

NEW ISSUE

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State of Maine, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Tax-Exempt Notes is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Tax-Exempt Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Taxable Notes is included in the gross income of the owners of the Taxable Notes for federal income tax purposes. Under existing law, interest on the Notes is excluded from gross income for State income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes. See "TAX MATTERS" herein.

\$58,645,000
STATE OF MAINE
General Obligation Bond Anticipation Notes

Dated: Date of Delivery

Due: June 17, 2009

The Notes will be issued by the State of Maine (the "State") in fully registered form only, without coupons, and when issued will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository") of the Notes. Individual purchases will be made in book-entry form only in the principal amount of \$5,000 or any whole multiple thereof. Purchasers of the Notes will not receive certificates representing their interests in the Notes purchased.

The Notes will be general obligations of the State and the full faith and credit of the State are pledged to the punctual payment of principal of and interest on the Notes, as more fully described herein. The Notes will be issued to finance the carrying out of certain public purposes in the State.

The Notes will bear interest from the date of their delivery until maturity on June 17, 2009, at which time the principal of and interest on the Notes will be payable by the State, as Paying Agent, to the Securities Depository, which will in turn remit such principal and interest to its Participants (as defined herein), which will in turn remit such principal and interest to the Beneficial Owners (as defined herein) of the Notes, as described herein.

The Notes are not subject to redemption prior to maturity.

	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP No.</u>
Tax-Exempt Notes:	\$55,445,000	2.50%	1.63%	56052AVA1
Taxable Notes:	3,200,000	3.45	3.40	56052AVB9

The Notes are offered when, as and if issued by the State and received by the original purchaser, subject to the final approving opinions of Edwards Angell Palmer & Dodge LLP, Bond Counsel, Boston, Massachusetts and to certain other conditions referred to in the Notice of Sale. It is expected that the Notes in definitive form will be available for delivery to the Securities Depository in New York, New York on August 14, 2008.

Banc of America Securities LLC

August 11, 2008

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\$58,645,000
STATE OF MAINE
GENERAL OBLIGATION BOND ANTICIPATION NOTES

INTRODUCTION

This Official Statement, including the cover page hereof and the Appendices hereto, sets forth certain information in connection with the issuance by the State of Maine (the “State” or “Maine”) of its \$55,445,000 Tax-Exempt General Obligation Bond Anticipation Notes (the “Tax-Exempt Notes”) and its \$3,200,000 Taxable General Obligation Bond Anticipation Notes (the “Taxable Notes” and, together with the Tax-Exempt Notes, the “Notes”). The Notes are authorized by, and are being issued pursuant to, Article IX, Section 14, of the Constitution of the State and certain laws of the State which were ratified by voters of the State voting in elections thereon. See Appendix D hereto. The Notes will be general obligations of the State which are expected to be paid from the proceeds of general obligation bonds to be issued by the State.

DESCRIPTION OF THE NOTES

General Description

The Notes will bear interest at the rates set forth on the cover page hereof from the date of delivery of the Notes. Principal of and interest on the Notes will be payable at maturity on June 17, 2009 from funds made available by the State to The Depository Trust Company, New York, New York (“DTC”). So long as DTC or its nominee is the registered owner of the Notes, disbursement of such payments to DTC is the responsibility of the State, disbursement of such payments to the DTC Participants (hereinafter defined) is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (hereinafter defined) is the responsibility of the DTC Participants or Indirect Participants (hereinafter defined) as more fully described herein. See Appendix H, “The Depository Trust Company.” Interest on the Notes will be computed on the basis of a 30-day month and a 360-day year.

The Notes are not subject to redemption prior to maturity.

The Notes are general obligations of the State and the full faith and credit of the State are pledged to the punctual payment of principal of and interest on the Notes.

Principal of and interest on the Notes are payable from the General Fund of the State. Article V, Part Third, Section 5 of the Constitution of the State provides that if sufficient funds are not appropriated to pay the principal of and interest on the Notes when due, then the Treasurer of State is obligated to set apart from the first General Fund revenues received an amount sufficient to make payment of principal of and interest on the Notes as such principal and interest become due.

The Notes will be issued to finance the carrying out of certain public purposes in the State. See Appendix D hereto.

INFORMATION CONCERNING THE STATE

Certain information regarding the State is set forth in the Official Statement of the State dated May 20, 2008 relating to issuance of its \$104,075,000 General Obligation Bonds which Official Statement is included as Appendix K hereto, as supplemented by the information set forth in Appendices hereto. Certain information with respect to revenues of the State is included in Appendix C hereto. Certain information regarding authorized and outstanding debt of the State is included in Appendix D hereto. The information in the Appendices hereto (except Appendix K hereto) supplements or replaces certain of the information in Appendix K hereto.

LITIGATION

There is no controversy or litigation of any nature now pending or, to the knowledge of the Department of the Attorney General, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Notes, or in any way contesting or affecting the validity of the Notes, or any law or other authorization with respect to the issuance or sale of the Notes, or the payment of the Notes, or the existence or powers of the State, or the title to their respective offices of the present officers of the State who are responsible for the issuance, sale, execution or delivery of the Notes.

The State is a party to numerous lawsuits. Such lawsuits include actions to recover monetary damages from the State, disputes over individual or corporate income taxes, disputes over sales or use taxes, and actions to alter the regulations or administrative practices of the State in such manner as to cause additional costs to the State. The State is not aware of any pending or threatened litigation or claim against the State, the outcome of which will have a material adverse effect on the financial condition of the State.

TAX MATTERS

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State of Maine (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Tax-Exempt Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Tax-Exempt Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Notes.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Tax-Exempt Notes. Failure to comply with these requirements may result in interest on the Tax-Exempt Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Tax-Exempt Notes. The State has covenanted to comply with such requirements to ensure that interest on the Tax-Exempt Notes will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Interest on the Taxable Notes is included in gross income for federal income tax purposes.

Bond Counsel is also of the opinion that, under existing law, interest on the Notes is excluded from gross income for State of Maine income tax purposes. Bond Counsel has not opined as to other State of Maine tax consequences arising with respect to the Notes. Bond Counsel has not opined as to the taxability of the Notes or the income therefrom under the laws of any state other than the State of Maine. Complete copies of the proposed forms of opinions of Bond Counsel are set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Notes is less than the amount to be paid at maturity of such Notes (excluding amounts stated to be interest and payable at least annually over the term of such Notes), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Notes which is excluded from gross income for federal income tax purposes (in the case of the Tax-Exempt Notes) and is exempt from Maine personal income taxes. For this purpose, the issue price of a particular maturity of the Notes is the first price at which a substantial amount of such maturity of the Notes is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Notes accrues daily over the term to maturity of such Notes on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Notes to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Notes. Holders of the Notes should consult their own tax advisors with respect to the tax consequences of ownership of Notes with original issue discount, including the treatment of purchasers who do not purchase such Notes in the original offering to the public at the first price at which a substantial amount of such Notes is sold to the public.

Tax-Exempt Notes purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Tax-Exempt Notes, or, in some cases, at the earlier redemption date of such Tax-Exempt Notes ("Premium Notes"), will be treated as having amortizable bond premium for federal income tax purposes and Maine personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, a holder's basis in a Premium Note will be reduced by the amount of amortizable bond premium properly allocable to such holder. Holders of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Tax-Exempt Notes may adversely affect the value of, or the tax status of interest on, the Tax-Exempt Notes. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Tax-Exempt Notes. Prospective Noteholders are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Tax-Exempt Notes is excluded from gross income for federal income tax purposes and that interest on the Notes is exempt from Maine personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect a Noteholder's federal tax liability (in the case of the Tax-Exempt Notes) or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Noteholder or the Noteholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Noteholders should consult with their own tax advisors with respect to such consequences.

DOCUMENTS ACCOMPANYING DELIVERY OF THE NOTES

Absence of Litigation

Upon delivery of the Notes, the State will furnish an opinion of the Department of the Attorney General, dated the date of delivery of the Notes, to the effect that there is no litigation of any nature pending or threatened to restrain or enjoin the issuance or delivery of the Notes or in any way contesting or affecting the validity of the Notes or any of the proceedings taken with respect to the issuance and sale thereof or the levy or collection of any taxes to pay principal of or interest on the Notes. In addition, such opinion will state that, based on consultations with certain officers of the State, there is no litigation of any nature now pending or threatened by or against the State wherein an adverse judgment or ruling could have a material adverse effect on the financial condition of the State or adversely affect the power of the State to levy, collect or enforce the collection of taxes or other revenues for the payment of its Notes which has not been disclosed in this Official Statement.

Treasurer's Certificate

Upon delivery of the Notes, the State will furnish a certificate of the Treasurer of State, dated the date of delivery of the Notes, to the effect that to the best of his knowledge this Official Statement does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements made herein, in light of the circumstances under which they were made, not misleading.

Legal Opinions

The opinions of Edwards Angell Palmer & Dodge LLP (i) approving the authorization and issuance of the Notes and (ii) with respect to the tax status of the Notes will be delivered at the time of delivery of the Notes in substantially the forms set forth in Appendix G to this Official Statement.

Secondary Market Disclosure

In connection with the issuance of the Notes, the State will undertake in the Notes to provide notices of certain events pursuant to Municipal Securities Disclosure Rule, 17 CFR §240.15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission. Such undertaking of the State is summarized in Appendix I hereto.

The State has never failed to comply in all material respects with any previous undertakings with respect to the Rule to provide annual financial information or notices of material events.

COMPETITIVE SALE OF NOTES

After competitive bidding on August 11, 2008, the Notes were awarded to Banc of America Securities LLC (the “Underwriter”). The Underwriter has supplied the information as to the public offering yields or prices of the Notes set forth on the cover of this Official Statement. The Underwriter has informed the State that if all of the Notes are resold to the public at those yields or prices, they anticipate the total underwriter’s compensation to be \$2,671.90. The Underwriter may change the public offering yields or prices from time to time.

RATING

Moody’s Investors Service, Inc., has assigned its rating of “MIG 1” to the Notes. The State has furnished such rating agency with certain information and materials concerning the Notes and the State, some of which is not included in this Official Statement. Generally, such rating agency bases its ratings on such information and materials and also on such investigations, studies and assumptions as it may undertake or establish independently.

The rating is not a recommendation to buy, sell or hold the Notes and such rating should be evaluated independently. Such rating is subject to change or withdrawal at any time and any such change or withdrawal may affect the market price or marketability of the Notes.

MISCELLANEOUS

Any provisions of the constitution of the State, of all laws and of other documents set forth or referred to in this Official Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

This Official Statement contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the State and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the State and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as “may,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates” and others.

All estimates and assumptions in this Official Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Official Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

Neither the office of the State Auditor, nor any other independent accountants, have compiled, examined or performed any procedures with respect to any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information.

The information, estimates and assumptions and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State or its agencies, authorities or political subdivisions since the date of this Official Statement, except as expressly stated.

Questions regarding this Official Statement or requests for additional information concerning the State should be directed to Barbara Raths, Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333, telephone: 207-624-7477; facsimile: 207-287-2367.

STATE OF MAINE

By: /s/ David G. Lemoine
David G. Lemoine
Treasurer of State

Dated: August 11, 2008

APPENDIX A

STATE OF MAINE INFORMATION SUPPLEMENT

The second paragraph under “FISCAL MANAGEMENT – Overview of Budget Process” on page A-9 of Appendix K hereto is deleted and replaced with the following:

The State budget consists of a budget message by the Governor (or the Governor-elect) that outlines the financial policy of the State government for the ensuing period of four fiscal years, describing in connection therewith the important features of the financial plan. The budget includes a general budget summary setting forth the aggregate figures of the budget showing the balance between total proposed expenditures and total anticipated revenues, together with other means of financing the budget for each fiscal year of the ensuing two fiscal years, contrasted with the corresponding figures for the last completed fiscal year and the fiscal year in progress. It must also include an overview of a long-range plan for State government. This plan must describe the vision of the Governor or Governor-elect for the upcoming biennium and the two succeeding biennia and how the proposed biennial budget complements and moves State government towards realization of the long-range vision. For information regarding the revenue projection process, see “Fiscal Management – Revenue Forecasting” below. The budget specifically describes the estimated loss in revenue during the last completed fiscal year and the fiscal year in progress and the anticipated loss in revenue for each fiscal year of such two-year period caused by tax expenditures provided by law. The general budget summary must be supported by explanatory schedules or statements, classifying the expenditures contained therein by organization units, objects and funds, and the income by organization units, sources and funds. The budget also includes statements of the bonded indebtedness of the State government showing the debt redemption requirements, the debt authorized and unissued, and the condition of the sinking funds.

The last paragraph under “FISCAL MANAGEMENT – General Fund Appropriation Limit” on page A-14 of Appendix K hereto is deleted and replaced with the following:

Public Law 2007, chapter 700, effective April 24, 2008 (“2007 Chapter 700”), modified the distribution of the unappropriated surplus of the General Fund for Fiscal Year 2008. 2008 Chapter 700 requires the transfer of up to \$10,000,000 of the General Fund unappropriated surplus remaining at the close of fiscal year 2008 to the Maine Budget Stabilization Fund, as established in the Maine Revised Statutes, Title 5, section 1532, as the first priority after all required deductions of appropriations, budgeted financial commitments and adjustments deemed necessary by the State Controller have been made. At the close of fiscal year 2008, the full \$10,000,000 transfer to the Stabilization Fund was made.

As of June 30, 2008, the approximate balances in the Stabilization Fund and the Reserve for General Fund Operating Capital were \$128,877,000 and \$40,615,000, respectively. The Retirement Allowance Fund is used to make supplemental payments, if any, to reduce the State’s unfunded pension liability and, therefore, does not carry a balance forward from year to year. As of June 30, 2008, the approximate balances in the Retiree Health Insurance Internal Service Fund and the Capital Construction and Improvements Reserve Fund were \$51,600,000 and \$0, respectively.

The following paragraph is added after the first paragraph under “FISCAL MANAGEMENT – Citizen Initiated Legislation” on page A-14 of Appendix K hereto:

A second citizen initiated question will also appear on the November ballot. The voters of the State will vote whether to reject parts of a new law, enacted in 2007 Chapter 629, that change the method of funding Maine’s Dirigo Health program. The provisions that are the focus of the citizen initiated action authorize a special tax on malt liquor, wine and soft drinks, as well as a 1.8% surcharge on paid health insurance claims. The tax on malt liquor and wine is projected to generate approximately \$7,500,000 in fiscal year 2009 and \$8,200,000 in fiscal year 2010. The tax on syrup used to produce soft drinks is projected to generate approximately \$9,200,000 in fiscal year 2009 and \$11,600,000 in fiscal year 2010. The surcharge on paid claims is expected to result in \$33,000,000 in fiscal year 2009 and \$37,000,000 in fiscal year 2010. All of these revenues would be used to support the operation of the Dirigo Health Agency and the subsidized health insurance product it administers. If the citizen initiated question is accepted by the voters, these tax revenues would not be realized. Instead, the funding of DirigoChoice will revert to the use of savings offset payment.

The table and the related footnote in the first paragraph under “STATE BUDGETS” on page A-17 of Appendix K hereto are deleted and replaced with the following:

Laws authorizing expenditures for the following fiscal years were enacted and provide for the following General Fund expenditures and Highway Fund expenditures:

<u>Fiscal Year Ending June 30</u>	<u>General Fund Expenditures Authorized</u>	<u>Highway Fund Expenditures Authorized</u>
2004	\$2,642,999,485	\$293,574,323
2005	2,784,473,472	310,931,897
2006	2,871,878,613	349,584,284
2007	2,978,358,710	346,221,340
2008	3,129,325,355	336,160,213
2009	3,092,057,266	347,664,574

The first paragraph under “STATE BUDGETS” on page A-17 of Appendix K hereto is deleted and replaced with the following:

The General Fund expenditures set forth in the table above for fiscal years 2008 and 2009 (the “2008-9 General Fund Expenditures”) are a modification of those authorized by law in June, 2007 and have been authorized pursuant to such prior law and 2007 Chapter 539, as well as the impact of all miscellaneous acts enacted in the second regular and first special session of the 123rd Legislature. The 2008-9 General Fund Expenditures reflect an increase of approximately 6.3% as compared to General Fund expenditures in fiscal years 2006 and 2007. The 2008-9 General Fund Expenditures include approximately \$1,955,000,000 for funding K-12 Education and are continuing to increase the State’s share of the cost of Essential Programs and Services to the statutorily required level of 55%. The 55% requirement arose from certain citizen-initiated legislation which is described below under the heading “Certain Expenditures and Obligations – Education Funding.”

The first three paragraphs under “CERTAIN EXPENDITURES AND OBLIGATIONS – General Fund Expenditures” on pages A-18 and A-19 of Appendix K hereto are deleted and replaced with the following:

Total General Fund expenditures for fiscal year 2007 were approximately 17% greater, on a budgetary basis, than those for fiscal year 2003. Total General Fund expenditures for fiscal years 2006 and 2007 were approximately 7.7% greater, on a budgetary basis, than those for fiscal years 2004 and 2005. It is expected that total General Fund expenditures for fiscal years 2008 and 2009 will be approximately 6.3% greater, on a budgetary basis, than those for fiscal years 2006 and 2007.

The following table sets forth, by certain major categories, General Fund expenditures which have been budgeted in each of fiscal years 2008 and 2009. The following amounts are subject to change upon reconciliation of the budget act and miscellaneous acts with fiscal impact.

	2008	2009
Governmental Support and Operations	\$ 245,597,733	\$ 251,686,806
Economic Development & Workforce Training	38,156,938	40,059,207
Education	1,480,199,828	1,491,516,743
Arts, Heritage & Cultural Enrichment	8,799,631	8,656,907
Natural Resources Development & Protection	73,207,845	71,605,346
Health & Human Services	1,018,848,664	966,609,764
Justice & Protection	264,514,716	261,882,493
Business Licensing & Regulation*		40,000
Total	<u>\$3,129,325,355</u>	<u>\$3,092,057,266</u>

*Pursuant to Resolve Chapter 226, a one-time appropriation was made in this policy area for support of a pilot project for small wind power generators.

General Fund expenditures for fiscal years 2008 and 2009 are currently budgeted at approximately \$6,221,382,621 of which approximately 48% will be attributable to education, approximately 32% will be attributable to health and human services inclusive of Medicaid and approximately 20% will be attributable to other purposes of State government.

The first paragraph under “CERTAIN EXPENDITURES AND OBLIGATIONS – Education Funding” on pages A-19 and A-20 of Appendix K hereto is deleted and replaced with the following:

At the initiative of certain citizens of the State pursuant to the Constitution of the State, the voters of the State voted to enact legislation known as the School Finance Act of 2003 (the “Initiated School Finance Act”) at a statewide election held June 8, 2004. The Initiated School Finance Act required that the Legislature each year provide at least 55% of the cost of the total allocation for K-12 Education from General Fund revenue sources and 100% of the State and local cost of providing all special education services mandated under federal or State law. The Initiated School Finance Act was amended by 2005 Chapter 2 to provide that, beginning in fiscal year 2009, the Legislature each year will provide, as a target, (a) 55% of the statewide adjusted

total cost of the components of Essential Programs and Services and (b) 100% of a school administrative unit's special education costs calculated pursuant to applicable State law. For fiscal years 2006 and 2007, State law provided that (a) as a target, the State would provide 52.6% and 53.86%, respectively, of the statewide adjusted total cost of the components of Essential Programs and Services and (b) the State would provide at least 84% of a school administrative unit's special education costs calculated pursuant to applicable State law. The budget for fiscal years 2006 and 2007, as amended by 2006 Chapter 519, included approximately \$280,000,000 to fund the increase in the State's share of K-12 Education costs attributable to the Initiated School Finance Act. For fiscal years 2008 and 2009, State law provides that, as a target, (a) the State will provide 53.51% and 54.01%, respectively, of the statewide adjusted total cost of the components of Essential Programs and Services and (b) the State will provide 100% of a school administrative unit's special education costs calculated pursuant to applicable State law. The budget for fiscal years 2008 and 2009, as amended by 2007 Chapter 539, includes approximately \$1,966,000,000 to fund the State's share of K-12 Education costs attributable to the Initiated School Finance Act. 2007 Chapter 539 also amends current law to provide that the State's payment of 55% of the total State and local cost of K-12 Education will be delayed and begin in fiscal year 2010 and that inclusion of the State share of the cost of K-12 Education in the General Fund appropriation limit will be delayed and begin in fiscal year 2011.

The last paragraph under "CERTAIN EXPENDITURES AND OBLIGATIONS – Health and Human Services Funding" on page A-21 of Appendix K hereto is deleted and replaced with the following:

Pursuant to the Constitution of the State (see "GOVERNMENTAL ORGANIZATION - The Legislature" above) and certain State statutes, certain voters of the State filed two separate applications with the Secretary of State to initiate a referendum vote to repeal all or a portion of 2007 Chapter 629 at the statewide election to be held November 4, 2008. One of those applications was subsequently withdrawn. Proponents of the second application have submitted signed petitions to the Secretary of State; the signatures on those petitions are currently being validated but it is anticipated that proponents will have collected enough valid signatures to have their question placed on the November 2008 ballot. If the question does appear on the ballot, it will ask voters if they favor repeal of those parts of 2007 Chapter 629 that impose a 1.8% surcharge on each health insurance claim paid in the State as well as the increase in excise taxes on beer and wine and the new excise tax on soda syrup as cited in the paragraph above. If the question prevails, the funding of DirigoChoice will revert to the use of the savings offset payment. Neither the implementation of the taxes and surcharge in 2007 Chapter 539 nor the use of the savings offset payment impact the General Fund.

The information under "CERTAIN EXPENDITURES AND OBLIGATIONS - Debts of the State" on pages A-21 and A-22 of Appendix K hereto is deleted and replaced with the following:

Debts of the State

As of June 30, 2008, there were outstanding general obligation bonds of the State in the principal amount of \$475,835,000, including the principal amount of \$378,575,000 to be paid from the General Fund and the principal amount of \$97,260,000 to be paid from the Highway Fund. Debt service requirements to maturity for the outstanding general obligation bonds are set forth in Appendix D herein.

As of the date hereof, there are no outstanding tax anticipation notes of the State. Based upon current cash flow projections, the State expects to borrow for general fund cash flow purposes in fiscal year 2009. The State expects first to use interfund borrowings from the State investment pool to satisfy its cash flow needs and second to borrow externally, if necessary. The amount to be borrowed externally is not currently expected to exceed \$120,000,000. If external borrowing is required, a combination of tax anticipation notes and a proposed line of credit with a bank could be used. The timing and amount of any such borrowings will depend upon the actual cash flow needs of the State.

Immediately after delivery of the Bonds, there will be indebtedness authorized by the voters of the State for certain purposes, but unissued as either bonds or notes, in the aggregate principal amount of \$162,459,000. As of the date hereof, the aggregate principal amount of bonds of the State authorized by the Constitution and implementing legislation for certain other purposes, but unissued, is \$99,000,000. See “Fiscal Management – Constitutional Debt Limit” and “Certain Public Instrumentalities – Finance Authority of Maine” and “– Maine State Housing Authority” herein.

Public Laws 2007, Chapter 673, which became effective on July 18, 2008 (the “2008 Bond Act”), authorizes the Treasurer of State, under the direction of the Governor, to issue general obligation bonds of the State not exceeding \$3,400,000 to finance part of the costs of drinking water programs and construction of wastewater treatment facilities, provided that a majority of the voters of the State voting in an election, which, pursuant to the 2008 Bond Act, is directed to be held November 4, 2008, approve such amount and purposes.

In addition to the Notes and the possible external cash flow borrowing expected to be issued as described above, the State expects during the fiscal year ending June 30, 2009 to issue bonds to pay the principal of the Notes and any other bond anticipation notes of the State which may be issued during the fiscal year ending June 30, 2009.

For additional information concerning long-term debts of the State, see Appendix D hereto.

The information under “CERTAIN EXPENDITURES AND OBLIGATIONS – Lease Financing Agreements” on page A-22 of Appendix K hereto is deleted and replaced with the following:

From time to time, the State enters into lease agreements for the purpose of acquiring or financing capital equipment and buildings. A lease agreement is secured solely by the equipment or building which is the subject of such agreement and is not a pledge of the full faith and credit of the State. Lease payment obligations are subject to appropriation by the Legislature. In certain instances, the State has issued certificates of participation in the lease payments to be made pursuant to certain lease agreements. As of June 30, 2008, the aggregate principal amount of such lease obligations outstanding was \$66,493,183. For additional information regarding such lease agreements, see Appendix D hereto. For information regarding rental payments to be made by the State, subject to appropriation, to the Maine Governmental Facilities Authority, see “CERTAIN PUBLIC INSTRUMENTALITIES - Maine Governmental Facilities Authority.”

The second paragraph under “REVENUES OF THE STATE – General” on page A-27 of Appendix K hereto is deleted and replaced with the following:

Revenues for the month of June, 2008 totaled \$479.7 million, over budgeted amounts by \$525.3 thousand, or 0.1%. Revenues for the twelve months ended June 30, 2008 were over budget by \$47.4 million, or 1.6%. Individual income tax revenues were under budget by \$879.6 thousand, or 0.5%, for the month, and over budget by \$43.4 million, or 3.1% for the year. The overage may be due in part to taxpayers having had a good year from capital gains, dividends, and business income. Sales and service provider taxes, combined, were over budget for the month by \$2.0 million, 1.1%, and \$5.9 million, 0.6%, over budget year to date. Corporate tax revenues were \$3.9 million under budget, 9.3%, for the month, but \$2.3 million, 1.3%, over budget for the year. Estate taxes were over budget by \$133.8 thousand, 1.3%, for the month but under budget by \$4.7 million, 10.5%, for the year. Tobacco taxes were \$1.2 million, 8.2%, under budget for the month, and \$4.3 million, 2.8%, under budget for the year. Insurance companies tax was \$2.0 million, 8.0%, under budget for the month, and under budget \$4.5 million, or 5.8%, for the year. Lottery income was over projections by \$148.1 thousand, 3.9%, for the month, and over projections by \$656.8 thousand, 1.3%, for the year. Miscellaneous revenues were over budget for the month by \$7.1 million, 26.0%, and over budget by \$12.0 million, 5.8%, for the year. The foregoing revenue information has been prepared based on preliminary, unaudited month end figures and is subject to change. The budgeted amounts have been updated to reflect the most current projections from the Revenue Forecasting Committee March 2008 report. For additional information, see Appendix C hereto.

The General Fund had an unappropriated surplus of \$56,880,089 at the end of fiscal year 2008. The State applied the surplus first to satisfy certain legislative mandates as follows: approximately \$350,000 was transferred to the State Contingent Account, \$1,000,000 was transferred to the Loan Insurance Reserve, \$10,000,000 was deposited in the Stabilization Fund, and \$935,000 was dedicated to budget expenditures in fiscal year 2009. The remaining amount of approximately \$44,600,000 was transferred to the Department of Health and Human Services for payment to hospitals of certain past due obligations.

The next report of the Revenue Forecasting Committee is scheduled to be released by December 1, 2008. The State cannot at this time predict what adjustments, if any, will be made to the most recent report dated March 1, 2008, although it seems likely in light of current economic conditions that the estimates for fiscal year 2009 will be adjusted further downward. In addition, increasing costs for many commodities, including, in particular, energy, will also likely affect the current fiscal year 2009 budget, although the State cannot now estimate the aggregate impact and what adjustments, if any, will be needed.

The information under “REVENUES OF THE STATE – State Investment Pool” on pages A-29 and A-30 of Appendix K hereto is deleted and replaced with the following:

As described above under the heading “Governmental Organization – Executive Branch – Treasurer of State,” when there is money in the State Treasury that is not needed to meet current obligations, the Treasurer of State may, with the concurrence of the State controller or the Commissioner of Administrative and Financial Services and with the consent of the Governor, invest those amounts in certain instruments authorized by State law. The Treasurer of State maintains the records of the investments of the State through the State investment pool.

The average daily balance of the State investment pool was \$564,076,098 in fiscal year 2008. The balance of the State investment pool on June 30, 2008 was approximately \$553,871,110, although nearly \$20,000,000 of this was in the non-performing commercial paper investment described below.

On August 8, 2007, \$19,930,361.11 of cash pool funds was invested in Mainsail II Commercial Paper (the "Mainsail Commercial Paper"), issued by Mainsail Limited, an affiliate of Solent Capital Partners, LLP ("Mainsail"). The Mainsail Commercial Paper represented about 3% of the state's cash pool, was rated A1+ by Standard & Poor's and P1 by Moody's, and bore interest at 5.45% with a maturity of August 31, 2007. On August 31, 2007, the date of maturity of the Mainsail Commercial Paper, the approximate \$20,000,000 payment of principal and accrued interest due to the State from Mainsail was not made and remains unpaid as of the date hereof. The State currently holds no commercial paper in its cash pool.

On March 7, 2008, The Bank of New York Trust Company, N.A., as security trustee (the "Security Trustee") notified holders of Mainsail Commercial Paper that KPMG (the "Receiver") had been selected to act as receiver and tasked with developing a restructuring package. The Receiver has notified holders that it is in negotiations with Goldman Sachs International to restructure the outstanding debt of MainSail and that there is no reasonable expectation that a sale of assets would generate enough capital to repay Mainsail's obligation to senior secured parties in full.

The role of Merrill Lynch as the broker which sold the Mainsail Commercial Paper to the State remains under investigation by the Maine Office of Securities.

The State does not expect the default by Mainsail to adversely affect the State's ability to meet all of its obligations when due.

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APPENDIX C

CERTAIN REVENUES OF THE STATE

Undedicated Revenues, General Fund, Year Ended June 30, 2008.....	C-2
Highway Fund Revenues, Year Ended June 30, 2008.....	C-3

**STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
TWELVE MONTHS ENDED JUNE 30, 2008**

	Month				Year to Date				Total Budgeted
	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Fiscal Year Ending 6/30/08
Sales and Use Tax	\$ 179,304,525	\$ 177,518,752	\$ 1,785,773	1.0%	\$ 983,057,278	\$ 978,060,502	\$ 4,996,776	0.5%	\$ 978,060,502
Service Provider Tax	8,803,232	8,602,219	201,013	2.3%	52,100,664	51,181,910	918,754	1.8%	51,181,910
Individual Income Tax	188,742,885	189,622,487	(879,602)	(0.5%)	1,443,468,204	1,400,032,225	43,435,979	3.1%	1,400,032,225
Corporate Income Tax	37,720,462	41,600,000	(3,879,538)	(9.3%)	184,514,568	182,170,000	2,344,568	1.3%	182,170,000
Cigarette and Tobacco Tax	13,122,372	14,289,498	(1,167,126)	(8.2%)	150,499,432	154,786,180	(4,286,748)	(2.8%)	154,786,180
Public Utilities Tax		-	-	-	16,858,472	17,476,987	(618,515)	(3.5%)	17,476,987
Insurance Companies Tax	22,751,026	24,718,324	(1,967,298)	(8.0%)	72,292,532	76,751,673	(4,459,141)	(5.8%)	76,751,673
Estate Tax	10,795,990	10,662,240	133,750	1.3%	39,890,577	44,562,240	(4,671,663)	(10.5%)	44,562,240
Property Tax - Unorganized Territory	1,978,417	2,208,611	(230,194)	(10.4%)	12,217,081	12,611,986	(394,905)	(3.1%)	12,611,986
Income from Investments	(419,533)	400,000	(819,533)	(204.9%)	1,074,143	952,018	122,125	12.8%	952,018
Transfer to Municipal Revenue Sharing	(21,143,126)	(21,284,518)	141,392	0.7%	(135,820,176)	(133,183,678)	(2,636,498)	(2.0%)	(133,183,678)
Transfer from Lottery Commission	3,904,622	3,756,479	148,143	3.9%	49,491,086	48,834,250	656,836	1.3%	48,834,250
Other Revenues	<u>34,175,627</u>	<u>27,117,055</u>	<u>7,058,572</u>	<u>26.0%</u>	<u>218,175,129</u>	<u>206,171,173</u>	<u>12,003,956</u>	<u>5.8%</u>	<u>206,171,173</u>
Total Undedicated Revenue	\$479,736,499	\$479,211,147	\$ 525,352	0.1%	\$3,087,818,991	\$3,040,407,466	\$47,411,525	1.6%	\$3,040,407,466

NOTES: (1) Included in the above is \$21,143,126 for the month and \$135,820,176 year to date that was set aside for Revenue Sharing with cities and towns.

(2) Figures reflect estimates of the Maine State Revenue Forecasting Committee approved in March 2008.

(3) This report has been prepared from preliminary month end figures and is subject to change.

**STATE OF MAINE
HIGHWAY FUND
REVENUES
TWELVE MONTHS ENDED JUNE 30, 2008**

	Month				Year to Date				Total Budgeted Fiscal Year Ending 6-30-2008
	Actual	Budget	Variance Over/(under)	Percent Over/ (under)	Actual	Budget	Variance Over/(under)	Percent Over/ (under)	
Fuel Taxes	\$42,358,951	\$39,892,671	\$2,466,280	6.2%	\$225,235,339	\$223,368,718	\$ 1,866,621	0.8%	\$223,368,718
Motor Vehicle Registration & Fees	9,794,883	9,151,787	643,096	7.0%	86,094,837	85,953,481	141,356	0.2%	85,953,481
Inspection Fees	686,503	337,960	348,543	103.1%	4,193,874	4,468,458	(274,584)	(6.1%)	4,468,458
Fines, Forfeits & Penalties	136,743	149,999	(13,256)	(8.8%)	1,747,986	1,794,049	(46,063)	(2.6%)	1,794,049
Earnings on Investments	40,600	25,000	15,600	62.4%	1,152,491	1,000,000	152,491	15.2%	1,000,000
All Other	<u>727,201</u>	<u>637,033</u>	<u>90,168</u>	<u>14.2%</u>	<u>9,712,051</u>	<u>9,771,333</u>	<u>(59,282)</u>	<u>(0.6%)</u>	<u>9,771,333</u>
Total Revenue	<u>\$53,744,880</u>	<u>\$50,194,450</u>	<u>\$3,550,430</u>	<u>7.1%</u>	<u>\$328,136,579</u>	<u>\$326,356,039</u>	<u>\$1,780,540</u>	<u>0.5%</u>	<u>\$326,356,039</u>

Note: This report has been prepared from preliminary month end figures and is subject to change.

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APPENDIX D

SELECTED INFORMATION REGARDING AUTHORIZED AND UNISSUED DEBT OF THE STATE

Pages D-2 through D-9 of Appendix K hereto are deleted and replaced with the seven pages which follow this page. The first three of such following pages set forth the purposes for which authorized expenditures may be made, the expending department or agency, the authorizing acts and the balances of authorized expenditures after giving effect to the issuance of the Notes.

