	-
Bonds Payable	-	52	-	-	60
Obligations under Capital Leases	7	-	-	-	-
Accrued Interest Payable	-	79	-	-	-
Deferred Revenue	122	1,715	-	60	1,370
Other Current Liabilities	-	163	15	198	6,196
Total Current Liabilities	<u>2,608</u>	<u>19,538</u>	<u>738</u>	<u>2,086</u>	<u>9,571</u>
Long-Term Liabilities:					
Due to Other Governments	-	-	-	-	-
Amounts Held under State & Federal Loan Programs	-	40,411	-	-	-
Bonds Payable	-	75,733	-	-	-
Obligations under Capital Leases	27	-	-	-	4,490
Deferred Revenue	-	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-	-
Total Long-Term Liabilities	<u>27</u>	<u>116,144</u>	<u>-</u>	<u>-</u>	<u>4,490</u>
Total Liabilities	<u>2,635</u>	<u>135,682</u>	<u>738</u>	<u>2,086</u>	<u>14,061</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	626	1,890	55	68,345	77,388
Restricted	1,151	228	278	-	11,689
Unrestricted	115	21,617	(311)	2,320	8,582
Total Net Assets	<u>\$ 1,892</u>	<u>\$ 23,735</u>	<u>\$ 22</u>	<u>\$ 70,665</u>	<u>\$ 97,659</u>

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

Maine Educational Loan Authority	Maine Maritime Academy	Maine Municipal Bond Bank	Maine Port Authority	Maine State Housing Authority	Northern New England Passenger Rail Authority	University of Maine System	Totals
\$ 1,974	\$ 2,020	\$ 342	\$ 674	\$ 1,420	\$ 508	\$ 15,957	\$ 52,767
-	4,611	8,191	-	438,008	-	109,645	671,805
-	241	-	-	-	38	-	1,175
4,480	240	-	-	24,884	-	-	29,604
-	-	-	-	10	-	-	23
512	792	1,025	4	18,381	5	15,415	39,956
-	-	142,526	-	2,010	1,446	8,833	155,543
-	-	600	-	-	-	7,420	11,422
119	882	2,391	-	-	119	5,657	10,965
<u>7,085</u>	<u>8,786</u>	<u>155,075</u>	<u>678</u>	<u>484,713</u>	<u>2,116</u>	<u>162,927</u>	<u>973,260</u>
-	-	-	-	-	-	-	2
-	1,649	273,803	-	100,134	3,351	37,822	417,338
29,374	10,787	-	-	123,633	-	225,050	404,311
40,042	2,615	-	-	1,092,092	-	-	1,134,749
-	-	-	1,731	2,139	-	38,374	70,568
-	687	-	-	-	-	2,752	3,439
-	-	1,079,801	-	-	-	70	1,079,871
-	-	-	-	-	-	3,400	3,400
-	16,508	864	19,380	564	1,088	440,319	631,076
735	5,105	7,979	-	3,570	-	21,665	39,624
<u>70,151</u>	<u>37,351</u>	<u>1,362,447</u>	<u>21,111</u>	<u>1,322,132</u>	<u>4,439</u>	<u>769,452</u>	<u>3,784,378</u>
<u>77,236</u>	<u>46,137</u>	<u>1,517,522</u>	<u>21,789</u>	<u>1,806,845</u>	<u>6,555</u>	<u>932,379</u>	<u>4,757,638</u>
145	2,219	666	201	31,638	1,150	12,393	53,404
-	-	-	-	-	-	-	691
-	-	-	-	-	5	-	513
119	-	975	-	3,123	-	-	4,913
-	-	-	-	-	-	-	1,000
-	-	26,593	-	-	-	-	26,593
-	-	-	-	-	-	-	6,312
-	-	-	-	-	-	-	10,305
-	37	85,969	-	31,240	-	5,980	123,338
-	-	-	-	-	-	265	272
86	-	8,283	-	9,070	-	-	17,518
241	143	2,643	15	30,176	-	20,348	56,833
-	427	-	-	1,299	-	21,174	29,472
<u>591</u>	<u>2,826</u>	<u>125,129</u>	<u>216</u>	<u>106,546</u>	<u>1,155</u>	<u>60,160</u>	<u>331,164</u>
617	1,668	1,648	-	-	-	-	3,933
-	-	-	-	-	-	-	40,411
72,557	2,590	982,429	-	1,456,041	-	147,076	2,736,426
-	-	-	-	-	-	441	4,958
602	-	-	-	-	-	-	602
-	-	-	-	-	-	74,272	74,272
<u>73,776</u>	<u>4,258</u>	<u>984,077</u>	<u>-</u>	<u>1,456,041</u>	<u>-</u>	<u>221,789</u>	<u>2,860,602</u>
<u>74,367</u>	<u>7,084</u>	<u>1,109,206</u>	<u>216</u>	<u>1,562,587</u>	<u>1,155</u>	<u>281,949</u>	<u>3,191,766</u>
-	13,902	-	19,380	-	1,088	326,859	509,533
1,896	16,422	357,475	218	227,456	4,088	251,935	872,836
973	8,729	50,841	1,975	16,802	224	71,636	183,503
<u>\$ 2,869</u>	<u>\$ 39,053</u>	<u>\$ 408,316</u>	<u>\$ 21,573</u>	<u>\$ 244,258</u>	<u>\$ 5,400</u>	<u>\$ 650,430</u>	<u>\$ 1,565,872</u>

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

June 30, 2004
(Expressed in Thousands)

	<u>Child Development Services</u>	<u>Finance Authority of Maine</u>	<u>Governor Baxter School for the Deaf</u>	<u>Loring Development Authority</u>	<u>Maine Community College System</u>
Expenses	\$ 25,854	\$ 30,399	\$ 5,791	\$ 5,493	\$ 88,486
Program Revenues					
Charges for Services	4,561	5,004	39	1,068	20,166
Program Investment Income	17	932	-	-	601
Operating Grants and Contributions	21,182	23,162	100	2,625	24,502
Capital Grants and Contributions	-	-	-	1,394	5,006
Net Revenue (Expense)	<u>(94)</u>	<u>(1,301)</u>	<u>(5,652)</u>	<u>(406)</u>	<u>(38,211)</u>
General Revenues					
Unrestricted Investment Earnings	-	-	49	48	879
Non-program Specific Grants, Contributions and Appropriations	2	-	5,872	635	40,640
Miscellaneous Income	142	-	-	618	-
Gain (Loss) on Assets Held for Sale	-	-	-	33	(36)
Special Item	-	-	-	-	-
Total General Revenues	<u>144</u>	<u>-</u>	<u>5,921</u>	<u>1,334</u>	<u>41,483</u>
Change in Net Assets	50	(1,301)	269	928	3,272
Net Assets, Beginning of the Year	<u>1,842</u>	<u>25,036</u>	<u>(247)</u>	<u>69,737</u>	<u>94,387</u>
Net Assets, End of Year	<u>\$ 1,892</u>	<u>\$ 23,735</u>	<u>\$ 22</u>	<u>\$ 70,665</u>	<u>\$ 97,659</u>

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

Maine Educational Loan Authority	Maine Maritime Academy	Maine Municipal Bond Bank	Maine Port Authority	Maine State Housing Authority	Northern New England Passenger Rail Authority	University of Maine System	Totals
\$ 2,619	\$ 20,433	\$ 62,765	\$ 811	\$ 213,913	\$ 4,471	\$ 564,141	\$ 1,025,176
2,445	9,471	47,504	69	86,811	43	220,914	398,095
549	-	(4,577)	-	7,534	-	-	5,056
-	794	1,740	201	115,672	3,564	189,989	383,531
-	2,554	30,775	-	-	489	25,758	65,976
<u>375</u>	<u>(7,614)</u>	<u>12,677</u>	<u>(541)</u>	<u>(3,896)</u>	<u>(375)</u>	<u>(127,480)</u>	<u>(172,518)</u>
-	1,172	77	3	160	49	4,785	7,222
-	7,484	-	-	-	-	181,668	236,301
-	1,012	1,104	-	-	-	-	2,876
-	(429)	-	-	-	-	-	(432)
-	-	-	10,703	-	-	-	10,703
-	9,239	1,181	10,706	160	49	186,453	256,670
375	1,625	13,858	10,165	(3,736)	(326)	58,973	84,152
<u>2,494</u>	<u>37,428</u>	<u>394,458</u>	<u>11,408</u>	<u>247,994</u>	<u>5,726</u>	<u>591,457</u>	<u>1,481,720</u>
<u>\$ 2,869</u>	<u>\$ 39,053</u>	<u>\$ 408,316</u>	<u>\$ 21,573</u>	<u>\$ 244,258</u>	<u>\$ 5,400</u>	<u>\$ 650,430</u>	<u>\$ 1,565,872</u>



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*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, 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) has 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.

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. Because of their nature, two of the discrete component units are shown in the fiduciary funds. The State of Maine reports the following entities as discrete component units:

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 Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, 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 combined financial statements of the School include the activity of the School and its component unit, the Maine Foundation for the Deaf.

The Loring Development Authority 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 approximately 3,600 acres of land, associated facilities, infrastructure and personal property to the Authority. The Governor appoints the 13 voting members of the Board of Trustees, subject to confirmation by the Senate. At least 7 of the members must be residents of Aroostook County; at least 4 must not be residents of Aroostook County; and one shall be a Commissioner of a department of State Government, *ex officio*.

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, the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

The Maine 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 financial statements of the Academy include the activity of the college and of a wholly-owned subsidiary "Essence Limited", whose purpose is to maintain and charter certain large donated vessels owned by the Academy for use in its programs.

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 Port Authority was established for the general purpose of acquiring, financing, constructing and operating port terminal facilities and railroad facilities within the State. Its mission is to improve the global competitiveness of Maine businesses by developing marine and rail facilities for the intermodal movement of people and cargo. The Governor appoints four of the five members of the Board of Directors. The fifth member is the Commissioner of Transportation.

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 103rd Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. The combined financial statements of the System include the activity of seven Universities, eleven centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

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

Loring Development Authority
154 Development Drive, Suite F
Limestone, ME 04750

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

Maine Educational Loan Authority
One City Center 11th 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 Port Authority
16 State House Station
Augusta, ME 04333-0016

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 04101-4631

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 School of Science and Mathematics, the Maine Technology Institute, and the Maine Rural Development Authority.

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

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

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Revenues are recognized in the governmental funds when they become susceptible to accrual, 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.

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

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

Financial Statement Presentation

The State reports the following major governmental funds:

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

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

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

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

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 is presented with the State's fiduciary funds per GASB Statement No. 34.

Maine Health & Higher Educational Facilities Authority reports resources held in trust to acquire, construct, improve, equip, and refinance health care and educational facilities. These resources are managed by a discrete component unit included with the private purpose trust funds per 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 \$158 million of Workers' Compensation and \$19 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

Restricted Deposits and Investments

Restricted deposits and investments include: Learning Technology Fund funds; unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Governmental Facilities Authority, a blended component unit that has been independently audited; unspent bond proceeds, and funds 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. 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 food stamps are used (EBT cards), and when vaccines and food commodities are issued.

Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost.

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

Receivables

Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements for the construction and modernization of agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. 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.

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 at 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, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Fixed assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5-60 years for 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 commodities 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 Balances

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

Fund Balance 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 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.

Budget Stabilization - indicates amounts reserved for use when revenues are under budget and critical services must be preserved.

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. For the year ended June 30, 2004, the legislature approved \$48.2 million of supplemental appropriations 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 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

Beginning Fund Balance in the General Fund decreased by \$4.7 million to record prior period expenditures which were incorrectly recorded as prepaid expenses, decreased by \$5.1 million to correct a prior period adjustment for the Temporary Assistance for Needy Families (TANF) program, and decreased by \$10.6 million to accrue a year end liability for a required payment to the Maine State Retirement System. The TANF adjustment also reduced the Other Special Revenue Fund balance by \$3.4 million and increased the Federal Fund balance by \$11.8. Beginning Net Assets of the Governmental Activities decreased by \$12 million as a result of these restatements, and decreased by \$5.9 million to correct revenues recognized in the prior fiscal year which should have been deferred.

Beginning Fund Balance in the Other Governmental Funds and Beginning Net Assets of the Governmental Activities decreased by \$385 thousand because funds held in trust, by the State of Maine reporting entity, for the Governor Baxter School for the Deaf, a discrete component unit, were reported in both the reporting entity and component unit financial statements.

As a result of the above restatements, Beginning Net Assets of the Governmental Activities decreased by \$18.3 million.

Beginning Net Assets of the Marine Ports Enterprise Fund and the Business-Type Activities decreased by \$8.8

million to correctly reflect the timing of a transfer of assets associated with the Mack Point Pier, between the State of Maine and the Maine Port Authority, a discretely presented component unit.

Restatement for the discretely presented component units on the entity-wide financial statements resulted in a net increase of Beginning Net Assets of \$92.7 million. The Maine Health and Higher Educational Facilities Authority was reclassified as a discrete component unit presented with the State's fiduciary funds, resulting in a decrease of \$107.1 million in component unit Beginning Net Assets on the entity-wide statements and a corresponding increase in the fiduciary funds. The Governor Baxter School for the Deaf increased by \$11 thousand to include a foundation as a component unit, and decreased by \$391 thousand to correct amounts recorded as accrued wages; The State included the Loring Development Authority and the Maine Port Authority, which were not previously reported in the financial statements of the State of Maine reporting entity, resulting in increases of \$69.7 million and \$11.4 million, respectively; and, the Maine Community College System and the University of Maine System increased by \$3.6 million and \$115.4 million, respectively, to include foundations as component units of those entities, as required due to implementation of GASB #39, *Determining Whether Certain Organizations are Component Units*.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Two internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2004. The Workers' Compensation Fund was at a deficit of \$45 million, which reflects accruals for actuarially determined claims payable. The Property Lease Fund was at a deficit of \$3.4 million, which reflects the recording of capital lease depreciation. These deficits are expected to be funded by future service charges.

The Alcoholic Beverages enterprise fund shows a deficit of \$75 million, which reflects the deferral of license fees that will be amortized over a ten year period.

The General Fund shows a deficit of \$2.3 million, due primarily to accrued liabilities for Medicaid claims, which are expected to be paid in the ensuing fiscal year.

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; corporate bonds rated “AAA” that mature within 36 months from the date of investment; banker’s acceptances; and “no-load” shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares maintain a constant share price. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by 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 2004, these disbursements, on average, exceeded \$145 million per month. Until the vendor receives payment, the State retains some liability. The funds in transit were not collateralized during FY 2004 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 (including fiduciary component units) and discretely presented component units at the close of fiscal year 2004:

Primary Government Deposits (including Fiduciary Component Units)
(Expressed in Thousands)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and Cash Equivalents	\$ 60,468	\$ -	\$ 3,845	\$ 64,313	\$ 9,088
Cash with Fiscal Agent	-	17,207	14,555	31,762	31,762
Restricted Deposits	<u>17,504</u>	<u>83,655</u>	<u>5,415</u>	<u>106,574</u>	<u>105,868</u>
Total	<u>\$ 77,972</u>	<u>\$ 100,862</u>	<u>\$ 23,815</u>	<u>\$ 202,649</u>	<u>\$ 146,718</u>

Component Unit Deposits
(Expressed in Thousands)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and Cash Equivalents	\$ 6,109	\$ 7,348	\$ 6,252	\$ 19,709	\$ 11,802
Restricted Deposits	<u>2</u>	<u>3,351</u>	<u>579</u>	<u>3,932</u>	<u>3,932</u>
Total	<u>\$ 6,111</u>	<u>\$ 10,699</u>	<u>\$ 6,831</u>	<u>\$23,641</u>	<u>\$ 15,734</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 including fiduciary component units) at June 30, 2004:

Primary Government Investments (including Fiduciary Component Units)
(Expressed in Thousands)

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Cash & Cash Equivalents	\$ 69,077	\$ 535	\$ 3,403	\$ 73,015
U.S. Government and Agency Obligations	111,532	-	9,385	120,917
Commercial Paper	112,655	-	-	112,655
Corporate Bonds and Notes	2,482	6,608	4,015	13,105
Equity Securities	-	13,677	36,992	50,669
Other Restricted Investments	<u>1,128,863</u>	<u>144,117</u>	<u>122,418</u>	<u>1,395,398</u>
Totals	<u>\$ 1,424,609</u>	<u>\$164,937</u>	<u>\$176,213</u>	1,765,759
Unemployment Fund Deposits with US Treasury				428,464
Maine State Retirement System non-categorized investments (1)				6,839,499
Assets Held in Trust				<u>2,587,973</u>
Total Investments – Primary Government				<u>\$11,621,695</u>

(1) Non-categorized investments are those that do not meet the criteria set forth in Categories 1, 2, or 3 as they are not evidenced by physical securities.

