

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; pledged future revenues for repayment of bonds issued by the MMBB on behalf of the Maine Department of Transportation; compensated employee absences; and the State's net pension obligation.

GENERAL OBLIGATION BONDS

Programs for which the State issues general obligation bonds include: adaptive equipment loan programs; environmental cleanup and protection; highway and transportation related projects; agricultural and small business job creation; and acquisition, construction, and renovation of major capital facilities including State parks and historic sites. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues and are repaid in annual installments beginning not more than one year after issuance.

Changes in general obligation bonds of the primary government during fiscal year 2008 were:

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

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Debt:					
General Fund	\$398,280	\$46,525	\$66,230	\$378,575	\$65,685
Special Revenue Fund	50,460	57,550	10,750	97,260	13,505
Self Liquidating	20	-	20	-	-
Total	<u>\$448,760</u>	<u>\$104,075</u>	<u>\$77,000</u>	<u>\$475,835</u>	<u>\$79,190</u>

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2008 until maturity, are summarized in the following table:

Future Debt Service on General Obligation Bonds

(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2009	\$ 79,190	\$ 19,027	\$ 98,217
2010	73,390	15,784	89,174
2011	68,030	12,687	80,717
2012	64,005	10,072	74,077
2013	61,245	7,631	68,876
2014-2018	129,975	12,679	142,654
Total	\$ 475,835	\$ 77,880	\$ 553,715

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2008 are as follows:

Primary Government – General Obligation Bonds Outstanding

(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2008	Fiscal Year Maturities		Interest Rates
			First Year	Last Year	
General Fund:					
Series 1999	\$ 54,385	\$ 3,875	2000	2009	4.20% - 6.75%
Series 2000	66,290	11,210	2000	2010	4.875% - 7.75%
Series 2001	22,050	6,315	2002	2011	4.00% - 6.08%
Series 2002	27,610	11,040	2003	2012	3.00% - 5.75%
Series 2003	97,080	48,525	2003	2013	1.50% - 5.00%
Series 2004	117,275	71,700	2005	2014	2.00% - 5.27%
Series 2005	137,525	106,905	2006	2015	2.00% - 5.27%
Series 2006	52,390	41,905	2007	2016	4.00% - 5.51%
Series 2007	33,975	30,575	2008	2017	4.00% - 5.50%
Series 2008	46,525	46,525	2009	2018	3.00% - 5.13%
Total General Fund		\$ 378,575			
Special Revenue Fund:					
Series 1999	\$ 16,900	\$ 1,690	2000	2009	4.00% - 5.50%
Series 2001	19,225	5,760	2002	2011	4.00% - 5.00%
Series 2004	13,000	7,960	2005	2014	2.00% - 4.00%
Series 2007	27,000	24,300	2008	2017	4.00% - 5.50%
Series 2008	57,550	57,550	2009	2018	3.00% - 5.13%
Total Special Revenue		\$ 97,260			

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, 2008, general obligations bonds authorized and unissued totaled \$191.8 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included \$208.6 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), 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 MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of \$263.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2008, MGFA issued the Series 2008 Bonds, which totaled \$40.6 million at an interest rate between 4 percent and 5 percent. At June 30, 2008, there were approximately \$71.9 million of MGFA in-substance defeased bonds outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance construction of certain State buildings, to purchase or generate software, and to purchase equipment and vehicles, including school buses. COP's 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 COP's 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.

SHORT TERM OBLIGATIONS

The State of Maine issued and retired \$87.6 million in Bond Anticipation Notes during fiscal year 2008. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2008 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

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.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2008, are summarized as follows:

Primary Government - Changes in Other Long-Term Obligations

(Expressed in Thousands)