Agency	Law	Description	Taxable	Tax-Exempt	Authorized but Unissued after Aug BAN
DAG	2007 PL, Chapter 39	Agricultural water source development grant program. Provides funds to assist farmers in the development of environmentally sound water sources to manage weather-related risk and to comply with in-stream flow rules that will leverage \$375,000 in other funds	\$-	\$-	\$1,000,000
DECD	2005 PL, Chapter 462	Provides funds for the Maine Biomedical Research Fund to support capital infrastructure and equipment.	\$-	\$-	\$2,000,000
DECD	2005 PL, Chapter 462	Provides funds for the Marine Infrastructure and Technology Fund administered by the Maine Technology Institute.	\$-	\$-	\$500,000
DECD	2007 PL, Chapter 39	Provides funds to make investments, under the Riverfront Community Development Program established in the Maine Revised Statutes, Title 5, section 13083-T, in competitive river-based community and economic revitalization projects, which must be matched with at least \$10,000,000	\$-	\$-	\$5,000,000
DECD	2007 PL, Chapter 39	Provides funds so that eligible municipalities may apply for a public service infrastructure grant or loan from The Municipal Investment Trust Fund.	\$-	\$1,500,000	\$-
DEP	2007 PL, Chapter 39	SRF	\$-	\$1,700,000	\$-
DEP	2007 PL, Chapter 39	Waste Water Construction grants	\$-	\$-	\$5,750,000
DEP	2007 PL, Chapter 39	Community Grants	\$-	\$100,000	\$900,000
DEP	2007 PL, Chapter 39	Hazardous Waste	\$-	\$250,000	\$1,750,000
DEP	2007 PL, Chapter 39	Landfills	\$-	\$750,000	\$50,000
DEP	2007 PL, Chapter 39	Industrial landfills	\$-	\$-	\$300,000
DEP	2007 PL, Chapter 39	air quality	\$-	\$200,000	\$100,000
DHHS	2007 PL, Chapter 39	Drinking Water Program	\$-	\$700,000	\$-
DIFW	2007 PL, Chapter 39	Dam Repair	\$-	\$45,000	\$255,000
DIFW	2007 PL, Chapter 39	Hatchery Rehab	\$-	\$45,000	\$1,955,000
DOC	2007 PL, Chapter 39	Bureau of Parks and Lands. Provides funds to make necessary capital improvements in the State's parks and historic sites.	\$-	\$453,000	\$5,797,000
DOE	2005 PL, Chapter 462	Provides funds for the development of the Sunrise Business and Career Center in the Town of Jonesboro	\$-	\$-	\$762,000
DOT	2007 PL, Chapter 39	Highway and Bridge Improvements	\$-	\$35,000,000	\$5,000,000
DOT	2007 PL, Chapter 39	Portland IMT	\$-	\$-	\$300,000
DOT	2007 PL, Chapter 39	IRAP,FRIP, and State Rail Track Improvement	\$-	\$-	\$1,200,000
DOT	2005 PL, Chapter 462	Transit and Bus Improvements	\$-	\$-	\$150,000
DOT	2007 PL, Chapter 39	Buses, FRIP, and State Rail Track Capital	\$-	\$-	\$2,500,000

Agency	Law	Description	Taxable	Tax-Exempt	Authorized but Unissued after Aug BAN
		Imp.			
DOT	2005 PL, Chapter 462	Airports	\$-	\$300,000	\$350,000
DOT	2007 PL, Chapter 39	Aviation	\$-	\$-	\$2,200,000
DOT	2005 PL, Chapter 462	Ferry Vessels and facilities	\$-	\$400,000	\$2,200,000
DOT	2007 PL, Chapter 39	SHIP and Searsport Study	\$-	\$100,000	\$800,000
DOT	2007 PL, Chapter 39	Mountain Div and Trails	\$-	\$100,000	\$400,000
DOT	2007 PL, Chapter 39	Highway and Bridge Repair	\$-	\$-	\$10,000,000
DOT	2007 PL, Chapter 39	Ferry and Port-Casco Bay Island Transit District	\$-	\$-	\$500,000
DOT	2007 PL, Chapter 39	State funded aviation projects	\$-	\$-	\$200,000
DOT	2007 PL, Chapter 39	Transit and Bus-	\$-	\$-	\$1,000,000
DOT	2007 PL, Chapter 39	Pedestrian and Bike	\$-	\$-	\$950,000
DOT	2007 PL, Chapter 39	Rail-taxable	\$-	\$-	\$8,425,000
DOT	2007 PL, Chapter 39, G	Rail-Rockland Branch Station Community Investments	\$-	\$-	\$500,000
DOT	2007 PL, Chapter 39,G	Rail-Tax-Exempt, Mountain division rebuild	\$-	\$-	\$750,000
DOT	2007 PL, Chapter 39	Bulkhead and wharf	\$-	\$-	\$700,000
MCCS	2007 PL, Chapter 39	Provides funds for interior and exterior building renovations, improvements and additions at all campuses of the Maine Community College System.	\$-	\$1,500,000	\$12,300,000
MMA	2007 PL, Chapter 39	Provides funds for interior and exterior building renovations, improvements and additions at the Maine Maritime Academy Campus.	\$-	\$-	\$750,000
MRDA	2007 PL, Chapter 39	Maine Rural Development Authority	\$500,000	\$-	\$500,000
MSCAF	2005 PL, Chapter 462	Provides funds for the New Century Community Program	\$-	\$-	\$100,000
MSCAF	2007 PL, Chapter 39	New Century Community program. Provides funds to revitalize downtown areas, preserve and strengthen state and community historic and cultural assets and expand access to digital and educational resources.	\$-	\$700,000	\$1,300,000
MTI	2007 PL, Chapter 39	Provides funds for research, development and commercialization as prioritized by the Office of Innovation's 2005 Science and Technology Action Plan for Maine. The funds must be allocated to biotechnology, aquaculture and marine technology, composite materials technology, environmental technology, advanced technologies for forestry and agriculture, information technology and precision manufacturing technology through a competitive process, and must be awarded	\$2,500,000	\$-	\$47,500,000

Agency	Law	Description	Taxable	Tax-Exempt	Authorized but Unissued after Aug BAN
		to maine-based public and private entities to leverage matching funds on at least a one-to-one basis.			
SPO		Provides for the use of bond proceeds to be used for the acquisition of land and interest in land for conservation, water access, outdoor recreation, wildlife and fish habitat, farmland preservation and working waterfront preservation	\$-	\$5,000,000	\$2,900,000
SPO	2005 PL, Chapter 462	Provides for the use of bond proceeds to be used for the acquisition of land and interest in land for working waterfront preservation	\$-	\$-	\$165,000
SPO	2007 PL, Chapter 39	Land for Maine's Future Board. Provides funds in order to leverage \$8,500,000 in other funds to be used for the acquisition of land and interest in land for conservation; water access, which must receive \$1,700,000; outdoor recreation; wildlife and fish habitat; and farmland preservation, which much receive \$1,700,000.	\$-	\$-	\$17,000,000
SPO	2007 PL, Chapter 39	Provides funds to be used for working waterfront preservation in order to leverage \$3,000,000 in other funds.	\$-	\$-	\$3,000,000
UMS	2005 PL, Chapter 462	Provides funds for the Laboratory for Surface Science Technology	\$200,000	\$-	\$200,000
UMS	2007 PL, Chapter 39	Provides funds for interior and exterior building renovations, improvements and additions at all campuses of the University of Maine System.	\$-	\$7,000,000	\$12,500,000
TOTAL			\$3,200,000	\$55,843,000	\$162,459,000

GENERAL FUND BONDS¹
Debt Service Requirements to Maturity
June 30, 2008

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2009	\$65,685,000.00	\$15,179,119.69	\$80,864,119.69
2010	61,570,000.00	12,410,688.02	73,980,688.02
2011	56,205,000.00	9,734,844.27	65,939,844.27
2012	54,100,000.00	7,550,823.66	61,650,823.66
2013	51,340,000.00	5,473,642.06	56,813,642.06
2014	35,110,000.00	3,488,558.96	38,598,558.96
2015	28,590,000.00	2,146,419.48	30,736,419.48
2016	13,280,000.00	1,179,106.50	14,459,106.50
2017	8,045,000.00	584,847.40	8,629,847.40
2018	<u>4,650,000.00</u>	<u>215,367.80</u>	<u>4,865,367.80</u>
TOTAL	<u>\$378,575,000.00</u>	<u>\$57,963,417.84</u>	<u>\$436,538,417.84</u>

HIGHWAY FUND BONDS²
Debt Service Requirements to Maturity
June 30, 2008

<u>FISCAL YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2009	\$13,505,000.00	\$3,848,227.09	\$17,353,227.09
2010	11,820,000.00	3,373,241.26	15,193,241.26
2011	11,825,000.00	2,952,081.88	14,777,081.88
2012	9,905,000.00	2,520,793.75	12,425,793.75
2013	9,905,000.00	2,157,100.00	12,062,100.00
2014	9,180,000.00	1,759,787.50	10,939,787.50
2015	8,455,000.00	1,387,162.50	9,842,162.50
2016	8,455,000.00	1,008,287.50	9,463,287.50
2017	8,455,000.00	646,437.50	9,101,437.50
2018	5,755,000.00	263,750.00	6,018,750.00
	<u>97,260,000.00</u>	<u>19,916,868.98</u>	<u>117,176,868.98</u>
TOTAL	<u>\$475,835,000.00</u>	<u>\$77,880,286.82</u>	<u>\$553,715,286.82</u>

¹ General Fund Bonds are expected to be paid from amounts in the General Fund. For a description of the General Fund, see "Fiscal Management - The Accounting System" herein.

² Highway Fund Bonds are expected to be paid from amounts in the Highway Fund. For a description of the Highway Fund, see "Fiscal Management - The Accounting System" herein.

INFORMATION REGARDING LEASE FINANCING AGREEMENTS

<u>Agency</u>	<u>Date of Agreement</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding 6/30/08</u>	<u>Principal & Interest Due 7/1/08 – 6/30/09</u>
Department of Transportation	May, 2002	\$ 5,000,000	\$ 2,465,000	\$ 669,487
Department of Transportation	May, 2002	2,000,000	315,000	321,300
Department of Transportation	December, 2003	793,200	290,355	152,104
Department of Education	December, 2003	2,335,000	485,000	500,035
Department of Corrections	March, 2005	1,200,000	511,935	270,383
Administrative & Financial Services	April, 2005	2,900,000	762,393	782,062
Department of Transportation	May, 2005	1,200,000	459,220	280,353
Administrative & Financial Services	April, 2006	4,100,000	2,091,494	1,120,705
Department of Transportation	September, 2005	2,000,000	853,831	444,280
Administrative & Financial Services	October, 2005	9,200,000	6,553,629	3,425,170
Public Safety	April, 2006	1,800,000	612,186	637,225
Administrative & Financial Services	July, 2006	10,000,000	7,260,438	1,652,727
Department of Corrections	August, 2006	3,600,000	3,040,289	690,812
Department of Education	September, 2006	19,278,694	10,028,126	5,319,770
Administrative & Financial Services	February, 2007	14,000,000	12,065,454	2,455,177
Administrative & Financial Services	February, 2007	800,000	549,366	271,036
Public Safety	March, 2007	1,300,000	881,101	463,245
Department of Transportation	March, 2007	2,500,000	1,905,378	680,318
Administrative & Financial Services	April, 2007	4,500,000	3,440,926	1,228,588
Department of Education	September, 2007	4,618,993	3,509,996	1,277,438
Department of Education	October, 2007	139,414	104,560	34,853
Public Safety	April, 2008	1,800,000	1,800,000	632,006
Administrative & Financial Services	April, 2008	2,248,970	2,007,090	483,759
Administrative & Financial Services	June, 2008	1,700,416	1,700,416	370,110
Administrative & Financial Services	June, 2008	2,800,000	2,800,000	768,783
TOTALS:		<u>\$101,814,687</u>	<u>\$66,493,183</u>	<u>\$24,931,726</u>

Debt Ratios

The following table sets forth certain ratios relating to the State’s general obligation debt and certain lease financing agreements as of June 30, 2008.

	<u>Amount of Debt</u>	<u>Per Capita (1)</u>	<u>Debt to Estimated Full Valuation (2)</u>	<u>Debt to Personal Income (3)</u>
General Fund	\$378,575,000	\$287.41	0.23%	0.85%
Highways & Bridges	97,260,000	73.84	0.06	0.22
Total	<u>\$475,835,000</u>	<u>\$361.25</u>	<u>0.29%</u>	<u>1.07%</u>

- (1) Based on population estimate of 1,317,207 for 2007 by the U.S. Department of Commerce, Bureau of the Census.
- (2) Based on assessed property valuation at full value by the Maine Revenue Services as of January 2008 of \$162,744,550,000.
- (3) Based on State of Maine total personal income reported by the U.S. Department of Commerce for 2007, second quarter annualized, of \$44,418,000,000.

Debt Ratio Statistics

June 30, 2008

Debt to Full Value	
1998.....	0.67%
2008.....	0.29%
Debt to Personal Income	
1998.....	1.69%
2008.....	1.07%
Per Capita Debt	
1998.....	\$384.20
2008.....	\$361.25

The table entitled “BONDS OUTSTANDING AT JUNE 30” at the bottom of page D-9 of Appendix K hereto is deleted and replaced with the following:

**BONDS OUTSTANDING AT JUNE 30
of Certain Fiscal Years
Compared to Total Governmental Funds Revenue**

Year Ended	General Fund	Highway Fund	Self-Liquidating	Total	Total Governmental Funds Revenue	Percent of State Revenues
1988	\$201,160,000	\$ 88,170,000	\$18,945,000	\$308,275,000	\$2,205,527,000	14.0%
1989	221,645,000	98,850,000	17,605,000	338,100,000	2,428,486,000	13.9
1990	202,405,000	87,610,000	16,260,000	306,275,000	2,421,264,000	12.6
1991	277,710,000	102,870,000	14,840,000	395,420,000	2,533,777,000	15.6
1992	308,890,000	107,395,000	13,395,000	429,680,000	2,995,325,000	14.0
1993	405,823,000	136,320,000	2,562,000	544,705,000	3,178,491,000	17.2
1994	383,618,000	143,355,000	2,312,000	529,285,000	3,311,809,213	16.0
1995	377,055,000	136,950,000	2,055,000	516,060,000	3,381,332,000	15.3
1996	369,457,945	144,440,000	1,792,055	515,690,000	3,598,717,000	14.3
1997	339,620,600	129,060,000	1,529,400	470,210,000	3,756,557,734	12.5
1998	337,575,000	139,180,000	1,290,000	478,045,000	4,168,141,000	11.5
1999	334,725,000	133,700,000	1,115,000	469,540,000	4,257,340,458	11.0
2000	341,205,000	111,230,000	940,000	453,375,000	4,604,954,195	9.8
2001	297,405,000	108,635,000	765,000	406,805,000	4,608,742,000	8.8
2002	260,790,000	85,335,000	600,000	346,725,000	4,808,788,859	7.2
2003	293,990,000	64,120,000	445,000	358,555,000	5,114,542,674	7.0
2004	355,025,000	61,105,000	290,000	416,420,000	5,902,866,220	7.1
2005	439,110,000	47,825,000	160,000	487,095,000	6,114,225,943	8.0
2006	433,585,000	33,875,000	90,000	467,550,000	6,336,819,316	7.4
2007	398,280,000	50,460,000	20,000	448,760,000	6,906,395,835	6.5
2008	378,575,000	97,260,000	0	475,835,000	6,430,331,885	7.4

APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

Upon delivery of the Tax-Exempt Notes, Edwards Angell Palmer & Dodge LLP, as Bond Counsel, proposes to issue its approving opinion as to the Tax-Exempt Notes in substantially the following form:

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

[Date of Delivery]

The Honorable David G. Lemoine
Treasurer of State
The State of Maine
39 State House Station
Augusta, Maine 04333

\$55,445,000
State of Maine
Tax-Exempt General Obligation Bond Anticipation Notes
Dated Date of Delivery

We have acted as bond counsel to the State of Maine in connection with the issuance by the State of Maine of the above-referenced notes (the "Notes"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State of Maine contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Notes are valid and binding general obligations of the State of Maine and the full faith and credit of the State of Maine are pledged for the payment of the principal of and interest on the Notes.
2. Interest on the Notes is excluded from the gross income of the owners of the Notes for federal income tax purposes. In addition, interest on the Notes is not a specific

preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State of Maine with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Notes in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State of Maine has covenanted to comply with all such requirements. Failure by the State of Maine to comply with certain of such requirements may cause interest on the Notes to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes.

3. Interest on the Notes is excluded from gross income for State of Maine income tax purposes. We express no opinion regarding any other State of Maine tax consequences arising with respect to the Notes or any tax consequences arising with respect to the Notes under the laws of any state other than the State of Maine.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Notes and the enforceability of the Notes may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Angell Palmer & Dodge LLP

APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

Upon delivery of the Taxable Notes, Edwards Angell Palmer & Dodge LLP, as Bond Counsel, proposes to issue its approving opinion as to the Taxable Notes in substantially the following form:

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

[Date of Delivery]

The Honorable David G. Lemoine
Treasurer of State
The State of Maine
39 State House Station
Augusta, Maine 04333

\$3,200,000
State of Maine
Taxable General Obligation Bond Anticipation Notes
Dated Date of Delivery

We have acted as bond counsel to the State of Maine in connection with the issuance by the State of Maine of the above-referenced notes (the "Notes"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State of Maine contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Notes are valid and binding general obligations of the State of Maine and the full faith and credit of the State of Maine are pledged for the payment of the principal of and interest on the Notes.

2. Interest on the Notes is included in the gross income of the owners of the Notes for federal income tax purposes.

3. Interest on the Notes is excluded from gross income for State of Maine income tax purposes. We express no opinion regarding any other State of Maine tax consequences arising with respect to the Notes or any tax consequences arising with respect to the Notes under the laws of any state other than the State of Maine.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Notes and the enforceability of the Notes may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Angell Palmer & Dodge LLP

APPENDIX H

THE DEPOSITORY TRUST COMPANY

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Tax-Exempt Note certificate will be issued in the aggregate principal amount of the Tax-Exempt Notes and will be deposited with DTC. One fully-registered Taxable Note certificate will be issued in the aggregate principal amount of the Taxable Notes and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions and defaults. For example, Beneficial Owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy to the State as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal, interest and redemption payments, if any, on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption proceeds, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, and disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Notes certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Notes certificates will be printed and delivered to DTC.

The information in this Appendix H concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

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APPENDIX I

SECONDARY MARKET DISCLOSURE

In order to assist the original purchaser in complying with the Municipal Securities Disclosure Rule, 17 CFR §240.15c2-12 (the “Rule”), the State has covenanted in the Notes for the benefit of the Beneficial Owners that the State will provide, in a timely manner, to each nationally recognized municipal securities information repository (“NRMSIR”) and to any state information depository (“SID”), notice of any of the following events with respect to the Notes, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the Notes;
7. modifications to rights of the holders (including Beneficial Owners) of the Notes;
8. bond calls;
9. defeasances;
10. release, substitution, or sale of property securing repayment of the Notes; and
11. rating changes.

In a letter from the staff of the SEC to the National Association of Bond Lawyers, dated September 19, 1995, the SEC staff stated that undertakings pursuant to the Rule may not eliminate references to events 1 through 11 set forth in the Rule and in the paragraph above, regardless of whether any particular event is believed to be applicable to the Notes. Certain of events 1 through 11 set forth in the paragraph above may not, however, be applicable. Events 3, 4 and 5 may not be applicable, since the terms of the Notes do not provide for “debt service reserves,” “credit enhancements” or “credit or liquidity providers.” For a description of the Notes, see “Description of the Notes.” With respect to events 4 and 5, the State does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Notes, unless the State applies for or participates in obtaining the enhancement. With respect to event 6, for information on the tax status of the Notes, see “Tax Matters.” Event 8 may not be applicable since the Notes do not provide for redemption prior to maturity. Event 10 may not be applicable since the State has not granted any security interest to secure repayment of the Notes.

As of the date hereof, there is no SID.

The State may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the State, such other events are material with respect to the Notes, but the State does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The covenants described herein under the heading “Secondary Market Disclosure” (the “Covenants”) are for the benefit of the Beneficial Owners and shall be enforceable by any Beneficial Owner. No Beneficial Owner may institute any suit, action or proceeding at law or in equity (“Proceeding”) for the enforcement of the Covenants, unless such Beneficial Owner shall have filed with the Treasurer of State and the Attorney General a written request to cure such breach, and the State shall have refused or failed to comply within a reasonable time. Any assertion of beneficial ownership must be included in such written request and must be supported by independent evidence or documents. All Proceedings shall be instituted only in a State court located in the City of Augusta, Maine for the equal benefit of all Beneficial Owners of the outstanding Notes. If a court of competent jurisdiction finds that the State has breached any of the Covenants, then the sole remedy for any such breach shall be an order of specific performance of the Covenants and there shall be no right of acceleration of the Notes. Moreover, Proceedings filed by Beneficial Owners against the State may be subject to the defense of sovereign immunity which may substantially limit the scope and nature of any legal action against the State or of any order of specific performance that may be granted against the State.

APPENDIX J

NOTICE OF SALE

\$59,045,000*
STATE OF MAINE
GENERAL OBLIGATION BOND ANTICIPATION NOTES

Notice is hereby given that bids will be received until 11:00 A.M. (local Augusta, Maine time) on Monday, August 11, 2008 by Barbara Raths, Deputy State Treasurer (the "Deputy Treasurer") of the State of Maine, for the purchase of \$59,045,000* State of Maine General Obligation Bond Anticipation Notes (the "Notes").

Description of the Notes

The Notes will be issued only as fully registered Notes in book-entry form. The Notes will be dated their date of delivery and will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Notes will be calculated on a 30/360 day basis payable from the date of their delivery until maturity on June 17, 2009.

The Notes will consist of \$55,845,000* State of Maine Tax-Exempt General Obligation Bond Anticipation Notes (the "Tax-Exempt Notes") and \$3,200,000* State of Maine Taxable General Obligation Bond Anticipation Notes (the "Taxable Notes").

Authorization and Security

The Notes will be general obligations of the State of Maine (the "State") and the full faith and credit of the State will be pledged for the punctual payment of the principal and interest on the Notes.

Redemption

The Notes are not subject to redemption prior to maturity.

Book-Entry Only

Initially, one Tax-Exempt Note certificate and one Taxable Note certificate will be issued to The Depository Trust Company, New York, New York ("DTC") or its nominee, which will be designated as the securities depository for the Notes. So long as DTC is acting as securities depository for the Notes, a book-entry system will be employed, evidencing ownership of the Notes in principal amounts of \$5,000 and multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Principal of and interest on the Notes will be payable to DTC or its nominee as registered owner of the Notes. Principal of and interest on the Notes will be payable in lawful money of the United States of America by the State, as Paying Agent. Transfers of principal and interest payments to beneficial owners (the "Beneficial Owners") will be the responsibility of such participants and other nominees of the Beneficial Owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

* Preliminary, subject to change.

In the event that (a) DTC determines not to continue to act as securities depository for the Notes, (b) the State determines that DTC is incapable of discharging its duties or that continuation with DTC as securities depository is not in the best interests of the State or (c) the State determines that continuation of the book-entry system of evidence and transfer of ownership of the Notes is not in the best interests of the State or the Beneficial Owners, the State will discontinue the book-entry system with DTC. If the State fails to identify another qualified securities depository to replace DTC, the State will cause the execution and delivery of replacement Notes in the form of fully registered certificates.

Bidding Procedures

Proposals to purchase the Notes must be submitted to Barbara Raths, Deputy State Treasurer, by facsimile at (207) 287-2367 or email transmission at barbara.raths@maine.gov. All bids must be provided using the Official Bid Form attached hereto at Exhibit A. Bids will be communicated to the State by 11:00 a.m., local Augusta, Maine time, on Monday, August 11, 2008. Each bid will constitute an irrevocable offer to purchase the Notes on the terms therein provided. The State will not accept bids by any means other than as set forth above.

Bid Specifications

Each bidder must bid on both the Tax-Exempt Notes and the Taxable Notes, however, separate awards will be made for each. The Tax-Exempt Notes and the Taxable Notes may bear separate rates of interest. Bidders should state the rate or rates of interest that the Notes are to bear, in multiples of 1/8 or 1/20 of one percent. **In order to fund its planned capital expenditures, the total proceeds payable to the State (par plus premium, if any) must be at least \$59,045,000. Accordingly, the par amount of the Tax-Exempt Notes and the Taxable Notes should be adjusted, as needed, in order that the total proceeds of the Tax-Exempt Notes and the Taxable Notes is as nearly as practicable (within \$5,000) to \$55,845,000 and \$3,200,000, respectively.** No bids for other than all of the Tax-Exempt Notes and Taxable Notes will be accepted.

Bond Insurance

The State has not contracted for the issuance of any policy of municipal bond insurance for the Notes. If the Notes qualify for any such policy or commitment therefor, any purchase of such insurance or commitment shall be at the sole option and expense of the successful bidder(s), and any increased costs of issuance or delivery of the Notes resulting by reason of such insurance or commitment shall be assumed by such bidder(s). Bids shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Notes to be so insured or of any such policy or commitment to be issued shall not in any way relieve the successful bidder(s) of its contractual obligations arising from the acceptance of its bid for the purchase of the Notes.

Basis of Award

The Tax-Exempt Notes and the Taxable Notes will be awarded to the bidder(s) offering to purchase the Tax-Exempt Notes and the Taxable Notes, as applicable, at the lowest net interest cost (NIC) to the State. Separate awards will be made with respect to the Tax-Exempt Notes and the Taxable Notes. The NIC under each proposal to purchase the Notes will be determined by computing the total amount of interest payable on the principal amount of the Notes, at the rate or rates stated, from August 14, 2008 until the maturity of the Notes (June 17, 2009) and deducting therefrom the premium, if any, offered in said proposal, and dividing the resulting difference by the product of the par value of the Notes that said proposal offers to purchase times the average life of said Notes. The NIC will be computed as a percentage rate, as noted above, and will be rounded to six decimal places. If there is more than one such

proposal making said offer at the same lowest net interest cost, the Notes will be sold to the bidder whose proposal is selected by the Deputy Treasurer by lot from among all such proposals at the same lowest net interest cost.

Bids will be accepted or rejected promptly after receipt and not later than 1:00 p.m. (E.D.T.) on the date of the sale.

The State reserves the right to reject any or all proposals and to reject any proposals not complying with the Notice of Sale. The State also reserves the right, so far as permitted by law, to waive any irregularity or informality with respect to any proposal.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Notes. All expenses in relation to the printing of CUSIP numbers on the Notes shall be paid for by the State.

Expenses

The State will pay: (i) the cost of the preparation of the Notes; (ii) the fees and expenses of Bond Counsel; (iii) the fees of the rating agencies relating to the Notes, and (iv) the cost of preparation and printing of the Official Statement.

Undertakings of the Successful Bidder(s)

The successful bidder(s) shall make a bona fide public offering of the Notes and shall, within 30 minutes of being notified of the award of the Notes, advise the State in writing (via facsimile transmission) of the initial public offering prices of the Notes (the "Initial Reoffering Prices"). The successful bidder(s) must, by facsimile transmission or delivery received by the Deputy Treasurer within 24 hours after notification of the award, furnish the following information to Bond Counsel to complete the Official Statement in final form, as described below:

- A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Notes are sold at the prices or yields at which the successful bidder(s) advised the Deputy Treasurer that the Notes were initially offered to the public).
- B. The identity of the underwriters if the successful bidder(s) is part of a group or syndicate.
- C. Any other material information the Deputy Treasurer determines is necessary to complete the Official Statement in final form.

Prior to delivery of the Notes, the successful bidder of the Tax-Exempt Notes shall furnish to the State a certificate acceptable to Bond Counsel to the effect that as of the date of acceptance of its bid, such successful bidder had sold or reasonably expected to sell all of the Tax-Exempt Notes to the public (excluding bond houses, brokers or similar persons or other intermediaries) at the Initial Reoffering Prices.

Delivery of the Notes

The Notes will be delivered on or about August 14, 2008 in New York, New York at DTC against payment of the purchase price therefor in Federal Funds.

Documents to be Delivered at Closing

It shall be a condition to the obligation of the successful bidder(s) to accept delivery of and pay for the Notes that contemporaneously with or before accepting the Notes and paying therefore, the successful bidder(s) shall be furnished, without cost, with (a) the approving opinions of the firm of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the State, as to the validity and tax status of the Notes, substantially in the forms provided in Appendix G to the Official Statement, referred to below; (b) a certificate of the Treasurer of State (the "Treasurer") to the effect that, to the best of his knowledge, the Official Statement referred to below does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading; and (c) an opinion of the Department of the Attorney General of the State, dated as of the date of delivery of the Notes, to the effect that there is no litigation of any nature pending or threatened to restrain or enjoin the issuance or delivery of the Notes or in any way contesting or affecting the validity of the Notes or any of the proceedings taken with respect to the issuance and sale thereof or the levy or collection of any taxes to pay principal of or interest on the Notes. In addition, such opinion will state that, based on consultations with certain officers of the State, there is no litigation of any nature now pending or threatened by or against the State wherein an adverse judgment or ruling could have a material adverse effect on the financial condition of the State or adversely affect the power of the State to levy, collect or enforce the collection of taxes or other revenues for the payment of its Notes which has not been disclosed in the Official Statement referred to below.

Official Statement

The Preliminary Official Statement dated August 6, 2008 and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement").

The State, at its expense, will make available to the successful bidder(s) up to 200 copies of the Final Official Statement, for delivery to each potential investor requesting a copy of the Final Official Statement and to each person to whom the bidder(s) and members of its bidding group initially sell the Notes, within seven business days of the award of the Notes, provided that the successful bidder(s) cooperate in providing the information required to complete the Final Official Statement.

The successful bidder(s) shall comply with the requirements of Rule 15c2-12 and the rules of the Municipal Securities Rulemaking Board, including an obligation, if any, to update the Final Official Statement.

Continuing Disclosure

In order to assist bidders in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the State will undertake to provide notices of certain material events. A description of this undertaking is set forth in the Preliminary Official Statement.

Right to Change the Notice of Sale and to Postpone Offering

The State reserves the right to make changes to the Notice of Sale and also reserves the right to postpone, from time to time, the date and time established for the receipt of bids. ANY SUCH POSTPONEMENT WILL BE ANNOUNCED NOT LATER THAN 1:00 P.M. (E.D.T.) ON THE LAST BUSINESS DAY PRIOR TO ANY ANNOUNCED DATE FOR RECEIPT OF BIDS. If any date and time fixed for the receipt of bids and the sale of the Notes is postponed, an alternative sale date and time will be announced at least 48 hours prior to such alternative sale date. On any such alternative sale date and time, any bidder may submit a bid for the purchase of the Notes in conformity in all respects with the provisions of this Notice of Sale, except for the date and time of sale and except for any changes announced at the time the sale date and time are announced.

Additional Information

For further information relating to the Notes, reference is made to the Preliminary Official Statement dated August 6, 2008 prepared for and authorized by the Treasurer. The Preliminary Official Statement may be obtained by accessing the following website:

www.munios.com/download/2008/MEStateGO2-POS.pdf. For further information, please contact Barbara Raths, Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333 (telephone: 207-624-7477; facsimile 207-287-2367).

THE STATE OF MAINE

By David G. Lemoine
Treasurer of State

Date: August 6, 2008

OFFICIAL BID FORM

\$55,845,000*

STATE OF MAINE

GENERAL OBLIGATION TAX-EXEMPT BOND ANTICIPATION NOTES

August 11, 2008

Barbara Raths, Deputy State Treasurer
State of Maine
State House Station
Augusta, Maine 04333

By facsimile: (207) 287-2367
By email: Barbara.Raths@maine.gov

Dear Ms. Raths:

Subject to the provisions and in accordance with the terms of the Notice of Sale dated August 6, 2008, which is hereby made a part of this bid, we hereby offer to purchase all of the above captioned issue of Notes, described in said Notice of Sale and in the Preliminary Official Statement which have been furnished to us, as set forth below.

Tax-Exempt Notes

Interest Rate	_____ %
Principal Amount of Notes Bid	\$ _____
Amount of Premium Offered (if any)	\$ _____
Total Purchase Price Offered	\$ _____

The net interest cost (NIC) of the Tax-Exempt Notes under the proposal set forth above is:

_____ % (calculated to six decimal places)

This Official Bid Form, if and when accepted by the State, shall, together with the Notice of Sale dated August 6, 2008, constitute a contract to purchase and sell notes as provided in said Notice of Sale.

We, if the successful bidder of the Tax-Exempt Notes, will (a) within 30 minutes after being notified of the award of the Tax-Exempt Notes, advise the State in writing of the Initial Reoffering Price of the Tax-Exempt Notes and (b) within 24 hours, furnish the Deputy Treasurer and Bond Counsel the information needed to complete the Final Official Statement, as set forth in the Notice of Sale.

By: _____
Name

Firm

Signature

Telephone

* Preliminary, subject to change.

OFFICIAL BID FORM

\$3,200,000*
STATE OF MAINE
GENERAL OBLIGATION TAXABLE BOND ANTICIPATION NOTES

August 11, 2008

Barbara Raths, Deputy State Treasurer
State of Maine
State House Station
Augusta, Maine 04333

By facsimile: (207) 287-2367
By email: Barbara.Raths@maine.gov

Dear Ms. Raths:

Subject to the provisions and in accordance with the terms of the Notice of Sale dated August 6, 2008, which is hereby made a part of this bid, we hereby offer to purchase all of the above captioned issue of Notes, described in said Notice of Sale and in the Preliminary Official Statement which have been furnished to us, as set forth below.

Taxable Notes

Interest Rate	_____ %
Principal Amount of Notes Bid	\$ _____
Amount of Premium Offered (if any)	\$ _____
Total Purchase Price Offered	\$ _____

The net interest cost (NIC) of the Taxable Notes under the proposal set forth above is:

_____ % (calculated to six decimal places)

This Official Bid Form, if and when accepted by the State, shall, together with the Notice of Sale dated August 6, 2008, constitute a contract to purchase and sell notes as provided in said Notice of Sale.

We, if the successful bidder of the Taxable Notes, will (a) within 30 minutes after being notified of the award of the Taxable Notes, advise the State in writing of the Initial Reoffering Price of the Taxable Notes and (b) within 24 hours, furnish the Deputy Treasurer and Bond Counsel the information needed to complete the Final Official Statement, as set forth in the Notice of Sale.

By: _____
Name

Firm

Signature

Telephone

* Preliminary, subject to change.

APPENDIX K

OFFICIAL STATEMENT DATED MAY 20, 2008

RELATING TO ISSUANCE OF

\$104,075,000

**GENERAL OBLIGATION BONDS
OF THE STATE OF MAINE**

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NEW ISSUE

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State of Maine, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Taxable Bonds is included in the gross income of the owners of the Taxable Bonds for federal income tax purposes. Under existing law, interest on the Bonds is excluded from gross income for State income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

\$104,075,000 STATE OF MAINE General Obligation Bonds

Dated: Date of delivery

Due: May 15, as shown on inside cover page

The Bonds will be issued by the State of Maine (the "State") in fully registered form only, without coupons, and when issued will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository") of the Bonds. Individual purchases will be made in book-entry form only in the principal amount of \$5,000 or any whole multiple thereof. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased.

The Bonds will be general obligations of the State and the full faith and credit of the State are pledged to the punctual payment of principal of and interest on the Bonds, as more fully described herein. The Bonds are being issued to pay at maturity on June 10, 2008 the principal amount of certain bond anticipation notes issued by the State to finance certain capital expenditures of the State and to finance certain additional capital expenditures of the State.

The principal of the Bonds (maturing in the years and amounts set forth on the inside cover page) and semi-annual interest on the Bonds (payable at the rates set forth on the inside cover page on each May 15 and November 15, commencing November 15, 2008) are payable by U.S. Bank National Association, as Paying Agent, to the Securities Depository, which will in turn remit such principal and interest to its Participants (as defined herein), which will in turn remit such principal and interest to the Beneficial Owners (as defined herein) of the Bonds, as described herein.

The Bonds are not subject to redemption prior to maturity.

The Bonds are offered when, as and if issued by the State and received by the underwriters listed below (the "Underwriters") subject to the approval of legality by Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriters by their counsel, Preti, Flaherty, Beliveau & Pachios, LLP, Augusta, Maine. It is expected that the Bonds in definitive form will be available for delivery to the Securities Depository in New York, New York on May 29, 2008.

UBS Investment Bank

Banc of America Securities LLC

Wachovia Bank, National Association

Jackson Securities

Fidelity Capital Markets Services

RBC Capital Markets

KeyBanc Capital Markets

May 20, 2008

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS
\$104,075,000
State of Maine
General Obligation Bonds

Tax-Exempt General Obligation Bonds					Taxable General Obligation Bonds				
<u>Maturity</u> <u>(May 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> [†] <u>No.</u>	<u>Maturity</u> <u>(May 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP</u> [†] <u>No.</u>
2009	\$9,820,000	4.000%	1.855%	56052ATV8	2009	\$590,000	5.125%	3.288%	56052AUQ7
2010	8,335,000	3.000	2.350	56052ATW6	2010	590,000	5.125	3.638	56052AUR5
2010	1,485,000	4.000	2.350	56052ATX4	2011	590,000	3.944	100.000	56052AUS3
2011	8,820,000	3.000	2.680	56052ATY2	2012	590,000	4.194	100.000	56052AUT1
2011	1,000,000	4.000	2.680	56052ATZ9	2013	590,000	4.344	100.000	56052AUU8
2012	5,390,000	3.000	2.920	56052AUA2	2014	590,000	4.607	100.000	56052AUV6
2012	4,430,000	4.000	2.920	56052AUB0	2015	590,000	4.727	100.000	56052AUW4
2013	5,500,000	3.250	3.040	56052AUC8	2016	590,000	4.817	100.000	56052AUX2
2013	4,320,000	5.000	3.040	56052AUD6	2017	590,000	4.907	100.000	56052AUY0
2014	3,670,000	3.250	3.180	56052AUE4	2018	590,000	4.967	100.000	56052AUZ7
2014	6,145,000	5.000	3.180	56052AUF1					
2015	2,495,000	3.500	3.310	56052AUG9	Total	\$5,900,000			
2015	7,320,000	5.000	3.310	56052AUH7					
2016	3,855,000	3.500	3.440	56052AUJ3					
2016	5,960,000	5.000	3.440	56052AUK0					
2017	1,780,000	3.750	3.580	56052AUL8					
2017	8,035,000	5.000	3.580	56052AUM6					
2018	3,275,000	3.750	3.700	56052AUN4					
2018	6,540,000	5.000	3.700	56052AUP9					
Total	\$98,175,000								

No dealer, broker, salesperson or other person has been authorized by the State or the Underwriters to give any information or to make any representation, other than those contained in this Official Statement. If given or made, such other information or representation must not be relied upon as having been authorized by the State or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstance create any implication that there has been no change in the affairs of the State since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

[†] Copyright, American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Bonds. The State is not responsible for the selection or uses of the CUSIP numbers and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to change after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that may be applicable to all or a portion of certain maturities of the Bonds.