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

	Current <u>Investments</u>	Non-Current <u>Investments</u>	Restricted <u>Investments</u>	Assets Held <u>In Trust</u>	Short-Term <u>Investments</u>
Governmental activities	\$ 89,187	\$ 86,702	\$ 32,287	\$ -	\$ 188,742
Business-type activities	588	2,018	428,464	-	-
Fiduciary	-	-	-	2,587,973	-
Fiduciary – MHHEFA (1)	-	-	144,117	-	-
Fiduciary- Pension (1)	-	-	<u>8,024,224</u>	-	<u>37,393</u>
	<u>\$ 89,775</u>	<u>\$ 88,720</u>	<u>\$ 8,629,092</u>	<u>\$ 2,587,973</u>	<u>\$ 226,135</u>
				Total	<u>\$11,621,695</u>

(1) Represents investments of the Maine State Retirement System and Maine Health and Higher Education Facilities Authority, discrete component units 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 2004, investments of the discretely presented component units were:

Component Unit Investments
(Expressed in thousands)

	Category <u>1</u>	Category <u>2</u>	Category <u>3</u>	Fair Value
Cash and Cash Equivalents	\$ 20,839	\$ 79,616	\$ 10	\$ 100,465
U.S. Government and Agency Obligations	174,818	193,853	-	368,671
Repurchase Agreements	393,699	69,464	-	463,163
Commercial Paper	24,845	-	-	24,845
Corporate Bonds and Notes	8,519	-	133	8,652
Equity Securities	16,427	-	273	16,700
Investment Contracts	0	8,525	-	8,525
Other	93	-	-	93
Restricted	<u>29,753</u>	<u>19,031</u>	<u>101,466</u>	<u>150,250</u>
Totals	<u>\$ 668,993</u>	<u>\$ 370,489</u>	<u>\$ 101,882</u>	1,141,364
FAME non-categorized investments (1)				74,607
University of Maine System non-categorized short-term investments (1)				107,521
University of Maine System non-categorized restricted investments (1)				<u>206,997</u>
Total Investments – Component Units				<u>\$1,530,489</u>

(1) Non-categorized investments are those that do not meet the criteria set forth in Categories 1, 2, or 3 as they are not evidenced by physical securities.

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 21 percent of pool assets. The component units reported their participation as Cash and Cash Equivalents on their financial statements. The State has reclassified \$25

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 \$17 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 for Uncollectibles</u>	<u>Net Receivables</u>
Governmental Funds:					
General	\$458,875	\$65,592	\$ 1	\$ (128,755)	\$ 395,713
Highway	23,076	2,628	105	(3,012)	22,797
Federal	-	38,950	-	(4,369)	34,581
Other Special Revenue	6,657	70,946	6,454	(3,975)	80,082
Nonmajor Governmental	-	-	-	-	-
Total Governmental Funds	488,608	178,116	6,560	(140,111)	533,173
Allowance for Uncollectibles	<u>(119,334)</u>	<u>(19,941)</u>	<u>(836)</u>		<u>-</u>
Net Receivables	<u>\$ 369,274</u>	<u>\$ 158,175</u>	<u>\$ 5,724</u>		<u>\$ 533,173</u>
Proprietary Funds:					
Employment Security	\$ -	\$ 32,535	\$ -	\$ (7,946)	\$ 24,589
Nonmajor Enterprise	-	17,482	164	(265)	17,381
Internal Service	-	6,549	197,950	(1)	204,498
Total Proprietary Funds	-	56,566	198,114	(8,212)	246,468
Allowance for Uncollectibles	-	<u>(8,047)</u>	<u>(165)</u>		<u>-</u>
Net Receivables	<u>\$ -</u>	<u>\$ 48,519</u>	<u>\$ 197,949</u>		<u>\$ 246,468</u>

Component Units - Receivables
(Expressed in Thousands)

	<u>Accounts</u>	<u>Loans</u>	<u>Notes</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivables</u>
Child Development Services System	\$ 51	\$ -	\$ -	\$ -	\$ 51
Finance Authority of Maine	432	-	32,083	(4,940)	27,575
Governor Baxter School for the Deaf	99	-	-	-	99
Loring Development Authority	171	-	1,194	-	1,365
Maine Community College System	3,665	-	-	(596)	3,069
Maine Educational Loan Authority	512	45,467	-	(945)	45,034
Maine Maritime Academy	1,665	3,125	-	(456)	4,334
Maine Municipal Bond Bank	1,025	-	-	-	1,025
Maine Port Authority	4	-	1,731	-	1,735
Maine State Housing Authority	18,381	1,129,034	2,246	(12,155)	1,137,506
Northern New England Passenger Rail Authority	5	-	-	-	5
University of Maine System	<u>20,001</u>	<u>-</u>	<u>38,902</u>	<u>(2,362)</u>	<u>56,541</u>
Total Component Units	46,011	1,177,626	76,156	(21,454)	1,278,339
Allowance for Uncollectibles	<u>(4,666)</u>	<u>(11,223)</u>	<u>(5,565)</u>		<u>-</u>
Net Receivables	<u>\$ 41,345</u>	<u>\$ 1,166,403</u>	<u>\$ 70,591</u>		<u>\$ 1,278,339</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, 2004 were:

Interfund Receivables (Expressed in Thousands)				
Due to Other Funds				
<u>Due from Other Funds</u>	<u>General</u>	<u>Highway</u>	<u>Federal Fund</u>	<u>Other Special Revenue</u>
General	\$ -	\$466	\$ 11,126	\$ -
Highway	-	-	3,808	-
Federal	22,102	-	477	4,492
Other Special Revenue	75,527	190	71,848	362
Employment Security	21	-	-	-
Non-Major Enterprise	95	-	2,246	-
Internal Service	<u>14,305</u>	<u>2,622</u>	<u>1,843</u>	<u>3,055</u>
Total	<u>\$112,050</u>	<u>\$3,278</u>	<u>\$91,348</u>	<u>\$7,909</u>
<u>Due from Other Funds</u>	<u>Employment Security</u>	<u>Non-Major Enterprise</u>	<u>Internal Service</u>	<u>Total</u>
General	\$ -	\$ 4,580	\$ 39	\$16,211
Highway	-	2	-	3,810
Federal	-	-	1,260	28,331
Other Special Revenue	-	8	816	148,751
Employment Security	-	-	-	21
Non-Major Enterprise	-	-	-	2,341
Internal Service	<u>-</u>	<u>251</u>	<u>482</u>	<u>22,558</u>
Total	<u>\$ -</u>	<u>\$4,841</u>	<u>\$2,597</u>	<u>\$222,023</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 \$536 thousand to the General Fund for operating capital: Alcoholic Beverages (an enterprise fund) \$.4 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 2004, 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)

	<u>Due From Primary Government</u>	<u>Due To Component Units</u>
Primary Government:		
<u>General Fund</u>		
Child Development Services System	\$ -	\$ 479
University of Maine System	-	1,559
Loring Development Authority	-	338
FAME	-	900
<u>Highway Fund</u>		
University of Maine System	-	154
<u>Special Revenue Fund</u>		
University of Maine System	-	369
Maine State Housing Authority	-	3,948
Maine Community College System	-	33
<u>Federal Fund</u>		
Child Development Services System	-	506
University of Maine System	-	5,284
<u>Capital Projects Fund</u>		
Loring Development Authority	-	(1,000)
Maine Community College System	-	1,146
Maine Municipal Bond Bank	-	600
University of Maine System	-	3,454
Component Units:		
<u>Child Development Services System</u>		
General Fund	479	-
Federal Fund	506	-
<u>Loring Development Authority</u>		
General Fund	338	-
Capital Projects	(1,000)	-
<u>Maine Municipal Bond Bank</u>		
Capital Projects	600	-
<u>Maine Community College System</u>		
Capital Projects	1,146	-
Special Revenue Fund	33	-
<u>University of Maine System</u>		
General Fund	1,559	-
Highway Fund	154	-
Special Revenue Fund	369	-
Federal Fund	5,284	-
Capital Projects	3,454	-
<u>FAME</u>		
General Fund	900	-
<u>Maine State Housing Authority</u>		
Special Revenue Fund	-	-
Total	<u>\$ 13,822</u>	<u>\$ 17,770</u>

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

During fiscal year 2004, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring

transfers: \$38.8 million from the General Fund to the Federal Fund to pay expenditures incorrectly coded to the Federal Fund in the MaineCare program from prior years; \$53 million from the General Fund to the Other Special Revenue Fund to capitalize the Dirigo Health Fund; \$13.6 million from the Highway Fund to the Other Special Revenue Fund for distribution to municipalities for highway-related purposes; and, \$13.6 million from the Other Special Revenue Fund to the General Fund to return amounts that would otherwise have been distributed to municipalities in the absence of the transfer from the Highway Fund.

Interfund transfers for the year ended June 30, 2004, 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 Special Revenue</u>	<u>Non-Major Governmental</u>
General	\$ -	\$ 5,690	\$11,245	\$ 24,308	\$ 634
Highway	-	-	138	1,997	-
Federal	41,465	248	13,571	18,907	-
Other Special Revenue	193,937	13,766	4,719	1,166	12,818
Non-Major Governmental	232	-	-	1,079	224
Employment Security	-	-	-	-	-
Non-Major Enterprise	3,003	-	116	-	-
Internal Service	-	-	-	-	-
Fiduciary	-	-	-	536	-
Total	<u>\$238,637</u>	<u>\$19,704</u>	<u>\$29,789</u>	<u>\$47,993</u>	<u>\$13,676</u>

<u>Transferred To</u>	<u>Transferred From</u>				
	<u>Employment Security</u>	<u>Non-Major Enterprise</u>	<u>Internal Service</u>	<u>Fiduciary</u>	<u>Total</u>
General	\$ -	\$68,729	\$5	\$16,914	\$127,525
Highway	-	-	-	-	2,135
Federal	1,747	-	-	-	75,938
Other Special Revenue	-	775	-	620	227,801
Non-Major Governmental	-	-	-	-	1,535
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	-	-	-	3,119
Internal Service	-	-	-	-	-
Fiduciary	-	-	-	-	536
Total	<u>\$1,747</u>	<u>\$69,504</u>	<u>\$5</u>	<u>\$17,534</u>	<u>\$438,589</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, 2004:

Primary Government - Capital Assets
(Expressed in Thousands)

	<u>Beginning Balance*</u>	<u>Increases and Other Additions</u>	<u>Decreases and Other Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 303,327	\$ 63,238	\$ 122	\$ 366,443
Construction in progress	50,723	25,390	41,902	34,211
Infrastructure	<u>2,216,788</u>	<u>212,404</u>	<u>-</u>	<u>2,429,192</u>
Total capital assets, not being depreciated	2,570,838	301,032	42,024	2,829,846
Capital assets, being depreciated				
Buildings	418,157	48,527	3,519	463,165
Equipment	215,898	21,848	14,517	223,229
Improvements other than buildings	<u>16,162</u>	<u>8,244</u>	<u>34</u>	<u>24,372</u>
Total capital assets, being depreciated	<u>650,217</u>	<u>78,619</u>	<u>18,070</u>	<u>710,766</u>
Less accumulated depreciation for:				
Buildings	101,751	11,609	4,329	109,031
Equipment	140,923	34,686	14,148	161,461
Improvements other than buildings	<u>5,962</u>	<u>1,695</u>	<u>34</u>	<u>7,623</u>
Total accumulated depreciation	<u>248,636</u>	<u>47,990</u>	<u>18,511</u>	<u>278,115</u>
Total capital assets being depreciated, net	<u>401,581</u>	<u>30,629</u>	<u>(441)</u>	<u>432,651</u>
Governmental Activities Capital Assets, net	<u>\$ 2,972,419</u>	<u>\$ 331,661</u>	<u>\$ 41,583</u>	<u>\$ 3,262,497</u>
Business-Type Activities:				
		<u>Net Additions</u>	<u>Net Deletions</u>	
Capital assets, not being depreciated				
Land	\$ 6,517	\$ -	\$ -	\$ 6,517
Construction in progress	<u>10,831</u>	<u>1,776</u>	<u>10,703</u>	<u>1,904</u>
Total capital assets, not being depreciated	17,348	1,776	10,703	8,421
Capital assets, being depreciated				
Buildings	8,746	1	-	8,747
Equipment	18,905	59	100	18,864
Improvements other than buildings	<u>51,410</u>	<u>-</u>	<u>-</u>	<u>51,410</u>
Total capital assets, being depreciated	<u>79,061</u>	<u>60</u>	<u>100</u>	<u>79,021</u>
Less accumulated depreciation	<u>32,835</u>	<u>3,265</u>	<u>92</u>	<u>36,008</u>
Total capital assets, being depreciated, net	<u>46,226</u>	<u>(3,205)</u>	<u>8</u>	<u>43,013</u>
Business-Type Activities Capital Assets, net	<u>\$ 63,574</u>	<u>\$ (1,429)</u>	<u>\$ 10,711</u>	<u>\$ 51,434</u>

* As Restated.

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>
Governmental Activities:	
Arts, Heritage and Cultural Enrichment	\$ 85
Business Licensing and Regulation	497
Economic Development and Workforce Training	1,438
Education	263
Governmental Support and Operations	2,347
Health and Human Services	7,961
Justice and Protection	15,008
Natural Resources Development and Protection	4,959
Transportation Safety and Development	<u>13,958</u>
Total Depreciation Expense – Governmental Activities	<u>\$46,516</u>

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units:

Component Unit - Capital Assets
(Expressed in Thousands)

Land	\$ 26,205
Buildings	643,666
Equipment	141,866
Improvements other than buildings	56,813
Library books and materials	30,228
Construction in progress	62,162
Infrastructure	<u>749</u>
Total	961,689
Less accumulated depreciation	<u>(330,613)</u>
Capital assets, net – discretely presented component units	<u>\$ 631,076</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 270 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, 2004, the membership consisted of:

Active vested and nonvested members	52,029
Terminated vested participants	5,652
Retirees and benefit recipients	<u>31,460</u>
Total	<u>89,141</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 an agent multiple employer plan.

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 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 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 2004, this additional contribution was approximately \$22.5 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 2004 for participating entities are:

<u>State:</u>	
Employees ¹	7.65-8.65%
Employer ¹	13.39-38.18%
<u>Teachers:</u>	
Employees	7.65%
Employer	16.05%
<u>Participating Local Entities:</u>	
Employees ¹	3.0-8.0%
Employer ¹	1.5-6.5%

¹ 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	\$251,483
Interest on net pension obligation	5,301
Adjustment to annual required contribution	<u>(3,502)</u>
Annual pension cost	253,282
Contributions made	<u>273,483</u>
Increase (decrease) in net pension obligation	(20,201)
Net pension obligation beginning of year	<u>66,261</u>
Net pension obligation end of year	<u>\$ 46,060</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>
2004	\$253,282	107.98%	\$46,060
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, 2002 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 Maritime Academy has a defined contribution plan created under Internal Revenue Code Section 403(b).