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
MGFA Revenue Bonds	\$182,605	\$40,565	\$14,610	\$208,560	\$15,625
COP's and Other Financing	79,886	17,343	22,371	74,858	30,785
Compensated Absences	41,680	3,320	366	44,634	5,294
Claims Payable	64,096	183,804	181,479	66,421	24,964
Capital Leases	41,751	3,350	7,579	37,522	6,247
Pledged Future Revenues	42,353	-	4,015	38,338	4,135
Net Pension Obligation	18,444	264	-	18,708	-
Other Post-Employment Benefit Obligation	-	34,865	-	34,865	-
Total Governmental Activities	<u>\$470,815</u>	<u>\$283,511</u>	<u>\$230,420</u>	<u>\$523,906</u>	<u>\$87,050</u>
Business-Type Activities:					
Compensated Absences	\$718	\$32	\$-	\$750	\$162
Total Business-Type Activities	<u>\$718</u>	<u>\$32</u>	<u>\$-</u>	<u>\$750</u>	<u>\$162</u>

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2008 until maturity, are summarized as follows:

Future Debt Service on MGFA Revenue Bonds, COP's and Other Financing Arrangements

(Expressed in Thousands)

<u>Fiscal Year</u>	<u>Governmental Funds</u>			<u>Internal Service Funds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 10,084	\$ 1,047	\$ 11,131	\$ 36,326	\$ 10,217	\$ 46,543
2010	9,423	572	9,995	28,579	9,463	38,042
2011	3,572	223	3,795	23,777	8,298	32,075
2012	1,757	94	1,851	21,302	7,358	28,660
2013	359	34	393	20,624	6,520	27,144
2014 - 2018	541	63	604	77,344	20,776	98,120
2019 - 2023	-	-	-	37,870	5,848	43,718
2024 - 2028	-	-	-	10,410	1,635	12,045
2029 - 2033	-	-	-	1,450	36	1,486
Total	<u>\$ 25,736</u>	<u>\$ 2,033</u>	<u>\$ 27,769</u>	<u>\$ 257,682</u>	<u>\$ 70,151</u>	<u>\$ 327,833</u>

CONDUIT DEBT OBLIGATIONS

Under a General Bond Resolution adopted on June 5, 1973, Maine Health and Higher Educational Facilities Authority (MHHEFA) issues tax exempt bonds to assist in financing health care institutions and institutions for higher education. Loans to institutions made with proceeds of general resolution bonds are written for the entire amount of the bonds, including debt service reserve funds. Security for these bonds is limited to debt service reserve funds of and the loans to the specific institution for which the bond was issued. Therefore, these bonds are considered conduit debt.

PLEDGED FUTURE REVENUES

On December 16, 2004, the Maine Municipal Bond Bank (MMBB) issued \$48.4 million of GARVEE grant anticipation revenue bonds on behalf of the Maine Department of Transportation, to provide financing for construction of a new Waldo-Hancock bridge. Net proceeds from the bonds totaled \$49.4 million including bond premium of approximately \$900 thousand. The bonds payable bear interest rates from 2.5 percent to 5 percent, and have maturities from 2005 to 2015. Payment of principal and interest on the bonds shall be subject to appropriation each year by the Legislature in an amount sufficient to cover the principal and interest requirements of MMBB's debt for these bonds. The State's receipt of these funds is subject to continuing federal appropriations. MMBB insured payments of principal and interest with a financial guaranty insurance policy. The bonds do not constitute a debt or obligation of the State.

Total principal and interest requirements over the life of the bonds are \$60.2 million, with annual requirements of up to \$5.6 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the bonds totaled \$175 million. Total federal transportation funds received in federal fiscal year 2008 were \$146.5 million. Current year payments to MMBB were \$5.5 million (3.8 percent of federal transportation funds received).

OBLIGATIONS UNDER CAPITAL LEASES

The State 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 that are comparable to 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. The principal 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, 2008 capital assets include \$68.1 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of \$34.9 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. Rental expense incurred under operating leases totaled \$2.0 million during the year.

A summary of the operating and noncancelable capital lease commitments to maturity follows:

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

Fiscal Year	Capital Leases	Operating Leases
2009	\$ 6,247	\$ 1,343
2010	5,608	809
2011	5,328	464
2012	5,090	360
2013	4,082	269
2014-2018	14,291	645
2019-2023	4,510	2
2024-2028	1,114	-
2029-2033	-	-
Total Minimum Payments	<u>46,270</u>	<u>\$ 3,892</u>
Less: Amount Representing Interest	8,748	
Present Value of Future Minimum Payments	<u>\$ 37,522</u>	

MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS

MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for pledged future revenues will be liquidated from the Federal Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded; the General and Highway Funds will pay relatively small amounts.