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Governor

John E. Baldacci
State House
Augusta, Maine

Treasurer of State

David G. Lemoine
State Offices
Augusta, Maine

Commissioner of Administrative and Financial Services

Rebecca M. Wyke
State Offices
Augusta, Maine

Department of the Attorney General of the State of Maine

G. Steven Rowe, Attorney General of the State of Maine
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State Offices
Augusta, Maine

Bond Counsel

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Boston, Massachusetts

Paying Agent

U.S. Bank National Association
Boston, MA

Underwriters' Counsel

Preti, Flaherty, Beliveau & Pachios, LLP
Augusta, Maine

\$104,075,000
STATE OF MAINE
GENERAL OBLIGATION BONDS

INTRODUCTION

This Official Statement, including the cover page hereof and the Appendices hereto, sets forth certain information in connection with the issuance by the State of Maine (the “State” or “Maine”) of its \$98,175,000 Tax-Exempt General Obligation Bonds (the “Tax-Exempt Bonds”) and its \$5,900,000 Taxable General Obligation Bonds (the “Taxable Bonds”). The Tax-Exempt Bonds and the Taxable Bonds are referred to collectively in this Official Statement as the “Bonds.” The Bonds are authorized by, and are being issued pursuant to, Article IX, Section 14, of the Constitution of the State and certain laws of the State which were ratified by voters of the State voting in elections thereon. See Appendix D hereto. The Bonds will be general obligations of the State.

DESCRIPTION OF THE BONDS

The Bonds will bear interest from the date of their delivery payable semiannually on May 15 and November 15 of each year, commencing November 15, 2008, until payment of the principal of the Bonds. Principal of and interest on the Bonds will be payable by U.S. Bank National Association (the “Paying Agent”). So long as The Depository Trust Company, New York, New York (“DTC”) or its nominee is the registered owner of the Bonds, disbursement of such payments to DTC is the responsibility of the Paying Agent, disbursement of such payments to the DTC Participants (hereinafter defined) is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (as defined in Appendix H hereto) is the responsibility of the DTC Participants or Indirect Participants (as defined in Appendix H hereto) as more fully described herein. See Appendix H, “The Depository Trust Company.” The Bonds will bear interest at the rates and will mature on the dates and in the amounts set forth on the inside cover page hereof. Interest on the Bonds will be computed on the basis of a 30-day month and a 360-day year.

The Bonds are not subject to redemption prior to maturity.

The Bonds are general obligations of the State and the full faith and credit of the State are pledged to the punctual payment of principal of and interest on the Bonds.

Principal of and interest on the Bonds are payable from the General Fund of the State. Article V, Part Third, Section 5 of the Constitution of the State provides that if sufficient funds are not appropriated to pay the principal of and interest on the Bonds when due, then the Treasurer of State is obligated to set apart from the first General Fund revenues received an amount sufficient to make payment of principal of and interest on the Bonds as such principal and interest become due.

The Bonds are being issued to pay at maturity on June 10, 2008 the principal amount of certain bond anticipation notes issued by the State to finance certain capital expenditures of the State and to finance certain additional capital expenditures of the State. See Appendix D hereto.

LITIGATION

There is no controversy or litigation of any nature now pending or, to the knowledge of the Department of the Attorney General, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, or any law or other authorization with respect to the issuance or sale of the Bonds, or the payment of the Bonds, or the existence or powers of the State, or the title to their respective offices of the present officers of the State who are responsible for the issuance, sale, execution or delivery of the Bonds.

The State is a party to numerous lawsuits. Such lawsuits include actions to recover monetary damages from the State, disputes over individual or corporate income taxes, disputes over sales or use taxes, and actions to alter the regulations or administrative practices of the State in such manner as to cause additional costs to the State. The State is not aware of any pending or threatened litigation or claim against the State, the outcome of which will have a material adverse effect on the financial condition of the State.

TAX MATTERS

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State of Maine (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Tax-Exempt Bonds. Failure to comply with these requirements may result in interest on the Tax-Exempt Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Tax-Exempt Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Tax-Exempt Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Interest on the Taxable Bonds is included in gross income for federal income tax purposes.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is excluded from gross income for State of Maine income tax purposes. Bond Counsel has not opined as to other State of Maine tax consequences arising with respect to the Bonds. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws

of any state other than the State of Maine. Complete copies of the proposed forms of opinions of Bond Counsel are set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes (in the case of the Tax-Exempt Bonds) and is exempt from Maine personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Holders of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Tax-Exempt Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Tax-Exempt Bonds, or, in some cases, at the earlier redemption date of such Tax-Exempt Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Maine personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a holder's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such holder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Tax-Exempt Bonds may adversely affect the value of, or the tax status of interest on, the Tax-Exempt Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Tax-Exempt Bonds. Prospective holders of the Tax-Exempt Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Prospective holders of the Bonds should also be aware that the statutory framework on which the exemption from Maine personal income taxes described above is based is similar to that at issue in Department of Revenue of Kentucky v. Davis, 197 S.W.3d 557 (Ky. App. 2006), cert.

granted, 75 U.S.L.W. 3621 (May 21, 2007), in which the Kentucky court held that a statute that provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the commerce clause of the United States Constitution. On May 19, 2008, the United States Supreme Court reversed the holding of the Kentucky court and ruled that the statute in question did not violate the commerce clause.

Although Bond Counsel is of the opinion that interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and that interest on the Bonds is exempt from Maine personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal tax liability (in the case of the Tax-Exempt Bonds) or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

Absence of Litigation

Upon delivery of the Bonds, the State will furnish an opinion of the Department of the Attorney General, dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or threatened to restrain or enjoin the issuance or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds or seeking to restrain or enjoin the issuance and sale thereof or the levy or collection of any taxes to pay principal of or interest on the Bonds. In addition, such opinion will state that, based on consultations with certain officers of the State, there is no litigation of any nature now pending or threatened by or against the State wherein an adverse judgment or ruling could have a material adverse effect on the financial condition of the State or adversely affect the power of the State to levy, collect or enforce the collection of taxes or other revenues for the payment of its Bonds which has not been disclosed in this Official Statement.

Treasurer's Certificate

Upon delivery of the Bonds, the State will furnish a certificate of the Treasurer of State, dated the date of delivery of the Bonds, to the effect that to the best of his knowledge this Official Statement does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

Legal Opinions

The opinions of Edwards Angell Palmer & Dodge LLP (i) approving the authorization and issuance of the Bonds and (ii) with respect to the tax-exempt status of the Tax-Exempt Bonds will be delivered at the time of delivery of the Bonds in substantially the forms set forth in Appendix G to this Official Statement.

Secondary Market Disclosure

In order to assist the underwriters which are purchasing the Bonds (the “Underwriters”) in complying with the Municipal Securities Disclosure Rule, 17 CFR §240.15c2-12 (the “Rule”), promulgated by the Securities and Exchange Commission, the State will undertake in the Bonds to provide annual reports and notices of certain events. Such undertakings of the State are summarized in Appendix I hereto.

The State has never failed to comply in all material respects with any previous undertakings with respect to the Rule to provide annual financial information or notices of material events.

RATINGS

Moody’s Investors Service, Inc., Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and Fitch Ratings have assigned their municipal bond ratings of “Aa3,” “AA” and “AA,” respectively, to the Bonds. The State has furnished such rating agencies with certain information and materials concerning the Bonds and the State, some of which is not included in this Official Statement. Generally, each such rating agency bases its ratings on such information and materials and also on such investigations, studies and assumptions as each may undertake or establish independently.

The ratings are not a recommendation to buy, sell or hold the Bonds and each such rating should be evaluated independently. Each such rating is subject to change or withdrawal at any time and any such change or withdrawal may affect the market price or marketability of the Bonds. Neither the State nor the Underwriters have undertaken any responsibility either to bring to the attention of the owners of the Bonds any proposed change in or withdrawal of any rating of the Bonds or to oppose any such change or withdrawal.

UNDERWRITING

The Bonds are being purchased by the Underwriters for whom UBS Securities LLC is acting as representative. The Underwriters have agreed to purchase the Bonds at a price of \$108,492,018.20, which purchase price reflects an Underwriters’ discount, from the public offering price of the Bonds, in the amount of \$384,643.75. The purchase contract relating to the Bonds provides that the Underwriters will purchase all of the Bonds, if any Bonds are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract, subject to the approval of certain legal matters by Preti, Flaherty, Beliveau & Pachios, LLP, Augusta, Maine, counsel for the Underwriters. The initial public offering prices of the Bonds stated on page ii hereof may be changed, from time to time, by the Underwriters. The State has been advised by the Underwriters that (i) they presently intend to make a market in the Bonds, (ii) they are not, however, obligated to do so, (iii) any market making may be discontinued at any time, and (iv) there can be no assurance that an active public market for the Bonds will develop. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into unit investment trusts, certain of which may be sponsored or managed by one or more of the Underwriters) and others at a price lower than the public offering price of the Bonds stated on the inside cover page hereof.

MISCELLANEOUS

Any provisions of the constitution of the State, of all laws and of other documents set forth or referred to in this Official Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

This Official Statement contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the State and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the State and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as “may,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates” and others.

All estimates and assumptions in this Official Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Official Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

Neither the office of the State Auditor, nor any other independent accountants, have compiled, examined or performed any procedures with respect to any financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information.

The information, estimates and assumptions and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the State or its agencies, authorities or political subdivisions since the date of this Official Statement, except as expressly stated.

Questions regarding this Official Statement or requests for additional information concerning the State should be directed to Barbara Raths, Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333, telephone: 207-624-7477; facsimile: 207-287-2367.

STATE OF MAINE

By: /s/ David G. Lemoine
David G. Lemoine
Treasurer of State

Dated: May 20, 2008

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**STATE OF MAINE
GENERAL OBLIGATION BONDS**

APPENDIX A

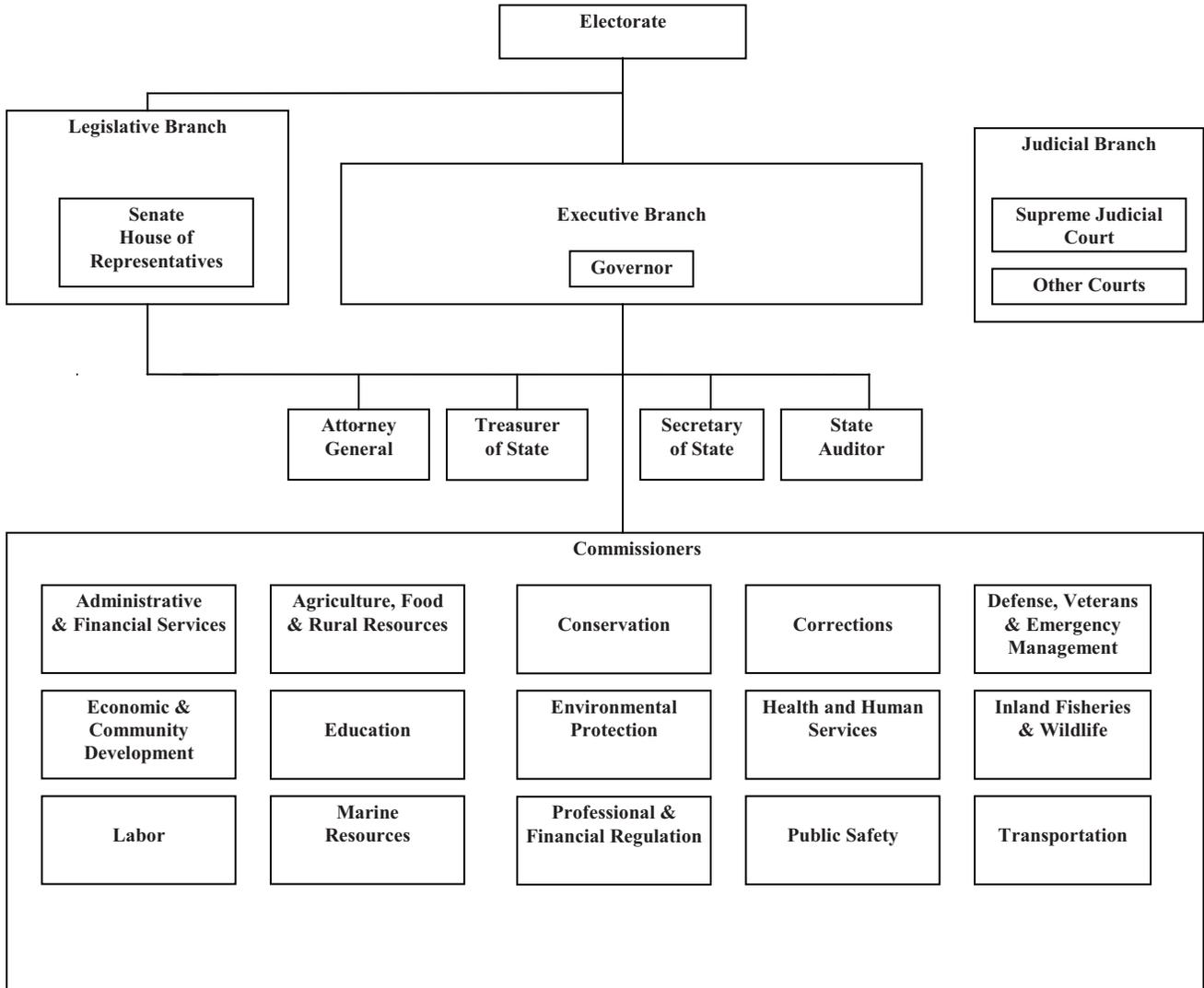
State of Maine Information Statement

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GOVERNMENTAL ORGANIZATION

The State of Maine (the “State” or “Maine”) became the twenty-third of the United States in 1820. The government of the State is divided into three distinct branches, the legislative, executive and judicial, as outlined in the chart below.



Executive Branch

The Offices of Governor, Secretary of State, Treasurer of State and Attorney General are created by the Constitution of the State. The Governor is elected quadrennially at a general election and is limited to two consecutive four-year terms of office. The second term of the present Governor began in January, 2007. The Secretary of State, Treasurer of State and Attorney General are each elected biennially by a joint ballot of the state Senators and Representatives in convention. A person may not serve more than four consecutive terms as either Secretary of State, Treasurer of State or Attorney General.

Governor. The executive power of the State, including the power to recommend measures to the Legislature, and the power to appoint, with the advice and consent of the Senate, certain officers of State government, is vested in the Governor. The Governor is responsible for the enforcement of the laws of the State.

Governor's Cabinet. The Governor's cabinet, which assists the Governor in administration and policymaking, includes the commissioners who head the 15 executive departments and who serve at the pleasure of the Governor.

Secretary of State. The Secretary of State, a constitutional officer, serves as executive head of the Department of the Secretary of State, and is authorized to keep his office at the seat of government, have the custody of the state seal and preserve all records in such office at the expense of the State; to keep and preserve the records of all the official acts and proceedings of the Governor, Senate and House of Representatives, and, when required, lay the same before either branch of the Legislature, and perform such other duties as are enjoined by the Constitution or required by law. The Secretary of State attends the Governor, Senate and House of Representatives as they shall respectively require; appoints and renews all notaries public commissions; prepares commissions for appointees, justices of the peace, and certificates of election to office for presentation to the Governor under the seal of the State; distributes printed information and instructions, ballots and blanks for all election returns required by law to clerks of the several towns; files articles of incorporation; files notices of certain security interests and performs other receiving, filing and recording functions for which fees may be collected; files rules adopted pursuant to the Administrative Procedure Act; annually registers motor vehicles and issues licenses for operators thereof; issues certificates of title, licenses new and used car dealers; maintains approximately 95 million pages of official state records considered to be permanently valuable; administers the state's address confidentiality program; and supervises the Department's subdivisions as required by statute and recommends to the Legislature such changes as may be required to modernize and improve the functions and services rendered by the Department.

Treasurer of State. The Treasurer of State, a constitutional officer, is authorized to receive and keep records of all items of income accruing to the State; to deposit such items in banks, reconciling said balances and temporarily investing idle funds; to sell bonds of the State as approved by law and keep records pertaining to such debt; to maintain monthly exhibits concerning these moneys; to enter into contracts or agreements with banks for custodial care and servicing of negotiable securities belonging to the State; and to establish accounts with such banks for servicing State agencies. The Treasurer of State also administers the Unclaimed Property Program. The Treasurer of State is an ex officio member of the boards of several authorities and bodies established by the State, including the Maine Municipal Bond Bank, the Maine Public Employees Retirement System, the Maine Health and Higher Educational Facilities Authority, the Maine Governmental Facilities Authority, the Maine State Housing Authority, the Finance Authority of Maine, the Maine Public Utility Financing Bank, the Adaptive Equipment Loan

Board, the Northern Maine Transmission Corporation, the Dirigo Health Agency Board of Trustees and the Maine Educational Loan Authority, and is Chair of the NextGen Investment Advisory Board.

The Treasurer of State is responsible daily for the investment of those funds not required to meet current expenditures. Daily deposits are placed in local depositories statewide, wired daily to a central working account and invested fully. All check disbursements are made by the Treasurer of State on warrants issued by the State controller. Funds are disbursed on bank accounts established under competitive bidding. Account costs are offset by compensating balances. Funds are transferred from receipt accounts to disbursement accounts by wire as needed to meet balance requirements.

The Treasurer of State maintains a record of all receipts, disbursements and transfer activity and balances to the State controller monthly. The Treasurer of State maintains the records of the investments of the State through the State investment pool. The investment pool comprises the entire cash availability of the State (all funds) as well as component units that elect to participate. Monthly transfers of earnings are made by the Treasurer of State to participating funds. The Treasurer of State compiles a listing of investments held monthly.

When there is excess money in the State Treasury that is not needed to meet current obligations, the Treasurer of State may invest, with the concurrence of the State controller or the Commissioner of Administrative and Financial Services and with the consent of the Governor, those amounts in bonds, notes, certificates of indebtedness or other obligations of the United States and its agencies and instrumentalities that mature not more than 36 months from the date of investment or in repurchase agreements that mature within the succeeding 12 months that are secured by obligations of the United States and its agencies and instrumentalities, prime commercial paper, tax-exempt obligations and corporate bonds rated “AAA” that mature not more than 36 months from the date of investment, banker’s acceptances or so-called “no-load” shares of any investment company registered under applicable Federal law that complies with certain Federal guidelines and maintains a constant share price.

Attorney General. The Attorney General’s primary responsibility is to protect public rights and preserve order through serving as the State’s chief law officer and legal representative of the State. In this capacity, the Attorney General ensures enforcement of Maine laws through instituting, conducting, and maintaining such actions and proceedings as the public interest may require. No State agency may appear and advocate positions before a court without the approval of the Attorney General.

The Department of the Attorney General is authorized to (a) appear for the State, or any State agency or official, in all civil actions and proceedings in which the State is a party or interested, or in which the official acts of such officers are questioned in State or Federal courts or Federal agencies; (b) control and direct the investigation and prosecution of homicides and other major crimes, including frauds against the State; (c) render all legal services required by State officers, boards and commissions in matters relating to their official duties; (d) issue written opinions upon questions of law submitted by the Governor, the head of any State department or agency, or by either branch of the Legislature or any member of the Legislature on legislative matters; (e) enforce due application of funds given or appropriated to public trusts and charities within the State and prevent breaches of trust in the administration thereof; (f) consult with and advise the District Attorneys in matters relating to their duties, and, in his discretion, act in place of or with them in instituting and conducting prosecutions for crime; and (g) administer and enforce the State unfair trade practices and antitrust laws.

Beyond the general purposes discussed above, the Attorney General has a wide range of duties which the office is specifically directed to perform. Those duties include a review and approval as to form and legality of all regulations of State agencies subject to the Administrative Procedure Act. Among other specific statutory functions, the Attorney General must also review and approve write-offs of debts owed to the State, enforce standards of conduct of the legal profession and participate in making investment decisions regarding the State trustee funds.

The Attorney General is an ex officio member of many State agencies, including the Baxter State Park Authority, the Judicial Council, the Criminal Law Advisory Commission, the Maine Criminal Justice Planning and Assistance Agency, and the Advisory Committees to the Supreme Judicial Court on Civil Rules and Criminal Rules.

The Legislature

The legislative power of the State is vested in a Senate and a House of Representatives (collectively, the “Legislature”), each of which has a negative on the other. The Senate consists of 35 members, and the House of Representatives consists of 151 members, all of whom are elected for two-year terms from single-member districts. A person may not serve more than four consecutive terms as either a senator or a representative.

The Legislature is organized into 17 Joint Standing Committees, each comprised of 3 Senators and 10 Representatives. Current Joint Standing Committees are: Agriculture, Conservation and Forestry; Appropriations and Financial Affairs; Business, Research and Economic Development; Criminal Justice and Public Safety; Education and Cultural Affairs; Health and Human Services; Inland Fisheries and Wildlife; Insurance and Financial Services; Judiciary; Labor; Legal and Veterans Affairs; Marine Resources; Natural Resources; State and Local Government; Taxation; Transportation; and Utilities and Energy. From time to time, the Legislature has established joint select committees on such matters as property tax reform, research and development, corrections, Indian affairs and rules.

The Legislature of the State convenes in even-numbered years on the first Wednesday of December following the general election in what is designated the first regular session of the Legislature and also convenes on the first Wednesday after the first Tuesday of January in the subsequent even-numbered year in what is designated the second regular session of the Legislature. The business of the second regular session of the Legislature is limited to budgetary matters, legislation in the Governor’s call, legislation of an emergency nature admitted by the Legislature, legislation referred to committees for study and report by the Legislature in the first regular session and legislation presented to the Legislature by written petition of the voters pursuant to the Constitution of the State. The Legislature may convene at such other times in special session on the call of the President of the Senate and the Speaker of the House, with the consent of the majority of the members of the Legislature of each political party, all members of the Legislature having first been polled. The Governor may, on extraordinary occasions, also convene special sessions of the Legislature.

The Constitution requires the Legislature to enact appropriate statutory limits on the length of the first and second regular sessions. Under the statute currently in effect, the first regular session of the Legislature adjourns no later than the third Wednesday in June and the second regular session of the Legislature adjourns no later than the third Wednesday in April. The Legislature, in the case of emergency, may by a vote of two-thirds of the members of each of the Senate and House of Representatives present and voting, extend the date for adjournment by no more than five legislative days, and, in the case of further emergency, further extend the date for adjournment by five additional

legislative days. The times for adjournment for the first and second regular sessions may also be extended for one additional legislative day for the purpose of considering any veto by the Governor of any bill or resolution passed by the Legislature.

The Legislature, with certain exceptions, is authorized to make and establish all reasonable laws and regulations for the defense and benefit of the people of the State, not repugnant to the Constitution of the State, nor to that of the United States. Legislation enacted by the Legislature may be vetoed by the Governor. The Governor's veto may be overridden by the subsequent vote of at least two-thirds of each of the House of Representatives and the Senate. The Governor also has "line-item" veto power to decrease appropriations or allocations and to increase deappropriations or deallocations within one day after the Governor receives legislation for approval. The Governor's "line-item" veto may be overridden by the subsequent vote of at least a majority of each of the House of Representatives and the Senate. Legislation does not become effective until 90 days after the recess of the session of the Legislature in which it was passed, unless in case of emergency the Legislature shall, by a vote of two-thirds of all the members elected to each of the House of Representatives and the Senate, otherwise direct.

The Constitution of the State provides that, upon written petition by voters equal to not less than 10% of the total vote cast in the last gubernatorial election preceding such petition and filed on or before the ninetieth day after recess of the Legislature requesting that legislation passed by the Legislature but not then in effect be submitted to referendum for ratification by a majority of those voting thereon, such legislation does not take effect, if at all, until thirty days after the Governor has announced that such legislation has been ratified by the voters. Any such ratification vote would take place at the next statewide or general election, not less than 60 days after the Governor has proclaimed that sufficient signatures have been submitted.

The Constitution of the State provides that, by written petition, voters equal to not less than 10% of the total vote cast in the last gubernatorial election preceding such petition and filed before a regular session of the Legislature, may propose legislation to the Legislature for its consideration. The legislation, unless adopted by the Legislature without change, must be submitted to referendum in the next November after the Legislature recesses.

Pursuant to the Constitution of the State, legislative enactments, including bills, orders or resolutions, may originate in either the Senate or the House of Representatives, and may be altered, amended, or rejected in the other, but all bills for raising a revenue shall originate in the House of Representatives, but the Senate may propose amendments as in other cases, provided that the Senate shall not, under color of amendment, introduce any new matter which does not relate to raising a revenue.

The Judiciary

The judicial power of the State is vested in the Supreme Judicial Court and such other courts as the Legislature may establish. The Legislature has established the Superior Court and the District Court. The courts are administered by the Administrative Office of the Courts under the direction of the State Court Administrator, who is appointed by and serves at the pleasure of the Chief Justice. In addition, the Constitution of the State provides for probate courts in each of the 16 counties of the State.

The Supreme Judicial Court is the highest court in Maine, and as the Law Court is the court of final appeal. It consists of the Chief Justice and six Associate Justices, each of whom is appointed by the Governor with the consent of the Legislature for a seven-year term.

The Superior Court and the District Court are both trial courts of limited, complimentary jurisdiction. The Superior Court offers jury trials and the District Court does not. The Superior Court consists of a Chief Justice and 16 justices, who are appointed by the Governor with the consent of the Legislature for a seven-year term. The Superior Court holds sessions in each of the 16 counties.

The District Court consists of a Chief Judge, a Deputy Chief Judge and 34 judges, each of whom is appointed by the Governor with the consent of the Legislature for a seven-year term. There are 13 districts and several divisions of the court.

Independent Authorities and Agencies

The State has established several independent authorities and agencies, the budgets of which are not included in the annual budget of the State. Certain of these authorities and agencies receive appropriations from the State from time to time. Certain of these authorities and agencies are authorized by the statutes creating such authorities and agencies to issue bonds and to undertake financial obligations, payment of which are secured in part by special reserve funds (“Capital Reserves”) to which the State may appropriate funds in order to maintain the Capital Reserves at amounts determined by such statutes or by such authorities and agencies (a “Capital Reserve Provision”). While the bonds and obligations of such authorities and agencies and the Capital Reserve Provisions do not constitute legally enforceable obligations of the State or create any debt on behalf of the State, the Constitution of the State does not prohibit future Legislatures from appropriating sums requested by any such authority or agency in compliance with its Capital Reserve Provision. Certain of these authorities and agencies have been authorized by statute to insure or guarantee repayment of certain loans and bonds. See “Fiscal Management - Constitutional Debt Limit” and “Certain Public Instrumentalities” herein.

County and Municipal Government

There are 16 county governments responsible for various functions, including the operation of county jails and registries of probate and deeds. Each county government assesses the costs of its operations upon the cities, towns and unorganized places located within the county. A law which took effect April 18, 2008 modifies the responsibility of county governments to operate county jails. For a summary of such law, see “State Budgets” herein.

The State is divided into 16 counties which are further divided into 22 cities, 434 towns, and 36 plantations which exercise the functions of municipal government, including the provision of elementary and secondary education. There are also 426 unorganized townships, a number of unorganized coastal and inland islands, and three Indian Reservations. Cities are governed by several variations of the mayor and council form of government. In most towns, executive power has been placed in a board of three, five, or seven selectmen, elected to terms of from one to three years and legislative power has been retained by the voters themselves, who assemble in periodic open town meetings. There are various regional districts for school, water supply, solid waste, wastewater disposal and other purposes.

Municipal revenues consist of property taxes, local aid (including State subsidies for education and revenue sharing), local receipts (including motor vehicle and watercraft excise taxes, fines, license and permit fees, charges for local services and investment income) and other sources.

FISCAL MANAGEMENT

Department of Administrative and Financial Services

The Department of Administrative and Financial Services, under the supervision and control of the Commissioner of Administrative and Financial Services, is the principal fiscal department of State government. The Commissioner of Administrative and Financial Services has certain duties and authorities, including serving as the Governor's principal fiscal aide, coordinating financial planning and programming activities of the State government for review and action by the Governor, preparing and reporting to the Governor and the Legislature such financial data or statistics as may be required or requested by them, planning with respect to the fiscal needs of State government and ensuring that all publications stating the salary of a State employee also state the value of the employee's fringe benefits. The Department of Administrative and Financial Services includes the Bureau of the Budget, headed by the State budget officer, the Office of the State Controller and the Bureau of Maine Revenue Services, headed by the State tax assessor.

Constitutional Debt Limit

Article IX, Section 14, of the Constitution of the State provides that the Legislature shall not at any time create any debt or debts, liability or liabilities, on behalf of the State, which shall singly, or in the aggregate, with previous debts and liabilities incurred, exceed \$2,000,000, (i) except to suppress insurrection, to repel invasion, or for purposes of war, (ii) except for temporary loans to be paid out of money raised by taxation during the fiscal year in which they are made, and (iii) excepting also that whenever two-thirds of both the Senate and the House of Representatives 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 at such times and in such amounts and for such purposes as may be approved by such action. The issuance of the Bonds described in this Official Statement is authorized pursuant to certain enactments which have been ratified by a majority of the voters at various elections. See Appendix D, "Selected Information Regarding Authorized and Outstanding Debt of the State - Authorized Expenditures," herein. 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 ten percent 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 one percent of the total valuation of the State, whichever is the lesser.

The Constitution also allows the Legislature to authorize the issuance of bonds (i) in the amount of up to \$4,000,000 to guarantee student loans; (ii) to insure payments on up to \$4,000,000 of mortgage loans for war veterans; and (iii) to insure payments on up to \$90,000,000 of mortgage loans for industrial, manufacturing, fishing agricultural and recreational enterprises. The Finance Authority of Maine is authorized to guarantee student loans and to insure payments on certain mortgage loans. See "Certain Public Instrumentalities – Finance Authority of Maine" herein. The Constitution also allows the Legislature to authorize the issuance of bonds to insure payments on up to \$1,000,000 of mortgage loans for Indian housing. The Maine State Housing Authority is authorized to insure payments on mortgage loans for Indian housing. See "Certain Public Instrumentalities – Maine State Housing Authority" herein. Although the Constitution also allows the Legislature to authorize the issuance of bonds to insure the payment of revenue bonds of the Maine School Building Authority on school projects not exceeding \$6,000,000, the statutory authorization for insurance of Maine School Building

Authority revenue bonds has been repealed. No bonds are outstanding pursuant to any of the authorizations described in this paragraph.

Overview of the Budget Process

The budget of the State government must present a complete financial plan for each fiscal year of the ensuing period of two fiscal years, commencing July 1 in odd-numbered years. The budget must set forth all proposed expenditures for the administration, operation and maintenance of the departments and agencies of State government, all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year of such two-year period. In addition, the budget must set forth the anticipated revenues of the State government and any other means of financing expenditures proposed for each fiscal year of such two-year period.

The State budget consists of a budget message by the Governor (or the Governor-elect) that outlines the financial policy of the State government for the ensuing period of four fiscal years, describing in connection therewith the important features of the financial plan. The budget includes a general budget summary setting forth the aggregate figures of the budget showing the balance between total proposed expenditures and total anticipated revenues, together with other means of financing the budget for each fiscal year of the ensuing two fiscal years, contrasted with the corresponding figures for the last completed fiscal year and the fiscal year in progress. For information regarding the revenue projection process, see “Fiscal Management – Revenue Forecasting” below. The budget specifically describes the estimated loss in revenue during the last completed fiscal year and the fiscal year in progress and the anticipated loss in revenue for each fiscal year of such two-year period caused by tax expenditures provided by law. The general budget summary must be supported by explanatory schedules or statements, classifying the expenditures contained therein by organization units, objects and funds, and the income by organization units, sources and funds. The budget also includes statements of the bonded indebtedness of the State government showing the debt redemption requirements, the debt authorized and unissued, and the condition of the sinking funds.

Pursuant to Public Laws of Maine 2005, chapter 2 (the “2005 Chapter 2”), the total General Fund appropriation for each of the two fiscal years in the biennial budget may not exceed the General Fund appropriation limit established by law. See “Fiscal Management – General Fund Appropriation Limit.” The General Fund appropriation limit is approximately \$3.2 billion for fiscal year 2008 and approximately \$3.3 billion for fiscal year 2009. 2005 Chapter 2 became effective for fiscal biennia of the State beginning July 1, 2005 and is subject to modification or repeal at any time by the Legislature.

On or before September 1 of even-numbered years, all departments and other agencies of the State government and corporations and associations receiving or desiring to receive State funds must prepare and submit to the State budget officer estimates of their expenditure and appropriation requirements for each fiscal year of the ensuing two-year fiscal period contrasted with the corresponding figures of the last completed fiscal year and the estimated figures for the fiscal year in progress. The total General Fund appropriation requests submitted by each department and agency for each fiscal year may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate or, as required by 2005 Chapter 2, 2.75%, whichever is less. The total Highway Fund appropriation requests submitted by each department and agency for each fiscal year may not exceed the Highway Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate or, as required by 2005 Chapter 2, 2.75%, whichever is less, except that the Highway Fund, highway and bridge improvement accounts, are exempt from the foregoing limitation.

The Governor (or the Governor-elect), with the assistance of the State budget officer, reviews the budget estimates and may alter, revise, increase or decrease the items of the estimates as may be deemed necessary in view of the needs of the various departments and agencies and the total anticipated income of the State government during the ensuing two-year fiscal period. The State budget officer, at the direction of the Governor (or the Governor-elect), then prepares a State budget in the form required by law. The Governor must transmit the budget to the Legislature not later than the Friday following the first Monday in January of odd-numbered years. A Governor-elect to his first term of office must transmit the State budget to the Legislature not later than the Friday following the first Monday in February in odd-numbered years.

Not later than June 1 of each year, the head of each department and agency of State government must submit to the State Bureau of the Budget a work program for the ensuing fiscal year. Such work program must include all appropriations, revenues, transfers and other funds made available to that department or agency for its operation and maintenance and for the acquisition of property, and must show the requested allotments of said sums by quarters for the entire fiscal year, classified to show allotments requested for specific amounts for personal services, capital expenditures and amounts for all other departmental expenses. The Governor, with the assistance of the State budget officer, reviews the requested allotments with respect to the work program of each department or agency and may revise, alter or change its allotments before approving the same. The aggregate of such allotments may not exceed the total sums made available to each department or agency for the fiscal year in question. The State budget officer transmits a copy of the allotments as approved by the Governor to the head of the department or agency concerned and also a copy to the State controller. The State controller authorizes all expenditures to be made from the sums available on the basis of such allotments and not otherwise. Thereafter, the head of any department or agency of the State government may request, and the Governor may approve, revisions of the allotments for the remaining quarters of a fiscal year.

Whenever it appears to the Commissioner of Administrative and Financial Services that the anticipated income and other available funds of the State will not be sufficient to meet the expenditures authorized by the Legislature, the Commissioner so reports in writing to the Governor and to certain officers of the Legislature. After receiving the report, the Governor may temporarily curtail allotments equitably so that expenditures will not exceed the anticipated income and other available funds. The Governor, upon the curtailment of any allotment, notifies certain officers of the Legislature of the specific allotments curtailed, the extent of curtailment of each allotment and the effect of each curtailment on the objects and purposes of the program so affected.

No State department or agency may make expenditures of any Federal funds or expenditures in anticipation of receipt of Federal funds for any new or expanded programs, unless such Federal funds are approved by the Legislature. The Governor may authorize the expenditure of such Federal funds for a period not to exceed twelve calendar months and shall notify the Office of Fiscal and Program Review of the Legislature of such action.