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 is generated using a contribution rate, authorized by 5 M.R.S.A. § 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, 2004, there were 8,795 retired eligible State employees and 6,814 retired teachers. In fiscal year 2004, the State paid into the Retiree Health Insurance Fund \$45.8 million for retired employees and \$10.3 million for retired teachers. Premium charges paid were \$32 million and \$10.1 million, respectively. Overall, Net Assets increased by \$14.9 million to \$89.3 million at June 30, 2004.

The most recent actuarial study, issued for the fiscal year ended June 30, 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, 2004, claims totaled \$1.9 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 8,531 retired State employees and 5,779 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 2004 were:

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

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Debt:					
General Fund	\$ 293,990	\$ 117,275	\$ 56,240	\$ 355,025	\$ 53,440
Special Revenue Fund	64,120	13,000	16,015	61,105	13,280
Self Liquidating	300	-	70	230	70
Total	<u>\$ 358,410</u>	<u>\$ 130,275</u>	<u>\$ 72,325</u>	<u>\$ 416,360</u>	<u>\$ 66,790</u>

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

government, from June 30, 2004 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>
2005	\$ 66,790	\$ 15,018	\$ 81,808
2006	71,935	14,076	86,011
2007	59,210	11,095	70,305
2008	50,350	8,633	58,983
2009	42,130	6,480	48,610
2010-2014	<u>125,945</u>	<u>9,783</u>	<u>135,728</u>
Total	<u>\$ 416,360</u>	<u>\$ 65,085</u>	<u>\$ 481,445</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, 2004, general obligations bonds authorized and unissued totaled \$220.4 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State has included \$198.5 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. The Authority may not issue securities in excess of \$218.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2004, the Authority issued the Series 2003 Bonds, \$6.8 million of which refunded \$6.5 million of the Series 1993 bonds, with an average interest rate 5.07%. The Authority also issued the Series 2004 Bonds, \$27.8 million of which refunded \$26.9 million of portions of the Series 1996, 1999 and 2000 bonds, with an average interest rate 5.84%. Average interest rates for the new issues were 2.67% and 4.83%, respectively. Net proceeds from the refundings totaled \$37.1 million, including bond premiums of \$3.2 million and after payment of \$645,000 of issuance costs.

Although the advance refunding resulted in the recognition of a deferred accounting loss of \$2.8 million, the Authority reduced its aggregate debt service payments by \$1.6 million over the next 12 years and obtained an economic gain of \$1.8 million. Proceeds

were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. At June 30, 2004, there were approximately \$34.9 million of advance refunded bonds remaining outstanding.

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, including school buses. 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 and school districts maintain custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid.

Neither 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, 2004:

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

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
MGFA Revenue Bonds	\$ 196,383	\$ 48,332	\$ 46,765	\$ 197,950	\$ 11,045
COP's and Other Financing Arrangements	48,658	9,336	12,648	45,346	15,305
Compensated Absences	39,467	3,134	4,091	38,510	4,112
Net Pension Obligation	<u>66,261</u>	<u>-</u>	<u>20,201</u>	<u>46,060</u>	
Total Governmental Activities	<u>\$ 350,769</u>	<u>\$ 60,802</u>	<u>\$ 83,705</u>	<u>\$ 327,866</u>	
Business-Type Activities:					
Compensated Absences	\$ 452	\$ -	\$ 175	\$ 277	\$ 30
Total Business-Type Activities	<u>\$ 452</u>	<u>\$ -</u>	<u>\$ 175</u>	<u>\$ 277</u>	<u>\$ 30</u>

Debt service requirements (principal and interest) for all government, from June 30, 2004 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, incl. MGFA</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 9,919	\$ 1,174	\$ 11,093	\$ 16,431	\$ 9,712	\$ 26,143
2006	10,335	724	11,059	18,594	9,070	27,664
2007	4,605	331	4,936	15,894	8,352	24,246
2008	2,547	217	2,764	14,431	7,687	22,118
2009	1,202	120	1,322	13,625	7,066	20,691
2010 - 2014	2,038	137	2,175	61,640	26,525	88,165
2015 - 2019	-	-	-	55,915	11,628	67,543
2020 - 2024	-	-	-	<u>16,120</u>	<u>880</u>	<u>17,000</u>
Total	<u>\$ 30,646</u>	<u>\$ 2,703</u>	<u>\$ 33,349</u>	<u>\$ 212,650</u>	<u>\$ 80,920</u>	<u>\$ 293,570</u>

SHORT TERM OBLIGATIONS

The State of Maine issued and retired \$275 million in Tax Anticipation Notes and \$130.3 million in Bond Anticipation Notes during fiscal year 2004. At June 30, 2004 there were no outstanding Tax Anticipation Notes or 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, 2004, property acquired under capital leases totaled \$60 million in the internal service funds, with related accumulated depreciation of \$23.2 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, 2004:

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

Fiscal Year	<u>Capital Leases</u>	<u>Operating Leases</u>
2005	\$ 5,864	\$ 1,623
2006	5,477	1,096
2007	5,330	977
2008	5,092	915
2009	4,656	898
2010-2014	17,159	4,979
2015-2019	6,909	443
2020-2024	941	93
2025-2029	<u>78</u>	<u>-</u>
Total Minimum Payments	51,506	<u>\$ 11,024</u>
Less: Amount Representing Interest	<u>11,369</u>	
Present Value of Future Minimum Payments	<u>\$ 40,137</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>
Finance Authority of Maine	Construction Bonds	1.0 %	1,192	2003 - 2025
	Education Loan Revenue Bonds	1.4 - 1.45%	<u>74,594</u>	2033
Subtotal			<u>75,786</u>	
Maine Municipal Bond Bank	General Tax-Exempt Fund	2.0 - 6.50%	982,190	1994 - 2033
	Sewer and Water Fund	1.05 - 5.85%	85,318	1994 - 2028
	Special Obligation Taxable Fund	10.25%	<u>890</u>	1991 - 2009
Subtotal			<u>1,068,398</u>	
Maine Educational Loan Authority	Educational Loan Revenue Bonds	1.12 - 3.65%	<u>72,557</u>	2005 - 2032
Maine State Housing Authority	Mortgage Purchase Program	1.15 - 6.9%	1,362,636	2004 - 2038
	Housing Finance Revenue Program	4.4 - 5.75%	24,645	2004 - 2030
	General Housing Draw Down Bond	1.22%	<u>100,000</u>	2005
			<u>1,487,281</u>	
Maine Maritime Academy	Revenue Bonds and Other Obligations	2.0 - 5.8%	<u>2,627</u>	2004 - 2023
Maine Community College System	Building Construction Bonds	8.16%	<u>60</u>	2005
University of Maine System	1998 Series A Revenue Bonds	3.95 - 4.75%	22,033	2000 - 2011
	2000 Series A Revenue Bonds	4.5 - 5.750%	19,457	2001 - 2015
	2002 Series A Revenue Bonds	2.0 - 5.375%	43,681	2002 - 2012
	2003 Series A Revenue Bonds	3.0 - 4.750%	18,299	2004 - 2032
	2004 Series A Revenue Bonds	2.0 - 5.000%	43,628	2005 - 2029
	Other Obligations		<u>5,958</u>	
Subtotal			<u>153,056</u>	
Total			<u>\$2,859,764</u>	

Fiduciary Component Units Bonds Outstanding

(expressed in thousands)

Maine Health and Higher Educational Facilities Authority	General Resolution	4.5 - 7.55%	\$ 59,254	1988 - 2043
	Reserve Fund	2.0 - 6.20%	1,023,285	1993 - 2033
	Taxable Reserve Fund	7.03 - 7.03%	28,980	1993 - 2016
	Taxable Reserve Fund II	1.51%	<u>5,770</u>	2014 - 2023
Total			<u>\$1,117,289</u>	

On July 1, 2003, the Maine Health and Higher Education Authority (the Authority) issued \$59.2 million Series 2003B bonds with an average interest rate of 4.4%, a portion of which was used to refund \$10.8 million of outstanding bonds with an average interest rate of 5.86%. On September 1, 2003, the Authority issued \$35.9 million Series 2003D bonds with an average interest rate of 4.32% to refund \$36.2 million of outstanding bonds with an average interest rate of 5.60%. On June 3, 2004, the Authority issued \$72.3 million Series 2004A bonds with an average interest rate of 5.01% to refund \$71.8 million of outstanding bonds with an average interest rate of 5.72%. Approximately \$2.2 million in issuance costs were paid. Total interest payments over the next 22 years were reduced by approximately \$9.3 million. Proceeds were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. At June 30, 2004, there were

approximately \$134.3 million of advance refunded bonds remaining outstanding.

On March 31, 2004, the University of Maine System issued 2004 Series A Revenue Bonds, \$21.3 million of which was used to advance refund \$19 million of outstanding bonds. The refunding resulted in a deferred amount on refunding of \$2.5 million, of which the unamortized balance was \$2.4 million as of June 30, 2004. Total interest payments over the next 13 years were reduced by \$1 million, and an economic gain of \$0.8 million was obtained. At June 30, 2004, the entire \$19.0 million of advance refunded bonds remained outstanding.

Debt service principal maturities for outstanding bonds of the discretely presented component units, from June 30, 2004 until maturity, are summarized in the following table:

Component Units Principal Maturities
(Expressed in Thousands)

<u>Fiscal Year Ending</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>	<u>MHHEFA</u>
2005	\$ 52	\$ 87,518	\$ -	\$ 31,240	\$ 37	\$ 60	\$ 5,884	\$ 124,791	\$ 37,568
2006	52	95,466	5,310	141,075	112	-	6,215	248,230	41,471
2007	52	86,005	-	39,695	105	-	6,194	132,051	42,841
2008	53	84,964	-	41,785	125	-	6,483	133,410	43,919
2009	54	79,583	11,615	46,330	120	-	5,947	143,649	43,580
2010-2014	278	324,120	-	252,065	640	-	60,667	637,770	234,180
2015-2019	292	205,411	-	277,690	855	-	23,999	508,247	226,780
2020-2024	307	100,000	-	298,170	728	-	18,479	417,684	204,215
2025-2029	52	10,220	22,500	217,325	-	-	8,620	258,717	170,155
2030-2034	75,000	295	34,000	133,180	-	-	8,550	251,025	68,465
2035-2039	-	-	-	25,600	-	-	-	25,600	1,885
2040-2044	-	-	-	-	-	-	-	-	2,230
2045-2049	-	-	-	-	-	-	-	-	-
Net unamortized premium or (deferred amount)	<u>(407)</u>	<u>(5,184)</u>	<u>(868)</u>	<u>(16,874)</u>	<u>(95)</u>	<u>-</u>	<u>2,018</u>	<u>(21,410)</u>	<u>-</u>
Total Principal Payments	<u>\$75,785</u>	<u>\$1,068,398</u>	<u>\$72,557</u>	<u>\$1,487,281</u>	<u>\$2,627</u>	<u>\$ 60</u>	<u>\$153,056</u>	<u>\$2,859,764</u>	<u>\$1,117,289</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 Transportation has 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*	3 million	2 million	3 million
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, 2004. 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, 2003, the present value of the claims payable for the State's self-insurance plan was estimated at \$4.1 million. At June 30, 2004, the State has estimated the present value of the loss at \$3.5 million. The actuary calculated this based on a 1.75 percent yield on investments.

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

	<u>2004</u>	<u>2003</u>
Liability at Beginning of Year	\$4,073	\$3,337
Current Year Claims and Changes in Estimates	449	2,505
Claims Payments	<u>975</u>	<u>1,769</u>
Liability at End of Year	<u>\$3,547</u>	<u>\$4,073</u>

As of June 30, 2004, fund assets of \$14.4 million exceeded fund liabilities of \$4.1 million by \$10.3 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, 2004.

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 \$934 thousand for the fiscal year ended June 30, 2004.

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>2004</u>	<u>2003</u>
Liability at Beginning of Year	\$ 61,839	\$ 75,726
Current Year Claims and Changes in Estimates	9,616	(5,260)
Claims Payments	<u>9,616</u>	<u>8,627</u>
Liability at End of Year	<u>\$ 61,839</u>	<u>\$ 61,839</u>

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. EMPLOYEE HEALTH INSURANCE

The employee health insurance program is accounted for in an Internal Service Fund. The State became self insured for employee health care coverage on July 1, 2003. A stop loss agreement with Anthem Blue Cross and Blue Shield provides catastrophic coverage for individual claims exceeding \$350 thousand.

The State has retained an independent contractor for claims administration, utilization review, and case management services. Premiums are paid to the independent contractor based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. The Group Companion Plan is a supplement to Medicare Parts A & B and is available to Medicare eligible retirees. Total enrollment has averaged approximately 41,000 covered individuals. This total includes 30,300 active employees and dependents, 4,200 pre-Medicare retirees and dependents, and, 6,500 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2004, the State recorded a receivable of \$2.9 million for an overpayment of health care premiums. The State was not able to estimate a liability for health claims incurred but not reported during the period; however, the amount is not believed to be material. Consequently, the State has not accrued a liability in the financial statements for the year ended June 30, 2004.

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 2004, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

Tri-State Lotto Commission
(Expressed in Thousands)

Current Assets	\$ 47,109
Noncurrent Assets	<u>156,238</u>
Total Assets	<u>\$ 203,347</u>
Current Liabilities	\$ 42,341
Long-term Liabilities	<u>141,554</u>
Total Liabilities	<u>183,895</u>
Designated Prize Reserves	4,096
Unrealized Gain on Investments Held for Installment Prize Obligations	<u>15,356</u>
Total Net Assets	<u>19,452</u>
Total Liabilities and Net Assets	<u>\$ 203,347</u>
Total Revenue	\$ 70,392
Total Expenses	48,441
Allocation to Member States	22,851
Change in Unrealized Gain on Investments Held for Resale	<u>(12,842)</u>
Change in Net Assets	<u>\$ (13,742)</u>

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

Title 20 M.R.S.A. § 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 \$2.5 billion in net assets at June 30, 2004, which have been recorded in an Agency Fund on the financial statements of the State.

General Obligation Bonds of the State include \$230 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 2004, the State of Maine paid \$10.8 million for services under these contracts; \$3.4 million from the General Fund, \$6.7 million from the Federal Fund and \$700 thousand from the Other Special Revenue Fund. At fiscal year end, the State accrued a total of \$1.576 million as accounts payable for services provided under these contracts: \$745 thousand in the General Fund, \$758 thousand in the Federal Fund; and \$73 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 2004, the State paid \$19.2 million to this company; \$7.2 million from the General Fund and \$12 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 2004, the State paid \$9.5 million for these services; \$4 million from the General Fund and \$5.5 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, \$205.6 million; Child Development Services, \$23.9 million; Maine Community College System, \$49.8 million; Maine Municipal Bond Bank, \$13.9 million; Finance Authority of Maine, \$14.3 million; Maine Maritime Academy, \$7.7 million; Maine State Housing Authority, \$4.6 million; Loring Development Authority, \$2.3 million; and the Governor Baxter School for the Deaf, \$5.8 million. FAME returned \$1.4 million to the State from the Underground Storage, Waste Reduction & Recycling and Occupational Safety Program funds.