CLAIMS PAYABLE

Claims payable that represent Medicaid claims will be paid from the General Fund and Federal Fund. Claims payable that represent workers' compensation and retiree/employee health will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. Other claims and judgments attributable to governmental activities will be liquidated by the General Fund and related special revenue funds.

COMPENSATED ABSENCES

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as liabilities as required by GASB. In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. The liabilities are liquidated by the funds that account for the salaries and wages of the related employees.

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 selected material balances of 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>Interest Rates</u>	<u>Amount</u>	<u>Maturity Dates</u>
Finance Authority of Maine	1.0 - 3.31%	303,938	2025 - 2037
Maine Community College System	4.0 - 5.0%	23,399	2012 - 2036
Maine Health and Higher Educational Facilities Authority			
debt	2.0 - 6.2%	1,452,195	1993 - 2038
conduit debt	4.5- 7.3%	49,880	1990 - 2043
Maine Municipal Bond Bank	1.0 - 10.25%	1,085,613	1991 - 2038
Maine State Housing Authority	2.35 - 6.40%	1,550,529	2008 - 2039
University of Maine System	2.0 - 5.75%	216,911	2000 - 2037

MHHEFA advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future payment on the debt. Between July 18, 2007 and June 19, 2008, MHHEFA issued \$279.2 million Series 2007A, 2008A, 2008B and 2008C revenue bonds with either variable interest rates or an average interest rate of 4.75 percent or 4.38 percent. A portion of the \$241.7 million proceeds was used to refund \$237.0 million of outstanding bonds. At June 30, 2008, there were approximately \$97.0 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund and taxable fund resolutions. Approximately \$160.0 million of the total \$237.0 million reserve fund bonds refunded in 2008 were immediately called. At June 30, 2008, there were approximately \$38.3 million of defeased bonds outstanding with respect to advance refunded bond issues of the general resolution. The general resolution bonds are considered conduit debt.

UMS advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future payment on the debt. The refunding resulted in a deferred amount on refunding of \$841 thousand, of which the unamortized balance was \$120 thousand as of June 30, 2008. At June 30, 2008, \$41.2 million of advance refunded bonds remained outstanding.

In periods of declining interest rates, MMBB has refunded its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. At June 30, 2008, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately \$154 million.

For the period ended December 31, 2007, MSHA redeemed \$251.9 million of its Mortgage Purchase Fund bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds. Mortgage Purchase Fund losses of \$345 thousand were attributable to recognition of the redemption premium, bond discount and debt issuance expenses associated with the redeemed bonds.

The following table summarizes debt service requirements for outstanding bonds of the discretely presented component units:

Component Units Principal Maturities

(Expressed in Thousands)

<u>Fiscal Year Ending</u>	<u>FAME</u>	<u>MMBB</u>	<u>MCCS</u>	<u>MSHA</u>	<u>UMS</u>	<u>MHHEFA</u>
2009	\$ 54	\$ 102,763	\$ -	\$ 41,245	\$ 7,475	\$ 40,955
2010	54	99,881	-	43,755	7,885	50,680
2011	55	97,510	-	202,927	8,325	52,925
2012	55	88,758	-	41,200	39,225	57,710
2013	56	82,776	545	45,630	7,410	62,190
2014-2018	289	323,324	3,065	217,575	36,900	305,980
2019-2023	303	199,445	3,775	273,515	35,040	301,885
2024-2028	114	80,390	4,790	254,035	31,550	264,780
2029-2033	69,500	7,385	6,095	259,995	30,800	204,575
2034-2038	234,500	2,545	4,352	163,295	8,865	107,750
2039-2043	-	-	-	22,560	-	2,765
2044-2048	-	-	-	-	-	-
Net unamortized premium or (deferred amount)	(1,042)	836	777	(15,203)	3,436	-
Total Principal Payments	<u>\$ 303,938</u>	<u>\$ 1,085,613</u>	<u>\$ 23,399</u>	<u>\$ 1,550,529</u>	<u>\$ 216,911</u>	<u>\$ 1,452,195</u>