Revenue Forecasting

A Revenue Forecasting Committee is responsible for providing the Governor, the Legislature and the State budget officer with analyses, findings and recommendations relating to the projection of revenues for the General Fund and the Highway Fund based on economic assumptions recommended by the Consensus Economic Forecasting Commission. The Revenue Forecasting Committee includes the State budget officer, the State tax assessor, the State economist, an economist on the faculty of the University Maine System selected by the chancellor, the Director of the Office of Fiscal and Program

Review of the Legislature and another member of the Legislature's nonpartisan staff familiar with revenue estimating issues appointed by the Legislative Council. The Revenue Forecasting Committee meets at least 4 times a year.

The Revenue Forecasting Committee develops current fiscal biennium and 2 ensuing fiscal biennia revenue projections using the economic assumptions recommended by the Consensus Economic Forecasting Commission. The Revenue Forecasting Committee submits recommendations for State revenue projections for the next 2 fiscal biennia and analyzes revenue projections for the current fiscal biennium. No later than December 1 of each even-numbered year, the Revenue Forecasting Committee submits to the Governor, certain members of the Legislature and the State budget officer analyses, findings and recommendations for General Fund and Highway Fund revenue projections for the next 2 fiscal biennia. No later than May 1 and December 1 of each odd-numbered year and no later than March 1 and December 1 of each even-numbered year, the Revenue Forecasting Committee submits to the Governor, certain members of the Legislature and the State budget officer analyses, findings and recommendations for adjustments to General Fund and Highway Fund revenue for the current and ensuing fiscal biennia.

The Revenue Forecasting Committee makes all determinations necessary to calculate the General Fund appropriation limit established by law. See "Fiscal Management – General Fund Appropriation Limit."

The State budget officer uses the revenue projections of the Revenue Forecasting Committee in setting revenue estimates for inclusion in the State budget and in preparing General Fund and Highway Fund revenue and expenditure forecasts for the budget.

The Consensus Economic Forecasting Commission is responsible for providing the Governor, the Legislature and the Revenue Forecasting Committee with analyses, findings and recommendations representing State economic assumptions relevant to revenue forecasting. The Consensus Economic Forecasting Commission consists of 5 members appointed by the Governor as provided by law. Each Consensus Economic Forecasting Commission member must have professional credentials and demonstrated expertise in economic forecasting. The Consensus Economic Forecasting Commission meets at least 4 times a year.

The Consensus Economic Forecasting Commission develops 5-year and 10-year macroeconomic secular trend forecasts and one-year, 2-year and 4-year economic forecasts. The Consensus Economic Forecasting Commission submits recommendations for State economic assumptions for the next fiscal biennium and analyzes economic assumptions for the current fiscal biennium. No later than November 1 of each even-numbered year, the Commission submits to the Governor, the Revenue Forecasting Committee and certain members of the Legislature analyses, findings and recommendations for economic assumptions related to revenue forecasting for the next fiscal biennium. No later than April 1 and November 1 of each odd-numbered year and no later than February 1 and November 1 of each even-numbered year, the Commission submits to the Governor, the Revenue Forecasting Committee and certain members of the Legislature the Commission's findings and recommendations for adjustments to the economic assumptions for the current fiscal biennium.

The Consensus Economic Forecasting Commission met on January 22, 2008 to refine the forecast it released in November 2007, making a number of adjustments to that forecast. This most recent forecast projects a slowing in both the national and state economies in calendar year 2008 as a product of a weakening labor market and a downturn in retail sales, with slow recovery in calendar year

2009. The forecast for annual percentage change in wage and salary employment growth for calendar year 2008 was reduced from 0.3% to zero, with growth in calendar year 2009 remaining at the previous forecasted level of 0.6%. The annual percentage change in inflation was adjusted from 2.5% to 2.3% in calendar year 2008 and from 2.5% to 2.1% in calendar year 2009. The annual percentage change in personal income for calendar year 2008 was adjusted from 4.4% to 3.5% and the estimate for calendar year 2009 was adjusted downward from 4.5% to 4.1%.

In its December, 2007 report, the Revenue Forecasting Committee projected a decrease of approximately \$37,773,000 in General Fund revenues for fiscal year 2008 and a decrease of approximately \$57,388,000 for fiscal year 2009. The latest report of the Revenue Forecasting Committee is dated March 1, 2008 and reflects further deterioration in the economic picture, with a projected additional decline in General Fund revenues of approximately \$94.8 million over the course of the current biennium - \$26.9 million in fiscal year 2008 and \$67.9 million in fiscal year 2009. The impact of these revenue downturns was addressed in supplemental budget enactments described under the caption "State Budgets" herein.

General Fund Appropriation Limit

Pursuant to 2005 Chapter 2, the rate of growth of General Fund appropriations in a fiscal year is limited in one of two ways (the "Growth Limit Factor"). For fiscal years when the "state and local tax burden" of the State ranks in the highest one-third of all states, the Growth Limit Factor is "average real personal income growth," but no more than 2.75%, plus "average population growth." For fiscal years when the "state and local tax burden" of the State ranks in the middle one-third of all states, the Growth Limit Factor is "average real personal income growth" plus "forecasted inflation" plus "average population growth."

"Average population growth" means the average for the prior ten calendar years of the percent change in population from July 1 of each year. "Average real personal income growth" means the average for the prior ten calendar years of the percent change in personal income in the State less the percent change in the consumer price index for the calendar year. "Forecasted inflation" means the average amount of change of the consumer price index for the calendar years that are part of the ensuing two fiscal years forecasted by the Consensus Economic Forecasting Commission in its November 1 report in even-numbered years. "State and local tax burden" means the total amount of state and local taxes paid by residents of the State per \$1,000 of income.

As of December 1 of each even-numbered year, a General Fund appropriation limit is established for the ensuing two fiscal years. For the first fiscal year, the General Fund appropriation limit is equal to the "biennial base year appropriation" multiplied by one plus the Growth Limit Factor. For the second fiscal year, the General Fund appropriation limit is the General Fund appropriation limit of the first year multiplied by one plus the Growth Limit Factor. "Biennial base year appropriation" means the amount of the General Fund appropriation limit for the current year as of December 1 of even-numbered years.

The General Fund appropriation limit applies to all General Fund appropriations, except certain education costs described in the following paragraph. The General Fund appropriation limit is approximately \$3.2 billion for fiscal year 2008 and approximately \$3.3 billion for fiscal year 2009.

2005 Chapter 2 provides that the additional cost for certain essential educational programs and services described below ("Essential Programs and Services") for kindergarten to grade 12 education ("K-12 Education") over the fiscal year 2004-05 appropriation for general purpose aid for local schools is excluded from the General Fund appropriation limit until the State share of that cost reaches 55% of

the total State and local cost. Current law provides that the State will pay 55% of the total State and local cost of K-12 Education for fiscal year 2009 and that the General Fund appropriation limit will include the State share of the cost of K-12 Education beginning with fiscal year 2010. Public Laws of Maine 2007, chapter 539 (“2007 Chapter 539”) which was enacted in March, 2008 and which is currently expected to take effect on June 30, 2008 provides that the State will pay 55% of the total State and local cost of K-12 Education for fiscal year 2010 and that the General Fund appropriation limit will include the State share of the cost of K-12 Education beginning with fiscal year 2011.

Essential Programs and Services are those educational resources that are identified in State law for all students to meet certain academic standards in a system of learning results established by State law in the areas of math, English, science and technology, social studies, including history, economics and civics, career preparation, visual and performing arts, health and physical education, and foreign languages. To achieve the system of learning results, school funding based on Essential Programs and Services is required by State law to be available in all schools on an equitable basis.

The General Fund appropriation limit may be exceeded for certain extraordinary circumstances which must be outside the control of the Legislature of the State, including (a) catastrophic events, such as natural disaster, terrorism, fire, war and riot, (b) unfunded or underfunded State or Federal mandates, (c) citizens’ initiatives or other referendum, (d) court orders or decrees or (e) loss of Federal funding. Extraordinary circumstances do not include changes in economic conditions, revenue shortfalls, increases in salaries or benefits, new programs or program expansions that go beyond existing program criteria and operation. The General Fund appropriation limit may be increased for other purposes only by a vote of both Houses of the Legislature of the State in a separate measure that identifies the intent of the Legislature to exceed the General Fund appropriation limit. 2005 Chapter 2 is subject to modification or repeal at any time by the State Legislature.

“Baseline General Fund revenue” and other available budgeted General Fund resources that exceed the General Fund appropriation limit must be transferred to the Maine Budget Stabilization Fund (the “Stabilization Fund”). If the Stabilization Fund is at its limit of 12% of General Fund revenue of the immediately preceding fiscal year, then amounts that would otherwise have been transferred to the Stabilization Fund must be transferred to the Tax Relief Fund for Maine residents. “Baseline General Fund revenue” means the recommended General Fund revenue forecast reported by the Revenue Forecasting Committee in its December 1 report in even-numbered years, increased by the estimated amount of net General Fund revenue decrease, if any, for all enacted changes reducing the state and local tax burden included in that forecast.

Public Law 2005, chapter 519, effective March 29, 2006 (“2006 Chapter 519”), changed the priority order of distributions from the unappropriated surplus of the General Fund. It directs transfers to the State Contingent Account as the first priority (until the balance therein equals a maximum amount of \$350,000) and permits transfers to the Loan Insurance Reserve as the second priority in amounts up to \$1,000,000 per year. After these transfers are made, the then available balance of unappropriated surplus is distributed as follows: 35% to the Stabilization Fund; 20% to the Reserve for General Fund Operating Capital; 20% to the Retirement Allowance Fund; 15% to the Retiree Health Insurance Internal Service Fund; and the final 10% to the Capital Construction and Improvements Reserve Fund.

Public Law 2007, chapter 1, effective February 13, 2007 (“2007 Chapter 1”), as modified by Public Law 2007, chapter 240, effective June 7, 2007 (“2007 Chapter 240”), modified the distribution of the unappropriated surplus of the General Fund for fiscal year 2007. 2007 Chapter 1 requires the transfer of up to \$82,000,000 of the General Fund unappropriated surplus remaining at the close of fiscal

year 2007 to the State Department of Health and Human Services Medical Care Payments Account prior to any of the transfers required by 2006 Chapter 519. The funds are to be used specifically for the payment of outstanding settlements to hospitals participating in the State's Medicaid program (the "MaineCare Program" or "MaineCare") and to increase interim payment rates for those facilities.

As of April 30, 2008, the approximate balances in the Stabilization Fund and the Reserve for General Fund Operating Capital were \$118,900,000 and \$40,600,000, respectively. The Retirement Allowance Fund is used to make supplemental payments, if any, to reduce the State's unfunded pension liability and, therefore, does not carry a balance forward from year to year. As of April 30, 2008, the approximate balances in the Retiree Health Insurance Internal Service Fund and the Capital Construction and Improvements Reserve Fund were \$48,000,000 and \$40,600,000, respectively.

Citizen Initiated Legislation

At the initiative of certain citizens of the State pursuant to the Constitution of the State, the voters of the State will vote whether to enact legislation known as "An Act To Allow A Casino in Oxford County" (the "Initiated Act") at the statewide election to be held November 4, 2008. The Initiated Act would authorize, subject to certain conditions, a designated company to operate a gaming facility at a single site in Oxford County, Maine, provided that part of the facility revenue was used to fund specific State programs. As of the date hereof, the State has not determined the impact, if any, that the Initiated Act, if approved by the voters, would have on the revenues of the State.

The Accounting System

The Department of Administrative and Financial Services, through the Office of the State Controller, is authorized to maintain an official system of general accounts (unless otherwise provided by law) embracing all the financial transactions of the State; to examine and approve all contracts, orders and other documents to ascertain that moneys have been duly appropriated and allotted to meet such obligations and will be available when such obligations will become due and payable; to audit and approve bills, invoices, accounts, payrolls and all other evidence of claims, demands or charges against the State government (State government is defined to include the Judiciary and the Executive Department of the Governor); to implement internal control standards applicable to State agencies and departments; and to exercise certain other rights, powers and duties as more fully prescribed by law.

The principal Funds established by the State for budgetary accounting purposes are the Governmental Funds (which include the General Fund, the Special Revenue Funds and the Capital Projects Funds), the Proprietary Funds (which include the Enterprise Funds and the Internal Service Funds) and the Fiduciary Funds (which include the Trust and Agency Funds). The Funds are used as follows:

The Governmental Funds account for the general governmental activities of the State. The **General Fund** is used to account for all governmental transactions that are not accounted for in another fund. Sales tax, individual and corporate income taxes and other business taxes provide most of the funds available for appropriation by the Legislature for general governmental operations, such as education, human services, corrections, the judiciary and the Legislature. The General Fund is the State's major operating fund.

The **Special Revenue Funds** account for specific revenue sources, other than expendable trusts or major capital projects, that are legally restricted to expenditures for specified purposes. The Special Revenue Funds include the following:

The **Highway Fund** is used to account for revenues derived from registration of motor vehicles, operators' licenses, gasoline tax and other dedicated revenues, except for Federal matching funds and bond proceeds used for capital projects. The Legislature allocates this Fund for the operation of various Department of Transportation programs, including construction and maintenance of highways and bridges, for a portion of the State Police administration and for other State programs.

The **Other Special Revenue Funds** are used to account for various special purpose funds which have been established on a self-supporting basis. Revenues are generated by taxes, licenses, fees and Federal matching funds and grants.

Capital Projects Funds account for financial resources used to acquire or construct major capital assets other than those financed by proprietary funds. These resources are derived primarily from proceeds of general obligation bonds. The State also includes in this Fund the proceeds from bond issues for uses other than major capital facilities.

The Proprietary Funds account for the State's ongoing activities that are similar to those found in the private sector. The **Enterprise Funds** account for transactions related to resources received and used to finance self-supporting activities of the State. The costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

The **Internal Service Funds** account for the financing and sale of goods or services between agencies of the State or other governmental units on a user charge basis.

The Fiduciary Funds account for assets held by the State acting as either a trustee or an agent for individuals, private organizations and other governmental units or other Funds. The **Expendable Trust Funds** account for assets held in a trustee capacity where principal and income may be expended for the funds' designated operations. The **Nonexpendable Trust Funds** account for assets held in a trustee capacity where only income may be expended for the funds' designated operations. **Agency Funds** account for assets which the State, as custodian, holds for others.

In addition, the State has established the **General Long-Term Obligations Account Group** to establish control and accountability for long-term obligations of the State, including those related to general obligation bonds, capital leases, certificates of participation and compensated absences, not accounted for in Proprietary Funds or Nonexpendable Trust Funds. The State has also established the **General Fixed Assets Account Group** to establish control and accountability for all fixed assets of the State not accounted for in Proprietary Funds.

The accounting system is designed to assure that expenditures do not exceed amounts authorized by legislative appropriation and to conform, to the extent possible, to standards of the Governmental Accounting Standards Board (GASB) and its predecessor, the National Council on Governmental Accounting. Financial transactions are recorded in the General Fund, the Highway Fund and certain other funds as described above and in Appendix B hereof.

The State completed an upgrade of its statewide financial management information system in July, 2007. The new system, Advantage, encompasses purchasing, accounting, cash management, and financial reporting. Training and continued minor modifications will continue as use of the new system progresses. Although the system upgrade represents a significant technological change, the implementation of the new system did not adversely affect operations of departments using Advantage.

Accounting Reports and Practices

The State controller shall prepare a comprehensive annual financial report in accordance with standards established by GASB. This report shall be the official financial report of the State government.

The State controller's annual financial report for the fiscal year ended June 30, 2007 is set forth in two separate publications. The first publication consists of the Basic Financial Statements of the State of Maine for the year ended June 30, 2007 which are set forth in Section I of Appendix B. Certain information which is included in the second publication and certain information which has been derived from provisions of the State controller's annual financial reports for certain prior fiscal years comparable to the second publication is included in Section II of Appendix B. The information set forth in Section II of Appendix B is based on budgetary and legal requirements.

The Basic Financial Statements of the State of Maine for the year ended June 30, 2007 which are set forth in Section I of Appendix B have been prepared by the State controller and have been audited by the Department of Audit in accordance with auditing standards generally accepted in the United States of America. The Department of Audit has issued an unqualified opinion on the Basic Financial Statements.

Because of the variety of activities and programs run by the State, the State controller has established several specialized accounting conventions, which are consistently applied within the fund accounting system. For more information on the basis of accounting used by the State, see Appendix B, Section I, "Notes to the Financial Statements, June 30, 2007."

Annual financial reports prepared by the State controller for the fiscal year ending June 30, 2007 and for prior fiscal years are available upon request directed to Barbara Rath, Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333, telephone: 207-624-7477; facsimile: 207-287-2367. The comprehensive annual financial reports for the fiscal year ended June 30, 2007 and for prior fiscal years are also available at <http://www.maine.gov/osc/finanrept/cafr.htm>.

Department of Audit

The Department of Audit is headed by the State Auditor, who is elected by the Legislature by a joint ballot of the Senators and Representatives in convention to hold office for a term of four years. A person may not serve more than two consecutive terms as State Auditor. The Department of Audit is authorized to audit all accounts and other financial records of State government, including the Judiciary and the Executive Department of the Governor, except the Governor's expense account, and to report annually on this audit, and at such other times as the Legislature may require; to review and study departmental budgets and capital programs for better and efficient management of State government; to serve as a staff agency to the Legislature or to the Governor in making investigations of any phase of the State's finances; and to perform audits of all accounts and financial records of any organization, institution or other entity receiving or requesting an appropriation or grant from the State; to issue reports on such audits and investigations; and to conduct financial and compliance audits of financial transactions and accounts kept by or for State agencies subject to federal single audit requirements.

Audit Reports

The State Auditor shall audit the Basic Financial Statements included within the Comprehensive Annual Financial Report prepared by the State controller for each fiscal year. The State Auditor's Independent Audit Opinion dated December 19, 2007 with respect to the fiscal year ending June 30,

2007 is set forth in Appendix B hereto. Single audit reports prepared by the Department of Audit for the fiscal year ending June 30, 2006 and for certain prior fiscal years are available upon request directed to the Deputy State Treasurer. See “Introduction” herein.

All information in this Official Statement for any period ending after June 30, 2007 is unaudited and therefore is subject to change.

STATE BUDGETS

Laws authorizing expenditures for the following fiscal years were enacted and provide for the following General Fund expenditures and Highway Fund expenditures:

<u>Fiscal Year Ending June 30</u>	<u>General Fund Expenditures Authorized</u>	<u>Highway Fund Expenditures Authorized</u>
2004	\$2,642,999,485	\$293,574,323
2005	2,784,473,472	310,931,897
2006	2,871,878,613	349,584,284
2007	2,978,358,710	346,221,340
2008*	3,129,318,355	336,160,213
2009*	3,090,314,339	337,769,266

* Subject to change upon reconciliation of budget acts and miscellaneous acts with fiscal impact.

For additional information regarding fiscal year 2008 expenditures, see “Certain Expenditures and Obligations – General Fund Expenditures.”

The General Fund expenditures set forth in the table above for fiscal years 2008 and 2009 (the “2008-9 General Fund Expenditures”) are a modification of those authorized by law in June, 2007 and have been authorized pursuant to such prior law and 2007 Chapter 539. The 2008-9 General Fund Expenditures reflect an increase of approximately 6.3% as compared to General Fund expenditures in fiscal years 2006 and 2007. The 2008-9 General Fund Expenditures include approximately \$1,966,000,000 for funding K-12 Education and are continuing to increase the State’s share of the cost of Essential Programs and Services to the statutorily required level of 55%. The 55% requirement arose from certain citizen-initiated legislation which is described below under the heading “Certain Expenditures and Obligations – Education Funding.”

In order to begin as soon as possible to address the projected decline in revenues for fiscal years 2008 and 2009 of approximately \$190 million as reflected in the December 2007 and March 1, 2008 reports of the Revenue Forecasting Committee (see “Fiscal Management – Revenue Forecasting” above), the Governor issued an Executive Order on December 18, 2007 curtailing spending by State agencies in fiscal year 2008 by \$38,000,000. Curtailment is a temporary measure, serving to reduce the rate of spending until a supplemental budget is enacted to address the projected revenue decline. A curtailment maximizes the time available in the current fiscal year to achieve the required spending reductions, thus softening the impact of spending reductions to the greatest extent possible. For additional information regarding curtailment of allotments, see “Fiscal Management – Overview of the Budget Process.”

On January 10, 2008, the Governor made public his proposal to modify the General Fund expenditures authorized by law in June, 2007. That proposal was designed to close the \$95,000,000 revenue shortfall projected by the Revenue Forecasting Committee in its December 2007 report. As described above, the March 2008 report of the Revenue Forecasting Committee projected an additional revenue shortfall of almost \$95,000,000 for the current biennium -- \$26.9 million in the current fiscal year and \$67.9 million in fiscal year 2009. On March 5, 2008 the Governor submitted a modified proposal intended to close the new shortfall and balance the budget for the remainder of the biennium. The Governor's proposal accomplished this objective without raising any taxes or fees and without drawing down Maine's Budget Stabilization Fund. Instead, it relied on an approach that combines continued government streamlining, including the initiative stemming from Part QQQ of 2007 Chapter 240, enhanced efficiencies and certain reductions in services. 2007 Chapter 539 provides for a balanced budget in a manner largely reflective of the Governor's proposal, with certain modifications. 2007 Chapter 539 does not authorize any tax increases or any draw downs of the Budget Stabilization Fund.

2007 Chapter 539 calls for the development and implementation of a plan of consolidation, elimination of duplication or creation of greater efficiencies in an array of ministerial licensing and registration functions, food safety inspection activities and the regulation of drinking water and septic systems. This effort will involve the Departments of Agriculture, Conservation, Environmental Protection, Inland Fisheries and Wildlife, Marine Resources as well as Health and Human Services. It also requires that the natural resources agencies work together to consider all ideas and organizational configurations, developing a plan designed to eliminate duplication and enhance efficiencies, while improving the delivery of services associated with the natural resources sector.

2007 Chapter 539 also includes provisions for further consolidation and streamlining of the administrative structure of the Maine Department of Health and Human Services. It also includes certain reductions in services to Maine residents, particularly those who are not Medicaid eligible and balances reductions in provider reimbursement rates with reductions in coverage.

2007 Chapter 539 was crafted to complement an act to better coordinate and reduce the cost of State and county correctional services ("2007 Chapter 653") which was proposed by the Governor and which took effect April 18, 2008. Beginning in fiscal year 2009, 2007 Chapter 653 provides for State funding of county correctional services. It is currently estimated that modifications to State and county correctional services in accordance with 2007 Chapter 653, once fully implemented, will produce savings of approximately \$30,000,000 in General Fund expenditures in fiscal years 2010 and 2011. 2007 Chapter 653 also provides that counties shall collect taxes from municipalities for the purpose of retiring the county jail debt in existence as of July 1, 2008 until the debt is finally retired. 2007 Chapter 653 also establishes a State board of corrections, the purpose of which is to develop and implement a unified State and county correctional system that demonstrates sound fiscal management, achieves efficiencies, reduces recidivism and ensures the safety and security of correctional staff, inmates, visitors, volunteers and surrounding communities.

For additional information regarding General Fund expenditures and Highway Fund expenditures during fiscal years 2002 through 2006, see Appendices B and C.

CERTAIN EXPENDITURES AND OBLIGATIONS

General Fund Expenditures

Total General Fund expenditures for fiscal year 2007 were approximately 17% greater, on a budgetary basis, than those for fiscal year 2003. Total General Fund expenditures for fiscal years 2006

and 2007 were approximately 7.7% greater, on a budgetary basis, than those for fiscal years 2004 and 2005. It is expected that total General Fund expenditures for fiscal years 2008 and 2009 will be approximately 8% greater, on a budgetary basis, than those for fiscal years 2006 and 2007.

The following table sets forth, by certain major categories, General Fund expenditures which have been budgeted in each of fiscal years 2008 and 2009. The following amounts are subject to change upon reconciliation of the budget act and miscellaneous acts with fiscal impact.

	<u>2008</u>	<u>2009</u>
Governmental Support and Operations	\$ 244,232,637	\$ 250,643,168
Economic Development & Workforce Training	38,315,514	40,067,324
Education	1,480,466,899	1,491,623,912
Arts, Heritage & Cultural Enrichment	8,918,539	8,679,175
Natural Resources Development & Protection	73,387,823	71,953,001
Health & Human Services	1,019,230,545	967,202,478
Justice & Protection	264,766,398	260,145,281
Total	<u>\$3,129,318,355</u>	<u>\$3,090,314,339</u>

General Fund expenditures for fiscal years 2008 and 2009 are currently budgeted at approximately \$6,219,633,000 of which approximately 48% will be attributable to education, approximately 32% will be attributable to health and human services inclusive of Medicaid and approximately 20% will be attributable to other purposes of State government.

For additional information regarding General Fund expenditures during fiscal years 2003 through 2007, and for information regarding Highway Fund expenditures during fiscal years 2003 through 2007, see Appendices B and C hereto. Certain information in Appendix B regarding 2004 expenditures was restated to reflect newly defined policy areas and goals as a means of showing how State appropriations and allocations support common purposes among certain agencies and to enhance strategic planning and performance budgeting. Prior year amounts were not restated. Therefore, comparisons between expenditures in 2004 and those in prior years may not be possible in certain instances. See also “Certain Public Instrumentalities” herein.

Education Funding

At the initiative of certain citizens of the State pursuant to the Constitution of the State, the voters of the State voted to enact legislation known as the School Finance Act of 2003 (the “Initiated School Finance Act”) at a statewide election held June 8, 2004. The Initiated School Finance Act required that the Legislature each year provide at least 55% of the cost of the total allocation for K-12 Education from General Fund revenue sources and 100% of the State and local cost of providing all special education services mandated under federal or State law. The Initiated School Finance Act was amended by 2005 Chapter 2 to provide that, beginning in fiscal year 2009, the Legislature each year will provide, as a target, (a) 55% of the statewide adjusted total cost of the components of Essential Programs and Services and (b) 100% of a school administrative unit’s special education costs calculated pursuant to applicable State law. For fiscal years 2006 and 2007, State law provided that (a) as a target, the State would provide 52.6% and 53.86%, respectively, of the statewide adjusted total cost of the components of Essential Programs and Services and (b) the State would provide at least 84% of a school administrative unit’s special education costs calculated pursuant to applicable State law. The budget for fiscal years

2006 and 2007, as amended by 2006 Chapter 519, included approximately \$280,000,000 to fund the increase in the State's share of K-12 Education costs attributable to the Initiated School Finance Act. For fiscal years 2008 and 2009, State law, after 2007 Chapter 539 becomes effective, will provide that, as a target, (a) the State will provide 53.51% and 54.01%, respectively, of the statewide adjusted total cost of the components of Essential Programs and Services and (b) the State will provide 100% of a school administrative unit's special education costs calculated pursuant to applicable State law. The budget for fiscal years 2008 and 2009, as amended by 2007 Chapter 539, includes approximately \$1,966,000,000 to fund the State's share of K-12 Education costs attributable to the Initiated School Finance Act. 2007 Chapter 539 also amends current law to provide that the State's payment of 55% of the total State and local cost of K-12 Education will be delayed and begin in fiscal year 2010 and that inclusion of the State share of the cost of K-12 Education in the General Fund appropriation limit will be delayed and begin in fiscal year 2011.

The State and each local school administrative unit are jointly responsible for contributing to the cost of the components of Essential Programs and Services. Increase in the total cost of the components of Essential Programs and Services is subject to the Growth Limit Factor, provided that the Growth Limit Factor applicable to Essential Programs and Services may be increased by a vote of both Houses of the Legislature of the State in a separate measure that identifies the intent of the Legislature to exceed the Growth Limit Factor. A local school administrative unit may expend funds in addition to the unit's required contribution to the total cost of education by following referendum voting procedures set forth in State law.

Health and Human Services Funding

After education, spending on health and human services and programs comprises the second most significant area of expenditure, at 32% of General Fund appropriations. Furthermore, expenditures for MaineCare are the largest, and are approximately two-thirds, of all health and human spending. The underlying rate of growth of MaineCare services is currently expected to continue to average 8% annually during fiscal years 2008 and 2009. The State continues to identify and take advantage of a broad range of cost containment initiatives to control cost increases, while remaining committed to providing access to care for its most vulnerable residents.

The recent revenue downturn in conjunction with recently promulgated changes in federal Medicaid rules, necessitated a substantial curtailment of spending within Maine's health and human services including MaineCare. Authorized expenditures for these programs will decline between fiscal years 2008 and 2009, reflecting the projected continued revenue decline. As a first priority, spending reductions were targeted to State-funded grant programs, thereby minimizing loss of available funds by avoiding loss of federal matching dollars. While these reductions do result in a loss of services to certain individuals, persons affected are not Medicaid eligible. The group of currently eligible Medicaid clients who are most significantly impacted by the reductions included in 2007 Chapter 539 are those receiving services under the childless adult waiver program. The budget for fiscal years 2008 and 2009 directs the State Department of Health and Human Services to achieve savings of approximately \$9,700,000 in the childless adult waiver program in fiscal year 2009 with the goal of managing the program within available resources. These savings are expected to be realized through the implementation of a new prescription drug benefit program which will be designed for this group and which will incorporate a preferred drug list that is heavily dependent upon so-called generic drugs. The budget for fiscal years 2008 and 2009 also directs certain reductions in provider reimbursement, along with rate standardization for some classes of providers, and further streamlining of the State Department of Health and Human Services.

On December 7, 2007, the U. S. Department of Health and Human Services, Office of Inspector General (“OIG”), issued a final report entitled “Review of Medicaid Targeted Case Management Services Provided by the Maine Bureau of Child and Family Services During Federal Fiscal Year 2002 and 2003” (“OIG Final Report”). The OIG determined that the State had overstated the Federal share of Targeted Case Management Federal costs by \$29,759,384 and recommended to the Centers for Medicare and Medicaid Services (CMS) that the State refund to the Federal Government \$29,759,384. CMS has not taken any action on the OIG Final Report or the recommendation.

The State responded to the OIG Final Report and stated that the findings of the OIG were incorrect, unreliable and without any legal basis. The State noted in its response that the reimbursement rates used were approved by CMS (formerly the Health Care Financing Administration), that the costs incurred were consistent with State Plan approved by CMS and that the methodology for Medicaid reimbursement of Targeted Case Management in 2002 and 2003 is no longer used.

The State has engaged in discussions with CMS regarding the OIG Final Report and intends to vigorously contest any disallowance. The State cannot predict the outcome of this matter.

Public Laws of Maine 2007, chapter 629 (“2007 Chapter 629”) is currently expected to take effect July 18, 2008, subject to repeal thereof in whole or in part by the voters of the State as more fully described in the following paragraph. 2007 Chapter 629 makes certain changes in funding for DirigoChoice, the State’s health insurance program for small businesses and individuals. The “savings offset payment” funding mechanism has now been replaced by a range of revenues which are dedicated by 2007 Chapter 629 to the benefit of DirigoChoice and which include a surcharge on all paid healthcare claims, increases in the excise taxes on beer and wine and a new excise tax on syrup used to make soft drinks. This revised funding approach represents an ongoing commitment to reducing the number of uninsured and under-insured Maine residents. There has not been any General Fund appropriation for the benefit of DirigoChoice since fiscal year 2004, the year in which Dirigo Health, a State agency, was provided funding to start its operations which include administration of DirigoChoice. It is currently expected that General Fund appropriations will not be made in future fiscal years for the benefit of DirigoChoice or for general operations of Dirigo Health.

Pursuant to the Constitution of the State (see "GOVERNMENTAL ORGANIZATION - The Legislature" above) and certain State statutes, certain voters of the State have filed two applications with the Secretary of State to initiate a referendum vote to repeal all or a portion of 2007 Chapter 629 at the statewide election to be held November 4, 2008. The State can not predict whether any such referendum vote will take place or what the outcome of any such referendum vote will be.

Debts of the State

As of March 31, 2008, there were outstanding general obligation bonds of the State in the principal amount of \$418,965,000, including the principal amount of \$369,945,000 to be paid from the General Fund and the principal amount of \$49,020,000 to be paid from the Highway Fund. As of the date hereof, there are outstanding bond anticipation notes of the State in the principal amount of \$90,320,000 which mature June 10, 2008. Debt service requirements to maturity for the outstanding general obligation bonds are set forth in Appendix D herein.

As of the date hereof, there are no outstanding tax anticipation notes of the State. Based upon current cash flow projections, the State expects to borrow for general fund cash flow purposes in fiscal year 2009. The State expects first to use interfund borrowings from the State investment pool to satisfy its cash flow needs and second to borrow externally, if necessary. The amount to be borrowed externally

is not currently expected to exceed \$120,000,000. If external borrowing is required, a combination of tax anticipation notes and a proposed line of credit with a bank could be used. The timing and amount of any such borrowings will depend upon the actual cash flow needs of the State.

Immediately after delivery of the Bonds, there will be indebtedness authorized by the voters of the State for certain purposes, but unissued as either bonds or notes, in the aggregate principal amount of \$191,777,000. As of the date hereof, the aggregate principal amount of bonds of the State authorized by the Constitution and implementing legislation for certain purposes, but unissued, is \$99,000,000. See “Fiscal Management – Constitutional Debt Limit” and “Certain Public Instrumentalities – Finance Authority of Maine” and “– Maine State Housing Authority” herein.

Public Laws 2007, Chapter 39, effective April 10, 2007 (the “2007 Bond Act”), authorizes the Treasurer of State, under the direction of the Governor, to issue general obligation bonds of the State not exceeding certain amounts and for certain purposes, provided that a majority of the voters of the State voting in elections held and to be held have approved such amounts and purposes. An election will be held on June 10, 2008 pursuant to the 2007 Bond Act so that voters may vote on the amount of \$29,725,000 for the purpose of natural resource, agricultural and transportation infrastructure.

Public Laws 2007, Chapter 673, which is currently expected to take effect on July 18, 2008 (the “2008 Bond Act”), authorizes the Treasurer of State, under the direction of the Governor, to issue general obligation bonds of the State not exceeding \$3,400,000 to finance part of the costs of drinking water programs and construction of wastewater treatment facilities, provided that a majority of the voters of the State voting in an election, which, pursuant to the 2008 Bond Act, is directed to be held November 4, 2008, approve such amount and purposes.

Other than the Bonds, the State does not expect to issue any additional notes or bonds during the fiscal year ending June 30, 2008.

For additional information concerning long-term debts of the State, see Appendix D hereto.

Lease Financing Agreements

From time to time, the State enters into lease agreements for the purpose of acquiring or financing capital equipment and buildings. A lease agreement is secured solely by the equipment or building which is the subject of such agreement and is not a pledge of the full faith and credit of the State. Lease payment obligations are subject to appropriation by the Legislature. In certain instances, the State has issued certificates of participation in the lease payments to be made pursuant to certain lease agreements. As of March 31, 2008, the aggregate principal amount of such lease obligations outstanding was \$63,661,151. For additional information regarding such lease agreements, see Appendix D hereto. For information regarding rental payments to be made by the State, subject to appropriation, to the Maine Governmental Facilities Authority, see “CERTAIN PUBLIC INSTRUMENTALITIES - Maine Governmental Facilities Authority.”

Retirement Obligations

The Maine Public Employees Retirement System was established as of July 1, 1942 to administer retirement plans for State employees. The System’s coverage was extended as of July 1, 1947 to include the State’s public school teachers. The System became an independent agency pursuant to legislation that took effect on July 1, 1993. For additional information about the System, see note 9 of the State’s

financial statements beginning on page B-57 hereof and the System's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007 available at <http://www.maineopers.org/>.

The System administers defined benefit retirement plans providing retirement, disability and death benefits for all State employees in the executive, judicial and legislative branches, all of the State's public school teachers (which term includes administrators and other professional staff), members of the judiciary, members of the Legislature, and employees of participating state and local public entities ("PLD's"). In addition, the System administers a group life insurance plan which provides or makes available life insurance benefits for active and retired System members and employees of certain PLD's.

On June 30, 2007, the System's State employee and teacher defined benefit plan membership, for actuarial purposes, was comprised of approximately 42,184 active members, 6,621 terminated vested members and 26,301 retirees and surviving beneficiaries. The defined benefit plan covering the State's judges had, at June 30, 2007, 60 active members, two terminated vested members and 43 retirees and surviving beneficiaries. At the same date, the defined benefit plan covering the State's legislators had 170 active members, 78 terminated vested members and 117 retirees and surviving beneficiaries. As of June 30, 2007, 271 PLD's participated in the Maine Public Employees Retirement System. The State itself has no retirement obligations to the PLD's or to their covered employees. As of June 30, 2007, the System's group life insurance plan, for actuarial purposes, was comprised of approximately 31,908 active members and 14,061 retirees, which includes 4,350 PLD active members and 2,208 PLD retirees.