The Finance Authority of Maine (FAME) administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total \$31.7 million at June 30, 2004, 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 2004, the State expended \$0 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 2004, FAME paid approximately \$6.1 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 transferred capitalized costs associated with Mack Point pier facilities to the Maine

Port Authority, a component unit of the State. Through 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. 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 2004.

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 \$259 thousand for FY 2004.

During the 2004 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 2004 fiscal year, the State expended \$259 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, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs to be as high as \$5 million, based on current site knowledge and the increasing frequency of residential development near closed municipal landfills and the discovery of older abandoned dump sites now occupied by residential homes.

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 \$22.1 million. This consists of approximately \$13.1 million for State-owned facilities and approximately \$9 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 2004 fiscal year, \$5.82 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2004, amounts encumbered for pollution abatement projects totaled \$1.79 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled \$8.77 million. At June 30, 2004, DEP estimated the total cost (federal, State, and local) of future projects to be \$411 million.

DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY

The State has been identified as a potentially responsible party at four hazardous waste clean-up sites in Maine. These sites are located in Plymouth, Casco, Ellsworth and Brooksville. 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 M.R.S.A. § 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 thousand 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, 2004 there were 368 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, 2004, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled \$826.5 million.

At June 30, 2004, the Department of Transportation had contractual commitments of approximately \$70.4 million for construction of various highway projects. The State's share of that amount is expected to be approximately \$12.1 million. Of these amounts, \$13.9 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 MRS, Chapter 601 as a 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. In Chapter 673 PL 2003, the Legislature provided an additional \$6 million on a one-time basis to pay additional claims that may come forward. Chapter 3 PL 2005 further provides an additional transfer of up to \$8.1 million from the available unappropriated surplus of the General Fund at the close of fiscal year 2005. As of June 30, 2004, the Authority paid claims of \$4.3 million, and the State accrued an additional \$6 million in claims payable. The Authority has a statutory sunset of July 1, 2007.

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), started 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, 2004, HUD completed refinancings for nine institutions which, at the time they were refinanced, had combined bond-related loans and advances due MHHEFA of approximately \$43.2 million. As part of the refinancing completed by HUD, MHHEFA agreed to issue 8% subordinated notes receivable to these nine institutions from its operating fund. These notes totaled \$6.7 million at June 30, 2004, 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 two other facilities, with combined amounts due the Authority of approximately \$6.1 million at June 30, 2004, will complete refinancings during fiscal 2005. 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 nine institutions described above, the Authority has advanced approximately \$3.3 million from the operating fund as of June 30, 2004, to certain financially troubled institutions. The outstanding loans owed to the Authority total approximately \$18.4 million. These advances were made to assist these institutions in meeting debt service requirements. The Authority established a \$2.1 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 resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed \$90 million, \$1 million, and \$4 million, respectively. At June 30, 2004, loans outstanding pursuant to these authorizations are \$41.2 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, 2004.

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, 2004.

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	\$ 1,058,035	\$ 88,257	no limit	22 MRSA § 2075
Finance Authority of Maine	113,333	35,470	741,274	10 MRSA §1032, 1053*
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,068,398	128,833	no limit	30-A MRSA §6006
Maine Educational Loan Authority	32,115	1,285	50,000	20-A MRSA §11424
Maine State Housing Authority	<u>1,387,281</u>	<u>119,935</u>	2,150,000	30-A MRSA §4906
Total	<u>\$ 3,659,162</u>	<u>\$ 373,780</u>		

* Under 10 MRSA §1053, FAME may issue up to \$330 million of bonds for the electric rate stabilization program. However, per 35-A MRSA §3156, as of July 31, 1998 no new approvals for bonds could be made under this program. Therefore, the moral obligation of the State is reported to be the amount of bonds currently outstanding.

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. 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.

Hospital Medicaid Reimbursement. These cases are in State court and DHHS administrative hearings. The claims cover the fiscal years 1993 through 2001. There are 21 hospitals (out of a total of 39 Maine hospitals) appealing some or all of the following issues: whether third party liability adjustments were made properly;

whether the hospitals should have been re-based; whether the Department should have calculated the eligibility of the hospitals for disproportionate share payments (DSH); and, if the hospitals were eligible for DSH, whether the Department is obligated to make a DSH payment to eligible hospitals. Total potential cost of the hospital cases is \$181 million for the 21 hospitals that have appealed these issues; of which, the State share of the cost would be approximately \$60 million, and the federal share would be approximately \$120 million. The potential for expenditure in this matter is probable. The State accrued a liability related to the DSH portion of these cases of \$61.8 million in the Governmental Activities: \$21 million in State funds and \$40.8 million in federal funds. No further liability can be reasonably estimated on these cases.

Callahan Mine Superfund Site. Earlier this year, the U.S. EPA identified the State of Maine as a Potentially Responsible Party for a Superfund site – the Callahan Mine Site in Brooksville, Maine. The mining occurred pursuant to a lease from 1968 to 1972 in part on state-owned submerged land that had been drained. No court action has been filed by EPA at this time. If the State is found liable as a Responsible Party for the site, costs could exceed \$1 million just for the work conducted by EPA to date. Potential liability for remedial actions could greatly exceed \$1 million. The potential for expenditure regarding this matter is probable; however, the State cannot reasonably estimate the amount of potential loss.

Buchanan v. State of Maine. The case is in State court, and arises out of the shooting death of Michael Buchanan on February 25, 2002. He was shot by a Lincoln County deputy sheriff after he stabbed the deputy sheriff's partner. The theory of the liability against the State is that we failed to provide him with sufficient mental health services, which led him to engage in erratic and dangerous behavior, which caused him to be shot by the police. Claims are brought under section 1983 and the American Disabilities Act. Plaintiff's theory of the case is somewhat novel. The Attorney General has a motion to dismiss pending.

Irving Pulp & Paper, Ltd. V. State Tax Assessor. This case is now in the Law Court. It was brought by a corporate taxpayer, and relates to an assessment of roughly \$1 million of Maine corporate income tax. We prevailed in the lower court.

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, October 7, and December 9, 2004, the State issued \$41.1 million, \$43.3 million and \$37.9 million respectively of Bond Anticipation Notes. The BAN's will mature on June 23, 2005.

On July 1, 2004 the State issued \$190 million of Tax Anticipation Notes which become due on June 30, 2005.

On December 16, 2004, the Maine Municipal Bond Bank issued \$48.4 million of GARVEE grant anticipation revenue bonds on behalf of the Maine Department of Transportation. The bonds bear interest rates from 2.5% to 5.0%, and maturities from 2005 to 2015. The bonds are secured by future receipt of federal transportation funds, subject to continuing federal appropriations of those funds. Payment of principal and interest, when due,

is insured by a financial guaranty insurance policy. The Bonds do not constitute a debt or obligation of the State.

Chapter 673 PL 2003, which became effective July 30, 2004, requires the State to manage the Retiree Health Insurance Fund, an internal service fund, on a cost-reimbursement basis beginning June 30, 2005. It further requires the State to calculate and return the amount of excess equity due each fund and ancillary group contributing to the Fund, after retaining a reasonable amount of working capital, no later than June 30, 2005. After retaining \$7 million in the Fund for working capital, the State estimates the amount of excess equity that will be available for distribution to all groups is \$105.8 million, of which the General Fund's share

Is estimated to be \$57.6 million. The estimates are subject to change based on the actual results of operations for the fiscal year ending June 30, 2005 and final approval of the amount of working capital to be retained.

COMPONENT UNITS

In January 2004 the Maine State Housing Authority (MSHA) redeemed \$12.7 million of its 2003-B General Housing Draw Down bonds, with variable interest rates maturing in 2005. In January, February and March 2004, MSHA redeemed a combined total of \$180.4 million of various series of its Mortgage Purchase Program bonds, with interest rates from 3.65% to 6.9%, and maturities from 2004 to 2035. \$123.2 million of the Mortgage

Purchase Program bonds were redeemed at 102%; the balance of \$57.2 million was redeemed at par. In March 2004, MSHA committed to redeem a further \$33.8 million of Mortgage Purchase Program bonds at par, and \$2.8 million of General Housing Draw Down bonds. On March 2, 2004, MSHA issued \$47.3 million of its 2004 Series A bonds. These bonds carry interest rates ranging from 1.5% to 5.0%, with maturities from 2005 to 2029.

In accordance with the Higher Education Loan Purchase Program, the Finance Authority of Maine purchased FFELP student loan portfolios totaling approximately \$16.0 million and \$10.2 million in July 2004 and August 2004, respectively.

NOTE 18 – SPECIAL ITEMS

In accordance with statutory authority, the State of Maine entered into a contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. Although considered a remote possibility, the contract provides for rescission by either party, which would result in a prorated return of the purchase price. The State recorded the transfer of \$75 million of proceeds from the license fee from the Alcoholic Beverages enterprise fund to the General Fund as a Special Item.

In accordance with Chapter 93, Resolves 2003, the State of Maine entered into a contract to purchase a landfill, payable solely from proceeds provided by a third party. Contemporaneously with the execution of that agreement, the State entered into a contract to sell the capacity of that landfill to a third party operator for a 30-year term. Consistent with the provisions of both agreements, the third party operator paid \$26 million, on the State's behalf, to the seller of the landfill. The Operator assumed all liability for closure and post-closure costs associated with the landfill, and all liability for payment to the Seller. The State shall retain title to the property at the end of the contract term. Both the Seller and Operator are considered third party beneficiaries to each agreement with the State. Unwind provisions in both agreements specify that the State has no liability in either matter and that the Seller and Operator look to each other for repayment and/or dispute resolution. The State recorded the proceeds from the sale of the landfill capacity to the Operator and the distribution of those proceeds to the Seller for purchase of the landfill as Special Items in the General Fund.

During the fiscal year, the State transferred the remaining \$10.7 million of assets associated with the construction of the Mack Point Pier facility from the Marine Ports enterprise fund to the Maine Port Authority, a discretely presented component unit. The transfer is recorded as a Special Item in the Statement of Activities for the Business-Type Activities and Component Units

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Required Supplementary Information - Budgetary Reporting

STATE OF MAINE BUDGETARY COMPARISON SCHEDULE MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues								
Taxes	\$ 2,399,929	\$ 2,410,058	\$ 2,460,549	\$ 50,491	\$ 211,786	\$ 210,496	\$ 212,587	\$ 2,091
Assessments and Other	73,124	76,135	78,786	2,651	83,385	85,190	89,220	4,030
Federal Grants	23,591	23,677	25,230	1,553	-	-	-	-
Service Charges	35,755	38,110	44,195	6,085	4,368	4,368	6,649	2,281
Income from Investments	1,652	1,288	2,452	1,164	1,128	425	720	295
Miscellaneous Revenue	79,830	82,708	72,834	(9,874)	-	2,404	3,009	605
Total Revenues	<u>2,613,881</u>	<u>2,631,976</u>	<u>2,684,046</u>	<u>52,070</u>	<u>300,667</u>	<u>302,883</u>	<u>312,185</u>	<u>9,302</u>
Expenditures								
Government Support and Operations	317,500	312,758	315,688	(2,930)	34,274	32,966	49,810	(16,844)
Economic Development and Workforce Training	50,904	51,883	48,019	3,864	-	-	-	-
Education	1,184,150	1,157,450	1,145,856	11,594	-	-	-	-
Health and Human Services	744,156	865,764	798,522	67,242	-	-	-	-
Business Licensing and Regulation	-	-	-	-	-	-	-	-
Natural Resources Development and Protection	72,283	69,886	66,608	3,278	36	36	35	1
Justice and Protection	221,707	213,257	204,628	8,629	36,306	36,088	33,116	2,972
Arts, Heritage and Cultural Enrichment	9,056	8,474	8,355	119	-	-	-	-
Transportation Safety and Development	3,829	3,601	3,601	-	232,468	278,716	200,400	78,316
Total Expenditures	<u>2,603,585</u>	<u>2,683,073</u>	<u>2,591,277</u>	<u>91,796</u>	<u>303,084</u>	<u>347,806</u>	<u>283,361</u>	<u>64,445</u>
Revenues Over (Under) Expenditures	<u>10,296</u>	<u>(51,097)</u>	<u>92,769</u>	<u>143,866</u>	<u>(2,417)</u>	<u>(44,923)</u>	<u>28,824</u>	<u>73,747</u>
Other Financing Sources (Uses)								
Operating Transfers Net	(13,420)	(11,815)	(49,728)	(37,913)	2,729	1,891	(18,551)	(20,442)
Net Other Financing Sources (Uses)	<u>(13,420)</u>	<u>(11,815)</u>	<u>(49,728)</u>	<u>(37,913)</u>	<u>2,729</u>	<u>1,891</u>	<u>(18,551)</u>	<u>(20,442)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (3,124)</u>	<u>\$ (62,912)</u>	<u>\$ 43,041</u>	<u>\$ 105,953</u>	<u>\$ 312</u>	<u>\$ (43,032)</u>	<u>\$ 10,273</u>	<u>\$ 53,305</u>
Fund Balances at Beginning of Year			108,825				83,837	
Fund Balances at End of Year			<u>\$ 151,866</u>				<u>\$ 94,110</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
\$ -	\$ -	\$ -	\$ -	\$ 53,469	\$ 93,588	\$ 95,135	\$ 1,547
-	-	-	-	97,203	99,158	89,104	(10,054)
2,055,625	2,646,874	2,242,318	(404,556)	10,168	10,319	6,143	(4,176)
88,268	89,645	75,247	(14,398)	146,431	145,758	128,503	(17,255)
-	-	337	337	2,841	2,834	696	(2,138)
7,983	9,243	6,530	(2,713)	148,425	152,792	133,651	(19,141)
<u>2,151,876</u>	<u>2,745,762</u>	<u>2,324,432</u>	<u>(421,330)</u>	<u>458,537</u>	<u>504,449</u>	<u>453,232</u>	<u>(51,217)</u>
6,424	36,559	28,930	7,629	141,423	144,720	134,402	10,318
134,773	159,911	106,915	52,996	25,282	25,837	19,090	6,747
149,026	206,231	167,946	38,285	15,844	16,430	13,683	2,747
1,600,816	1,975,190	1,721,871	253,319	255,444	294,325	256,379	37,946
556	1,999	849	1,150	57,747	60,234	46,211	14,023
32,659	67,025	50,737	16,288	95,020	103,978	71,127	32,851
49,430	95,890	66,154	29,736	29,856	32,194	26,294	5,900
2,724	3,181	2,504	677	961	1,619	1,113	506
213,891	237,405	200,251	37,154	15,581	15,746	8,459	7,287
<u>2,190,299</u>	<u>2,783,391</u>	<u>2,346,157</u>	<u>437,234</u>	<u>637,158</u>	<u>695,083</u>	<u>576,758</u>	<u>118,325</u>
<u>(38,423)</u>	<u>(37,629)</u>	<u>(21,725)</u>	<u>15,904</u>	<u>(178,621)</u>	<u>(190,634)</u>	<u>(123,526)</u>	<u>67,108</u>
<u>(11,003)</u>	<u>(11,420)</u>	<u>49,625</u>	<u>61,045</u>	<u>162,825</u>	<u>163,960</u>	<u>165,525</u>	<u>1,565</u>
<u>(11,003)</u>	<u>(11,420)</u>	<u>49,625</u>	<u>61,045</u>	<u>162,825</u>	<u>163,960</u>	<u>165,525</u>	<u>1,565</u>
<u>\$ (49,426)</u>	<u>\$ (49,049)</u>	<u>\$ 27,900</u>	<u>\$ 76,949</u>	<u>\$ (15,796)</u>	<u>\$ (26,674)</u>	<u>\$ 41,999</u>	<u>\$ 68,673</u>
		<u>(100,606)</u>				<u>218,678</u>	
		<u>\$ (72,706)</u>				<u>\$ 260,677</u>	

Required Supplementary Information - Budgetary Reporting

STATE OF MAINE BUDGETARY COMPARISON SCHEDULE BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	<u>General Fund</u>	<u>Highway Fund</u>	<u>Federal Funds</u>	<u>Special Revenue Fund</u>
Fund Balances - Non-GAAP Budgetary Basis	\$ 151,866	\$ 94,110	\$ (72,706)	\$ 260,678
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	165,822	1,144	-	5,192
Intergovernmental Receivables	1,463	-	443,131	-
Other Receivables	21,786	(14,819)	61,335	65,754
Due from Other Funds	8,081	10,310	24,714	14,082
Other Assets	(4,160)	-	(17,843)	(643)
Deferred Revenues	(37,264)	(7,211)	17,843	(23,977)
Total Revenue Accruals/Adjustments	155,728	(10,576)	529,180	60,408
Expenditure Accruals/Adjustments:				
Accounts Payable	(136,627)	(19,344)	(314,135)	(24,373)
Due to Component Units	(3,276)	(154)	(5,790)	(4,350)
Bonds Issued	2,335	1,205	-	-
Accrued Liabilities	(26,455)	(8,419)	(4,573)	(5,629)
Taxes Payable	(119,034)	-	-	-
Due to Other Funds	(26,803)	(6,373)	(98,051)	(10,041)
Total Expenditure Accruals/Adjustments	(309,860)	(33,085)	(422,549)	(44,393)
Fund Balances - GAAP Basis	\$ (2,266)	\$ 50,449	\$ 33,925	\$ 276,693

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 2003-2004, 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 6, 2003, 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 April 30, 2004, 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.

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c UAAL (as a percentage of covered payroll)
June 30, 2004	6,498,608,717	9,485,605,608	2,986,996,891	68.5%	1,472,429,214	202.9%
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
2004	251,482,848	273,482,848	108.7%
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%

Required Supplementary Information – Participating Local District Plan

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, 2004	1,774,950,786	1,582,991,084	(191,959,702)	112.1%	292,321,815	-65.7%
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
2004	7,664,957	17,089,419	223.0%
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, 2002 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. In 2003, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 14 years that will then remain in the earlier shortened period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 14 years remained at June 30, 2004.

The IUUAL of PLDs are amortized over periods established for each PLD separately. During fiscal year 2004 and 2003, various PLD's contributed approximately \$9.4 million and \$13.9 million to decrease their initial unpooled unfunded actuarial liability, respectively.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2004 are as follows:

Investment Return – 8% per annum, compounded annually

Salary Increases – 5.5% to 9.5% per year (included inflation of 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, 2004 and 2003, the net assets held in trust for group life insurance benefits were \$40.0 million and \$39.0 million, respectively. At June 30, 2004 and 2003, the plan had the following actuarially determined liabilities:

	(In millions)	
	<u>2004</u>	<u>2003</u>
Actuarial Liabilities:		
Active Members	\$ 49.2	\$ 44.6
Retired Members	<u>42.5</u>	<u>42.7</u>
Total	<u>\$ 91.7</u>	<u>\$ 87.3</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 8,716 highway miles or 17,707 lane miles of roads and approximately 2,968 bridges having a total deck area of 11.3 million square feet that the State is responsible to maintain.

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

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

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

Highways

Measurement Scale for Highways

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

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

Bridges

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

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

Assessed Conditions

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

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

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

Fiscal Year	Highways	Bridges
2004	78.2	77.0
2003	77.6	76.0
2002	76.6	77.0

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
2005	\$ 31	\$ -
2004	30	29.7
2003	36	34.3
2002	-	41.4
2001	-	29.4
2000	-	28.9

Transportation Bonds

Chapter 38, P&S 2001, authorized \$37.4 million for improvements to highways and bridges. Chapter 33, P&S 2003, authorized \$42 million for improvements to highways and bridges. At June 30, 2004 \$57.4 million in transportation bonds were issued. After year end the State issued an additional \$22.2 million in bonds.

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

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

June 30, 2004
(Expressed in Thousands)

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent Funds</u>	<u>Totals Other Governmental Funds</u>
Assets				
Current Assets:				
Cash and Short-Term Investments	\$ 142	\$ -	\$ -	\$ 142
Investments	53,802	-	10,176	63,978
Restricted Deposits and Investments	2,724	26,439	-	29,163
Due from Component Units	-	1,000	-	1,000
Total Current Assets	<u>56,668</u>	<u>27,439</u>	<u>10,176</u>	<u>94,283</u>
Noncurrent Assets:				
Investments	61	-	-	61
Total Noncurrent Assets	<u>61</u>	<u>-</u>	<u>-</u>	<u>61</u>
Total Assets	<u>\$ 56,729</u>	<u>\$ 27,439</u>	<u>\$ 10,176</u>	<u>\$ 94,344</u>
Liabilities and Fund Balances				
Current Liabilities:				
Accounts Payable	\$ -	\$ 1,556	\$ -	\$ 1,556
Due to Component Units	-	5,200	-	5,200
Other Accrued Liabilities	35	-	-	35
Total Current Liabilities	<u>35</u>	<u>6,756</u>	<u>-</u>	<u>6,791</u>
Total Liabilities	<u>35</u>	<u>6,756</u>	<u>-</u>	<u>6,791</u>
Fund Balances:				
Reserved				
Continuing Appropriations	224	-	-	224
Capital Projects	-	20,683	-	20,683
Permanent Trusts	-	-	10,176	10,176
Other	56,470	-	-	56,470
Total Fund Balances	<u>56,694</u>	<u>20,683</u>	<u>10,176</u>	<u>87,553</u>
Total Liabilities and Fund Balances	<u>\$ 56,729</u>	<u>\$ 27,439</u>	<u>\$ 10,176</u>	<u>\$ 94,344</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, 2004
(Expressed in Thousands)

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent Funds</u>	<u>Totals Other Governmental Funds</u>
Revenues:				
Investment Income	\$ 5,922	\$ -	\$ 1,735	\$ 7,657
Miscellaneous Revenue	51	477	-	528
Total Revenues	<u>5,973</u>	<u>477</u>	<u>1,735</u>	<u>8,185</u>
Expenditures:				
Governmental Support & Operations	165	16,060	-	16,225
Economic Development & Workforce Training	-	19,584	-	19,584
Education	-	35,873	-	35,873
Health and Human Services	-	226	-	226
Natural Resources Development & Protection	-	11,322	-	11,322
Justice and Protection	-	42	-	42
Arts, Heritage, and Cultural Enrichment	-	761	-	761
Transportation Safety & Development	-	45,168	-	45,168
Total Expenditures	<u>165</u>	<u>129,036</u>	<u>-</u>	<u>129,201</u>
Revenue over (under) Expenditures	<u>5,808</u>	<u>(128,559)</u>	<u>1,735</u>	<u>(121,016)</u>
Other Financing Sources (Uses):				
Transfer from Other Funds	1,079	456	-	1,535
Transfer to Other Funds	(12,267)	(1,409)	-	(13,676)
Bonds Issued	-	130,275	-	130,275
Net Other Finance Sources (Uses)	<u>(11,188)</u>	<u>129,322</u>	<u>-</u>	<u>118,134</u>
Revenue and Other Sources over (under)				
Expenditures and Other Uses	<u>(5,380)</u>	<u>763</u>	<u>1,735</u>	<u>(2,882)</u>
Fund Balances at Beginning of Year (As Restated)	<u>62,074</u>	<u>19,920</u>	<u>8,441</u>	<u>90,435</u>
Fund Balances at End of Year	<u>\$ 56,694</u>	<u>\$ 20,683</u>	<u>\$ 10,176</u>	<u>\$ 87,553</u>



NON-MAJOR GOVERNMENTAL FUNDS

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 park 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, 2004
(Expressed in Thousands)

	<u>Learning Technology Fund</u>	<u>Baxter Park</u>	<u>Revenue on Permanent Funds</u>	<u>Totals Special Revenue Funds</u>
Assets				
Current Assets:				
Cash and Short-Term Investments	\$ -	\$ -	\$ 142	\$ 142
Investments	-	53,795	7	53,802
Restricted Deposits and Investments	2,724	-	-	2,724
Total Current Assets	<u>2,724</u>	<u>53,795</u>	<u>149</u>	<u>56,668</u>
Noncurrent Assets				
Investments	-	-	61	61
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>61</u>	<u>61</u>
Total Assets	<u>\$ 2,724</u>	<u>\$ 53,795</u>	<u>\$ 210</u>	<u>\$ 56,729</u>
Liabilities and Fund Balances				
Current Liabilities:				
Other Accrued Liabilities	\$ -	\$ -	\$ 35	\$ 35
Total Current Liabilities	<u>-</u>	<u>-</u>	<u>35</u>	<u>35</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>35</u>	<u>35</u>
Fund Balances:				
Reserved				
Continuing Appropriations	-	-	224	224
Other	2,724	53,795	(49)	56,470
Total Fund Balances	<u>2,724</u>	<u>53,795</u>	<u>175</u>	<u>56,694</u>
Total Liabilities and Fund Balances	<u>\$ 2,724</u>	<u>\$ 53,795</u>	<u>\$ 210</u>	<u>\$ 56,729</u>

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

Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	<u>Learning Technology Fund</u>	<u>Baxter Park</u>	<u>Revenue on Permanent Funds</u>	<u>Totals Special Revenue Funds</u>
Revenues:				
Investment Income	\$ 116	\$ 5,532	\$ 274	\$ 5,922
Miscellaneous Revenue	51	-	-	51
Total Revenues	<u>167</u>	<u>5,532</u>	<u>274</u>	<u>5,973</u>
Expenditures				
General Government	3	-	162	165
Total Expenditures	<u>3</u>	<u>-</u>	<u>162</u>	<u>165</u>
Revenue over (under) Expenditures	<u>164</u>	<u>5,532</u>	<u>112</u>	<u>5,808</u>
Other Financing Sources (Uses):				
Transfer from Other Funds	-	-	1,079	1,079
Transfer to Other Funds	<u>(11,027)</u>	<u>-</u>	<u>(1,240)</u>	<u>(12,267)</u>
Net Other Finance Sources (Uses)	<u>(11,027)</u>	<u>-</u>	<u>(161)</u>	<u>(11,188)</u>
Revenues and Other Sources over (under) Expenditures and Other Uses	<u>(10,863)</u>	<u>5,532</u>	<u>(49)</u>	<u>(5,380)</u>
Fund Balances at Beginning of Year	<u>13,587</u>	<u>48,263</u>	<u>224</u>	<u>62,074</u>
Fund Balances at End of Year	<u>\$ 2,724</u>	<u>\$ 53,795</u>	<u>\$ 175</u>	<u>\$ 56,694</u>

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

June 30, 2004
(Expressed in Thousands)

	General Bond Fund
Assets	
Current Assets:	
Restricted Deposits and Investments	\$ 26,439
Due from Component Units	1,000
Total Current Assets	27,439
Noncurrent Assets	
Total Noncurrent Assets	-
Total Assets	\$ 27,439
Liabilities and Fund Balances	
Current Liabilities:	
Accounts Payable	\$ 1,556
Due to Component Units	5,200
Total Current Liabilities	6,756
Long-Term Liabilities:	
Total Long-Term Liabilities	-
Total Liabilities	6,756
Fund Balances:	
Reserved	
Capital Projects	20,683
Total Fund Balances	20,683
Total Liabilities and Fund Balances	\$ 27,439

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

Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	General Bond Fund
Revenues:	
Miscellaneous Revenue	\$ 477
Total Revenues	477
Expenditures	
Current:	
Governmental Support & Operations	16,060
Economic Development & Workforce Training	19,584
Education	35,873
Health and Human Services	226
Natural Resources Development & Protection	11,322
Justice and Protection	42
Arts, Heritage & Cultural Enrichment	761
Transportation Safety & Development	45,168
Total Expenditures	129,036
Revenue over (under) Expenditures	(128,559)
Other Financing Sources (Uses):	
Transfer from Other Funds	456
Transfer to Other Funds	(1,409)
Bonds Issued	130,275
Net Other Finance Sources (Uses)	129,322
Revenues and Other Sources over (under) Expenditures and Other Uses	763
Fund Balances at Beginning of Year (As Restated)	19,920
Fund Balances at End of Year	\$ 20,683

STATE OF MAINE
COMBINING BALANCE SHEET
NON-MAJOR PERMANENT FUNDS

June 30, 2004
(Expressed in Thousands)

	<u>Baxter Trust</u>	<u>Other Trusts</u>	<u>Totals Permanent Funds</u>
Assets			
Investments	\$ 4,451	\$ 5,725	\$ 10,176
Total Assets	<u>\$ 4,451</u>	<u>\$ 5,725</u>	<u>\$ 10,176</u>
Fund Balances			
Reserved:			
Permanent Trusts	<u>\$ 4,451</u>	<u>\$ 5,725</u>	<u>\$ 10,176</u>

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

Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	<u>Baxter Trust</u>	<u>Other Trusts</u>	<u>Totals Permanent Funds</u>
Revenues:			
Investment Income (Loss)	\$ 275	\$ 1,460	\$ 1,735
Total Revenues	<u>275</u>	<u>1,460</u>	<u>1,735</u>
Expenditures			
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over Expenditures	<u>275</u>	<u>1,460</u>	<u>1,735</u>
Net Other Finance Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and Other Sources over Expenditures and Other Uses	<u>275</u>	<u>1,460</u>	<u>1,735</u>
Fund Balances at Beginning of Year (As Restated)	<u>4,176</u>	<u>4,265</u>	<u>8,441</u>
Fund Balances at End of Year	<u>\$ 4,451</u>	<u>\$ 5,725</u>	<u>\$ 10,176</u>



NON-MAJOR ENTERPRISE FUNDS

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.

Maine Military Authority Fund – This fund was created 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.