Retirement, disability and death benefits provided by the System are financed by employee contributions as set by statute and by employer contributions determined on an actuarial basis. An actuarial valuation is prepared each year for each of the State's three defined benefit plans to determine the State's employer contribution requirements. For State employees and teachers, the State's contribution is comprised of the normal cost contribution plus the payment required to amortize the plan's unfunded actuarial liability. As of June 30, 2007, the unfunded actuarial liability of the plan was \$2,912,250,119 and 21 years remained in the amortization period. As of June 30, 2007, the present value of accrued benefits was approximately \$9,679,295,888 and there were assets with a market value of \$8,668,381,195, resulting in an unfunded liability for benefits earned to date of approximately \$1,010,914,693. The judicial retirement plan had an actuarial surplus of \$1,382,702 at June 30, 2007. The legislative retirement plan had an actuarial surplus of \$3,625,933.

Group life insurance benefits provided by the System are funded by premiums paid by employers and participants and by investment returns on reserves. As of June 30, 2007, the unfunded actuarial liability of the plan, excluding the unfunded liabilities attributable to PLD's, for which the State itself has no obligations, was approximately \$79,500,000.

Actuarial valuations are prepared annually by the consulting actuaries to the Board of Trustees of the System. The June 30, 2007 actuarial valuations were prepared by Cheiron. The actuarial balance sheet for the plan covering State employees and public school teachers from the June 30, 2007 valuation is set forth in Appendix E hereto. Also set forth in Appendix E hereto are the actuarial balance sheets for the judicial and legislative plans and for the group life insurance plan from the June 30, 2007 valuations of these plans.

Post-Employment Health Care Benefits

The Governmental Accounting Standards Board ("GASB") has promulgated its statement 45 ("GASB 45") which will require the State, for fiscal years beginning on and after July 1, 2007, to account for retiree health care benefits and other post-employment benefits in a manner similar to that

required for pension benefits. GASB 45 does not require that such benefits be funded in advance. If the State continues to pay such benefits as they come due, however, it is expected that annual cost and liability accruals will increase due to GASB 45.

The State funds post-employment health care benefits for most retired State employees and legislators and a portion of the health insurance premiums for retired teachers. The State pays 100 percent of post-employment health insurance premiums for eligible retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for eligible retirees with less than five years participation to 100 percent for eligible retirees with ten or more years of participation, is paid for eligible retirees first employed after July 1, 1991. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. An eligible 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. The State contribution to the health insurance premiums for retired teachers is currently 45 percent. County and municipal law enforcement officers and municipal firefighters will begin coverage in Fiscal Year 2008 with the State contributing 45 percent of the cost of their respective plans.

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 MRSA §286-A, multiplied by the value of the current employee payroll. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual amount necessary to pay its 45 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. With the enactment of Chapter 240, Public Law 2007, the State has transitioned from a pay-as-you-go plan to an actuarial based funding plan beginning with fiscal year 2008. Chapter 240 established an OPEB Trust Fund to be invested by the Maine Public Employees Retirement System in a similar manner to the investment of employee retirement funds. The State made an initial funding to the Trust in March 2008, of \$100 million.

As of June 30, 2007, there were 9,069 retired eligible State employees and 7,768 retired teachers. In fiscal year 2007, the State paid into the Retiree Health Insurance Fund \$75.0 million for retired employees and \$16.9 million for retired teachers. Premium charges paid were \$40.8 million and \$16.1 million, respectively. Overall, Net Assets increased by \$41.9 million to \$103.7 million at June 30, 2007 as a result of an increase in cash of \$42 million. The increase in cash relates to a premium increase in anticipation of the implementation of GASB Statement No. 45.

An actuarial study was completed to determine the actuarial accrued liability as of June 30, 2006. The study determined the liability if funded at transition of \$3.2 billion, or \$4.8 billion if not funded at transition. GASB 45 does not mandate the prefunding of postemployment benefit liabilities; however any prefunding of these benefits will help minimize the obligation required to be reported on the financial statements. The study projected the amount of State contributions for these benefits (assuming a constant number of employees) would increase from \$116 million in fiscal year 2007 to \$296 million in fiscal year 2016. The study also projected the fiscal year 2007 annual required contribution (ARC) (as if GASB 45 had been in effect for fiscal year 2007) necessary to amortize these unfunded liabilities (on a

30 year basis) to be as high as \$275 million. As this amount is significantly above the pay-as-you-go amounts that the State has been funding for these benefits, the State has decided to fund the ARC on a graduated basis over a ten year period to attain full funding of the annual ARC at that time. The cumulative difference between the ARC and actual contributions will appear as a net OPEB obligation. The Legislature authorized the creation of an irrevocable trust fund to be established in fiscal year 2008 to help meet the State's unfunded liability obligations for retiree health benefits for eligible participants. The State made an initial funding of this trust fund of \$100 million in fiscal year 2008 and expects to deposit an additional \$10 million in fiscal year 2009. A revised actuarial study is expected to be completed by the end of May, 2008.

Employee Relations

As of April 30, 2008, the State had approximately 13,500 Executive Branch employees.

The State Employees Labor Relations Act allows State employees in the Executive Branch to engage in collective bargaining. As of April 30, 2008, approximately 12,300 employees were covered by the law. The Maine State Employees Association is the bargaining agent for 4 bargaining units which include approximately 10,100 employees. The American Federation of State, County, and Municipal Employees, AFL-CIO, represents the employees in State institutions and the Maine State Troopers Association represents the State Police unit. The Commissioner of Administrative and Financial Services, acting through the Bureau of Employee Relations, is the Governor's designee for collective bargaining and is responsible for the negotiations and all other employee relations functions. Current contracts expire June 30, 2009.

Collective bargaining has also been extended to employees of the Judicial Department, the University of Maine System, the Maine Community College System, the Maine Maritime Academy, and to employees of counties, municipalities and special districts, including public school teachers.

Interfund Transactions

Due to Other Funds are amounts owed by one State fund to another for goods sold or services rendered. Due from Other Funds are amounts to be received from one State fund by another for goods sold or services rendered. The following is a summary of amounts due from other funds and due to other funds as of June 30, 2007:

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>	<u>Other Governmental</u>
General	\$ -	\$ -	\$ 10,741	\$ -	\$71
Highway	-	-	4,692	-	
Federal	1,171	20	136	102	
Other Special Revenue	1,956	266	2,298	582	
Employment Security	-	-	16	-	
Non-Major Enterprise	2,690	2	5,182	5	
Internal Service	13,185	2,451	3,131	2,017	
Fiduciary	<u>6,766</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total	<u>\$25,768</u>	<u>\$2,739</u>	<u>\$26,196</u>	<u>\$2,706</u>	<u>\$71</u>
<u>Due from Other Funds</u>	<u>Employment Security</u>	<u>Non-Major Enterprise</u>	<u>Internal Service</u>	<u>Total</u>	
General	\$1,466	\$8,689	\$18,186	\$39,153	
Highway	-	-	2,620	7,312	
Federal	-	-	3,804	5,233	
Other Special Revenue	-	653	2,861	8,616	
Employment Security	-	-	-	16	
Non-Major Enterprise	-	86	1,011	8,976	
Internal Service	-	312	1,996	23,092	
Fiduciary	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,766</u>	
Total	<u>\$1,466</u>	<u>\$9,740</u>	<u>\$30,478</u>	<u>\$99,164</u>	

Advances to or from other funds are for long-term loans made by one fund to another. Advances from the General Fund are for inventory of the Postal, Printing and Supply Fund. The following is a summary of interfund advances as of June 30, 2007:

Schedule of Advances to or from Other Funds June 30, 2007

(Dollars in Thousands)

<u>Fund Type</u>	<u>Working Capital Receivable</u>	<u>Working Capital Payable</u>
General	\$ 111	
Other Special Revenue		\$ -
Internal Service	<u>-</u>	<u>111</u>
Total All Funds	<u>\$ 111</u>	<u>\$ 111</u>

REVENUES OF THE STATE

General

In order to fund its programs and services, the State collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, reimbursements, interest earnings and transfers from non-budgetary sources. For additional information concerning revenues of the State, see Appendices B and C.

Revenues for April, 2008 totaled \$457.1 million, over budgeted amounts by \$23.2 million, or 5.3%. Revenues for the ten months ended April 30, 2008 were over budget by \$45.3 million, or 2.0%. Individual income tax was over budget by \$30.6 million, or 10.2%, for the month, and over budget \$42.7 million, or 3.9%, year to date. The overage may be a matter of timing related to receipt of stimulus checks from the federal government, as there are fewer extensions. Also, upper income taxpayers had a good year from capital gains, dividends, and business income. Sales and service provider taxes, combined, were slightly over budget for the month by \$485.4 thousand, 1.0%, and \$2.6 million, 0.1%, over budget year to date. Corporate tax revenues were \$3.4 million over budget, 13.4%, for the month, and \$11.0 million, 8.3%, over for the year. Most of the variance came from energy related corporations. Estate taxes were under budget by \$1.8 million, 48.5%, for the month and under budget \$4.5 million, 14.8%, for the year. Tobacco taxes are \$617.9 thousand, 5.4%, over budget for the month, and \$1.8 million, 1.4%, under budget year to date. Insurance companies tax was slightly under budget for the month, and \$361.8 thousand under budget, or 1.0%, for the year. Lottery income was under projections by \$977.1 thousand, 26.0%, for the month, and over projections by \$324.8 thousand, 0.8%, for the year. Miscellaneous revenues were under budget for the month by \$6.3 million, 28.1%, and under budget \$3.4 million, 2.1%, year to date. The foregoing revenue information has been prepared based on preliminary, unaudited month end figures and is subject to change. The budgeted amounts have been updated to reflect the most current projections from the Revenue Forecasting Committee March 2008 report. For additional information, see Appendix C hereto.

Certain State Taxes

Individual Income Tax. The State assesses individual income taxes at progressive rates from 2% to 8.5%, based on classifications or brackets of taxable income, depending upon filing status and after specified deductions and exemptions. Taxable income of resident individuals is derived from federal adjusted gross income. The dollar amounts of the tax rate tables are indexed for inflation. For tax year 2008, the maximum rate applies to Maine taxable income of \$38,900 or greater for married persons filing joint returns (\$19,450 for single individuals and married persons filing separate returns and \$29,200 for individuals filing as heads of households). A resident individual is allowed \$2,850 for each exemption to which the individual is entitled for the tax year for federal income tax purposes. For resident taxpayers not itemizing deductions, the standard deduction is the same as the federal standard deduction of the taxpayer (the standard deduction for married joint filers does not conform to the recent federal marriage penalty relief adjustments), which is also indexed at the federal level. Nonresident Maine taxpayers are taxed in a similar fashion, but they are allowed a credit for their non-Maine sourced income.

Sales and Use Taxes. A sales tax is imposed on the value of all tangible personal property and taxable services sold at retail in the State. The rate of tax is 7% on the value of liquor sold in licensed establishments, 7% on the value of rental of living quarters in any hotel, rooming house, tourist or trailer

camp, 10% on the value of rental for a period of less than one year of an automobile, 7% on the value of prepared food and 5% on the value of all other tangible personal property and taxable services.

A use tax is imposed, at the rates provided for sales taxes, on the storage, use or other consumption in the State of tangible personal property or a service, the sale of which would be subject to sales tax.

No sales or use tax is imposed on sales, storage or use of certain tangible personal property. Some of the major exemptions are grocery staples (which do not include liquor, prepared food); prescription medicines; certain products used in agricultural and aquacultural production; certain motor fuels; coal, oil, wood and all other fuels, except electricity, when bought for cooking and heating in residential units; the first 750 kilowatt hours of residential electricity per month; fuel oil or coal, the by-products from the burning of which become an ingredient or component part of tangible personal property for later sale; packaging materials; certain periodicals; sales to incorporated hospitals, licensed and incorporated non-profit nursing homes, licensed and incorporated non-profit boarding care facilities, medical research facilities, schools, regularly organized churches and similar institutions; water pollution and air pollution control facilities certified by the State Commissioner of Environmental Protection; and ninety-five percent (95%) of the sale price of all fuel and electricity purchased for use at a manufacturing facility.

Corporate Income Tax. An income tax is imposed upon the Maine net income of taxable corporations at progressive rates from 3.5% on Maine net income not over \$25,000 to 8.93% on Maine net income in excess of \$250,000. The tax computed using Maine net income is then apportioned to Maine. Maine net income is derived from taxable income of the taxpayer under the laws of the United States, adjusted by certain modifications, including additions for certain tax deductions, certain net operating losses and certain depreciation deductions and subtractions for income exempt by law from taxation by the State, certain apportionable dividend income and certain net operating losses.

Certain Motor Fuel Taxes. An excise tax is imposed at the rate of \$0.276 per gallon on internal combustion engine fuel (gasoline) sold or used within the State. An excise tax is imposed on all suppliers of special fuel sold and on all users of special fuel used in the State at the rate of \$0.288 per gallon of distillate. Low-energy fuel such as liquefied natural gas, propane, methane and butane is taxed at a rate based on the energy content of each fuel as compared to gasoline. Special fuels include all combustible gases and liquids used in an internal combustion engine, except fuel subject to the gasoline tax. Since 2003, motor fuel tax rates have been subject to indexing annually. The rates in effect on July 1, 2008 are \$0.284 per gallon on gasoline and \$0.296 on special fuel.

Pursuant to the Constitution of the State, all revenues derived from fees, excises and license taxes relating to registration, operation and use of vehicles on public highways, and to fuels used for propulsion of such vehicles shall be expended solely for the cost of administration, state enforcement of traffic laws, statutory refunds and adjustments, and the cost of construction, reconstruction, maintenance and repair of public highways and bridges and for the payment of interest and principal on bonds issued for, and the payment of obligations incurred in, the construction and reconstruction of highways and bridges. Such funds may not be diverted for any other purpose.

Tobacco Settlement

Pursuant to a settlement agreement (the "Settlement Agreement"), the State is one of forty-six states that settled litigation in November 1998 against certain manufacturers of cigarettes and other tobacco products (the "Manufacturers"). The forty-six states (the "Settling States") had sued to recover

smoking related Medicaid costs (the “Claims”). Pursuant to the Settlement Agreement, the Manufacturers have agreed to make certain payments to the Settling States.

Certain initial and annual payments by the Manufacturers to the State pursuant to the Settlement Agreement commenced December 1999. The initial payments ended in 2003 and the annual payments are expected to continue.

The State expects to expend the annual payments received from the Manufacturers for smoking prevention, cessation and control activities, prenatal and young children’s care, child care for children up to 15 years of age, health care for children and adults, prescription drugs for adults who are elderly or disabled, dental and oral health care to low-income persons who lack adequate dental coverage, substance abuse prevention and treatment and comprehensive school health programs.

In addition, certain payments (the “Strategic Contribution Payments”) to be made by the Manufacturers to the Settling States in recognition of strategic contributions made by the Settling States to the negotiation of the Settlement Agreement are being established pursuant to the Settlement Agreement and are expected to be made commencing in 2008 and ending in 2017.

Payments received by the State pursuant to the Settlement Agreement declined from approximately \$63,000,000 in fiscal year 2000 to approximately \$46,000,000 in fiscal year 2005. The State received approximately \$47,113,000 in fiscal year 2007 pursuant to the Settlement Agreement. The State expects to receive approximately \$62,700,000 in fiscal year 2008 pursuant to the Settlement Agreement. As of April 2008, however, the State had received approximately \$58,219,000. Approximately \$10,539,000 of the amount which the State has received in fiscal year 2008 is attributable to Strategic Contribution Payments.

Certain Manufacturers have claimed that they are entitled to a downward adjustment in the payment because of loss of market share to non-participating manufacturers. The State is continuing litigation to obtain a determination that it diligently enforced the Settlement Agreement and that Manufacturers are not entitled to a downward adjustment of amounts due. Certain other Settling States are continuing similar litigation seeking payment of amounts due.

State Investment Pool

As described above under the heading “Governmental Organization – Executive Branch – Treasurer of State,” when there is money in the State Treasury that is not needed to meet current obligations, the Treasurer of State may, with the concurrence of the State controller or the Commissioner of Administrative and Financial Services and with the consent of the Governor, invest those amounts in certain instruments authorized by State law. The Treasurer of State maintains the records of the investments of the State through the State investment pool. The average daily balance of the State investment pool totaled more than \$675,000,000 in fiscal year 2007. The balance of the State investment pool as of January 1, 2008 was approximately \$660,000,000, although approximately \$20,000,000 of this is in the non-performing commercial paper investment described below.

On August 8, 2007, \$19,930,361.11 was invested in Mainsail II Commercial Paper (the “Mainsail Commercial Paper”), issued by Mainsail Limited, an affiliate of Solent Capital Partners, LLP (“Mainsail”). The Mainsail Commercial Paper represented about 3% of the state’s cash pool, was rated A1+ by Standard & Poor’s and P1 by Moody’s, and bore interest at 5.45% with a maturity of August 31, 2007.

On August 20, 2007, Mainsail announced in a press release that it might be forced to sell assets because it had been unable to raise short-term funding due to market volatility. On August 31, 2007, the date of maturity of the Mainsail Commercial Paper, the approximate \$20,000,000 payment of principal and accrued interest due to the State from Mainsail was not made and remains unpaid as of the date hereof. On August 22, 2007, the Treasurer of State ceased investing in asset backed commercial paper. The State currently holds no commercial paper in its cash pool.

On March 7, 2008, The Bank of New York Trust Company, N.A., as security trustee (the "Security Trustee") notified holders of Mainsail Commercial Paper that KPMG had been selected to act as receiver and tasked with implementing a refinancing solution. The Security Trustee reported that a sale of assets likely would not generate enough capital to repay in full Mainsail's obligations to senior secured parties such as the State. No timeline for resolution has been announced. The role of Merrill Lynch as the broker which sold the Mainsail Commercial Paper to the State remains under investigation by the Maine Office of Securities.

The State does not expect the default by Mainsail to adversely affect the State's ability to meet all of its obligations when due.

CERTAIN PUBLIC INSTRUMENTALITIES

Maine Governmental Facilities Authority

The Maine Governmental Facilities Authority is authorized to assist in financing the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, structures designed for use as court facilities or state offices and the acquisition, construction, improvement, reconstruction or repair of equipment or other personal property, all of which are rented to agencies of the State. The Authority was created in 1987 and was known as the Maine Court Facilities Authority until 1997 when its name was changed and its purposes were broadened. Under current statutory limits, the Authority may not issue securities in excess of \$280,485,000 outstanding at any one time except for the issuance of revenue refunding securities authorized by the Act and provided that no less than \$75,000,000 shall be allocated to court facilities and provided further that no less than \$85,000,000 shall be allocated to correctional facilities, no less than \$33,000,000 shall be allocated to a psychiatric facility in Augusta and no less than \$33,485,000 shall be allocated to capital repairs and improvements at various state facilities. No securities may be issued without the prior approval of the Legislature. Neither the faith and credit nor the taxing power of the State or of any political subdivision of the State is pledged to the payment of the principal of, redemption premium, if any, or interest on the Authority's bonds. The Authority has no taxing power. As of March 31, 2008, the aggregate principal amount of the Authority's bonds outstanding was \$167,995,000. The State has agreed, subject to appropriation, to make rental payments to be applied to payment of the Authority's bonds. Debt service on the Authority's bonds for the State fiscal year ending June 30, 2008 is \$14,610,000 and for the State fiscal year ending June 30, 2009 is \$14,620,000.

Finance Authority of Maine

The Finance Authority of Maine was created in 1983 to undertake various economic development finance programs and to assume the responsibilities of several smaller state authorities. The Authority is currently authorized to insure repayment of commercial loans and to require the State to fund the Authority's insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations and bonds of the State issued to fund insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of \$90,000,000 plus an

additional \$4,000,000 with respect to loans for eligible veterans. As of March 31, 2008, amounts committed by the Authority pursuant to these authorizations were \$34,916,034 and \$679,969 respectively. See “FISCAL MANAGEMENT - Constitutional Debt Limit” herein. Since the creation of the Authority in 1983, the Treasurer of State has not been asked by the Authority to issue bonds of the State to pay off defaulted loans insured by the Authority pursuant to these authorizations.

In 1990, the Authority was authorized to provide certain student financial assistance services, including continuation of a student loan insurance program meeting certain federal requirements in order to secure loans to students attending institutions of higher education. Pursuant to this authorization, the Authority has entered into agreements with the United States Secretary of Education relating to federal, state and private programs of low-interest insured loans to students in institutions of higher education. The Constitution allows the Legislature to authorize the issuance of bonds in the amount of up to \$4,000,000 to secure funds for loans to Maine students attending institutions of higher education. As of March 31, 2008, the student loan insurance obligations of the Authority were \$956,168,157. See “FISCAL MANAGEMENT - Constitutional Debt Limit” herein. Since 1977, the Treasurer of State has not been asked to issue bonds of the State to pay off defaulted loans insured pursuant to the bond issuance authorization set forth in the Constitution.

In addition, the Authority may issue bonds and other obligations which shall not be a debt or liability of any municipality, the State or any political subdivision thereof. The statutes governing the Authority include Capital Reserve Provisions. As of March 31, 2008, the aggregate principal amount outstanding of the Authority’s obligations undertaken pursuant to the Authority’s Capital Reserve Provisions was \$18,795,000 for electric rate stabilization projects and \$17,728,300 for other projects. The State has not been asked to restore the Authority’s Capital Reserve since the inception of the Authority’s Capital Reserve Provision. See “GOVERNMENTAL ORGANIZATION - Independent Authorities and Agencies” herein.

Maine State Housing Authority

The Maine State Housing Authority was created in 1969 to undertake various programs related to housing. The bonds and other obligations of the Authority shall not be a debt of any municipality, the State or any political subdivision thereof and neither the State nor any municipality nor any political subdivision thereof shall be liable thereon. As of March 31, 2008, the aggregate principal amount of the Authority’s bonds and notes outstanding was approximately \$1,605,363,000. The statutes governing the Authority include Capital Reserve Provisions. The State has not been asked to restore the Authority’s Capital Reserves since the inception of the Authority’s Capital Reserve Provisions. See “GOVERNMENTAL ORGANIZATION -Independent Authorities and Agencies” herein.

The Authority is also authorized to insure repayment of mortgage loans on Indian housing and to require the State to fund the Authority’s insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of \$1,000,000. As of March 31, 2008, the Authority’s Indian housing mortgage insurance obligations were approximately \$432,687.67. See “FISCAL MANAGEMENT – Constitutional Debt Limit” herein.

Maine Municipal Bond Bank

The Maine Municipal Bond Bank was created in 1972 to lend money to counties, cities, towns, school administrative districts, community school districts, and quasi-municipal corporations to finance

certain capital expenditures (the “Original Program”). Bonds and notes issued by the Bond Bank shall not be in any way a debt or liability of the State and shall not create any debt or debts, liability or liabilities, on behalf of the State or be or constitute a pledge of the full faith and credit of the State. As of March 31, 2008, the aggregate principal amount of the Bond Bank’s bonds outstanding was \$1,036,340,000 of which (a) \$66,150,000 is attributable to loans to certain municipalities to assist in financing certain wastewater and drinking water treatment facilities pursuant to a revolving loan fund program, (b) \$37,310,000 is (i) attributable to financing of the costs of a new bridge for the State and (ii) payable solely from annual federal highway grants to the State and (c) substantially all of the balance is attributable to the Original Program. The statutes governing the Bond Bank include Capital Reserve Provisions. The State has not been asked to restore the Bond Bank’s Capital Reserves since the inception of the Bond Bank’s Capital Reserve Provisions. See “GOVERNMENTAL ORGANIZATION - Independent Authorities and Agencies” herein.

Maine Health and Higher Educational Facilities Authority

The Maine Health and Higher Educational Facilities Authority was created in 1971 to provide the means to expand, enlarge and establish health care, hospital, nursing home and other related facilities and to assist institutions of higher education in the State to provide facilities and structures. Bonds and notes issued by the Authority do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or any political subdivision thereof other than the Authority or a loan of credit of the State or a pledge of the faith and credit of the State or of any political subdivision other than the Authority. As of March 31, 2008, the aggregate principal amount of the Authority’s bonds outstanding was \$1,462,381,771. The statutes governing the Authority include a Capital Reserve Provision. The State has not been asked to restore the Authority’s Capital Reserve since the inception of the Authority’s Capital Reserve Provision. See “GOVERNMENTAL ORGANIZATION - Independent Authorities and Agencies” herein.

Maine Educational Loan Authority

The Maine Educational Loan Authority was established in 1988 to carry out programs making financial and other assistance available to students and their parents to finance costs of attendance at institutions of higher education. Bonds of the Authority do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or of any political subdivision of the State, other than the Authority, or a loan of the credit of the State or a pledge of the faith and credit of the State or of any political subdivision, other than the Authority. As of March 31, 2008, the aggregate principal amount of the Authority’s bonds outstanding was \$148,115,000. The statutes governing the Authority include a Capital Reserve Provision. The State has not been asked to restore the Authority’s Capital Reserve since the inception of the Authority’s Capital Reserve Provision. See “GOVERNMENTAL ORGANIZATION - Independent Authorities and Agencies” herein.

Loring Development Authority

Loring Development Authority was established in 1993 to acquire and manage the former Loring Air Force Base in northern Maine. Bonds of the Authority are payable solely from the income, proceeds, revenues and funds of the Authority and do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. As of March 31, 2008, the Authority had not issued any bonds. The statutes governing the Authority include a Capital Reserve Provision. See “GOVERNMENTAL ORGANIZATION - Independent Authorities and Agencies” herein.

University of Maine System

The University of Maine System (the “System”) includes the University of Maine, established in 1865, and all other public institutions of higher education in Maine, except the Maine Maritime Academy and the seven colleges of the Maine Community College System. Money borrowed by the System and evidences of indebtedness issued by the System do not constitute any debt or liability of the State or of any municipality or political subdivision of the State, but shall be payable solely from the revenues of the System or any project for which they are issued. As of March 31, 2008, the aggregate principal amount of the System’s bonds outstanding was \$213,475,000.

Maine Turnpike Authority

The Maine Turnpike Authority was created in 1941 and has constructed and operates and maintains a turnpike approximately 109 miles long between York and Augusta. Bonds issued by the Authority shall not be deemed to be a debt of the State, but such bonds shall be payable exclusively from tolls. The bonds shall not directly or indirectly or contingently obligate the State to levy or pledge any form of taxation whatever therefor or to make any appropriation for the payment thereof. As of March 31, 2008, the aggregate principal amount of the Authority’s bonds outstanding was \$379,950,000.

Maine Public Utility Financing Bank

The Maine Public Utility Financing Bank was created in 1981 to lend money to public utilities in the State. Bonds and notes issued by the Authority do not constitute a debt or liability of the State or of any municipality therein or any political subdivision thereof or a pledge of the faith and credit of the State or of any such municipality or political subdivision. As of March 31, 2008, the aggregate principal amount of the Bank’s bonds outstanding was \$22,600,000.

Maine Port Authority

The Maine Port Authority was established in 1945 and is authorized to acquire, construct and operate any kind of port terminal facility within the State and to acquire and construct any railroad facility within the State. Bonds of the Authority do not constitute a debt of the State, or of any agency or political subdivision thereof, but are payable solely from the revenues of the Authority, and neither the faith nor credit nor taxing power of the State, or any political subdivision thereof, is pledged to the payment of the Authority’s bonds. As of March 31, 2008, there were no outstanding bonds of the Authority.

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**STATE OF MAINE
GENERAL OBLIGATION BONDS**

APPENDIX B

**Selected Financial Information
Pertaining to the State of Maine
for Fiscal Years 2003 through 2007**

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No representation is made hereby that the information set forth in Section II of Appendix B has been prepared in full conformity with generally accepted accounting principles.



NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

STATE OF MAINE DEPARTMENT OF AUDIT

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INDEPENDENT AUDITOR’S REPORT

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

We have audited the accompanying 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, 2007, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, Loring Development Authority, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Municipal Bond Bank, Maine Port Authority, Maine State Housing Authority, Maine Public Employees Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, and University of Maine System. We also did not audit the financial statements of the NextGen College Investing Plan. These financial statements reflect the following percentages of total assets and revenues or additions of the indicated opinion units:

<u>Opinion Unit</u>	<u>Percent of Opinion Unit’s</u> <u>Total Assets</u>	<u>Percent of Opinion</u> <u>Unit’s Total</u> <u>Revenues/Additions</u>
Aggregate Discretely Presented Component Units	100%	100%
Aggregate Remaining Fund Information	96%	63%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinions, insofar as they relate to the amounts included for these entities, are based 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.

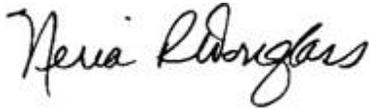
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major

fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine's basic financial statements. The supplementary information – combining statements and individual fund statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and individual fund statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section, as listed in the table of contents, have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and accordingly, we express no opinion on them.

As discussed in Note 3 to the financial statements, the State corrected the reporting of certain capital assets and reduced General Fund beginning net assets for a correction to receivables.



Neria R. Douglass, JD, CIA
State Auditor

December 19, 2007

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, 2007. 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 8.9 percent from the previous fiscal year. Net assets of Governmental Activities increased by \$325.6 million, while net assets of Business-type Activities increased by \$24.2 million. The State's assets exceeded its liabilities by \$4.3 billion at the close of fiscal year 2007. Component units reported net assets of \$1.9 billion, an increase of \$129.6 million (7.3 percent) from the previous year. The reclassification of MHHEFA to a component unit from fiduciary reporting accounts for \$34.5 million of the increase.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of \$272.9 million, an increase of \$59.5 million from the previous year. The General Fund's total fund balance was a negative \$156.3 million, an improvement of \$23.4 million from the previous year, as restated. The Highway Fund total fund balance also increased by \$17.8 million.
- The proprietary funds reported net assets at year end of \$706.1 million, an increase of \$83.9 million. This increase is due to several factors: an increase in the Retiree Health Insurance Fund of \$41.9 million, an increase in the Employment Security Fund of \$12.8 million, an increase in the Alcoholic Beverages Fund of \$12.5 million, an increase in the Workers' Compensation Fund of \$13.7 million, the creation of the Transportation Facilities Fund for \$10.1 million, offset by a decrease in the Employee Health Insurance Fund of \$11.8 million

Long-term Debt:

- The State's liability for general obligation bonds decreased by \$18.8 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued \$61.0 million in bonds and made principal payments of \$79.8 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, and one component unit is reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

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

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 Public Employees Retirement System, a component unit, private-purpose trusts, and agency funds. Fiduciary funds are reported using the accrual basis of accounting. The State excludes these activities from the government-wide financial statements because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements. Budgetary comparison schedules by agency are also included for the general fund, the highway fund, federal funds, and other special revenue fund.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by 8.9 percent to \$4.3 billion at June 30, 2007, 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>2007</u>	<u>2006*</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006*</u>
Current and other noncurrent assets	\$2,005,451	\$2,220,676	\$530,972	\$526,219	\$2,536,423	\$2,746,895
Capital assets	<u>3,934,171</u>	<u>3,742,425</u>	<u>90,361</u>	<u>79,030</u>	<u>4,024,532</u>	<u>3,821,455</u>
Total Assets	<u>5,939,622</u>	<u>5,963,101</u>	<u>621,333</u>	<u>605,249</u>	<u>6,560,955</u>	<u>6,568,350</u>
Current liabilities	1,389,939	1,735,627	39,703	35,985	1,429,642	1,771,612
Long-term liabilities	<u>781,373</u>	<u>784,758</u>	<u>75,646</u>	<u>87,500</u>	<u>857,019</u>	<u>872,258</u>
Total Liabilities	<u>2,171,312</u>	<u>2,520,385</u>	<u>115,349</u>	<u>123,485</u>	<u>2,286,661</u>	<u>2,643,870</u>
Net assets (deficit):						
Investment in capital assets, net of related debt	3,519,371	3,347,672	90,361	79,030	3,609,732	3,426,702
Restricted	198,786	172,449	489,677	476,832	688,463	649,281
Unrestricted (deficit)	<u>50,153</u>	<u>(77,405)</u>	<u>(74,054)</u>	<u>(74,098)</u>	<u>(23,901)</u>	<u>(151,503)</u>
Total Net Assets	<u>\$ 3,768,310</u>	<u>\$ 3,442,716</u>	<u>\$ 505,984</u>	<u>\$ 481,764</u>	<u>\$ 4,274,294</u>	<u>\$ 3,924,480</u>

*As Restated

Changes in Net Assets

The State's fiscal year 2007 revenues totaled \$6.9 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 49.8 percent and 34.5 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 \$6.6 billion for the year 2007. (See Table A-2) These expenses are predominantly (70 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 7 percent of total costs. Total net assets increased by \$349.8 million.

Table A-2 - Changes in Net Assets						
(Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2007</u>	<u>2006*</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006*</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 406,582	\$ 412,033	\$ 463,518	\$ 450,117	\$ 870,100	\$ 862,150
Operating	2,361,828	2,536,857	21,386	20,663	2,383,214	2,557,520
Capital Grants/Contributions	6,434	24,268	4,143		10,577	24,268
General Revenues:						
Taxes	3,448,127	3,360,545			3,448,127	3,360,545
Other	211,168	172,401	2	448	211,170	172,849
Total Revenues	<u>6,434,139</u>	<u>6,506,104</u>	<u>489,049</u>	<u>471,228</u>	<u>6,923,188</u>	<u>6,977,332</u>
Expenses						
Governmental Activities:						
Governmental Support	460,315	537,717			460,315	537,717
Education	1,622,653	1,494,438			1,622,653	1,494,438
Health & Human Services	2,989,001	3,167,521			2,989,001	3,167,521
Justice & Protection	358,718	340,281			358,718	340,281
Transportation Safety	267,994	322,438			267,994	322,438
Other	414,597	392,189			414,597	392,189
Interest	36,246	36,873			36,246	36,873
Business-Type Activities:						
Employment Security			120,215	103,867	120,215	103,867
Lottery			180,722	179,628	180,722	179,628
Military Equip. Maint.			35,140	65,013	35,140	65,013
Dirigo Health			65,178	47,122	65,178	47,122
Other			22,595	11,967	22,595	11,967
Total Expenses	<u>6,149,524</u>	<u>6,291,457</u>	<u>423,850</u>	<u>407,597</u>	<u>6,573,374</u>	<u>6,699,054</u>
Excess (Deficiency) before Special Items and Transfers	284,615	214,647	65,199	63,631	349,814	278,278
Special Items		(31,212)		31,787		575
Transfers	40,979	51,708	(40,979)	(51,708)	-	-
Increase (Decrease) in Net Assets	325,594	235,143	24,220	43,710	349,814	278,853
Net Assets, beginning of year *	3,442,716	3,207,573	481,764	438,054	3,924,480	3,645,627
Ending Net Assets	<u>\$ 3,768,310</u>	<u>\$ 3,442,716</u>	<u>\$ 505,984</u>	<u>\$ 481,764</u>	<u>\$ 4,274,294</u>	<u>\$ 3,924,480</u>

*As Restated

Governmental Activities

Revenues for the State's Governmental Activities totaled \$6.4 billion while total expenses equaled \$6.1 billion. The increase in net assets for Governmental Activities was \$325.6 million in 2007. This is due, primarily, to decreases in accrued expenditures for health and human services and transportation related activities, offset by increases in education spending.