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, 2004
(Expressed in Thousands)

	<u>Alcoholic Beverages</u>	<u>Lottery</u>	<u>Maine Military Authority</u>	<u>Seed Potato</u>
Assets				
Current Assets:				
Cash and Short-Term Investments	\$ 2,974	\$ 750	\$ 620	\$ 63
Investments	402	-	84	8
Inventories	-	-	-	1
Receivables, Net of Allowance for Uncollectibles:				
Other Receivables	1,436	15,562	-	21
Due from Other Funds	54	-	2,246	25
Other Current Assets	-	-	1	-
Total Current Assets	<u>4,866</u>	<u>16,312</u>	<u>2,951</u>	<u>118</u>
Noncurrent Assets				
Investments	1,382	-	288	30
Fixed Assets - Net of Depreciation	<u>5</u>	<u>23</u>	<u>20</u>	<u>652</u>
Total Noncurrent Assets	<u>1,387</u>	<u>23</u>	<u>308</u>	<u>682</u>
 Total Assets	 <u>6,253</u>	 <u>16,335</u>	 <u>3,259</u>	 <u>800</u>
Liabilities				
Current Liabilities:				
Accounts Payable	5,365	1,038	1,043	33
Accrued Payroll	8	41	464	-
Due to Other Funds	3	4,624	214	-
Compensated Absences	-	10	-	-
Deferred Revenue	-	313	-	33
Other Accrued Liabilities	477	10,149	-	-
Total Current Liabilities	<u>5,853</u>	<u>16,175</u>	<u>1,721</u>	<u>66</u>
Long-Term Liabilities:				
Working Capital Advances Payable	400	-	-	-
Deferred Revenue	75,000	-	-	-
Compensated Absences	-	80	-	-
Total Long-Term Liabilities	<u>75,400</u>	<u>80</u>	<u>-</u>	<u>-</u>
 Total Liabilities	 <u>81,253</u>	 <u>16,255</u>	 <u>1,721</u>	 <u>66</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	5	23	20	652
Unrestricted	<u>(75,005)</u>	<u>57</u>	<u>1,518</u>	<u>82</u>
 Total Net Assets	 <u>\$ (75,000)</u>	 <u>\$ 80</u>	 <u>\$ 1,538</u>	 <u>\$ 734</u>

<u>Airport</u>	<u>Marine Ports</u>	<u>Ferry Service</u>	<u>Prison Industries</u>	<u>Community Industrial Building</u>	<u>Totals Other Enterprise Funds</u>
\$ 153	\$ 294	\$ 135	\$ 111	\$ -	\$ 5,100
21	40	18	15	-	588
-	-	253	592	-	846
-	205	140	17	-	17,381
-	-	2	14	-	2,341
-	-	-	-	-	1
<u>174</u>	<u>539</u>	<u>548</u>	<u>749</u>	<u>-</u>	<u>26,257</u>
71	136	61	50	-	2,018
<u>4,435</u>	<u>24,422</u>	<u>21,851</u>	<u>26</u>	<u>-</u>	<u>51,434</u>
<u>4,506</u>	<u>24,558</u>	<u>21,912</u>	<u>76</u>	<u>-</u>	<u>53,452</u>
<u>4,680</u>	<u>25,097</u>	<u>22,460</u>	<u>825</u>	<u>-</u>	<u>79,709</u>
-	-	163	45	-	7,687
-	-	211	-	-	724
-	-	-	-	-	4,841
-	-	20	-	-	30
-	-	-	-	39	385
-	-	-	-	-	10,626
<u>-</u>	<u>-</u>	<u>394</u>	<u>45</u>	<u>39</u>	<u>24,293</u>
-	-	-	-	-	400
-	-	-	-	-	75,000
-	-	167	-	-	247
<u>-</u>	<u>-</u>	<u>167</u>	<u>-</u>	<u>-</u>	<u>75,647</u>
-	-	561	45	39	99,940
4,435	24,422	21,851	26	-	51,434
<u>245</u>	<u>675</u>	<u>48</u>	<u>754</u>	<u>(39)</u>	<u>(71,665)</u>
<u>\$ 4,680</u>	<u>\$ 25,097</u>	<u>\$ 21,899</u>	<u>\$ 780</u>	<u>\$ (39)</u>	<u>\$ (20,231)</u>

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

June 30, 2004
(Expressed in Thousands)

	<u>Alcoholic Beverages</u>	<u>Lottery</u>	<u>Maine Military Authority</u>	<u>Seed Potato</u>
Operating Revenues				
Charges for Services	\$ 89,087	\$ 188,611	\$ 27,324	\$ 336
Assessments	-	-	-	-
Miscellaneous Revenues	-	-	13	2
Total Operating Revenues	<u>89,087</u>	<u>188,611</u>	<u>27,337</u>	<u>338</u>
Operating Expenses				
General Operations	61,956	146,207	25,922	609
Depreciation	2	7	1	52
Total Operating Expenses	<u>61,958</u>	<u>146,214</u>	<u>25,923</u>	<u>661</u>
Operating Income (Loss)	<u>27,129</u>	<u>42,397</u>	<u>1,414</u>	<u>(323)</u>
Nonoperating Revenues (Expenses)				
Other Nonoperating Revenues (Expenses)- net	-	60	6	2
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>60</u>	<u>6</u>	<u>2</u>
Income (Loss) Before Capital Contributions Transfers and Special Items	<u>27,129</u>	<u>42,457</u>	<u>1,420</u>	<u>(321)</u>
	-	-	-	-
Capital Contributions, Transfers and Special Items				
Capital Contributions from Other Funds	-	-	-	-
Transfers from (to) Other Funds	(27,129)	(42,377)	118	248
Special Items	(75,000)	-	-	-
Total Capital Contributions, Transfers In (Out) and Special Items	<u>(102,129)</u>	<u>(42,377)</u>	<u>118</u>	<u>248</u>
Change in Net Assets	(75,000)	80	1,538	(73)
Total Net Assets - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>807</u>
Total Net Assets - End of Year	<u>\$ (75,000)</u>	<u>\$ 80</u>	<u>\$ 1,538</u>	<u>\$ 734</u>

<u>Airport</u>	<u>Marine Ports</u>	<u>Ferry Service</u>	<u>Prison Industries</u>	<u>Community Industrial Building</u>	<u>Totals Other Enterprise Funds</u>
\$ 143	\$ 8	\$ 3,160	\$ 1,538	\$ -	\$ 310,207
-	-	1	-	-	1
-	-	-	-	-	15
<u>143</u>	<u>8</u>	<u>3,161</u>	<u>1,538</u>	<u>-</u>	<u>310,223</u>
378	73	5,821	1,440	-	242,406
<u>441</u>	<u>1,342</u>	<u>1,414</u>	<u>6</u>	<u>-</u>	<u>3,265</u>
<u>819</u>	<u>1,415</u>	<u>7,235</u>	<u>1,446</u>	<u>-</u>	<u>245,671</u>
<u>(676)</u>	<u>(1,407)</u>	<u>(4,074)</u>	<u>92</u>	<u>-</u>	<u>64,552</u>
<u>4</u>	<u>6</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>88</u>
<u>4</u>	<u>6</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>88</u>
<u>(672)</u>	<u>(1,401)</u>	<u>(4,064)</u>	<u>92</u>	<u>-</u>	<u>64,640</u>
-	-	-	-	-	-
-	1,500	271	-	-	1,771
230	98	2,427	-	-	(66,385)
<u>-</u>	<u>(10,703)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(85,703)</u>
<u>230</u>	<u>(9,105)</u>	<u>2,698</u>	<u>-</u>	<u>-</u>	<u>(150,317)</u>
(442)	(10,506)	(1,366)	92	-	(85,677)
<u>5,122</u>	<u>35,603</u>	<u>23,265</u>	<u>688</u>	<u>(39)</u>	<u>65,446</u>
<u>\$ 4,680</u>	<u>\$ 25,097</u>	<u>\$ 21,899</u>	<u>\$ 780</u>	<u>\$ (39)</u>	<u>\$ (20,231)</u>

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

June 30, 2004
(Expressed in Thousands)

	Alcoholic Beverages	Lottery	Maine Military Authority	Seed Potato
Cash Flows from Operating Activities				
Receipts from Customers and Users	\$ 90,996	\$ 188,975	\$ 25,091	\$ 325
Payments to Prize Winners	-	(116,826)	-	-
Payments to Suppliers	(60,917)	(28,308)	(13,789)	(184)
Payments to Employees	(1,018)	(1,274)	(10,413)	(423)
Net Cash Provided (Used) by Operating Activities	<u>29,061</u>	<u>42,567</u>	<u>889</u>	<u>(282)</u>
Cash Flows from Noncapital Financing Activities				
Operating Transfers in	-	-	118	248
Operating Transfers out	(27,129)	(42,377)	-	-
Special Item - Proceeds from Sale of Right to Operate Liquor Business	75,000	-	-	-
Special Item - Transfer of Proceeds to General Fund	(75,000)	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(27,129)</u>	<u>(42,377)</u>	<u>118</u>	<u>248</u>
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	-	(21)	(16)
Proceeds from Sale of Capital Assets	-	-	-	-
Net Cash Provided (Used) by Capital Financing Activities	<u>-</u>	<u>-</u>	<u>(21)</u>	<u>(16)</u>
Cash Flows from Investing Activities				
Interest Revenue	-	60	6	2
Payments to Purchase Investments	(110)	-	(372)	-
Proceeds from Sale of Investments	-	-	-	51
Net Cash Provided (Used) by Investing Activities	<u>(110)</u>	<u>60</u>	<u>(366)</u>	<u>53</u>
Net Increase (Decrease) in Cash/Cash Equivalents	1,822	250	620	3
Cash/Cash Equivalents - Beginning of Year	1,152	500	-	60
Cash/Cash Equivalents - End of Year	<u>\$ 2,974</u>	<u>\$ 750</u>	<u>\$ 620</u>	<u>\$ 63</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	\$ 27,129	\$ 42,397	\$ 1,414	\$ (323)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	2	7	1	52
Decrease (Increase) in Assets				
Accounts Receivable	1,341	364	-	12
Interfund Balances	(70)	(2,944)	(2,032)	(25)
Inventories	622	-	-	-
Increase (Decrease) in Liabilities				
Accounts Payable	946	122	1,043	23
Accrued Payroll Expenses	(141)	(42)	464	-
Change in Compensated Absences	(163)	(9)	-	-
Other Accruals	(605)	2,672	(1)	(21)
Total Adjustments	<u>1,932</u>	<u>170</u>	<u>(525)</u>	<u>41</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 29,061</u>	<u>\$ 42,567</u>	<u>\$ 889</u>	<u>\$ (282)</u>
Non Cash Investing, Capital and Financing Activities				
Contributed Capital Assets	-	-	-	-
Special item - Transfer of Pier	-	-	-	-

	<u>Airport</u>	<u>Marine Ports</u>	<u>Ferry Service</u>	<u>Prison Industries</u>	<u>Totals Other Enterprise Funds</u>
\$	143	\$ 17	\$ 3,159	\$ 1,525	\$ 310,231
	-	-	-	-	(116,826)
	(378)	(73)	(1,780)	(1,301)	(106,730)
	-	-	(3,832)	(225)	(17,185)
	<u>(235)</u>	<u>(56)</u>	<u>(2,453)</u>	<u>(1)</u>	<u>69,490</u>
	230	98	2,427	-	3,121
	-	-	-	-	(69,506)
	-	-	-	-	75,000
	-	-	-	-	(75,000)
	<u>230</u>	<u>98</u>	<u>2,427</u>	<u>-</u>	<u>(66,385)</u>
	(22)	(1)	(1)	-	(61)
	4	-	-	-	4
	<u>(18)</u>	<u>(1)</u>	<u>(1)</u>	<u>-</u>	<u>(57)</u>
	-	6	10	3	87
	-	-	-	-	(482)
	69	78	58	38	294
	<u>69</u>	<u>84</u>	<u>68</u>	<u>41</u>	<u>(101)</u>
	46	125	41	40	2,947
	107	169	94	71	2,153
\$	<u>153</u>	<u>294</u>	<u>135</u>	<u>111</u>	<u>5,100</u>
\$	<u>(676)</u>	<u>(1,407)</u>	<u>(4,074)</u>	<u>92</u>	<u>64,552</u>
	441	1,342	1,414	6	3,265
	-	9	(2)	1	1,725
	-	-	-	(14)	(5,085)
	-	-	(6)	(96)	520
	-	-	163	10	2,307
	-	-	55	-	336
	-	-	(3)	-	(175)
	-	-	-	-	2,045
	<u>441</u>	<u>1,351</u>	<u>1,621</u>	<u>(93)</u>	<u>4,938</u>
\$	<u>(235)</u>	<u>(56)</u>	<u>(2,453)</u>	<u>(1)</u>	<u>69,490</u>
	-	1,500	271	-	1,771
	-	(10,703)	-	-	(10,703)



INTERNAL SERVICE FUNDS

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, 2004
(Expressed in Thousands)

	Motor Transport Service	Postal Printing & Supply	Information Services	Risk Management
Assets				
Current Assets:				
Cash and Short-Term Investments	\$ 3,793	\$ 8	\$ 3,568	\$ 8,748
Cash with Fiscal Agent	105	-	308	-
Investments	513	1	482	1,182
Restricted Deposits and Investments	-	-	-	-
Inventories	2,499	816	-	-
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	-
Other Receivables	15	40	71	55
Due from Other Funds	774	3,117	6,834	157
Other Current Assets	-	15	502	205
Total Current Assets	<u>7,699</u>	<u>3,997</u>	<u>11,765</u>	<u>10,347</u>
Noncurrent Assets				
Investments	1,762	4	1,658	4,064
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	-
Fixed Assets - Net of Depreciation	36,789	56	3,075	-
Total Noncurrent Assets	<u>38,551</u>	<u>60</u>	<u>4,733</u>	<u>4,064</u>
Total Assets	<u>46,250</u>	<u>4,057</u>	<u>16,498</u>	<u>14,411</u>
Liabilities				
Current Liabilities:				
Accounts Payable	877	2,973	3,055	5
Accrued Payroll	562	74	320	10
Due to Other Governments	-	-	-	-
Due to Other Funds	31	212	149	196
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	1,458	-	582	-
Revenue Bonds Payable	-	-	-	-
Obligations Under Capital Leases	-	-	-	-
Claims Payable	-	-	-	-
Compensated Absences	47	16	73	14
Deferred Revenue	-	7	27	281
Other Accrued Liabilities	47	-	7	-
Total Current Liabilities	<u>3,022</u>	<u>3,282</u>	<u>4,213</u>	<u>506</u>
Long-Term Liabilities:				
Working Capital Advances Payable	-	111	-	-
Deferred Revenue	-	-	-	-
Certificates of Participation and Other Financing Arrangements	2,860	-	995	-
Revenue Bonds Payable	-	-	-	-
Obligations Under Capital Leases	-	-	-	-
Claims Payable	-	-	-	3,547
Compensated Absences	388	109	570	-
Total Long-Term Liabilities	<u>3,248</u>	<u>220</u>	<u>1,565</u>	<u>3,547</u>
Total Liabilities	<u>6,270</u>	<u>3,502</u>	<u>5,778</u>	<u>4,053</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	32,471	56	1,498	-
Restricted for:				
Other Purposes	-	-	-	-
Unrestricted	<u>7,509</u>	<u>499</u>	<u>9,222</u>	<u>10,358</u>
Total Net Assets	<u>\$ 39,980</u>	<u>\$ 555</u>	<u>\$ 10,720</u>	<u>\$ 10,358</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 & Network System</u>	<u>Governmental Facilities Authority</u>	<u>Internal Service Funds</u>
\$ 9,940	\$ 1	\$ -	\$ 239	\$ 50,104	\$ 1,727	\$ 12	\$ -	\$ 78,140
-	119	-	-	-	-	-	-	532
1,344	-	-	32	6,775	234	2	-	10,565
-	-	-	-	-	-	-	3,124	3,124
-	44	-	-	-	-	-	-	3,359
-	-	-	-	-	-	-	11,045	11,045
-	18	-	-	990	3,139	-	2,220	6,548
654	626	396	-	10,000	-	-	-	22,558
544	-	-	-	-	-	-	-	1,266
<u>12,482</u>	<u>808</u>	<u>396</u>	<u>271</u>	<u>67,869</u>	<u>5,100</u>	<u>14</u>	<u>16,389</u>	<u>137,137</u>
4,619	-	-	112	23,284	802	6	-	36,311
-	-	-	-	-	-	-	186,905	186,905
2	12,978	36,825	-	-	-	-	-	89,725
<u>4,621</u>	<u>12,978</u>	<u>36,825</u>	<u>112</u>	<u>23,284</u>	<u>802</u>	<u>6</u>	<u>186,905</u>	<u>312,941</u>
<u>17,103</u>	<u>13,786</u>	<u>37,221</u>	<u>383</u>	<u>91,153</u>	<u>5,902</u>	<u>20</u>	<u>203,294</u>	<u>450,078</u>
176	208	102	-	829	28	-	15	8,268
19	22	5	-	-	15	-	-	1,027
-	-	-	-	-	-	-	751	751
-	578	171	-	-	1,260	-	-	2,597
-	3,345	-	-	-	-	-	-	5,385
-	-	-	-	-	-	-	11,045	11,045
-	-	5,864	-	-	-	-	-	5,864
8,390	-	-	-	-	-	-	-	8,390
42	39	3	-	-	21	-	-	255
-	11	162	-	-	-	-	57	545
-	78	-	-	-	1	-	2,337	2,470
<u>8,627</u>	<u>4,281</u>	<u>6,307</u>	<u>-</u>	<u>829</u>	<u>1,325</u>	<u>-</u>	<u>14,205</u>	<u>46,597</u>
-	-	-	-	-	-	-	-	111
-	-	-	-	-	-	-	1,122	1,122
-	5,460	-	-	-	-	-	-	9,315
-	-	-	-	-	-	-	186,905	186,905
-	-	34,273	-	-	-	-	-	34,273
53,449	-	-	-	-	-	-	-	56,996
-	-	-	-	-	-	-	-	1,067
<u>53,449</u>	<u>5,460</u>	<u>34,273</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>188,027</u>	<u>289,789</u>
<u>62,076</u>	<u>9,741</u>	<u>40,580</u>	<u>-</u>	<u>829</u>	<u>1,325</u>	<u>-</u>	<u>202,232</u>	<u>336,386</u>
2	4,173	(3,312)	-	-	-	-	-	34,888
-	-	-	-	-	-	20	-	20
<u>(44,975)</u>	<u>(128)</u>	<u>(47)</u>	<u>383</u>	<u>90,324</u>	<u>4,577</u>	<u>-</u>	<u>1,062</u>	<u>78,784</u>
<u>\$ (44,973)</u>	<u>\$ 4,045</u>	<u>\$ (3,359)</u>	<u>\$ 383</u>	<u>\$ 90,324</u>	<u>\$ 4,577</u>	<u>\$ 20</u>	<u>\$ 1,062</u>	<u>\$ 113,692</u>

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

June 30, 2004
(Expressed in Thousands)

	<u>Motor Transport Service</u>	<u>Postal Printing & Supply</u>	<u>Information Services</u>	<u>Risk Management</u>
Operating Revenues				
Charges for Services	\$ 26,570	\$ 36,468	\$ 35,353	\$ 3,187
Assessments	-	-	-	-
Miscellaneous Revenues	2	-	-	-
Total Operating Revenues	<u>26,572</u>	<u>36,468</u>	<u>35,353</u>	<u>3,187</u>
Operating Expenses				
General Operations	19,963	36,391	31,753	3,385
Depreciation	6,449	33	2,195	-
Claims/Fees Expense	-	-	-	975
Other Operating Expenses	-	-	-	-
Total Operating Expenses	<u>26,412</u>	<u>36,424</u>	<u>33,948</u>	<u>4,360</u>
Operating Income (Loss)	<u>160</u>	<u>44</u>	<u>1,405</u>	<u>(1,173)</u>
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	61	-	34	205
Interest Expense	(297)	-	(65)	-
Other Nonoperating Revenues (Expenses)- net	(480)	2	(30)	-
Total Nonoperating Revenues (Expenses)	<u>(716)</u>	<u>2</u>	<u>(61)</u>	<u>205</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(556)</u>	<u>46</u>	<u>1,344</u>	<u>(968)</u>
Capital Contributions and Transfers				
Capital Contributions from Other Funds	-	-	-	-
Transfers from (to) Other Funds	-	-	-	-
Total Capital Contributions and Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(556)	46	1,344	(968)
Total Net Assets - Beginning of Year	<u>40,536</u>	<u>509</u>	<u>9,376</u>	<u>11,326</u>
Total Net Assets - End of Year	<u>\$ 39,980</u>	<u>\$ 555</u>	<u>\$ 10,720</u>	<u>\$ 10,358</u>

									<u>Totals</u>
<u>Workers' Compensation</u>	<u>Central Fleet Management</u>	<u>Leased Spaces</u>	<u>Revenue Services</u>	<u>Retiree Health Insurance</u>	<u>Employee Health Insurance</u>	<u>Statewide Radio & Network Systems</u>	<u>Governmental Facilities Authority</u>	<u>Internal Service Funds</u>	
\$ 15,622	\$ 7,390	\$ 19,745	\$ 106	\$ 56,151	\$ 109,819	\$ -	\$ 10,655	\$ 321,066	
-	-	-	-	-	-	-	-	-	-
106	-	17	-	2	-	-	65	192	
<u>15,728</u>	<u>7,390</u>	<u>19,762</u>	<u>106</u>	<u>56,153</u>	<u>109,819</u>	<u>-</u>	<u>10,720</u>	<u>321,258</u>	
2,873	4,355	9,412	1	41,342	106,476	30	185	256,166	
1	2,457	5,111	-	-	-	-	-	16,246	
9,616	-	-	-	-	-	-	-	10,591	
-	-	-	-	-	-	-	481	481	
<u>12,490</u>	<u>6,812</u>	<u>14,523</u>	<u>1</u>	<u>41,342</u>	<u>106,476</u>	<u>30</u>	<u>666</u>	<u>283,484</u>	
3,238	578	5,239	105	14,811	3,343	(30)	10,054	37,774	
201	1	10	4	1,121	127	-	38	1,802	
(3)	(297)	(6,034)	-	-	-	-	(9,716)	(16,412)	
-	(253)	-	-	-	-	-	-	(761)	
<u>198</u>	<u>(549)</u>	<u>(6,024)</u>	<u>4</u>	<u>1,121</u>	<u>127</u>	<u>-</u>	<u>(9,678)</u>	<u>(15,371)</u>	
<u>3,436</u>	<u>29</u>	<u>(785)</u>	<u>109</u>	<u>15,932</u>	<u>3,470</u>	<u>(30)</u>	<u>376</u>	<u>22,403</u>	
-	-	-	-	-	-	-	-	-	-
-	-	(5)	-	-	-	-	-	(5)	
-	-	(5)	-	-	-	-	-	(5)	
3,436	29	(790)	109	15,932	3,470	(30)	376	22,398	
<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>	
<u>\$ (44,973)</u>	<u>\$ 4,045</u>	<u>\$ (3,359)</u>	<u>\$ 383</u>	<u>\$ 90,324</u>	<u>\$ 4,577</u>	<u>\$ 20</u>	<u>\$ 1,062</u>	<u>\$ 113,692</u>	

STATE OF MAINE
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

June 30, 2004
(Expressed in Thousands)

	Motor Transport Service	Postal Printing & Supply	Information Services	Risk Management
Cash Flows from Operating Activities				
Receipts from Customers and Users	\$ 27,422	\$ 36,028	\$ 34,522	\$ 4,389
Payments to Suppliers	(8,515)	(34,047)	(20,383)	(4,705)
Payments to Employees	(10,564)	(2,271)	(12,032)	(314)
Net Cash Provided (Used) by Operating Activities	<u>8,343</u>	<u>(290)</u>	<u>2,107</u>	<u>(630)</u>
Cash Flows from Noncapital Financing Activities				
Operating Transfers out	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	(5,468)	(4)	(1,522)	-
Proceeds From Financing Arrangements	-	-	1,600	-
Principal and Interest Paid on Financing Arrangements	(1,706)	-	(88)	-
Proceeds from Sale of Capital Assets	-	2	-	-
Net Cash Provided (Used) by Capital Financing Activities	<u>(7,174)</u>	<u>(2)</u>	<u>(10)</u>	<u>-</u>
Cash Flows from Investing Activities				
Interest Revenue	61	-	34	205
Proceeds from Sale of Investments	634	178	193	3,413
Net Cash Provided (Used) by Investing Activities	<u>695</u>	<u>178</u>	<u>227</u>	<u>3,618</u>
Net Increase (Decrease) in Cash/Cash Equivalents	1,864	(114)	2,324	2,988
Cash/Cash Equivalents - Beginning of Year, As Restated	2,034	122	1,552	5,760
Cash/Cash Equivalents - End of Year	<u>\$ 3,898</u>	<u>\$ 8</u>	<u>\$ 3,876</u>	<u>\$ 8,748</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	\$ 160	\$ 44	\$ 1,405	\$ (1,173)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	6,449	33	2,195	-
Decrease (Increase) in Assets				
Accounts Receivable	379	(434)	(865)	1,155
Interfund Balances	(27)	27	(4)	38
Inventories	471	1	-	-
Increase (Decrease) in Liabilities				
Accounts Payable	755	85	162	4
Accrued Payroll Expenses	121	(62)	(423)	(14)
Change in Compensated Absences	(12)	16	(40)	(3)
Other Accruals	47	-	(323)	(637)
Total Adjustments	<u>8,183</u>	<u>(334)</u>	<u>702</u>	<u>543</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 8,343</u>	<u>\$ (290)</u>	<u>\$ 2,107</u>	<u>\$ (630)</u>
Non Cash Investing, Capital and Financing Activities				
Property Leased or Acquired	-	-	-	-

Workers' Compensation	Central Fleet Management	Leased Space	Revenue Services	Retiree Health Insurance	Employee Health Insurance	Statewide Radio & Network System	Governmental Facilities Authority	Totals Internal Service Funds
\$ 15,442	\$ 7,375	\$ 19,464	\$ 137	\$ 45,163	\$ 106,810	\$ -	\$ 7,924	\$ 304,676
(11,610)	(3,854)	(9,020)	(1)	(40,513)	(116,441)	(30)	(924)	(250,043)
<u>(911)</u>	<u>(660)</u>	<u>(163)</u>	<u>-</u>	<u>-</u>	<u>(595)</u>	<u>-</u>	<u>-</u>	<u>(27,510)</u>
2,921	2,861	10,281	136	4,650	(10,226)	(30)	7,000	27,123
-	-	(5)	-	-	-	-	-	(5)
-	-	(5)	-	-	-	-	-	(5)
-	(2,490)	-	-	-	-	-	-	(9,484)
-	3,000	-	-	-	-	-	51,090	55,690
(3)	(3,316)	(10,518)	-	-	-	-	(59,239)	(74,870)
-	-	-	-	-	-	-	-	2
<u>(3)</u>	<u>(2,806)</u>	<u>(10,518)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,149)</u>	<u>(28,662)</u>
201	1	10	4	1,121	127	-	38	1,802
<u>1,714</u>	<u>-</u>	<u>139</u>	<u>2</u>	<u>14,615</u>	<u>6,688</u>	<u>22</u>	<u>-</u>	<u>27,598</u>
1,915	1	149	6	15,736	6,815	22	38	29,400
4,833	56	(93)	142	20,386	(3,411)	(8)	(1,111)	27,856
<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>\$ 9,940</u>	<u>\$ 120</u>	<u>\$ -</u>	<u>\$ 239</u>	<u>\$ 50,104</u>	<u>\$ 1,727</u>	<u>\$ 12</u>	<u>\$ 3,124</u>	<u>\$ 81,796</u>
<u>\$ 3,238</u>	<u>\$ 578</u>	<u>\$ 5,239</u>	<u>\$ 105</u>	<u>\$ 14,811</u>	<u>\$ 3,343</u>	<u>\$ (30)</u>	<u>\$ 10,054</u>	<u>\$ 37,774</u>
1	2,457	5,111	-	-	-	-	-	16,246
-	-	-	-	-	-	-	-	-
113	8	(298)	31	(10,990)	(3,009)	-	(2,796)	(16,706)
-	(363)	171	-	-	130	-	-	(28)
-	(23)	-	-	-	-	-	-	449
-	-	-	-	-	-	-	-	-
2	204	81	-	829	(10,664)	-	(9)	(8,551)
(40)	(24)	(6)	-	-	(19)	-	-	(467)
6	1	(6)	-	-	(7)	-	-	(45)
<u>(399)</u>	<u>23</u>	<u>(11)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(249)</u>	<u>(1,549)</u>
<u>(317)</u>	<u>2,283</u>	<u>5,042</u>	<u>31</u>	<u>(10,161)</u>	<u>(13,569)</u>	<u>-</u>	<u>(3,054)</u>	<u>(10,651)</u>
<u>\$ 2,921</u>	<u>\$ 2,861</u>	<u>\$ 10,281</u>	<u>\$ 136</u>	<u>\$ 4,650</u>	<u>\$ (10,226)</u>	<u>\$ (30)</u>	<u>\$ 7,000</u>	<u>\$ 27,123</u>
-	-	9,705	-	-	-	-	-	9,705



PRIVATE PURPOSE TRUSTS & AGENCY FUNDS

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, 2004
(Expressed in Thousands)

	<u>Abandoned Property</u>	<u>Revenue on Private Purpose Trusts</u>	<u>Lands Reserved</u>	<u>Permanent School</u>	<u>Totals Private Purpose Trusts</u>
Assets					
Cash and Short-Term Investments	\$ 313	\$ 22	\$ 289	\$ -	\$ 624
Investments at Fair Value:					
Other	187	83	7,844	2,503	10,617
Assets Held in Trust	<u>13,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,711</u>
Total Assets	<u>14,211</u>	<u>105</u>	<u>8,133</u>	<u>2,503</u>	<u>24,952</u>
Liabilities					
Other Accrued Liabilities	<u>-</u>	<u>18</u>	<u>-</u>	<u>-</u>	<u>18</u>
Net Assets					
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	<u>14,211</u>	<u>87</u>	<u>8,133</u>	<u>2,503</u>	<u>24,934</u>
Total Net Assets	<u>\$ 14,211</u>	<u>\$ 87</u>	<u>\$ 8,133</u>	<u>\$ 2,503</u>	<u>\$ 24,934</u>

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

Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	<u>Abandoned Property</u>	<u>Revenue on Private Purpose Trusts</u>	<u>Lands Reserved</u>	<u>Permanent School</u>	<u>Totals Private Purpose Trusts</u>
Additions:					
Contributions:					
Investment Income:					
Net Increase in the Fair Value of Investments	\$ -	\$ -	\$ 308	\$ 170	\$ 478
Interest and Dividends	147	139	225	22	533
Net Investment Income	<u>147</u>	<u>139</u>	<u>533</u>	<u>192</u>	<u>1,011</u>
Miscellaneous Revenues	19,856	-	-	-	19,856
Transfers In	<u>-</u>	<u>536</u>	<u>-</u>	<u>-</u>	<u>536</u>
Total Additions	<u>20,003</u>	<u>675</u>	<u>533</u>	<u>192</u>	<u>21,403</u>
Deductions:					
Benefits Paid to Participants or Beneficiaries	252	80	-	-	332
Transfers Out	<u>16,914</u>	<u>620</u>	<u>-</u>	<u>-</u>	<u>17,534</u>
Total Deductions	<u>17,166</u>	<u>700</u>	<u>-</u>	<u>-</u>	<u>17,866</u>
Net Increase (Decrease)	2,837	(25)	533	192	3,537
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:					
Beginning of Year	<u>11,374</u>	<u>112</u>	<u>7,600</u>	<u>2,311</u>	<u>21,397</u>
End of Year	<u>\$ 14,211</u>	<u>\$ 87</u>	<u>\$ 8,133</u>	<u>\$ 2,503</u>	<u>\$ 24,934</u>

STATE OF MAINE
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS

June 30, 2004
(Expressed in Thousands)

	<u>Payroll</u> <u>Withholding</u>	<u>Private Trusts</u>	<u>Other</u> <u>Agency</u>	<u>Treasurer's</u> <u>Agency</u>	<u>Totals</u> <u>Agency</u> <u>Funds</u>
Assets					
Cash and Short-Term Investments	\$ 21	\$ 2,238	\$ 582	\$ 12	\$ 2,853
Investments at Fair Value:					
Other	13	532	573	-	1,118
Inventories	-	1	-	-	1
Assets Held in Trust	-	2,574,262	-	-	2,574,262
Total Assets	<u>\$ 34</u>	<u>\$ 2,577,033</u>	<u>\$ 1,155</u>	<u>\$ 12</u>	<u>\$ 2,578,234</u>
Liabilities					
Accounts Payable	\$ 19	\$ -	\$ 20	\$ -	\$ 39
Agency Liabilities	-	2,577,032	1,135	12	2,578,179
Other Accrued Liabilities	15	1	-	-	16
Total Liabilities	<u>\$ 34</u>	<u>\$ 2,577,033</u>	<u>\$ 1,155</u>	<u>\$ 12</u>	<u>\$ 2,578,234</u>