The users of the State's programs financed \$406.6 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of \$2.4 billion. \$3.6 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 2007

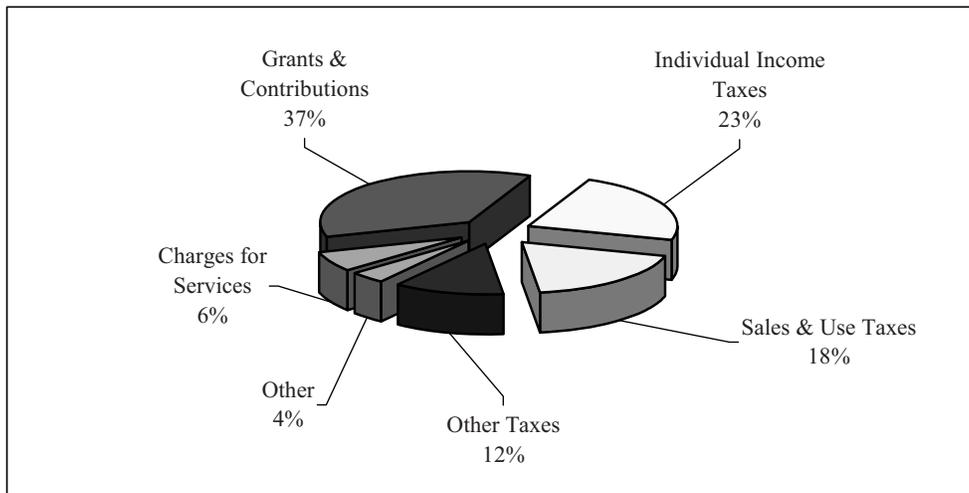
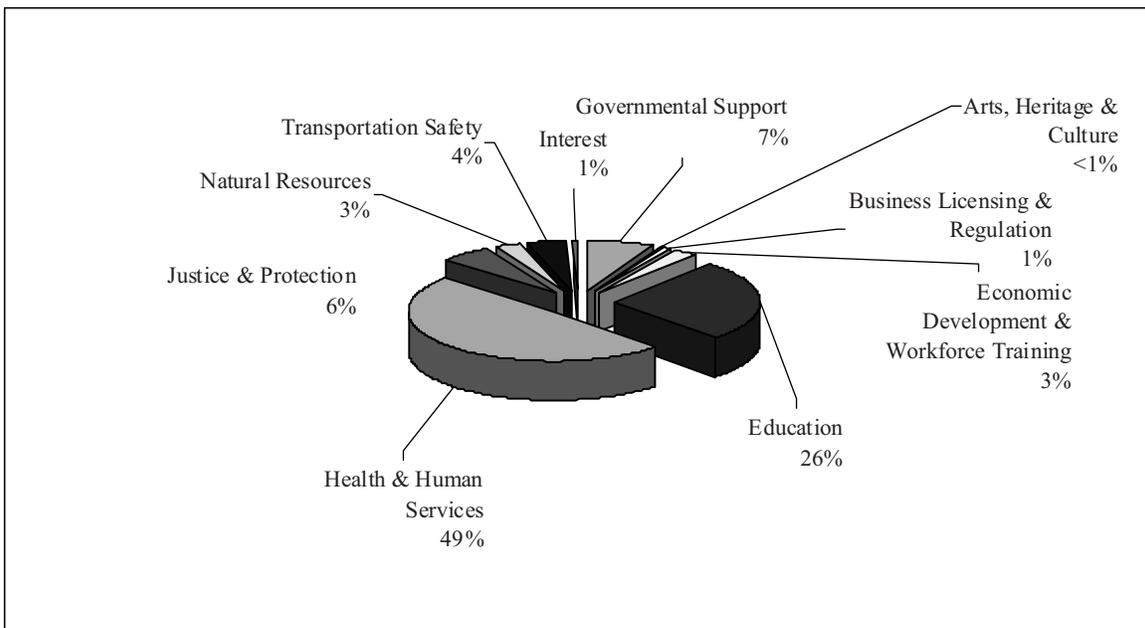


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2007



Business-type Activities

Revenues for the State's Business-type Activities totaled \$489.0 million while expenses totaled \$423.9 million. The increase in net assets for Business-type Activities was \$24.2 million in 2007, due mainly to the collection of \$30.4 million in Savings Offset Payments by Dirigo Health.

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

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

Category	Total Cost		Net (Cost) Revenue	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Employment Security	\$ 120,215	\$ 103,867	\$ 13,991	\$ 19,407
Alcoholic Beverages	-	-	12,525	12,525
Lottery	180,722	179,628	50,906	51,334
Military Equip. Maint.	35,140	65,013	(4,822)	5,414
Dirigo Health	65,178	47,122	(1,839)	(21,236)
Other	<u>23,595</u>	<u>11,967</u>	<u>(5,562)</u>	<u>(3,813)</u>
Total	<u>\$ 423,850</u>	<u>\$ 407,597</u>	<u>\$65,199</u>	<u>\$ 63,631</u>

The cost of all Business-type Activities this year was \$423.9 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was \$65.2 million, with the Lottery making up \$50.9 million of the total. The State's Business-type Activities transferred \$41.0 million (net) to the Governmental Activities in statutorily required profit transfers.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

Table A-6: Governmental Fund Balances
(Expressed in Thousands)

Fund	<u>2007</u>	<u>2006*</u>	<u>Change</u>
General	\$(156,349)	\$ (179,739)	\$ 23,390
Highway	27,559	9,712	17,847
Federal	37,595	22,190	15,405
Other Special Revenue	263,983	258,033	5,950
Other Governmental	<u>100,098</u>	<u>103,174</u>	<u>(3,076)</u>
Total	<u>\$ 272,886</u>	<u>\$ 213,370</u>	<u>\$ 59,516</u>

** As restated*

The State's governmental fund balances increased during fiscal year 2007 from fiscal year 2006 by \$59.5 million. The General Fund's increase was due mainly to a decrease in the Medicaid incurred but not paid (IBNP) accrual of approximately \$76 million. The Highway Fund fund balance increased by \$17.8 million from fiscal year 2006. Operationally, transportation, safety and development expenditures were \$74 million lower in fiscal year 2007. Fewer transportation projects undertaken during fiscal year 2007 accounted for most of the difference.

Budgetary Highlights

For the 2007 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to \$3.1 billion, an increase of about \$166 million from the original legally adopted budget of approximately \$2.9 billion. Actual expenditures on a budgetary basis amounted to approximately \$62.9 million less than those authorized in the final budget; however, after deducting the encumbered obligations and other commitments that will come due in fiscal year 2008, \$17.1 million of unobligated funds remained as a result of a continuing concerted effort to control spending, primarily in the broad categories of education and social services. Actual revenues exceeded final budget forecasts by \$33.7 million.

As a part of the final budget adjustment for Fiscal Year 2007, the Legislature approved a direct appropriation to the State's Budget Stabilization Fund in the amount of \$35.6 million. The additional appropriation increased the balance in the Fund to \$115.5 million as of June 30, 2007. This item is further explained in Note 2 of Notes to the Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2007, the State had roughly \$4 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2007, the State acquired or constructed more than \$346 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>2007</u>	<u>2006*</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006*</u>
Land	\$ 424,331	\$ 394,069	\$ 38,417	\$ 38,161	\$ 462,748	\$ 432,230
Buildings	560,306	506,881	9,769	9,322	570,075	516,203
Equipment	248,130	254,007	43,385	20,220	291,515	274,227
Improvements	18,246	17,233	61,218	61,218	79,464	78,451
Infrastructure	3,023,973	2,861,522	-	-	3,023,973	2,861,522
Construction in Progress	<u>10,230</u>	<u>6,818</u>	<u>3,613</u>	<u>925</u>	<u>13,843</u>	<u>7,743</u>
Total Capital Assets	4,285,216	4,040,530	156,402	129,846	4,441,618	4,170,376
Accumulated Depreciation	<u>(351,045)</u>	<u>(298,105)</u>	<u>(66,041)</u>	<u>(50,816)</u>	<u>(417,086)</u>	<u>(348,921)</u>
Capital Assets, net	<u>\$ 3,934,171</u>	<u>\$ 3,742,425</u>	<u>\$ 90,361</u>	<u>\$ 79,030</u>	<u>\$ 4,024,532</u>	<u>\$ 3,821,455</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 8,834 highway miles or 17,947 lane miles within the State. Bridges have a deck area of 11.5 million square feet among 2,965 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2007, the actual average condition was 76. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 78 at June 30, 2007. Preservation costs for fiscal year 2007 totaled \$73.3 million compared to estimated preservation costs of \$61.0 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 462, PL 2005, \$27 million was spent during FY 2007.

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 \$920 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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General Obligation						
Bonds	\$ 448,760	\$ 467,550	\$ -	\$ -	\$ 448,760	\$ 467,550
Other Long-Term						
Obligations	<u>470,815</u>	<u>441,512</u>	<u>718</u>	<u>135</u>	<u>471,533</u>	<u>441,647</u>
Total	<u>\$ 919,575</u>	<u>\$ 909,062</u>	<u>\$ 718</u>	<u>\$ 135</u>	<u>\$ 920,293</u>	<u>\$ 909,197</u>

During the year, the State reduced outstanding long-term obligations by \$79.8 million for outstanding general obligation bonds and \$227.5 million for other long-term debt. Also during fiscal year 2007, the State incurred \$318.3 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 2007, Moody's Investors Service rated the State at Aa3, Standard & Poor's rated it at AA, and Fitch Ratings rated it at AA. For fiscal year 2006, the Moody's rating was Aa3, Standard & Poor's was AA-, and Fitch Ratings was AA.

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

Inflation continued to rise though the past year. The Consumer Price Index rose nearly 2.6 percent from July 2006 to July 2007; however, fuel and utilities prices rose much faster. The rise in oil prices to over \$90 a barrel in late summer due to unrest in the Middle East put pressure on both household and government budgets. Sustained prices in the \$90 to \$100 a barrel range, will impose significant challenges to Maine households and governmental operations at all levels in the State during the winter heating season.

Personal income continues to rise in Maine faster than inflation. According to the latest statistics available, personal income is estimated to have risen by 3.6 percent in calendar year 2006. The moderate growth in 2006 is in contrast to the much slower growth in 2005 when the state was affected by a number of events, the most significant of which was the Base Realignment and Closure Commission process. Unemployment has hovered around the national average throughout the year. The rate in Maine stood at 4.8 percent in September of 2007 which is slightly above the national rate of 4.7 percent.

The General Fund Revenue estimate accepted by the Independent Revenue Forecasting Commission for the 2006-2007 Biennium provides approximately \$5.8 billion in resources to be available for general purpose spending. At the beginning of the budgeting process for the 2008-2009 Biennium, the State Budget Officer estimated structural gap at approximately \$100 million between revenue and costs to maintain current services. The 2008-2009 biennial budget was brought into balance with the enactment of Public Law 2007, Chapter 240, **“An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2007, June 30, 2008, and June 30, 2009.”** The Budget will be amended several times through various public laws to ensure adequate resources are available for the fiscal years of the biennium as revenues and resources appear to be in decline as the result of high energy costs, inflation, and the slowing of the real estate market's sub prime mortgage crises.

As a result of the November 2007 report by the Revenue Forecasting Commission adjusting General Fund Revenue downward by \$95 million over current biennium, significant adjustments will be made to bring currently authorized spending into line with expected revenue for the remainder of the biennium. Along with the downturn in revenue, additional spending pressures are mounting in the State's Medicaid program which will require additional General Fund support to ensure that “cycle payments” are made on a timely basis. This will require additional cuts in other state funded programs beyond the adjustments necessary to meet the revenue downturn.

New Accounting Standard

The State maintains a retiree health care plan for State employees and teachers that are affected by the standard. The plan is operated on a pay-as-you-go basis, i.e. claims benefits for health care plan participants are paid as they occur. The portion of active and retired employee's health care premiums for which the State is responsible is estimated and budgeted.

New accounting standards will require the State to begin disclosing its liability for other post employment benefits (commonly referred to as “OPEB”) in its FY 2008 financial reports. An initial valuation report by an independent actuarial firm for the State's liability for these health care and life insurance benefits for the fiscal year ended June 30, 2006 was released in January, 2007. The report presented two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded in a manner meeting the requirements of GASB Statement No. 45.

According to the report, assuming no prefunding, the actuarial accrued liability of the State for OPEB obligations incurred through June 30, 2006 is \$4.8 billion. The Present Value of Projected Benefits amounts to approximately \$5.9 billion at a discount rate of 4.5 percent. To fully amortize this liability over a 30-year period, utilizing an amortization growth rate of 4.5 percent per year would require annual required contributions (ARC) commencing at \$116 million for fiscal 2007 and projected to increase to \$296 million in fiscal year 2015-2016.

However, if prefunding at 7.5 percent is assumed, the actuarial accrued liability is reduced to \$3.2 billion and the annual required contribution is calculated to commence at \$275 million for fiscal year 2007. As the incremental cost of funding the full ARC is not within reach for the State, the State has decided to fund the ARC on a graduated basis over a ten year period to attain full funding of the annual ARC.

In making these calculations, the independent actuarial firm utilized employment and other data provided by the State and projected annual claims growth initially at 10.5 percent and declining to 5.1 percent after ten years and continuation of current benefit levels and current retiree contribution requirements. The report covered only the State's OPEB obligations for State employees, teachers, and participating ancillary groups. Municipalities and authorities of the State of Maine, even if their health care coverage is administered by the State of Maine's Retiree Healthcare Program, will perform their own valuations, as the State acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs or liabilities.

In the absence of prefunding, the discount rate must approximate the State's rate of return on non-pension (liquid) investments over the long term, estimated at 4.5 percent for the purpose of this study. In the event of prefunding, the discount rate would increase to a standard return on long-term investments, estimated at 7.5 percent for the purpose of this study. In order to qualify its OPEB liabilities as prefunded, the State will have to enact legislation providing for the escrowing of annual contributions in the manner required by GASB Statement No. 45 (and similar to the program for funding the State's unfunded actuarial liability for pension).

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future health care claims, by whether or not the State enacts legislation that qualifies its OPEB obligations to be calculated on a prefunded basis, by changes in the State's employee profile, and possible changes in OPEB coverage levels and retiree contribution rates. Accordingly, it should be anticipated that the actuarial accrued liability of the State for OPEB liabilities will fluctuate.

A copy of the valuation report discussed above can be obtained by calling the Office of the State Controller.

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
financialreporting@maine.gov



**STATE OF MAINE
STATEMENT OF NET ASSETS**

June 30, 2007
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	\$ 436,233	\$ 12,387	\$ 448,620	\$ 86,891
Cash and Cash Equivalents	11,511	1,646	13,157	51,684
Cash with Fiscal Agent	46,450	-	46,450	1,081
Investments	79,424	-	79,424	943,418
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	14,493	-	14,493	-
Restricted Deposits and Investments	16,301	463,099	479,400	-
Inventories	7,038	779	7,817	1,924
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	389,651	-	389,651	-
Loans Receivable	4,560	-	4,560	75,966
Notes Receivable	-	-	-	63
Other Receivables	301,847	50,931	352,778	58,985
Internal Balances	(505)	505	-	-
Due from Other Governments	601,846	-	601,846	138,670
Due from Primary Government	-	-	-	13,214
Loans receivable from primary government	-	-	-	4,015
Due from Component Units	894	66	960	-
Other Current Assets	1,518	206	1,724	38,219
Total Current Assets	<u>1,911,261</u>	<u>529,619</u>	<u>2,440,880</u>	<u>1,414,130</u>
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	47,856	1,353	49,209	9,507
Assets Held in Trust	-	-	-	5,047
Restricted Assets:				
Restricted Deposits and Investments	-	-	-	692,191
Investments	-	-	-	365,078
Receivables, Net of Current Portion:				
Taxes Receivable	46,334	-	46,334	-
Loans Receivable	-	-	-	2,411,120
Notes Receivable	-	-	-	208,437
Other Receivables	-	-	-	6,337
Due from Other Governments	-	-	-	1,116,640
Loans receivable from primary government	-	-	-	38,338
Due From Primary Government	-	-	-	2,106
Other Noncurrent Assets	-	-	-	35,535
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	3,458,534	42,030	3,500,564	162,174
Buildings, Equipment and Other Depreciable Assets	826,682	114,372	941,054	995,060
Less: Accumulated Depreciation	<u>(351,045)</u>	<u>(66,041)</u>	<u>(417,086)</u>	<u>(360,529)</u>
Capital Assets, Net of Accumulated Depreciation	<u>3,934,171</u>	<u>90,361</u>	<u>4,024,532</u>	<u>796,705</u>
Total Noncurrent Assets	<u>4,028,361</u>	<u>91,714</u>	<u>4,120,075</u>	<u>5,687,041</u>
Total Assets	<u>\$ 5,939,622</u>	<u>\$ 621,333</u>	<u>\$ 6,560,955</u>	<u>\$ 7,101,171</u>

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

Liabilities				
Current Liabilities:				
Accounts Payable	\$ 901,508	\$ 5,069	\$ 906,577	\$ 74,768
Accrued Payroll	45,742	1,445	47,187	650
Compensated Absences	528	72	600	2,190
Tax Refunds Payable	131,267	-	131,267	-
Due to Component Units	15,237	-	15,237	-
Due to Other Governments	110,913	-	110,913	6,951
Due to Primary Government	-	-	-	1,043
Amounts Held under State & Federal Loan Programs	-	-	-	32,094
Undistributed Grants and Administrative Funds	-	-	-	10,867
Allowances for Losses on Insured Commercial Loans	-	-	-	5,502
Claims Payable	22,980	-	22,980	-
Bonds and Notes Payable	77,000	-	77,000	142,042
Revenue Bonds Payable	14,610	-	14,610	42,376
Obligations under Capital Leases	6,402	-	6,402	364
Certificates of Participation and Other Financing Arrangements	25,343	-	25,343	-
Pledged Future Revenues	4,015	-	4,015	-
Accrued Interest Payable	8,422	-	8,422	47,153
Deferred Revenue	1,006	14,096	15,102	42,629
Other Current Liabilities	24,966	19,021	43,987	36,510
Total Current Liabilities	1,389,939	39,703	1,429,642	445,139
Long-Term Liabilities:				
Compensated Absences	41,152	646	41,798	-
Due to Other Governments	225	-	225	9,026
Amounts Held under State & Federal Loan Programs	-	-	-	44,062
Claims Payable	41,116	-	41,116	-
Bonds and Notes Payable	371,760	-	371,760	3,231,846
Revenue Bonds Payable	167,995	-	167,995	1,342,473
Obligations under Capital Leases	35,349	-	35,349	4,321
Certificates of Participation and Other Financing Arrangements	54,543	-	54,543	-
Pledged Future Revenues	38,338	-	38,338	-
Deferred Revenue	12,451	75,000	87,451	23,466
Pension Obligation	18,444	-	18,444	-
Other Noncurrent Liabilities	-	-	-	86,983
Total Long-Term Liabilities	781,373	75,646	857,019	4,742,177
Total Liabilities	2,171,312	115,349	2,286,661	5,187,316
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,519,371	90,361	3,609,732	592,299
Restricted:				
Highway Fund Purposes	26,083	-	26,083	-
Federal Programs	37,595	-	37,595	-
Natural Resources	19,079	-	19,079	-
Capital Projects and Debt Service	20,593	-	20,593	-
Unemployment Compensation	-	489,677	489,677	-
Other Purposes	15,931	-	15,931	1,072,429
Funds Held as Permanent Investments:				
Expendable	66,987	-	66,987	-
Nonexpendable	12,518	-	12,518	-
Unrestricted	50,153	(74,054)	(23,901)	249,127
Total Net Assets	\$ 3,768,310	\$ 505,984	\$ 4,274,294	\$ 1,913,855

STATE OF MAINE STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	\$ 460,315	\$ 76,507	\$ 6,300	\$ -
Arts, Heritage & Cultural Enrichment	12,994	818	2,724	-
Business Licensing & Regulation	60,506	52,033	1,158	-
Economic Development & Workforce Training	161,427	3,202	84,358	-
Education	1,622,653	4,865	187,866	-
Health & Human Services	2,989,001	9,656	1,824,919	-
Justice & Protection	358,718	80,435	57,302	-
Natural Resources Development & Protection	179,670	81,305	35,303	6,434
Transportation Safety & Development	267,994	97,761	161,898	-
Interest Expense	36,246	-	-	-
Total Governmental Activities	6,149,524	406,582	2,361,828	6,434
Business-Type Activities:				
Employment Security	120,215	112,482	21,724	-
Alcoholic Beverages	-	12,525	-	-
Lottery	180,722	231,628	-	-
Transportation	4,218	2,169	-	1,222
Marine Ports	2,097	127	-	-
Ferry Services	9,405	3,837	-	2,921
Military Equipment Maintenance	35,140	30,656	(338)	-
Dirigo Health	65,178	63,339	-	-
Other	6,875	6,755	-	-
Total Business-Type Activities	423,850	463,518	21,386	4,143
Total Primary Government	\$ 6,573,374	\$ 870,100	\$ 2,383,214	\$ 10,577
Component Units:				
Finance Authority of Maine	37,027	14,851	26,930	-
Maine Community College System	101,950	24,143	29,268	861
Maine Health & Higher Educational Facilities Authority	70,518	63,349	9,879	-
Maine Municipal Bond Bank	67,364	47,457	12,988	22,043
Maine State Housing Authority	233,884	70,460	180,904	-
University of Maine System	613,575	257,096	200,890	7,859
All Other Non-Major Component Units	92,602	29,388	40,819	2,662
Total Component Units	\$ 1,216,920	\$ 506,744	\$ 501,678	\$ 33,425

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

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
\$ (377,508)	\$ -	\$ (377,508)	\$ -
(9,452)	-	(9,452)	-
(7,315)	-	(7,315)	-
(73,867)	-	(73,867)	-
(1,429,922)	-	(1,429,922)	-
(1,154,426)	-	(1,154,426)	-
(220,981)	-	(220,981)	-
(56,628)	-	(56,628)	-
(8,335)	-	(8,335)	-
(36,246)	-	(36,246)	-
<u>(3,374,680)</u>	<u>-</u>	<u>(3,374,680)</u>	<u>-</u>
-	13,991	13,991	-
-	12,525	12,525	-
-	50,906	50,906	-
-	(827)	(827)	-
-	(1,970)	(1,970)	-
-	(2,647)	(2,647)	-
-	(4,822)	(4,822)	-
-	(1,839)	(1,839)	-
-	(120)	(120)	-
-	65,197	65,197	-
<u>\$ (3,374,680)</u>	<u>\$ 65,197</u>	<u>\$ (3,309,483)</u>	<u>\$ -</u>
-	-	-	4,754
-	-	-	(47,678)
-	-	-	2,710
-	-	-	15,124
-	-	-	17,480
-	-	-	(147,730)
-	-	-	(19,733)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (175,073)</u>
292,255	-	292,255	-
1,478,542	-	1,478,542	-
181,459	-	181,459	-
48,339	-	48,339	-
1,191,982	-	1,191,982	-
255,550	-	255,550	-
39,599	-	39,599	17,083
-	-	-	286,805
123,036	2	123,038	973
(445)	-	(445)	(146)
48,978	-	48,978	-
40,979	(40,979)	-	-
<u>3,700,274</u>	<u>(40,977)</u>	<u>3,659,297</u>	<u>304,715</u>
325,594	24,220	349,814	129,642
3,442,716	481,764	3,924,480	1,784,213
<u>\$ 3,768,310</u>	<u>\$ 505,984</u>	<u>\$ 4,274,294</u>	<u>\$ 1,913,855</u>



**STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2007
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	\$ -	\$ 29,186	\$ -	\$ 225,950	\$ 83	\$ 255,219
Cash and Short-Term Investments	714	1,414	9,137	243	-	11,508
Cash with Fiscal Agent	3,807	420	-	18,488	-	22,715
Investments	-	-	-	-	79,424	79,424
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	1,638	-	-	-	12,855	14,493
Restricted Deposits and Investments	-	-	-	-	13,898	13,898
Inventories	1,790	-	557	-	-	2,347
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	402,501	23,614	-	9,870	-	435,985
Loans Receivable	1	71	-	4,488	-	4,560
Other Receivable	131,409	248	91,757	71,149	-	294,563
Due from Other Funds	39,153	7,312	5,233	8,616	-	60,314
Due from Other Governments	-	-	597,178	-	-	597,178
Due from Component Units	179	-	-	-	715	894
Other Assets	464	-	51	-	-	515
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	\$ 581,767	\$ 62,265	\$ 703,913	\$ 338,804	\$ 106,975	\$ 1,793,724
Liabilities and Fund Balances						
Accounts Payable	\$ 317,414	\$ 15,064	\$ 520,225	\$ 31,588	\$ 4,639	\$ 888,930
Accrued Payroll	20,961	9,108	5,148	7,460	-	42,677
Tax Refunds Payable	131,242	25	-	-	-	131,267
Due to Other Governments	-	-	110,913	-	-	110,913
Due to Other Funds	25,768	2,739	26,196	2,706	71	57,480
Due to Component Units	5,398	224	2,718	4,732	2,165	15,237
Deferred Revenue	213,411	7,545	597	27,297	-	248,850
Other Accrued Liabilities	23,922	1	521	1,038	2	25,484
Total Liabilities	738,116	34,706	666,318	74,821	6,877	1,520,838
Fund Balances:						
Reserved						
Continuing Appropriations	81,558	49,485	40,268	221,600	155	393,066
Capital Projects	-	-	-	-	20,593	20,593
Permanent Trusts	-	-	-	-	12,518	12,518
Other	45,578	71	-	13,443	66,832	125,924
Unreserved	(283,485)	(21,997)	(2,673)	28,940	-	(279,215)
Total Fund Balances	(156,349)	27,559	37,595	263,983	100,098	272,886
Total Liabilities and Fund Balances	\$ 581,767	\$ 62,265	\$ 703,913	\$ 338,804	\$ 106,975	\$ 1,793,724

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, 2007
(Expressed in Thousands)

Total fund balances for governmental funds		\$ 272,886
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	3,994,388	
Less: Accumulated depreciation	<u>(177,797)</u>	3,816,591
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:		
Bonds Payable	(448,760)	
Interest Payable Related to Long-term Financing	(4,751)	
Certificates of Participation and Other Financing Arrangements	(27,716)	
Claims Payable	-	
Pledged Future Revenues	(42,353)	
Compensated Absences	(38,093)	
Pension Obligation	<u>(18,444)</u>	(580,117)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		241,454
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.		17,496
Net assets of governmental activities		<u>\$ 3,768,310</u>

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

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

Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 3,003,382	\$ 225,915	\$ -	\$ 201,372	\$ -	\$ 3,430,669
Assessments and Other Revenue	109,336	90,596	160	89,209	-	289,301
Federal Grants and Reimbursements	16,762	3,518	2,362,098	3,939	-	2,386,317
Service Charges	36,717	7,269	1,178	78,085	-	123,249
Investment Income	9,653	1,106	672	4,599	10,710	26,740
Miscellaneous Revenue	25,099	580	1,775	133,686	536	161,676
Total Revenues	<u>3,200,949</u>	<u>328,984</u>	<u>2,365,883</u>	<u>510,890</u>	<u>11,246</u>	<u>6,417,952</u>
Expenditures:						
Current:						
Governmental Support & Operations	262,721	35,406	9,576	131,122	5,541	444,366
Economic Development & Workforce Training	40,280	-	89,187	28,977	3,559	162,003
Education	1,438,605	-	186,754	4,459	8,030	1,637,848
Health and Human Services	972,875	-	1,828,903	262,694	1,800	3,066,272
Business Licensing & Regulation	-	-	547	60,993	-	61,540
Natural Resources Development & Protection	70,373	38	39,544	90,329	3,920	204,204
Justice and Protection	245,592	37,930	60,772	27,923	457	372,674
Arts, Heritage & Cultural Enrichment	8,958	-	2,681	996	580	13,215
Transportation Safety & Development	-	242,315	143,290	33,501	42,917	462,023
Debt Service:						
Principal Payments	69,350	10,415	3,915	-	-	83,680
Interest Payments	17,369	1,387	1,578	-	-	20,334
Total Expenditures	<u>3,126,123</u>	<u>327,491</u>	<u>2,366,747</u>	<u>640,994</u>	<u>66,804</u>	<u>6,528,159</u>
Revenue over (under) Expenditures	<u>74,826</u>	<u>1,493</u>	<u>(864)</u>	<u>(130,104)</u>	<u>(55,558)</u>	<u>(110,207)</u>
Other Financing Sources (Uses):						
Transfer from Other Funds	115,292	20,736	30,271	183,532	3,065	352,896
Transfer to Other Funds	(190,074)	(5,162)	(14,002)	(58,895)	(11,558)	(279,691)
COP's and Other	23,346	780	-	11,417	-	35,543
Bonds Issued	-	-	-	-	60,975	60,975
Net Other Finance Sources (Uses)	<u>(51,436)</u>	<u>16,354</u>	<u>16,269</u>	<u>136,054</u>	<u>52,482</u>	<u>169,723</u>
Revenues and Other Sources over (under) Expenditures and Other Uses	<u>23,390</u>	<u>17,847</u>	<u>15,405</u>	<u>5,950</u>	<u>(3,076)</u>	<u>59,516</u>
Fund Balances at Beginning of Year (As Restated)	<u>(179,739)</u>	<u>9,712</u>	<u>22,190</u>	<u>258,033</u>	<u>103,174</u>	<u>213,370</u>
Fund Balances at End of Year	<u>\$ (156,349)</u>	<u>\$ 27,559</u>	<u>\$ 37,595</u>	<u>\$ 263,983</u>	<u>\$ 100,098</u>	<u>\$ 272,886</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, 2007
(Expressed in Thousands)

Net change in fund balances - total governmental funds \$ 59,516

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	211,114	
Transfer of capital assets to Transit, Aviation and Rail Transport	(8,920)	
Depreciation expense	<u>(25,975)</u>	176,219

The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets. (1,099)

The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Assets. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Assets. This is the amount that proceeds exceed repayments:

Bond proceeds	(60,975)	
Proceeds from other financing arrangements	(24,126)	
Repayment of bond principal	79,765	
Repayment of other financing debt	10,473	
Accrued interest	<u>493</u>	5,630

Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from the Statement of Activities as follows:

Pension obligation	(394)	
Pledged future revenues	3,915	
Claims payable	-	
Compensated absences	<u>(155)</u>	3,366

Certain revenues are earned but not available and therefore are not reported in the governmental fund statements. 18,663

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. 63,299

Changes in net assets of governmental activities \$ 325,594

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

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2007
(Expressed in Thousands)

	Business-Type Activities			Governmental Activities	Internal Service Funds
	Enterprise Funds				
	Major	Major	Non-Major		
Employment Security	Alcoholic Beverages	Other Enterprise	Totals		
Assets					
Current Assets:					
Equity in Treasurer's Cash Pool	\$ -	\$ -	\$ 12,387	\$ 12,387	\$ 206,298
Cash and Short-Term Investments	889	-	757	1,646	3
Cash with Fiscal Agent	-	-	-	-	23,735
Restricted Assets:					
Restricted Deposits and Investments	463,099	-	-	463,099	2,403
Inventories	-	-	779	779	4,691
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	14,610
Other Receivable	28,839	-	22,092	50,931	5,818
Due from Other Funds	16	-	8,976	8,992	23,092
Due from Component Units	-	-	66	66	-
Other Current Assets	-	-	206	206	1,003
Total Current Assets	<u>492,843</u>	<u>-</u>	<u>45,263</u>	<u>538,106</u>	<u>281,653</u>
Noncurrent Assets:					
Equity in Treasurer's Cash Pool	-	-	1,353	1,353	22,572
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	167,995
Capital Assets - Net of Depreciation	-	-	90,361	90,361	117,580
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>91,714</u>	<u>91,714</u>	<u>308,147</u>
Total Assets	<u>492,843</u>	<u>-</u>	<u>136,977</u>	<u>629,820</u>	<u>589,800</u>
Liabilities					
Current Liabilities:					
Accounts Payable	2,296	-	2,773	5,069	5,812
Accrued Payroll	-	-	1,445	1,445	3,065
Due to Other Governments	-	-	-	-	225
Due to Other Funds	-	-	9,740	9,740	30,478
Current Portion of Long-Term Obligations:					
Certificates of Participation and Other Financing Arrangements	-	-	-	-	15,914
Revenue Bonds Payable	-	-	-	-	14,610
Obligations Under Capital Leases	-	-	-	-	6,402
Claims Payable	-	-	-	-	22,980
Compensated Absences	-	-	72	72	528
Deferred Revenue	-	12,500	1,596	14,096	409
Other Accrued Liabilities	870	-	18,151	19,021	3,153
Total Current Liabilities	<u>3,166</u>	<u>12,500</u>	<u>33,777</u>	<u>49,443</u>	<u>103,576</u>
Long-Term Liabilities:					
Working Capital Advances Payable	-	-	-	-	111
Deferred Revenue	-	75,000	-	75,000	984
Certificates of Participation and Other Financing Arrangements	-	-	-	-	36,256
Revenue Bonds Payable	-	-	-	-	167,995
Obligations Under Capital Leases	-	-	-	-	35,349
Claims Payable	-	-	-	-	41,116
Compensated Absences	-	-	646	646	3,059
Total Long-Term Liabilities	<u>-</u>	<u>75,000</u>	<u>646</u>	<u>75,646</u>	<u>284,870</u>
Total Liabilities	<u>3,166</u>	<u>87,500</u>	<u>34,423</u>	<u>125,089</u>	<u>388,446</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	-	-	90,361	90,361	61,590
Restricted for:					
Unemployment Compensation	489,677	-	-	489,677	-
Other Purposes	-	-	-	-	2,173
Unrestricted	-	(87,500)	12,193	(75,307)	137,591
Total Net Assets	<u>\$ 489,677</u>	<u>\$ (87,500)</u>	<u>\$ 102,554</u>	<u>504,731</u>	<u>\$ 201,354</u>

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

1,253

Net Assets of Business-Type Activities

\$ 505,984

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, 2007
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Totals	Governmental Activities Internal Service Funds
	Major	Major	Non-Major		
	Employment Security	Alcoholic Beverages	Other Enterprise		
Operating Revenues					
Charges for Services	\$ -	\$ 25	\$ 336,089	\$ 336,114	\$ 473,289
Assessments	112,482	-	1,749	114,231	-
Miscellaneous Revenues	-	-	65	65	714
Total Operating Revenues	<u>112,482</u>	<u>25</u>	<u>337,903</u>	<u>450,410</u>	<u>474,003</u>
Operating Expenses					
General Operations	-	-	298,157	298,157	376,428
Depreciation	-	-	5,048	5,048	16,048
Claims/Fees Expense	120,215	-	-	120,215	9,142
Other Operating Expenses	-	-	-	-	362
Total Operating Expenses	<u>120,215</u>	<u>-</u>	<u>303,205</u>	<u>423,420</u>	<u>401,980</u>
Operating Income (Loss)	<u>(7,733)</u>	<u>25</u>	<u>34,698</u>	<u>26,990</u>	<u>72,023</u>
Nonoperating Revenues (Expenses)					
Investment Revenue (Expense) - net	21,724	-	-	21,724	12,878
Interest Expense	-	-	-	-	(16,523)
Other Nonoperating Revenues (Expenses)- net	-	12,500	270	12,770	(373)
Total Nonoperating Revenues (Expenses)	<u>21,724</u>	<u>12,500</u>	<u>270</u>	<u>34,494</u>	<u>(4,018)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>13,991</u>	<u>12,525</u>	<u>34,968</u>	<u>61,484</u>	<u>68,005</u>
Capital Contributions and Transfers					
Capital Contributions from (to) Other Funds	-	-	16,524	16,524	2,057
Transfers from (to) Other Funds	(1,146)	(24)	(52,181)	(53,351)	(10,810)
Total Capital Contributions and Transfers In (Out)	<u>(1,146)</u>	<u>(24)</u>	<u>(35,657)</u>	<u>(36,827)</u>	<u>(8,753)</u>
Change in Net Assets	12,845	12,501	(689)	24,657	59,252
Total Net Assets - Beginning of Year (As Restated)	<u>476,832</u>	<u>(100,001)</u>	<u>103,243</u>		<u>142,102</u>
Total Net Assets - End of Year	<u>\$ 489,677</u>	<u>\$ (87,500)</u>	<u>\$ 102,554</u>		<u>\$ 201,354</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.