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

Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Payroll Withholding				
Assets				
Cash & Short-Term Investments	\$ -	\$ 244,193	\$ 244,159	\$ 34
Accounts Receivable	1,527	-	1,527	-
Total Assets	\$ 1,527	\$ 244,193	\$ 245,686	\$ 34
Liabilities				
Accounts Payable	\$ 38	\$ 386,455	\$ 386,459	\$ 34
Due to Other Funds	1,489	-	1,489	-
Total Liabilities	\$ 1,527	\$ 386,455	\$ 387,948	\$ 34
Private Trusts				
Assets				
Assets Held in Trust	\$ 1,719,828	\$ 890,039	\$ 32,834	\$ 2,577,033
Total Assets	\$ 1,719,828	\$ 890,039	\$ 32,834	\$ 2,577,033
Liabilities				
Accounts Payable	\$ 10	13,749	\$ 13,759	\$ -
Agency Liabilities	1,719,818	887,454	30,239	2,577,033
Total Liabilities	\$ 1,719,828	\$ 901,203	\$ 43,998	\$ 2,577,033
Other Agency				
Assets				
Cash & Short-Term Investments	\$ 1,326	\$ 6,001	\$ 6,172	\$ 1,155
Total Assets	\$ 1,326	\$ 6,001	\$ 6,172	\$ 1,155
Liabilities				
Agency Liabilities	\$ 1,326	\$ 11,241	\$ 11,412	\$ 1,155
Total Liabilities	\$ 1,326	\$ 11,241	\$ 11,412	\$ 1,155
Treasurer's Agency				
Assets				
Cash & Short-Term Investments	\$ 12	\$ 216,530	\$ 216,530	\$ 12
Total Assets	\$ 12	\$ 216,530	\$ 216,530	\$ 12
Liabilities				
Agency Liabilities	\$ 12	\$ 217,348	\$ 217,348	\$ 12
Total Liabilities	\$ 12	\$ 217,348	\$ 217,348	\$ 12
Totals - All Agency Funds				
Assets				
Cash & Short-Term Investments	\$ 1,338	\$ 466,724	\$ 466,861	\$ 1,201
Assets Held in Trust	1,719,828	890,039	32,834	2,577,033
Accounts Receivable	1,527	-	1,527	-
Total Assets	\$ 1,722,693	\$ 1,356,763	\$ 501,222	\$ 2,578,234
Liabilities				
Accounts Payable	\$ 48	\$ 400,204	\$ 400,218	\$ 34
Agency Liabilities	1,721,156	1,116,043	258,999	2,578,200
Due to Other Funds	1,489	-	1,489	-
Total Liabilities	\$ 1,722,693	\$ 1,516,247	\$ 660,706	\$ 2,578,234



STATISTICAL SECTION

TABLE I

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

Last Ten Fiscal Years
(Expressed in Thousands)

* See Notes *	<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>	<u>2004</u>
Government Support & Operations	\$ 273,228	\$ 257,228	\$ 259,715	\$ 313,648	\$ 407,423	\$ 431,959	\$ 555,264	\$ 481,855	\$ 394,011	\$ 474,173
Economic Development & Workforce Training	92,381	93,329	96,141	92,173	88,315	112,079	110,304	133,320	207,732	194,379
Education	957,003	979,323	817,559	845,751	910,540	966,947	993,992	1,325,259	1,327,936	1,367,414
Health and Human Services	1,527,840	1,700,472	1,697,053	1,712,124	1,816,359	1,934,243	2,077,991	2,443,949	2,595,767	2,830,069
Labor	62,389	54,651	77,793	83,613	82,012	79,690	76,389	92,191	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-	35,282	47,702
Natural Resources Development & Protection	115,805	110,166	104,575	103,738	111,800	119,783	132,041	136,601	175,348	200,428
Justice & Protection	56,454	57,291	63,872	87,009	82,093	82,641	92,947	109,022	323,326	303,659
Arts, Heritage & Cultural Enrichment	-	-	-	-	-	-	-	-	13,074	12,715
Transportation	283,171	342,133	364,978	319,123	339,572	355,801	397,588	393,985	456,482	458,679
Debt Service	113,063	111,825	122,275	104,220	107,587	112,980	123,407	108,384	102,122	87,805
Total Expenditures	<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>\$5,631,080</u>	<u>\$5,977,023</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 and the effect of a prior year restatement which totaled \$8,495 for accrued expenditures.

TABLE II

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

Last Ten Fiscal Years
(Expressed in Thousands)

	<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>	<u>2004</u>
Taxes	\$ 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	\$ 2,764,684
Assessments & Other Revenues	223,903	147,770	150,213	175,502	178,997	189,213	208,904	212,777	206,454	260,225
Federal Grants & Reimbursements	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	2,461,204
Service Charges	104,125	113,477	133,886	113,442	83,639	71,398	69,350	141,584	128,148	131,871
Income from Investments	13,821	-	-	161	28,898	37,094	50,369	6,422	6,396	15,247
Miscellaneous Revenues	94,268	51,326	35,160	51,649	53,842	113,705	110,182	91,321	161,861	148,537
Total Revenues	<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>\$5,258,234</u>	<u>\$5,781,768</u>

Notes: Governmental Fund Types of the primary government are described in Note 1C of the Notes to the Financial Statements. 2003 revenues reflect a \$9,266 decrease mainly related to timing of deferred revenue recognition.

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
2004	1,315	\$416,360	\$228,596	\$ 644,956	490
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

Notes: (1) Source 2004: Maine State Planning Office Population Projections released December 2003. Source for 2003 and prior US Census population estimates released annually in December.

(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
2004	\$104,219,950	\$416,360	\$228,596	\$644,956	0.62%
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%

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 Year	Principal	Interest	Total Debt Service	Total General Government Expenditures (1)&(2)	Ratio of Debt Service to General Government Expenditures
2004	\$72,325	\$15,480	87,805	\$5,977,023	1.5%
2003	85,165	16,957	102,122	5,631,080	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%

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.

(2) 2003 expenditures depict a statutory realignment of agencies among policy areas and the effect of a prior year restatement which totaled \$8,495 for accrued expenditures.

TABLE VI

STATE OF MAINE
COMPUTATION OF LEGAL DEBT MARGIN

JUNE 30, 2004

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, whichever is the lesser.

There were no temporary loans outstanding at June 30, 2004, which were subject to the Constitutional limitations.

All other general long-term bonds outstanding at June 30, 2004 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 2004

Company	Number of Employees (1)
1 Hannaford Brothers Company.....	7,000
2 Wal Mart Associates, Inc.....	6,000
3 Bath Iron Works Corporation.....	6,000
4 Maine Medical Center Foundation.....	5,000
5 L.L. Bean, Inc.....	4,500
6 MBNA Marketing Systems, Inc.....	3,500
7 Shaw's Supermarkets.....	3,500
8 UNUMPROVIDENT Corp.....	3,000
9 Eastern Maine Medical Center.....	2,500
10 Banknorth N.A.....	2,000
11 MaineGeneral Medical Center - Augusta.....	2,000
12 International Paper Co.....	2,000
13 Home Depot USA, Inc.....	1,500
14 Central Maine Medical Center.....	1,300
15 Pratt & Whitney Aircraft Group.....	1,300
16 Mercy Hospital.....	1,300
17 Rite Aid of Maine, Inc.....	1,300
18 Anthem Health Systems.....	1,100
19 Irving Oil Corporation.....	1,100
20 Jackson Laboratory.....	1,100
21 Verizon New England, Inc.....	1,100
22 Central Maine Power Co.....	1,100
23 S. D. Warren.....	1,100
24 Mead Oxford Corp.....	900
25 Attendant Services, Inc.....	900
26 Sweetser Children's Services.....	900
27 Fairchild Semiconductor Corp.....	900
28 Southern Maine Medical Center.....	900
29 Bowdoin College.....	900
30 United Parcel Service.....	900
31 Kindred Nursing Centers West LLC.....	900
32 Cianbro Corporation.....	900
33 C. N. Brown Co.....	900
34 Dead River Company.....	900
35 Aroostook Medical Center.....	700
36 Goodwill Industries of Northern N. E.....	700
37 Penobscot Bay Medical Center.....	700
38 Manpower.....	700
39 New Balance Athletic Shoe, Inc.....	700
40 Sears Roebuck and Co.....	700
41 Mardens, Inc.....	700
42 Fraser Papers, Inc.....	700
43 North Country Associates, Inc.....	700
44 Spurwink School.....	700
45 Bates College.....	700
46 Interstate Brands Corporation.....	700
47 St. Mary's Regional Medical Center.....	700
48 Community Health and Counseling Services.....	700
49 University of New England.....	700
50 Barber Foods.....	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 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
Maine Export Totals	<u>\$2,188,412</u>	<u>\$1,973,052</u>	<u>10.9 %</u>

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 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

* Information for 2004 is unavailable until January 2005. The State of Maine's CAFR was prepared prior to its issuance.

TABLE X

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

June 2004 and 2003

Labor Market Areas	Civilian Labor Force (1)		Employed (2)		Unemployed (3)		Unemployment Rate (4)	
	June 04	June 03	June 03	June 03	June 03	June 03	June 03	June 03
Augusta	47,040	48,540	45,160	46,550	1,880	1,990	4.0 %	4.1 %
Bangor MSA	53,900	53,000	52,200	51,500	1,700	1,500	3.1	2.8
Bath-Brunswick	35,670	35,050	34,590	33,900	1,070	1,150	3.0	3.3
Belfast	19,010	18,740	18,400	18,080	610	670	3.2	3.6
Biddeford	46,400	46,700	45,080	45,300	1,320	1,400	2.8	3.0
Boothbay Harbor	10,930	10,510	10,750	10,320	190	190	1.7	1.8
Bucksport	5,100	5,110	4,850	4,900	260	210	5.0	4.0
Calais	4,900	5,120	4,410	4,550	490	560	9.9	11.0
Dexter-Pittsfield	12,280	11,570	11,290	10,620	1,000	960	8.1	8.3
Dover-Foxcroft	7,110	7,210	6,690	6,700	430	510	6.0	7.1
Ellsworth-Bar Harbor	23,750	23,690	22,810	22,850	940	850	4.0	3.6
Farmington	16,960	16,820	15,930	15,770	1,030	1,040	6.1	6.2
Fort Kent	4,060	4,030	3,660	3,620	400	410	9.9	10.1
Greenville	1,070	1,190	1,020	1,120	50	70	4.7	6.0
Houlton	6,640	6,460	6,280	6,090	360	380	5.4	5.8
Jonesport-Milbridge	4,180	4,200	3,930	3,940	250	260	5.9	6.2
Kittery-York (5)	22,720	22,050	22,270	20,940	450	1,110	2.0	5.0
Lewiston-Auburn MSA	55,600	54,400	53,600	52,000	2,100	2,300	3.7	4.3
Lincoln-Howland	6,280	6,120	5,630	5,620	650	500	10.3	8.1
Machias-Eastport	6,460	6,420	6,000	5,910	460	500	7.1	7.9
Madawaska	3,750	3,840	3,590	3,700	170	130	4.4	3.4
Millinocket-East Millinocket	4,270	4,990	3,640	3,510	630	1,480	14.8	29.7
Norway-Paris	12,260	12,060	11,550	11,360	710	700	5.8	5.8
Outer Bangor	10,370	10,200	9,830	9,690	530	510	5.1	5.0
Patten-Island Falls	1,810	1,860	1,660	1,650	160	220	8.7	11.6
Portland	146,700	141,500	143,000	137,600	3,800	3,800	2.6	2.7
Presque Isle-Caribou	22,110	20,580	21,090	19,650	1,020	930	4.6	4.5
Rockland	25,470	25,850	24,790	25,000	690	850	2.7	3.3
Rumford	9,710	9,820	8,950	9,000	760	820	7.8	8.4
Sanford	21,890	23,250	20,830	21,530	1,060	1,720	4.8	7.4
Sebago Lakes Region	15,500	15,390	14,880	14,770	620	630	4.0	4.1
Skowhegan	16,270	16,560	15,000	15,270	1,270	1,290	7.8	7.8
Stonington	6,120	5,990	5,990	5,840	140	150	2.3	2.6
Van Buren	1,440	1,420	1,370	1,340	70	80	4.9	5.5
Waterville	24,760	24,990	23,490	23,670	1,270	1,320	5.1	5.3
MAINE	712,500	705,100	684,100	673,900	28,400	31,200	4.0 %	4.4 %
UNITED STATES (000's)	148,478	148,117	139,861	138,468	8,616	9,649	5.8 %	6.5 %

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>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</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	\$1,845,199	10	\$1,697,078	9	\$1,547,458	9	\$1,424,564
Limited Purpose Banks	9	-	8	-	7	-	6	-
National Banks	7	8,462,889	7	7,837,742	7	7,440,908	7	7,494,223
State Savings Banks	15	5,678,939	15	5,302,765	15	5,010,519	16	4,690,828
Federal Savings Banks	2	847,584	2	765,155	2	739,898	2	704,563
State Savings & Loans	3	112,302	3	110,428	3	103,550	3	100,834
Federal Savings & Loans	4	223,857	4	211,965	4	206,822	4	200,502
State Credit Unions	14	806,457	15	782,689	15	711,205	14	628,463
Federal Credit Unions	64	2,430,151	63	2,333,734	63	2,127,767	67	1,948,491
Total Institutions	128	\$20,407,378	127	\$19,041,556	128	\$17,888,127	128	\$17,192,468
State Chartered	51	\$8,442,897	51	\$7,892,960	49	\$7,372,732	48	\$6,844,689
Federally Chartered	77	11,964,481	76	11,148,596	76	10,515,395	80	10,347,779
Total Chartered	128	\$20,407,378	127	\$19,041,556	128	\$17,888,127	128	\$17,192,468

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

<u>2000</u>		<u>1999</u>		<u>1998</u>		<u>1997</u>		<u>1996</u>		<u>1995</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>
10	\$2,488,507	11	\$2,958,142	12	\$2,660,193	13	\$2,790,194	14	\$5,396,641	14	\$5,484,431
5	-	5	772		-		-		-		-
6	6,035,433	5	2,920,566	5	2,915,927	6	3,433,699	5	1,032,321	5	1,051,103
16	4,269,611	17	6,909,744	17	6,497,694	17	5,307,205	17	5,062,377	17	4,856,487
4	750,020	4	661,957	4	613,691	4	556,835	4	428,519	4	405,567
3	94,665	3	95,868	3	91,170	3	88,399	3	83,630	3	76,042
4	179,365	4	178,385	4	173,879	4	168,591	5	243,010	5	233,024
13	502,274	13	501,390	12	422,829	11	380,613	12	368,532	13	352,500
72	1,841,490	75	1,816,004	77	1,721,696	80	1,650,747	82	1,579,902	83	1,463,185
133	\$16,161,365	134	\$16,042,828	138	\$15,097,079	142	\$14,376,283	137	\$14,194,932	144	\$13,922,339
47	\$7,355,057	49	\$10,465,916	44	\$9,671,886	44	\$8,566,411	46	\$10,911,180	47	\$10,769,460
86	8,806,308	88	5,576,912	90	5,425,193	94	5,809,872	96	3,283,752	97	3,152,879
133	\$16,161,365	137	\$16,042,828	134	\$15,097,079	138	\$14,376,283	142	\$14,194,932	144	\$13,922,339