(437)

Changes in Business-Type Net Assets

\$ 24,220

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2007
(Expressed in Thousands)

	Business-Type Activities				Governmental Activities Internal Service Funds
	Enterprise Funds			Totals	
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise		
Cash Flows from Operating Activities					
Receipts from Customers and Users	\$ 111,892	\$ 25	\$ 338,982	\$ 450,899	\$ 473,005
Payments of Benefits	(118,230)	-	-	(118,230)	-
Payments to Prize Winners	-	-	(145,479)	(145,479)	-
Payments to Suppliers	-	(1)	(119,399)	(119,400)	(306,931)
Payments to Employees	-	-	(32,284)	(32,284)	(69,704)
Net Cash Provided (Used) by Operating Activities	<u>(6,338)</u>	<u>24</u>	<u>41,820</u>	<u>35,506</u>	<u>96,370</u>
Cash Flows from Noncapital Financing Activities					
Operating Transfers in	-	-	5,275	5,275	3,170
Operating Transfers out	(1,146)	(24)	(57,456)	(58,626)	(21,984)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,146)</u>	<u>(24)</u>	<u>(52,181)</u>	<u>(53,351)</u>	<u>(18,814)</u>
Cash Flows from Capital and Related Financing Activities					
Payments for Acquisition of Capital Assets	-	-	144	144	(24,702)
Proceeds from Financing Arrangements	-	-	-	-	42,285
Principal and Interest Paid on Financing Arrangements	-	-	-	-	(37,394)
Proceeds from Sale of Capital Assets	-	-	1	1	-
Net Cash Provided (Used) by Capital Financing Activities	<u>-</u>	<u>-</u>	<u>145</u>	<u>145</u>	<u>(19,811)</u>
Cash Flows from Investing Activities					
Interest Revenue	21,724	-	270	21,994	12,879
Net Cash Provided (Used) by Investing Activities	<u>21,724</u>	<u>-</u>	<u>270</u>	<u>21,994</u>	<u>12,879</u>
Net Increase (Decrease) in Cash/Cash Equivalents	14,240	-	(9,946)	4,294	70,624
Cash/Cash Equivalents - Beginning of Year	449,748	-	24,446	474,194	184,387
Cash/Cash Equivalents - End of Year	<u>\$ 463,988</u>	<u>\$ -</u>	<u>\$ 14,500</u>	<u>\$ 478,488</u>	<u>\$ 255,011</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities					
Operating Income (Loss)	\$ (7,733)	\$ 25	\$ 34,698	\$ 26,990	\$ 72,023
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	-	-	5,048	5,048	16,048
Decrease (Increase) in Assets					
Accounts Receivable	(600)	-	3,138	2,538	(880)
Interfund Balances	10	(1)	(3,712)	(3,703)	24,574
Inventories	-	-	31	31	(327)
Increase (Decrease) in Liabilities					
Accounts Payable	1,368	-	(1,419)	(51)	(15,427)
Accrued Payroll Expenses	-	-	294	294	214
Change in Compensated Absences	-	-	583	583	127
Other Accruals	617	-	3,159	3,776	18
Total Adjustments	<u>1,395</u>	<u>(1)</u>	<u>7,122</u>	<u>8,516</u>	<u>24,347</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (6,338)</u>	<u>\$ 24</u>	<u>\$ 41,820</u>	<u>\$ 35,506</u>	<u>\$ 96,370</u>
Non Cash Investing, Capital and Financing Activities					
Property Leased, Accrued, or Acquired	-	-	-	-	4,093
Contributed Capital Assets	-	-	2,926	2,926	2,057
Decrease of deferred revenue from the sale of liquor operations	-	12,500	-	12,500	-

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

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2007
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	\$ -	\$ 1,272	\$ 6,590
Cash and Short-Term Investments	216,272	-	41
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	11,342	-	-
Loans to Institutions	-	-	-
Interest and Dividends	35,970	222	-
Due from Brokers for Securities Sold	123,912	-	-
Investments at Fair Value:			
Debt Securities	3,729,557	-	-
Equity Securities	2,935,142	-	-
Common/Collective Trusts	4,068,827	-	-
Other	5,789	11,647	-
Securities Lending Collateral	3,031,737	-	-
Due from other funds	-	6,766	-
Investments Held on Behalf of Others	-	5,231,583	62,260
Capital Assets - Net of Depreciation	4,176	-	-
Other Assets	-	18,001	389
Total Assets	<u>14,162,724</u>	<u>5,269,491</u>	<u>69,280</u>
Liabilities			
Accounts Payable	2,016	3,277	14
Due to Other Funds	-	-	1,466
Due to Brokers for Securities Purchased	71,488	-	-
Agency Liabilities	-	-	69,280
Obligations Under Securities Lending	3,031,737	-	-
Other Accrued Liabilities	34,462	1	(1,480)
Total Liabilities	<u>3,139,703</u>	<u>3,278</u>	<u>69,280</u>
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	<u>11,023,021</u>	<u>5,266,213</u>	<u>-</u>
Total Net Assets	<u>\$ 11,023,021</u>	<u>\$ 5,266,213</u>	<u>\$ -</u>

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

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

Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

	Pension (and Other Employee Benefit Trusts)	Private Purpose Trusts
Additions:		
Contributions:		
Members	\$ 163,899	\$ 1,699,856
State and Local Agencies	323,620	-
Investment Income:		
Net Increase (Decrease) in the Fair Value of Investments	1,369,944	432,715
Capital Gains Distributions from Investments	-	112,678
Interest and Dividends	199,741	144,331
Less Investment Expense:		
Investment Activity Expense	23,169	-
Cost of Securities Lending	671	-
Net Investment Income	1,545,845	689,724
Miscellaneous Revenues	-	12,121
Transfers In	-	16
Total Additions	2,033,364	2,401,717
Deductions:		
Benefits Paid to Participants or Beneficiaries	550,022	1,109,853
Refunds and Withdrawals	21,969	-
Administrative Expenses	11,135	36,841
Transfers Out	-	9,060
Total Deductions	583,126	1,155,754
Net Increase (Decrease)	1,450,238	1,245,963
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	9,572,783	4,020,250
End of Year	<u>\$ 11,023,021</u>	<u>\$ 5,266,213</u>

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

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

June 30, 2007
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Assets			
Current Assets:			
Equity in Treasurer's Cash Pool	\$ 27,855	\$ 6,276	\$ -
Cash and Cash Equivalents	5,154	255	14,898
Cash with Fiscal Agent	-	-	-
Investments	203,489	23,899	16,292
Restricted Assets:			
Inventories	-	1,255	-
Receivables, Net of Allowance for Uncollectibles:			
Loans Receivable	-	-	41,970
Notes Receivable	-	-	-
Other Receivables	4,366	3,246	3,606
Due from Other Governments	1,465	-	-
Due from Primary Government	-	312	-
Loans receivable from primary government	-	-	-
Other Current Assets	2,872	558	770
Total Current Assets	<u>245,201</u>	<u>35,801</u>	<u>77,536</u>
Noncurrent Assets:			
Equity in Treasurer's Cash Pool	3,048	687	-
Assets Held in Trust	-	-	-
Restricted Assets:			
Restricted Deposits and Investments	-	6,564	155,884
Investments	-	6,307	-
Receivables, Net of Current Portion:			
Loans Receivable	-	-	1,212,383
Notes Receivable	165,510	-	-
Other Receivables	-	-	60
Due from Other Governments	-	-	-
Due from Primary Government	-	-	-
Loans receivable from primary government	-	-	-
Capital Assets - Net of Depreciation	1,801	105,279	3,262
Other Noncurrent Assets	-	302	899
Total Noncurrent Assets	<u>170,359</u>	<u>119,139</u>	<u>1,372,488</u>
Total Assets	<u>415,560</u>	<u>154,940</u>	<u>1,450,024</u>
Liabilities			
Current Liabilities:			
Accounts Payable	1,447	5,487	2,066
Accrued Payroll	-	-	-
Compensated Absences	-	1,761	-
Due to Other Governments	-	-	559
Due to Primary Government	-	-	-
Amounts Held under State & Federal Loan Programs	-	-	-
Undistributed Grants and Administrative Funds	10,321	-	-
Allowances for Losses on Insured Commercial Loans	5,502	-	-
Bonds Payable	53	-	41,970
Obligations under Capital Leases	-	-	-
Accrued Interest Payable	996	-	27,387
Deferred Revenue	1,710	1,940	126
Other Current Liabilities	51	6,363	1,554
Total Current Liabilities	<u>20,080</u>	<u>15,551</u>	<u>73,662</u>
Long-Term Liabilities:			
Due to Other Governments	2,443	-	1,771
Amounts Held under State & Federal Loan Programs	44,062	-	-
Bonds Payable	309,355	23,426	1,340,105
Obligations under Capital Leases	-	3,490	-
Deferred Revenue	-	-	-
Other Noncurrent Liabilities	-	-	-
Total Long-Term Liabilities	<u>355,860</u>	<u>26,916</u>	<u>1,341,876</u>
Total Liabilities	<u>375,940</u>	<u>42,467</u>	<u>1,415,538</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,801	85,230	3,262
Restricted	9,009	17,501	2,309
Unrestricted	28,810	9,742	28,915
Total Net Assets	<u>\$ 39,620</u>	<u>\$ 112,473</u>	<u>\$ 34,486</u>

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

Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
\$ -	\$ -	\$ 52,663	\$ 97	\$ 86,891
86	2,258	1,751	27,282	51,684
-	-	-	1,081	1,081
19,799	594,093	80,894	4,952	943,418
-	-	-	669	1,924
-	24,111	-	9,885	75,966
-	2	61	-	63
1,746	21,575	20,904	3,542	58,985
118,924	3,551	12,522	2,208	138,670
-	1,014	9,722	2,166	13,214
4,015	-	-	-	4,015
24,859	-	7,193	1,967	38,219
<u>169,429</u>	<u>646,604</u>	<u>185,710</u>	<u>53,849</u>	<u>1,414,130</u>
-	-	5,762	10	9,507
-	-	-	5,047	5,047
259,512	149,890	115,984	4,357	692,191
-	80,765	253,760	24,246	365,078
-	1,126,434	-	72,303	2,411,120
-	944	40,800	1,183	208,437
-	-	5,325	952	6,337
1,116,640	-	-	-	1,116,640
-	-	2,106	-	2,106
38,338	-	-	-	38,338
816	1,768	577,021	106,758	796,705
4,689	4,062	19,994	5,589	35,535
<u>1,419,995</u>	<u>1,363,863</u>	<u>1,020,752</u>	<u>220,445</u>	<u>5,687,041</u>
<u>1,589,424</u>	<u>2,010,467</u>	<u>1,206,462</u>	<u>274,294</u>	<u>7,101,171</u>
452	38,808	19,219	7,289	74,768
-	-	-	650	650
-	-	-	429	2,190
3,085	3,112	-	195	6,951
-	-	-	1,043	1,043
32,094	-	-	-	32,094
546	-	-	-	10,867
-	-	-	-	5,502
99,827	35,655	6,507	406	184,418
-	-	346	18	364
8,760	9,683	-	327	47,153
507	8,061	17,207	13,078	42,629
-	-	23,038	5,504	36,510
<u>145,271</u>	<u>95,319</u>	<u>66,317</u>	<u>28,939</u>	<u>445,139</u>
1,608	-	-	3,204	9,026
-	-	-	-	44,062
980,774	1,603,935	216,900	99,824	4,574,319
-	-	766	65	4,321
-	22,449	-	1,017	23,466
-	-	86,983	-	86,983
<u>982,382</u>	<u>1,626,384</u>	<u>304,649</u>	<u>104,110</u>	<u>4,742,177</u>
<u>1,127,653</u>	<u>1,721,703</u>	<u>370,966</u>	<u>133,049</u>	<u>5,187,316</u>
-	1,768	396,319	103,919	592,299
408,184	269,697	343,104	22,625	1,072,429
53,587	17,299	96,073	14,701	249,127
<u>\$ 461,771</u>	<u>\$ 288,764</u>	<u>\$ 835,496</u>	<u>\$ 141,245</u>	<u>\$1,913,855</u>

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

June 30, 2007
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Expenses	\$ 37,027	\$ 101,950	\$ 70,518
Program Revenues			
Charges for Services	14,851	24,143	63,349
Program Investment Income	7,330	1,693	7,053
Operating Grants and Contributions	19,600	27,575	2,826
Capital Grants and Contributions	-	861	-
Net Revenue (Expense)	<u>4,754</u>	<u>(47,678)</u>	<u>2,710</u>
General Revenues			
Unrestricted Investment Earnings	-	1,919	1,437
Non-program Specific Grants, Contributions and Appropriations	-	47,773	-
Miscellaneous Income	-	1,607	110
Gain (Loss) on Assets Held for Sale	-	(35)	-
Total General Revenues	<u>-</u>	<u>51,264</u>	<u>1,547</u>
Change in Net Assets	4,754	3,586	4,257
Net Assets, Beginning of the Year	<u>34,866</u>	<u>108,887</u>	<u>30,229</u>
Net Assets, End of Year	<u>\$ 39,620</u>	<u>\$ 112,473</u>	<u>\$ 34,486</u>

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

<u>Maine Municipal Bond Bank</u>	<u>Maine State Housing Authority</u>	<u>University of Maine System</u>	<u>Non-Major Component Units</u>	<u>Totals</u>
\$ 67,364	\$ 233,884	\$ 613,575	\$ 92,602	\$ 1,216,920
47,457	70,460	257,096	29,388	506,744
6,904	35,157	-	3,132	61,269
6,084	145,747	200,890	37,687	440,409
22,043	-	7,859	2,662	33,425
<u>15,124</u>	<u>17,480</u>	<u>(147,730)</u>	<u>(19,733)</u>	<u>(175,073)</u>
917	737	10,457	1,616	17,083
-	-	223,280	15,752	286,805
939	-	(2,269)	586	973
-	-	-	(111)	(146)
<u>1,856</u>	<u>737</u>	<u>231,468</u>	<u>17,843</u>	<u>304,715</u>
16,980	18,217	83,738	(1,890)	129,642
<u>444,791</u>	<u>270,547</u>	<u>751,758</u>	<u>143,135</u>	<u>1,784,213</u>
<u>\$ 461,771</u>	<u>\$ 288,764</u>	<u>\$ 835,496</u>	<u>\$ 141,245</u>	<u>\$ 1,913,855</u>

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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 of Maine's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, organizations, agencies, boards, commissions and authorities. Component units are legally separate organizations for which the State is financially accountable. Component units can also be legally separate, tax exempt entities that raise and hold economic resources for the direct benefit of a governmental unit.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The State is financially accountable for those entities for which it appoints a voting majority of the governing board and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government or if the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement No. 14*, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, a few of the component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

Blended Component Units - The Maine Governmental Facilities Authority (MGFA) is a legally separate organization that has its board appointed by the primary government and provides services entirely, or almost entirely, to the State. Therefore, the State reports MGFA's balances and transactions as though they were part of the primary government, using the blending method.

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. Component units that are not material to the State's financial statements have been excluded. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. Because of its' nature, the Maine Public Employees Retirement System (formerly the Maine State Retirement System) is reported in the fiduciary funds.

The State's major discrete and fiduciary component units are:

The Finance Authority of Maine 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. Net assets of the program, NextGen College Investing Plan, are included in the State's fiduciary fund financial statements. The Governor appoints the fifteen voting members of the Authority.

The Maine Community 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.

Maine Health & Higher Educational Facilities Authority (MHHEFA) – MHHEFA assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction and equipping of their facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, may also finance student loan programs of institutions of higher education. MHHEFA consists of twelve members, four of whom serve *ex officio* and must be the Superintendent of Financial Institutions, the Commissioner of Health and Human Services, the Commissioner of Education, and the Treasurer of State. The remaining eight members must be residents of the State appointed by the Governor.

The Maine Municipal Bond Bank issues bonds on behalf of counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations or eligible borrowers as designated by the Legislature (the "governmental units") within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners. The remaining two members include the Treasurer of State and Superintendent of Financial Institutions who serve as commissioners, *ex officio*.

The Maine Public Employees Retirement System administers an agent, multiple-employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 270 local municipalities and other public entities in Maine. The Governor appoints four of the Board's eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

Maine State Housing Authority issues bonds to purchase 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 remaining two commissioners are the Treasurer of State and the Director of the Maine State Housing Authority, both of whom serve *ex officio*. The Authority's fiscal year ends on December 31.

The University of Maine System is the State University governed by 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 major component units can be obtained directly from their respective administrative offices by writing to:

Finance Authority of Maine 5 Community Dr. PO Box 949 Augusta, ME 04332-0949	Maine Governmental Facilities Authority PO Box 2268 Augusta, ME 04338-2268	Maine Municipal Bond Bank PO Box 2268 Augusta, ME 04338-2268	Maine State Housing Authority 89 State House Station 353 Water Street Augusta, ME 04330-4633
Maine Community College System 323 State Street Augusta, ME 04330-7131	Maine Health and Higher Ed. Facilities Authority PO Box 2268 Augusta, ME 04338-2268	Maine Public Employees Retirement System 46 State House Station Augusta, ME 04333-0046	University of Maine System 16 Central Street Bangor, ME 04401-5106

Related Organizations

Officials of the State’s primary government appoint a voting majority of the governing boards of the Maine Turnpike Authority and the Maine Veteran’s Home. The primary government has no material accountability for these organizations beyond making 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. The government-wide statement of net assets reports \$688.5 million of restricted net assets, of which \$42.0 million is restricted by 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 is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Fund Financial Statements

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**Measurement Focus and Basis of Accounting**

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

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, 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 a GASB pronouncement.

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, generally 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 pay liabilities of the current period. For this purpose, the State generally considers revenues available if they are collected within 60 days 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 Fund.

The State reports the following major enterprise funds:

The *Maine Employment Security Fund* receives contributions from employers and provides unemployment compensation benefits to eligible unemployed workers.

The *Alcoholic Beverages Fund* licenses and regulates the sale of alcoholic beverages. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent.

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. An example is funds for acquisition of public reserved lands.

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

Permanent Trust 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 the unemployment compensation program, lottery operations and transportation services.

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 technology, 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 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 Public Employees Retirement System.

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, Permanent School funds, and the NextGen College Investing Plan.

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.

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

Equity in Treasurer's Cash Pool

The State pools cash and cash equivalents for a variety of State agencies and public sector entities. 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. The Treasurer's Cash Pool has the general characteristics of a demand deposit account and is comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations, certificates of deposit, and corporate bonds.

For component units that participate in the cash pool, equity is shown at fair value.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. On the Statement of Cash Flows, the amount reported as "Cash and Cash Equivalents" is equal to the total of the amounts reported on the Statement of Net Assets as "Equity in Treasurer's Cash Pool," "Cash and Cash Equivalents," "Cash with Fiscal Agent," "Restricted Equity in Treasurer's Cash Pool," and "Restricted Deposits and Investments."

Cash with Fiscal Agent

Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds, the unspent proceeds of bonds and Certificates of Participation, as well as unspent funds of the Maine Biological Research Board being held by the State.

Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

Investments Held on Behalf of Others

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. Generally, these investments are reported at fair value or at amortized cost which approximates fair value. The State also holds \$155 million of Workers' Compensation, \$52 million of Bureau of Insurance, and \$23 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: 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 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 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 to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units' column arise 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. Receivables due from related providers for interim payments are \$160 million, net of an allowance for uncollectible amounts of \$29.7 million.

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.

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.

Due from/to Primary Government/Component Units

Numerous transactions are made between the primary government and component units to finance operations, provide services, acquire or construct assets, or repay bonds. To the extent that transactions between funds were not completed as of June 30, "Due from Primary Government" and "Due to Component Unit" receivables and payables have been recorded. Two component units have December 31 year ends, therefore the "due to" and "due from" amounts will differ.

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 health and human services programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units' column represents amounts receivable for grants, bond repayment and retirement benefits. Due to Other Governments primarily consist of amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers.

Capital 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 \$100 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 donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

In the government-wide statements, most capital assets are depreciated 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 maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Capital 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.

Accounts Payable

Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements; however, are actuarially estimated. The IBNP estimate at June 30, 2007 is \$317 million.

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, retiree health, employee health, 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 liabilities as required by GASB. 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 relates to sales and income taxes. Deferred revenue in the Federal Fund consists primarily of food commodities and vaccines not yet issued. Deferred revenue in the Alcoholic Beverages Fund comprises the proceeds from the sale of the State's liquor operations.

Pledged Future Revenues

In the Statement of Net Assets, the amount of bond proceeds received by a component unit for unmatured GARVEE bond proceeds is called "Pledged Future Revenues." The offsetting receivables are classified as "Loans Receivable from Primary Government."

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.

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: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and 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.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. general operations and depreciation). Operating revenues and expenses generally result from providing

services and producing and delivering goods. All other revenues and expenses are reported as nonoperating, capital contributions, transfers or special items.

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Appropriation Limits

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 Maine Revised Statutes Annotated (MRSA) § 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.

Budget Stabilization Fund

The Maine Budget Stabilization Fund, a fund designation established under Title 5 MRSA C. 142, is included in the negative \$263.9 million unreserved General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. 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 third priority before any other transfer, the State Controller is required to transfer 35 percent of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap. In accordance with statute, since there was no unappropriated surplus in 2007, no transfer was required.

The statutory cap for the fund is 12 percent 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 2007 actual General Fund revenue, the statutory cap at the close of fiscal year 2007 and during fiscal year 2007 was \$362.4 million. At the close of fiscal year 2007, the balance of the Maine Budget Stabilization Fund was \$115.5 million. 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.

Budget Stabilization Fund Activity
(Expressed in Thousands)

Balance, beginning of year	\$ 79,903
Increase in fund balance	35,577
Balance, end of year	<u>\$ 115,480</u>

Budget and Budgetary Expenditures

The biennial budget sets forth proposed expenditures for the administration, operation and maintenance of the departments and agencies of the State Government; all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year. Within this structure, budgetary control by agency is maintained at the program and line category level. 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. Changes in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2007, the Legislature decreased supplemental appropriations to the General Fund by \$15.2 million.

Actual expenditures did not exceed legislatively authorized appropriations at the Department level; therefore, the State complied with all related budget laws at the legal level.

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS**Accounting Changes**

Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, became effective in fiscal year 2007; however, it was not applicable to the State as no trust fund has yet been established for postemployment benefits.

Changes in Classification

Beginning in fiscal year 2007, Maine Health and Higher Educational Facilities Authority (MHHEFA) is reported as a discrete component unit. Prior to fiscal year 2007, MHHEFA was reported with the State's fiduciary funds. This change was made after re-evaluating the nature of the entity. The State determined that it is more correctly classified as an enterprise activity. As a result, beginning net assets for discretely presented component units increased \$30.2 million.

The presentation of component units was changed to depict major and nonmajor classifications.

Change in Accounting Estimate

The liability estimate for incurred but not paid (IBNP) Medicaid claims as of June 30, 2006 was reduced by approximately \$117 million as determined by actuarial calculations. The cause of the decrease was a higher-than-usual claims payment pattern at the end of fiscal year 2006, causing the IBNP amount to be inflated. The payment pattern has now stabilized, resulting in more consistent actuarial results.

Restatement – Primary Government

The beginning net assets on the Governmental Activities in the Statement of Net Assets were decreased \$7.5 million for assets that should not have been capitalized in the prior period. Beginning net assets in the governmental funds balance sheet, general fund, decreased by \$2.1 million for a correction to receivables from the lottery fund.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Five internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2007. The Workers' Compensation Fund reported a deficit of \$15.2 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of \$4.2 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of \$65 thousand because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. The Information Services Fund has a deficit balance of \$818 thousand because rates charged were insufficient to cover expenses incurred. The Financial & Personnel Services Fund had a fund balance deficit of \$1.2 million because rates charged were insufficient to cover expenses incurred. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of \$87.5 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The Maine Military Authority Enterprise Fund shows a deficit of \$168 thousand. Expenses are recognized when incurred; however, related revenue is not earned until repair projects are satisfactorily completed. The deficit will be funded by future billings as projects are completed.

The General Fund shows a deficit fund balance of \$156.3 million at June 30, 2007, and a deficit of \$179.7 million at June 30, 2006, as restated. The change in recognizing income, sales and fuel tax revenues to 60 days from one year decreased the beginning fund balance by \$137.3 million in fiscal year 2006. This deficit is in part due to the full recognition of the state's share of Medicaid liabilities at fiscal year end, which are funded throughout the year with the aforementioned tax revenue. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under GASB 33. Per GASB 33 revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

NOTE 5 - DEPOSITS AND INVESTMENTS

Title 5 MRSA § 135 governs the deposit and investment policies of the State of Maine Office of the Treasurer. 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 State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. 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 Title 5 MRSA § 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 MRSA. 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.

No amounts exceeding 25 percent of the capital, surplus, and undivided profits of any trust company or national bank or 25 percent 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.

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 rate. 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.

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2007:

Primary Government Deposits and Investments
(Expressed in Thousands)

	Governmental Activities	Business- Type Activities	Private Purpose Trusts	Agency Funds	Total
Equity in Treasurer's Cash Pool	\$ 484,089	\$ 13,740	\$ 1,272	\$ 6,590	\$ 505,691
Cash and Cash Equivalents	11,511	1,646	-	14	13,171
Cash with Fiscal Agent	46,450	-	-	27	46,477
Investments	79,424	-	11,647	-	91,071
Restricted Equity in Treasurer's Cash Pool	14,493	-	-	-	14,493
Restricted Deposits and Investments	16,301	463,099	-	-	479,400
Investments Held on Behalf of Others	-	-	5,231,583	62,260	5,293,843
Other Assets	-	-	18,001	389	18,390
Total Primary Government	\$ 652,268	\$ 478,485	\$ 5,262,503	\$ 69,280	\$ 6,462,536

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In general, the State holds securities to maturity. All debt securities are reported at full-term.

The following table provides the segmented time distribution of the Primary Government's investments at June 30, 2007:

	Maturities in Years (Expressed in Thousands)					No Maturity	Fair Value
	Less than 1	1 - 5	6 - 10	11 - 20	More than 20		
<i>Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds</i>							
US Instrumentalities	\$16,901	\$48,386	\$ -	\$ -	\$ -	\$ -	\$65,287
US Treasury Notes	7,888	-	-	-	-	-	7,888
Repurchase Agreements	15,760	-	-	-	-	-	15,760
Corporate Notes and Bonds	13,675	3,978	-	-	-	-	17,653
Commercial Paper	167,755	-	-	-	-	-	167,755
Certificates of Deposit	9,862	1,471	-	-	-	-	11,333
Money Market	242,150	-	-	-	-	-	242,150
Cash and Cash Equivalents Unemployment Fund	-	-	-	-	-	13,954	13,954
Deposits with US Treasury	-	-	-	-	-	463,099	463,099
<i>Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds</i>							
US Instrumentalities	1,023	4,668	2,248	1,383	5,646	-	14,968
US Treasury Notes	3,409	17,013	3,184	6,267	3,614	-	33,487
Repurchase Agreements	29	-	-	-	-	-	29
Corporate Notes and Bonds	1,728	4,598	2,177	183	2,191	-	10,877
Other Fixed Income Securities	-	-	132	-	-	-	132
Commercial Paper	2,574	-	-	-	-	-	2,574
Certificates of Deposit	127	23	-	-	-	-	150
Money Market	3,716	-	-	-	-	1,254	4,970
Cash and Cash Equivalents	-	-	-	-	-	27,627	27,627
Equities	-	-	-	-	-	66,082	66,082
Other	-	-	-	-	-	311	311
	<u>\$486,597</u>	<u>\$80,137</u>	<u>\$7,741</u>	<u>\$7,833</u>	<u>\$11,451</u>	<u>\$572,327</u>	<u>\$1,166,086</u>
NextGen College Investing Plan							5,231,583
Other Assets							18,390
Cash with Fiscal Agent							46,477
Total Primary Government							<u>\$6,462,536</u>

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. To the extent possible in the Treasurer's Cash Pool, at least 30 percent of the portfolio shall be invested in U.S. Treasury, Federal Agency or Federal Instrumentality securities, or Repurchase Agreements. The State limits credit risk in its trusts by ensuring that at least 85 percent of the debt securities are rated A or better.

The Primary Government's total investments by credit quality rating as of June 30, 2007 are presented below:

	Standard & Poor's Credit Rating (Expressed in Thousands)								Total
	<u>A1</u>	<u>A</u>	<u>AA</u>	<u>AA+</u>	<u>AAA</u>	<u>BB</u>	<u>BBB</u>	<u>Not Rated</u>	
<i>Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds</i>									
US Instrumentalities	\$ -	\$ -	\$ -	\$ -	\$ 65,287	\$ -	\$ -	\$ -	\$ 65,287
US Treasury Notes	-	-	-	-	7,888	-	-	-	7,888
Corporate Notes and Bonds	-	-	-	-	17,653	-	-	-	17,653
Commercial Paper	100,732	-	-	-	-	-	-	67,023*	167,755
Money Market	-	-	-	-	-	-	-	242,150	242,150
<i>Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds</i>									
US Instrumentalities	-	98	344	-	3,962	-	-	10,564	14,968
US Treasury Notes	-	300	123	-	33,064	-	-	-	33,487
Corporate Notes and Bonds	-	2,075	947	-	3,170	23	729	3,933	10,877
Commercial Paper	1,545	-	-	-	-	-	-	1,029*	2,574
Money Market	-	-	-	-	-	-	-	4,970	4,970
Other Fixed Income Securities	-	-	-	-	-	-	132	-	132
Total Primary Government	<u>\$ 102,277</u>	<u>\$ 2,473</u>	<u>\$ 1,414</u>	<u>\$ -</u>	<u>\$ 131,024</u>	<u>\$ 23</u>	<u>\$ 861</u>	<u>\$ 329,669</u>	<u>\$ 567,741</u>

*Rated "P1" by Moody's credit rating.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than 10 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2007, more than 5 percent of the cash pool's investments were in Citizens Bank, and TD Banknorth. These investments are \$283 million (42.1 percent), and \$34 million (5.1 percent), respectively, of the cash pool's total investments.

Custodial Credit Risk - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's \$12.2 million invested in non-negotiable certificates of deposit, \$5.8 million exceeded the FDIC insured amounts for the institutions at which they were held. The State does not have a policy regarding custodial credit risk for its trusts. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name.

The fair value of the trust's investments as of June 30, 2007 was \$66.8 million and was comprised of the following:

U.S. Instrumentalities	\$ 8,123
US Treasury Notes	3,387
Corporate Notes and Bonds	5,744
Other Fixed Income Securities	132
Equities	47,879
Cash and Equivalents	1,307
Other	261
Total	<u>\$ 66,833</u>

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2007, these disbursements, on average, exceeded \$153 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Maine Public Employees 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.

Securities Lending - 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. All securities and loans can be terminated on demand by either the lender or the borrower.

Cash open collateral is invested in a short-term investment pool, the Global Core Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2007, all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2007 was \$3.6 billion and \$3.5 billion, respectively.

NEXTGEN COLLEGE INVESTING PLAN

The Maine College Savings Program Fund (the Fund) doing business as NextGen College Investing Plan (the Program), was established in accordance with Title 20-A MRSA §11473, to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a Qualified State Tuition Program under Section 529 of the Internal Revenue Code.

The statute authorizes the Finance Authority of Maine ("FAME") to administer the Program and act as administrator of the Fund. The Fund is held by the Treasurer of the State who invests it under the direction of and with the advice of a seven member Advisory Committee on College Savings, which is chaired by the Treasurer. FAME and the Treasurer have selected Merrill Lynch as the Program Manager. The Program is reported as a private purpose trust fund in the financial statements of the State.

NextGen's investments are comprised of 47 different investment portfolios which are reported at fair value and total \$5.2 billion at June 30, 2007.

Custodial Credit Risk - NextGen, in accordance with its Program Description, primarily invests in open-end mutual funds, which, according to GASB Statement No. 40, do not bear custodial credit risk; hence, the Program's exposure to custodial credit risk arising from its investment in mutual funds is considered to be insignificant.

The Program makes some investments in entities which are not mutual funds including a Guaranteed Investment Contract (GIC) issued by Transamerica Life Insurance Company in the Principal Plus Portfolio. Because an investment in a GIC represents a contractual investment rather than a security, it is not deemed to be subject to custodial credit risk.

The Program also invests in the Cash Allocation Account (the Account), a separate account that was established by FAME. All of the Account investments are held in either the name of the Account or the Account Agent's name, thereby minimizing the custodial credit risk.

Credit Risk - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2007 was \$62.1 million.

The assets of the Account are invested in a portfolio of high-quality, short-term money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, and other short-term debt securities issued by U.S. and foreign entities repurchase agreements. In addition, the Account invests in certificates of deposit issued by Maine financial institutions in accordance with instructions of FAME and the Treasurer. All Maine Certificate of Deposit's are FDIC insured or fully collateralized. The value of the Account at June 30, 2007 was \$289.2 million.

Concentration of Credit Risk - The Program has not established an investment policy that specifically limits its exposure to concentration of credit risk because the Program principally invests in mutual funds which have been excluded by GASB Statement No. 40 from its concentration of disclosure risk requirements.

Interest Rate Risk - The Program has not established an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account all invest in securities that are subject to interest rate risk.

Market values of the above-mentioned investments are presented below (in thousands):

	<u>Fair Value</u>
Principal Plus Portfolio	\$ 62,090
Cash Allocation Account	289,212
Fixed Income Securities	<u>1,032,289</u>
Total Fair Value	<u><u>\$1,383,591</u></u>

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.

Certain component units also invest in the Treasurer's Cash Pool and comprise approximately 16 percent of pool assets. The component units reported their participation as either Cash and Cash Equivalents or Investments on their financial statements. The State reclassified \$96.4 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes \$18.8 million, 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	\$539,806	\$195,650	\$1	(\$201,546)	\$533,911
Highway	28,064	263	71	(4,465)	23,933
Federal	-	124,865	-	(33,108)	91,757
Other Special Revenue	10,297	75,138	5,469	(5,397)	85,507
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	578,167	395,916	5,541	(244,516)	735,108
Allowance for Uncollectibles	(142,182)	(101,353)	(981)		
Net Receivables	\$435,985	\$294,563	\$4,560		\$735,108
Proprietary Funds:					
Employment Security	\$0	\$36,847	\$0	(\$8,008)	\$28,839
Nonmajor Enterprise	-	22,517	-	(425)	22,092
Internal Service	-	5,818	182,605	-	188,423
Total Proprietary Funds	-	65,182	182,605	(8,433)	239,354
Allowance for Uncollectibles	-	(8,433)	-		
Net Receivables	\$0	\$ 56,749	\$182,605		\$ 239,354

Component Units – Receivables
(Expressed in Thousands)

	<u>Accounts</u>	<u>Loans</u>	<u>Notes</u>	<u>Allowance For Uncollectibles</u>	<u>Net Receivables</u>
Finance Authority of Maine	\$4,366	\$ -	\$170,286	(\$4,776)	\$169,876
Maine Community College System	4,050	-	-	(804)	3,246
Maine Health and Educational Facilities Authority	3,666	2,318,841	-	(1,064,488)	1,258,019
Maine Municipal Bond Bank	1,746	-	-	-	1,746
Maine State Housing Authority	21,575	1,160,219	1,039	(9,767)	1,173,066
University of Maine System	28,727	-	41,653	(3,290)	67,090

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, 2007 were:

Interfund Receivables
(Expressed in Thousands)

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>				
	<u>General</u>	<u>Highway</u>	<u>Federal</u>	<u>Other Special Revenue</u>	<u>Other Governmental</u>
General			\$ 10,741		\$ 71
Highway			4,692		
Federal	1,171	20	136	102	
Other Special Revenue	1,956	266	2,298	582	
Employment Security			16		
Non-Major Enterprise	2,690	2	5,182	5	
Internal Service	13,185	2,451	3,131	2,017	
Fiduciary	6,766				
Total	<u>\$ 25,768</u>	<u>\$ 2,739</u>	<u>\$ 26,196</u>	<u>\$ 2,706</u>	<u>\$ 71</u>

<u>Due to Other Funds</u>	<u>Non-Major Enterprise</u>	<u>Internal Service</u>	<u>Fiduciary</u>	<u>Total</u>
General	\$ 8,689	\$ 18,186	\$ 1,466	\$ 39,153
Highway		2,620		7,312
Federal		3,804		5,233
Other Special Revenue	653	2,861		8,616
Employment Security				16
Non-Major Enterprise	86	1,011		8,976
Internal Service	312	1,996		23,092
Fiduciary				6,766
Total	<u>\$ 9,740</u>	<u>\$ 30,478</u>	<u>\$ 1,466</u>	<u>\$ 99,164</u>

Not included in the table above are interfund loans/advances, which are not expected to be repaid within one year. Postal, Printing & Supply (an internal service fund) owes \$111 thousand to the General Fund for operating capital. 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 Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

During fiscal year 2007, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The General Fund transferred \$27.8 million to other funds for the following purposes: \$2.1 million to the Other Special Revenue Fund for the Fund for a Healthy Maine, \$15.0 million to the unappropriated surplus of the Highway Fund, \$8.7 million to the Federal Fund for indirect cost allocation settlements and federal audit settlements within the Department of Health and Human Services, and \$2.0 million to the Information Services Fund to partially fund the development and implementation of the State accounting system.

The Other Special Revenue Fund transferred \$6.6 million to the unappropriated surplus of the General Fund.

The Dirigo Health Fund transferred \$1.1 million to the unappropriated surplus of the General Fund.

The Employee Health Insurance Fund transferred \$3.5 million to the unappropriated surplus of the General Fund.

Interfund transfers for the year ended June 30, 2007, 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>Other Governmental</u>
General	\$ -	\$ -	\$ 5	\$ 42,098	\$ 3,023
Highway	16,911	-	-	-	-
Federal	10,055	-	-	15,472	-
Other Special Revenue	153,834	-	12,794	-	8,535
Other Governmental Funds	3,023	-	-	42	-
Employment Security	-	-	-	-	-
Non-Major Enterprise	858	3,755	7	109	-
Internal Service	5,393	1,407	1,196	1,158	-
Fiduciary	-	-	-	16	-
Total	\$ 190,074	\$ 5,162	\$ 14,002	\$ 58,895	\$ 11,558

<u>Transferred To</u>	<u>Transferred From</u>					
	<u>Alcoholic Beverages</u>	<u>Employment Security</u>	<u>Non-Major Enterprise</u>	<u>Internal Service</u>	<u>Fiduciary</u>	<u>Total</u>
General	\$ 24	\$ -	\$ 51,753	\$ 9,473	\$ 8,916	\$ 115,292
Highway	-	-	-	3,825	-	20,736
Federal	-	1,146	-	3,598	-	30,271
Other Special Revenue	-	-	5,770	2,455	144	183,532
Other Governmental Funds	-	-	-	-	-	3,065
Employment Security	-	-	-	-	-	-
Non-Major Enterprise	-	-	-	931	-	5,660
Internal Service	-	-	318	1,702	-	11,174
Fiduciary	-	-	-	-	-	16
Total	\$ 24	\$ 1,146	\$ 57,841	\$ 21,984	\$ 9,060	\$ 369,746

NOTE 8 - CAPITAL ASSETS

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2007:

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	\$ 394,069	\$ 31,050	\$ 788	\$ 424,331
Construction in progress	6,818	21,191	17,779	10,230
Infrastructure	2,861,522	162,451	-	3,023,973
Total capital assets not being depreciated	<u>3,262,409</u>	<u>214,692</u>	<u>18,567</u>	<u>3,458,534</u>
Capital assets being depreciated:				
Buildings	506,881	56,123	2,697	560,307
Equipment	254,007	46,621	52,499	248,129
Improvements other than buildings	17,233	1,016	3	18,246
Total capital assets being depreciated	<u>778,121</u>	<u>103,760</u>	<u>55,199</u>	<u>826,682</u>
Less accumulated depreciation for:				
Buildings	129,264	57,264	2,620	183,908
Equipment	166,813	21,876	30,549	158,140
Improvements other than buildings	2,028	6,972	3	8,997
Total accumulated depreciation	<u>298,105</u>	<u>86,112</u>	<u>33,172</u>	<u>351,045</u>
Total capital assets being depreciated, net	480,016	17,648	22,027	475,637
Governmental Activities Capital Assets, net	<u>\$ 3,742,425</u>	<u>\$ 232,340</u>	<u>\$ 40,594</u>	<u>\$ 3,934,171</u>
	<u>Beginning Balance*</u>	<u>Net Additions</u>	<u>Net Deletions</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 38,161	\$ 256	\$ -	\$ 38,417
Construction in progress	925	2,688	-	3,613
Total capital assets not being depreciated	<u>39,086</u>	<u>2,944</u>	<u>-</u>	<u>42,030</u>
Capital assets being depreciated:				
Buildings	9,322	451	4	9,769
Equipment	20,220	23,932	767	43,385
Improvements other than buildings	61,218	-	-	61,218
Total capital assets being depreciated	<u>90,760</u>	<u>24,383</u>	<u>771</u>	<u>114,372</u>
Less accumulated depreciation	<u>50,816</u>	<u>15,875</u>	<u>650</u>	<u>66,041</u>
Total capital assets being depreciated, net	39,944	8,508	121	48,331
Business-Type Activities Capital Assets, net	<u>\$ 79,030</u>	<u>\$ 11,452</u>	<u>\$ 121</u>	<u>\$ 90,361</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	\$ 40
Business Licensing and Regulation	390
Economic Development and Workforce Training	824
Education	2,059
Governmental Support and Operations	6,798
Health and Human Services	6,608
Justice and Protection	10,843
Natural Resources Development and Protection	4,378
Transportation Safety and Development	11,873
Total Depreciation Expense – Governmental Activities	<u>\$ 43,813</u>

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTION

The Maine Public Employees Retirement System, formerly the Maine State Retirement System, (the System), which is a component unit of the State, is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under Title 5 MRSA C. 421, 423, and 425. Financial information for the System is included in the Statement of Fiduciary Net Assets and in the Statement of Changes in Fiduciary Net Assets. Additional schedules and notes are presented in the accompanying Required Supplementary Information (RSI). The System issues a publicly available comprehensive annual financial report that includes schedules of funding progress and employer contributions. The June 30, 2007 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System provides pension, disability, and survivor benefits to its members and their beneficiaries. Members include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement contribution and benefit purposes, and employees of approximately 270 local municipalities and other public entities (PLD's) in Maine. These 270 entities each contract for participation in the System under provisions of relevant statutes.

At June 30, 2007, membership consisted of:

Active vested and nonvested members	52,060
Terminated vested participants	7,852
Retirees and benefit recipients	<u>33,586</u>
Total	<u>93,498</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 disability and survivor 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 percent.

In the event that a PLD withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The PLD 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 biennial actuarial valuations.

The total funds managed by the System are constitutionally restricted and 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 Public Employees 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 statements include \$2.1 billion of assets related to the PLD's. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

The System also provides group life insurance under a plan 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 for premiums collected plus additional payments representing administrative fees.

BASIS OF ACCOUNTING

The System's financial statements are prepared on the accrual basis of accounting. Pension contributions and group life insurance premiums are recognized as additions in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized when earned. Pension and group life insurance benefits and contributions and premium refunds are recognized as deductions when due and payable in accordance with Statutes. In addition, an estimate is made for group life insurance death benefits incurred before year end but not reported to the System until after year end. Benefits payable and group life insurance death benefits incurred but not reported are reflected as other liabilities.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date.

SIGNIFICANT INVESTMENTS

As of June 30, 2007, the System did not have any investments in any one organization, other than the U.S. government, which represented greater than 5% of plan net assets.

FUNDING POLICY

The Maine Constitution, Maine Statutes and the System’s funding policy provide for periodic employer contributions at actuarially determined rates that, based upon certain assumptions, are expressed as percentages of annual covered payroll and 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 2004, 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 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the “sunset” provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2007 was determined by the 2004 valuation, as revised, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 10 years remained at June 30, 2007.

For PLD’s, the level percentage of payroll method is used to fund any unfunded liability.

In order to reduce any unfunded pension liability for State employees and teachers under Title 5 MRSA § 1536, the State is required to remit 20 percent of its General Fund unappropriated surplus to the System at year-end. For fiscal 2007, no General Fund unappropriated surplus existed.

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 2007 for participating entities are:

<u>State</u>		
Employees	1	7.65-8.65%
Employer	1	15.01-47.07%
<u>Teachers</u>		
Employees		7.65%
Employer		17.23%
<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 participating local districts (PLDs), on 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 State is one of several employers whose employees are System members. The State's net pension obligation shown at the end of the year includes the pension liability related to its employees. It does not include the pension liability related to PLD's. The State'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	\$ 303,076
Interest on net pension obligation	1,444
Adjustment to annual required contribution	(1,050)
Annual pension cost	303,470
Contributions made	303,076
Increase (decrease) in net pension obligation	394
Net pension obligation beginning of year	18,050
Net pension obligation end of year	\$ 18,444

Analysis of Funding Progress
(Expressed in Thousands)

<u>Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Covered</u>	<u>Net Pension Obligation</u>
2007	303,470	99.87%	18,444
2006	287,253	105.63%	18,050
2005	262,874	104.50%	34,236

The annual required contribution for the current year was determined as part of the June 30, 2004 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 8 percent return on investments, and (b) projected salary increases of 5.5 percent to 9.5 percent per year, including cost of living. The assumptions include post retirement benefit increases of 4 percent per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a 24 year period from June 30, 2004.

COMPONENT UNIT PARTICIPANTS

The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine Public Employees Retirement System have defined benefit pension plans. All are participating local entity participants in plans administered by the Maine Public Employees Retirement System. Employees of the Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, 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.

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 Title 5 MRSA § 285, and for a portion of the premiums for teachers, as authorized by Title 20-A MRSA § 13451. Pursuant to Title 5 MRSA § 285 most retired employees of the Maine Turnpike Authority, Maine Community College System, Maine Maritime Academy, Maine Public Employees Retirement System, and Maine Educational Center for the Deaf and Hard of Hearing are eligible to participate in the health plan but are not funded by the State. Specifically excluded (Title 5 MRSA § 285 1-B) are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities and their instrumentalities, except as provided in subsection 11-A. Title 5 MRSA § 286-M included retired county or municipal law enforcement officer and municipal firefighters, as defined in subsection 286-M, who participates in an employer-sponsored retirement plan and, prior to July 1, 2007 was enrolled in a self-insured health benefits plan offered by the employing county or municipality.

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. Retirees must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees ineligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse. Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent. County and municipal law enforcement officers and municipal firefighters will begin coverage in Fiscal Year 2008 with the State contributing 45% of the cost of their respective plans.

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 Title 5 MRSA § 286-A, multiplied by the value of the current employee payroll. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual amount necessary to pay its 45 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. With the enactment of Chapter 240, Public Laws 2007, the State of Maine has transitioned from a pay-as-you-go plan to an actuarial based funding plan beginning with Fiscal Year 2008. Chapter 240 established an OPEB Trust Fund to be invested by the Maine Public Employees Retirement System in a similar manner to the investment of employee retirement funds.

As of June 30, 2007, there were 9,069 retired eligible State employees and 7,768 retired teachers. In fiscal year 2007, the State paid into the Retiree Health Insurance Fund \$75.0 million for retired employees and \$16.9 million for retired teachers. Premium charges paid were \$40.8 million and \$16.1 million, respectively. Overall, Net Assets increased by \$41.9 million to \$103.7 million at June 30, 2007 as a result of an increase in cash of \$42 million. The increase in cash relates to a premium increase in anticipation of the implementation of GASB Statement No. 45.

Under current accounting standards, GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*, the State has an actuarial accrued liability at June 30, 2006 and 2007 for postretirement benefits of \$2.6 billion.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, became effective in 2007. The standards in this Statement apply to OPEB trust funds, of which the State does not currently have any. Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, will be implemented by the State for the fiscal year beginning July 1, 2007, as required. This Statement will require that the long-term cost of retirement health care and other obligations for postemployment benefits be determined on an actuarial basis and reported in a manner similar to pension plans. An actuarial study was completed to determine the actuarial accrued liability as of June 30, 2006 and forecast to June 30, 2007. The study determined the liability if funded at transition of \$3.2 billion, or \$4.8 billion if not funded at transition. GASB Statement No. 45 does not mandate the prefunding of postemployment benefit liabilities; however, any prefunding of these benefits will help minimize the obligation required to be reported on the financial statements. The Legislature authorized the creation of an irrevocable trust fund to be established in fiscal year 2008 to meet the State's unfunded liability obligations for retiree health benefits for eligible participants. The Legislature will appropriate funds annually, beginning in fiscal year 2010, which will retire in 30 years or less, the unfunded liability for retiree health benefits. The actuarial opinion will be updated for fiscal year 2007.

POST RETIREMENT LIFE INSURANCE BENEFITS

The Maine Public Employees 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, 2007, claims totaled \$2.3 million for retired State employees and \$1.6 million for retired teachers. The number of participants eligible to receive benefits at fiscal year-end was 8,201 retired State employees and 5,228 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; 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 2007 were:

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

	Balance			Balance	Due
	<u>July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2007</u>	<u>Within One Year</u>
General Obligation Debt:					
General Fund	\$433,585	\$33,975	\$69,280	\$398,280	\$66,230
Special Revenue Fund	33,875	27,000	10,415	50,460	10,750
Self Liquidating	90	-	70	20	20
Total	<u>\$467,550</u>	<u>\$60,975</u>	<u>\$79,765</u>	<u>\$448,760</u>	<u>\$77,000</u>

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2007 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>
2008	\$ 77,000	\$ 18,109	\$ 95,109
2009	68,780	14,945	83,725
2010	62,980	11,960	74,940
2011	57,620	9,202	66,822
2012	53,595	6,915	60,510
2013-2017	128,785	10,332	139,117
Total	<u>\$ 448,760</u>	<u>\$ 71,463</u>	<u>\$ 520,223</u>

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2007 are as follows:

Primary Government – General Obligation Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2007	Fiscal Year Maturities First Year	Last Year	Interest Rates
General Fund:					
Series 1998	\$ 54,500	\$ 5,205	1999	2008	4.20% - 6.50%
Series 1999	54,385	7,745	2000	2009	4.20% - 6.75%
Series 2000	66,290	16,815	2000	2010	4.875% - 7.75%
Series 2001	22,050	8,420	2002	2011	4.00% - 6.08%
Series 2002	27,610	13,800	2003	2012	3.00% - 5.75%
Series 2003	97,080	58,235	2003	2013	1.50% - 5.00%
Series 2004	117,275	84,725	2005	2014	2.00% - 5.27%
Series 2005	137,525	122,215	2006	2015	2.00% - 5.27%
Series 2006	52,390	47,145	2007	2016	4.00% - 5.51%
Series 2007	33,975	<u>33,975</u>	2008	2017	4.00% - 5.50%
Total General Fund		<u>\$ 398,280</u>			
Special Revenue Fund:					
Series 1998	\$ 30,000	\$ 3,000	1999	2008	4.00% - 5.25%
Series 1999	16,900	3,380	2000	2009	4.00% - 5.50%
Series 2001	19,225	7,680	2002	2011	4.00% - 5.00%
Series 2004	13,000	9,400	2005	2014	2.00% - 4.00%
Series 2007	27,000	<u>27,000</u>	2008	2017	4.00% - 5.50%
Total Special Revenue		<u>\$ 50,460</u>			
Self Liquidating:					
Maine Veteran's Home	\$ 1,700	<u>\$ 20</u>	1982	2008	8.34%

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, 2007, general obligations bonds authorized and unissued totaled \$35 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included \$182.6 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, 2007, MGFA issued the Series 2007 Bonds, which totaled \$11.0 million at an interest rate between 4 percent and 5 percent. At June 30, 2007, 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 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 \$54.5 million in Bond Anticipation Notes during fiscal year 2007. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2007 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, 2007, are summarized as follows:

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
MGFA Revenue Bonds	\$186,215	\$10,985	\$14,595	\$182,605	\$14,610
COP's and Other Financing	36,581	60,294	16,989	79,886	25,343
Compensated Absences	41,326	638	284	41,680	528
Claims Payable	72,981	176,658	185,543	64,096	22,980
Capital Leases	40,091	7,814	6,154	41,751	6,402
Pledged Future Revenues	46,268	-	3,915	42,353	4,015
Net Pension Obligation	18,050	394	-	18,444	-
Total Governmental Activities	<u>\$441,512</u>	<u>\$256,783</u>	<u>\$227,480</u>	<u>\$470,815</u>	<u>\$73,878</u>
Business-Type Activities:					
Compensated Absences	\$135	\$583	\$ -	\$718	\$72
Total Business-Type Activities	<u>\$135</u>	<u>\$583</u>	<u>\$ -</u>	<u>\$718</u>	<u>\$72</u>

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2007 until maturity, are summarized as follows:

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

Fiscal Year	Governmental Funds			Internal Service Funds		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 9,429	\$ 1,173	\$ 10,602	\$ 30,524	\$ 10,163	\$ 40,687
2009	7,921	767	8,688	25,953	8,710	34,663
2010	7,174	379	7,553	25,033	7,667	32,700
2011	1,237	130	1,367	20,207	6,649	26,856
2012	1,293	74	1,367	17,707	5,856	23,563
2013 - 2017	661	93	754	71,182	18,709	89,891
2018 - 2022	-	-	-	39,655	4,593	44,248
2023 - 2027	-	-	-	3,940	417	4,357
2028 - 2032	-	-	-	575	14	589
Total	<u>\$ 27,715</u>	<u>\$ 2,616</u>	<u>\$ 30,331</u>	<u>\$ 234,776</u>	<u>\$ 62,778</u>	<u>\$ 297,554</u>

CONDUIT DEBT OBLIGATIONS

To enable local school districts to purchase learning technology at a lower cost than they would be able to negotiate independently, the State has entered into a series of lease agreements with Apple Computer. These leases are special limited obligations of the State, payable solely from and secured by a pledge of rentals to be received from participating school administrative units. The leases do not constitute a debt or pledge of the faith and credit of the State or any political subdivision thereof and accordingly have not been reported in the accompanying financial statements.

At June 30, 2007, lease agreements outstanding totaled \$893.5 thousand.

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.

PLEGGED 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 2007 were \$168 million. Current year payments to MMBB were \$5.6 million (0.3 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, 2007 capital assets include \$67.8 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of \$30.2 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. Rental expense incurred under operating leases totaled \$2.1 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
2008	\$ 6,402	\$ 3,251
2009	5,987	2,826
2010	5,538	2,753
2011	5,287	2,421
2012	5,049	2,353
2012-2016	16,070	6,329
2017-2021	6,498	683
2022-2026	1,406	-
2027-2030	2	-
Total Minimum Payments	52,239	\$ 20,616
Less: Amount Representing Interest	10,488	
Present Value of Future Minimum Payments	\$ 41,751	

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 - 3.98%	309,408	2025 - 2037
Maine Community College System	4.0 - 5.0%	23,426	2012 - 2036
Maine Health and Higher Educational Facilities Authority			
debt	2.0 - 6.2%	1,382,075	1993 - 2036
conduit debt	4.5- 7.3%	50,994	1990 - 2043
Maine Municipal Bond Bank	1.0 - 10.25%	1,080,601	1991 - 2036
Maine State Housing Authority	2.20 - 6.40%	1,639,590	2007 - 2039
University of Maine System	2.0 - 5.75%	223,407	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. At June 30, 2007, there were approximately \$6.7 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund and taxable fund resolutions. At June 30, 2007, there were approximately \$24.1 million of defeased bonds remaining outstanding with respect to advance refunded bond issues of the general resolution. The general resolution bonds are considered conduit debt.

On June 28, 2007, UMS issued 2007 Series A Revenue Bonds, \$14.1 million of which was used to advance refund \$13.8 million of outstanding bonds. The refunding resulted in a deferred amount on refunding of \$841 thousand, of

which the unamortized balance was \$841 thousand as of June 30, 2007. Total interest payments over the next 27 years were reduced by \$310 thousand, and an economic gain of \$375 thousand was obtained. At June 30, 2007, \$13.8 million of advance refunded bonds remained outstanding.

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>
2008	\$ 53	\$ 100,239	\$ -	\$ 35,655	\$ 7,114	\$ 41,970
2009	54	99,018	-	49,820	7,523	44,880
2010	54	94,351	-	53,705	7,926	47,980
2011	55	92,060	-	129,725	8,365	50,350
2012	55	83,238	545	52,550	39,267	55,090
2013-2017	286	326,366	3,065	263,845	37,779	293,380
2018-2022	300	203,199	3,775	295,495	35,066	286,900
2023-2027	176	74,920	4,790	277,150	32,125	257,940
2028-2032	-	6,980	6,095	270,580	32,920	199,450
2033-2037	309,500	2,025	5,960	185,935	13,190	104,135
2038-2042	-	-	-	41,285	-	-
2043-2047	-	-	-	-	-	-
Net unamortized premium or (deferred amount)	(1,125)	(1,795)	(804)	(16,155)	2,132	-
Total Principal Payments	\$ 309,408	\$ 1,080,601	\$ 23,426	\$ 1,639,590	\$ 223,407	\$ 1,382,075

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

The State maintains several types of insurance plans and accounts for them in two funds that are combined for financial statement purposes as the Risk Management Fund. The Risk Management Division provides insurance advice and services to State governmental agencies. 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 professionals, and a variety of other insurance products. Not all departments elect to insure through the Risk Management Division. Specifically, the Department of Transportation 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 \$250 million per occurrence. The State retains \$2 million of this risk per occurrence. A private insurance carrier covers the remaining risk (excess insurance). Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

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 *	\$250 million	\$ 2 million	\$250 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, 2007. 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. Periodic re-evaluation occurs 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, 2007 and 2006, the present value of the claims payable for the State's self-insurance plan was estimated at \$3.2 million and \$3.2 million, respectively. The actuary calculated this based on a 1.75 percent yield on investments.

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

	<u>2007</u>	<u>2006</u>
Liability at Beginning of Year	\$ 3,190	\$ 3,547
Current Year Claims and		
Changes in Estimates	683	1,424
Claims Payments	683	1,781
Liability at End of Year	<u>\$ 3,190</u>	<u>\$ 3,190</u>

As of June 30, 2007, fund assets of \$20.3 million exceeded fund liabilities of \$3.7 million by \$16.6 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, 2007.

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 \$1.2 million for the fiscal year ended June 30, 2007.

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 as of June 30, 2007:

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

	<u>2007</u>	<u>2006</u>
Liability at Beginning of Year	\$ 53,343	\$ 53,343
Current Year Claims and		
Changes in Estimates	474	8,955
Claims Payments	8,459	8,955
Liability at End of Year	<u>\$ 45,358</u>	<u>\$ 53,343</u>

Based on the actuarial calculation as of June 30, 2007, the State is liable for unfunded claims, and incurred but not reported claims, of approximately \$58.8 million. The discounted amount is \$45.4 million and was calculated based on a 4 percent yield on investments.

D. EMPLOYEE HEALTH INSURANCE

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self insured for employee and retiree 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 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 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, 2007, the State recorded a receivable of \$2.7 million for an overpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of \$15.5 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2007 follows (in thousands):

	<u>Employee Health</u> <u>Fund</u>	<u>Retiree Health</u> <u>Fund</u>
Liability at Beginning of Year	\$ 10,554	\$ 5,894
Current Year Claims and Changes in Estimates	125,641	49,860
Claims Payments	126,249	50,152
Liability at End of Year	\$ 9,946	\$ 5,602

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 two separate joint venture arrangements; the Tri-State Lotto Commission (Commission) and the Multi-State Lottery Association (MUSL).

Tri-State Lotto 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 under Title 8 MRSA C. 16.

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 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 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 2007, 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	\$ 40,895
Noncurrent Assets	94,558
Total Assets	<u>\$ 135,453</u>
Current Liabilities	\$ 27,760
Long-term Liabilities	95,296
Total Liabilities	<u>123,056</u>
Designated Prize Reserves	4,096
Unrealized Gain on Investments Held for Installment Prize Obligations	8,301
Total Net Assets	<u>12,397</u>
Total Liabilities and Net Assets	<u>\$ 135,453</u>
Total Revenue	\$ 70,041
Total Expenses	46,726
Allocation to Member States	23,315
Change in Unrealized Gain on Investments Held for Resale	<u>(530)</u>
Change in Net Assets	<u>\$ (530)</u>

Multi-State Lottery Association

The Maine State Lottery became a member of the Multi-State Lottery Association (MUSL) in July 2004. The MUSL currently has 29 member State lotteries, including the District of Columbia and the United States Virgin Islands. The MUSL is managed by a board of directors, which is comprised of the lottery directors or their designee from each of the party States, and authorized to initiate, promulgate, administer and carry out one or more lottery product offerings that will enhance the participating party lottery's revenue.

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the board are divided equally among all of the participating lotteries. Jackpot prizes payable in installments are satisfied through investments purchased by the MUSL. The MUSL purchases US government obligations which are held in irrevocable trusts established by the MUSL for the benefit of participating State lotteries. Each week the MUSL allocates 50 percent of sales to the prize pool. If no winning ticket is selected, the available jackpot is carried over to the following jackpot drawing.

The Multi-State Lottery Association's financial report for fiscal year 2007, 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 information:

Multi-State Lottery Association

(Expressed in Thousands)

Cash and Cash Equivalents	\$ 156,119
Investments in US Government Securities	77,714
US Government Securities Held for Prize Annuities	703,846
Due from Party Lotteries	32,039
Other Assets	2,674
Total Assets	\$ 972,392
Amount Held for Future Prizes	227,850
Grand Prize Annuities Payable	730,805
Other Liabilities	13,540
	972,195
Net Assets, Unrestricted	197
Total Liabilities and Net Assets	\$ 972,392
Total Revenue	\$ 3,035
Total Expenses	3,050
Excess (deficit) of revenue over expenses	(15)
Net assets, beginning	212
Net assets, ending	\$ 197

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

Title 20 MRSA § 11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a “Qualified State Tuition Program” under Section 529 of the Internal Revenue Code.

By statute, the program assets and liabilities are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen had approximately \$5.2 billion in net assets at June 30, 2007, which have been recorded in an Agency Fund on the financial statements of the State.

General Obligation Bonds of the State include \$20 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 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 Health and Human Services in the Maine Legislature. During fiscal year 2007, the State paid \$12.2 million for these services; \$5.1 million from the General Fund and \$7.1 million from the Federal Fund. At June 30, 2007, the State owed \$319 thousand to this vendor.

The State of Maine 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, \$230.1 million; Maine Community College System, \$52.1 million; Maine Municipal Bond Bank, \$3.3 million; Finance Authority of Maine, \$16.8 million; and Maine State Housing Authority, \$12.0 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total \$34.8 million at June 30, 2007, 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 2007, the State expended \$2.0 million to FAME for State revolving loan funds.

Title 20-A MRSA 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 2007, the NextGen College Savings grant funds and the Maine State Grant funds were pooled into the new State of Maine Grant. FAME paid approximately \$8.0 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.

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 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, 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 2007.

NOTE 15 - COMMITMENTS AND CONTINGENCIES**PRIMARY GOVERNMENT****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.

Paul and Robert Dyer v. State of Maine, Department of Transportation. The Dyers were awarded approximately \$447 thousand by the State Claims Board in connection with the taking of property in Waldo County for the new Penobscot Narrows Bridge. They are seeking approximately \$2 million in damages.

Goodall Hospital v. Harvey. This suit was filed on November 20, 2006. Plaintiff hospital alleges that the Department of Health and Human Services has refused or failed to pay the hospital's 2005 fiscal year bills for services to Medicaid recipients. The case is worth slightly over \$2 million, approximately \$666 thousand of State dollars. The potential for expenditure is moderate.

Franklin Memorial Hospital v DHHS. The issue in this case is whether DHHS has failed to issue interim settlements for the fiscal years 2005 and 2006, and if so, whether DHHS is required legally to issue those interim settlements. Maine regulations require that payment follows within 30 days of settlements. The complaint alleges that DHHS owes Franklin approximately \$3.0 million for 2005 and \$1.7 million for 2006. Status: this case has not yet been briefed. The potential for expenditure is moderate.

Callahan Mine Superfund Site. 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. The State has only agreed to conduct feasibility studies to date. Potential liability for remedial actions could exceed \$1 million, however, feasibility studies have not yet been completed. The potential for expenditure regarding this matter is probable; however, the State cannot reasonably estimate the amount of potential loss.

Gannet Co. v. State Tax Assessor. This case involves whether certain income is taxable by the State of Maine for the tax year 2000. Plaintiff is seeking a refund of over \$700,000 plus interest, which may make the total refund over \$1 million. The State is appealing, but the potential for expenditure is more than moderate.

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. Therefore, these suits have not been individually identified.

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.

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.

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 MRSA §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 \$49 thousand for fiscal year 2007.

During the 2007 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. 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 percent, 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 2007 fiscal year, the State expended \$49 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 percent 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 percent for structures constructed after that date. Bonds have not been issued to cover these outstanding obligations. Approximately \$48 thousand remains in the existing municipal landfill bond account.

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 could be as much as \$5 million, based on current site knowledge, the increasing frequency of residential development near closed municipal landfills, the discovery of older abandoned dump sites now occupied by residential homes, and recent issues involving gas migration from two municipal landfills in the state.

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 \$20 million. This consists of approximately \$14 million for State-owned facilities and approximately \$6 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 MRSA § 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 2007 fiscal year, \$2.4 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2007, amounts encumbered for pollution abatement projects totaled \$820 thousand; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled \$1.3 million. At June 30, 2007, DEP estimated the total cost (federal, State, and local) of future projects to be \$422 million.

DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY

The State has been identified as a potentially responsible party at two hazardous wastes clean-up sites in Maine. These are located in Plymouth and Brooksville. The remedy for the Plymouth site has been identified in concept but the final cost has yet to be determined. The Brooksville site is presently under investigation but no remedy has been identified.

GROUND WATER OIL CLEAN-UP FUND

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA § 569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for clean up of oil spills. The program is funded by a per barrel assessment on petroleum products imported into the State. Coverage is up to \$1 million per occurrence for both aboveground and underground storage tanks. Third party injury coverage may not exceed \$200 thousand per claimant.

A report to the legislature dated February 15, 2007, submitted by the Maine Department of Environmental Protection (DEP), identified 359 long-term remediation sites as of January 2007 that are covered by the insurance program. As of August 28, 2007 there were 377 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 53.51 percent of the annual payments. As of June 30, 2007, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled \$824.6 million.

At June 30, 2007, the Department of Transportation had contractual commitments of approximately \$59.8 million for construction of various highway projects. The State's share of that amount is expected to be approximately \$16.2 million. Of these amounts, \$2.7 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 civil jurisdictions, entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM's) to recover smoking-related Medicaid costs. In this out-of-court settlement, the PM's agreed to make annual payments to the states and jurisdictions based on their allocated share of the market. In return, the states agreed to relinquish claims to further damages resulting from Medicaid costs. Annual payments will fluctuate subject to various adjustments and are contingent on the passage and enforcement of a State statute imposing economic conditions on the Nonparticipating manufactures (NPM's) and market forces. The NPM adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's prove that they lost market share to the NPM's, and if they prove Maine did not diligently enforce its statutes concerning NPM escrow, then the Participating Manufacturers may lower their annual payment pursuant to the MSA. This NPM adjustment may be sought each year. For the year 2003, the adjustment sought was approximately 18%.

The PM's have also agreed to pay \$8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine's share is approximately \$114 million. Maine will receive ten annual SCP payments starting in 2008.

DIRIGO HEALTH AGENCY**Experience Modification Program**

Title 24-A, MRSA Chapter 87 established the Dirigo Health Agency to arrange for the provision of comprehensive, affordable health care coverage to eligible small employers, including the self-employed, their employees and dependents, and individuals on a voluntary basis (DirigoChoice).

Because DirigoChoice members had no prior claims history, the Dirigo Health Agency agreed to share claims costs that exceed an agreed upon level through an Experience Modification Program (EMP) with its carrier, Anthem Blue Cross Blue Shield (Anthem). The EMP is a form of experience rating not uncommon in start up association-like plans where the risk of the population is unknown. The EMP protects the DirigoChoice pool from adverse selection.

The Dirigo Health Agency prepays the EMP quarterly, based on enrollment assumptions. Because the Dirigo Health Agency assumes the most adverse outcome, the EMP liability cannot exceed the total prepayments.

If the experience outcome is favorable in the DirigoChoice plan, Anthem returns all of the EMP to the Dirigo Health Agency. Terms of the outcome sharing are detailed in the contractual agreement between the Dirigo Health Agency and Anthem.

Due to limited claims and experience data for DirigoChoice members for 2007, the medical loss ratio and related amount that may be returned to the Dirigo Health Agency, if any, cannot be reasonably estimated. EMP payments for State fiscal year 2007 totaled \$2.3 million, net of refunds.

Savings Offset Payment

Title 24-A MRSA § 6913 established the Savings Offset Payment (SOP) within the Dirigo Health Fund where it uses the SOP as a source of revenue to pay for the activities of the Maine Quality Forum and to subsidize the purchase of health coverage. Each year the Board of Directors of Dirigo Health Agency determines the aggregate measurable cost savings to health care providers in this State as a result of the operation of Dirigo Health. Upon approval of the cost savings amount by the Superintendent of Insurance, the Board determines a savings offset amount to be paid by health insurance carriers, employee benefit excess insurance carriers and third party administrators. The Board calculates the savings offset payment as a percentage of paid claims.

For the first Savings Offset Payment, the State Superintendent of Insurance determined that \$43.7 million was saved in the health care system because of Dirigo Health. The Board established a percentage of .02408 to be applied to claims paid by health insurance carriers, employee benefit excess insurance carriers and third party administrators. In SFY 2007, Dirigo Health collected \$30.4 million of this assessment and expects to collect an additional \$5.1 million in SFY 2008. For the second Savings Offset Payment, the State Superintendent determined the amount of savings to be \$34.3 million. Of this amount, the Agency expects to collect \$15.5 million in fiscal year 2008.

ESCHEAT PROPERTY

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds \$500 thousand at fiscal year-end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2007, the Fund included \$18 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2007 of approximately \$130.8 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2007, the amount reported in the Fund for claimant liability is \$20.1 million. The General Fund shows a \$1.6 million payable to the Escheat Fund.

NURSING HOME LOANS

In 1994, the Maine Department of Human Services substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes, borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy created cash flow problems.

MHHEFA advanced approximately \$761 thousand from the operating fund as of June 30, 2007 to other financially troubled institutions, with combined loan amounts due the Authority of approximately \$11.4 million at June 30, 2007, including loans of \$9.7 million reserved at June 30, 2007. These advances were primarily made to assist these institutions in meeting debt service requirements in years prior to fiscal 2007. MHHEFA also has approximately \$.5 million of other receivables outstanding with the operating fund at June 30, 2007, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf. MHHEFA established a \$1.2 million reserve in its operating fund related to the above loans, advances and other receivables outstanding.

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, 2007, loans outstanding pursuant to these authorizations are \$31.2 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, 2007.

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, 2007.

TARGETED CASE MANAGEMENT

The Federal Department of Health and Human Services, Office of the Inspector General (OIG), conducted an audit of the State's Targeted Case Management (TCM) services for Federal fiscal years 2002 and 2003. During that time, the OIG alleges that approximately \$44 million, \$29 million being the Federal share, of TCM costs were not in accordance with Federal and State requirements, and therefore should be disallowed. Another \$12 million, \$8 million Federal share, requires further investigation as to whether these same services were provided under other Federal programs. The State has notified the OIG that it disagrees with these findings. The resolution is still pending, and the State cannot predict the outcome of this matter.

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</u> <u>Outstanding</u>	<u>Required</u> <u>Debt</u> <u>Reserve</u>	<u>Obligation</u> <u>Debt</u> <u>Limit</u>	<u>Legal Citation</u>
Maine Health and Higher Educational Facilities Authority - debt	\$ 1,382,075	\$ 113,397	no limit	22 MRSA § 2075
conduit debt	50,994		no limit	22 MRSA § 2075
Finance Authority of Maine	40,041	2,378	\$ 572,100	10 MRSA §1032,
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority *	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,082,397	127,959	no limit	30-A MRSA §6006
Maine Educational Loan Authority *	32,115	1,285	50,000	20-A MRSA §11424
Maine State Housing Authority	1,580,800	137,091	2,150,000	30-A MRSA §4906
Total	<u>\$ 4,168,422</u>	<u>\$ 382,110</u>		

* Reported in combining non-major component unit financial statements.

NOTE 16 - SUBSEQUENT EVENTS**PRIMARY GOVERNMENT**

On August 2, 2007 and October 16, 2007, the State issued \$44.6 million, and \$26.7 million, respectively, of Bond Anticipation Notes that mature on June 10, 2008.

Public Law 2005 Chapter 636 established the Retired County and Municipal Law Enforcement Officers and Municipal Firefighters Health Insurance Program to provide health insurance coverage to retired county and municipal law enforcement officers and retired municipal firefighters. Beginning July 1, 2007, the State shall provide a premium subsidy of 45 percent to enrollees. The impact of this program on the State's postemployment benefits other than pensions (OPEB) liability, required by GASB Statement No. 45, has not been determined.

COMPONENT UNITS

On February 1, 2007 the Maine State Housing Authority (MSHA) redeemed \$30 million of its 2005 Series B General Housing Draw Down bonds, with variable interest rates maturing in 2010. On February 1, 2007, MSHA issued a total of \$6.4 million 2005 Series A and B General Housing Draw Down bonds at par, with variable interest rates maturing in 2010. In February and March 2007, MSHA redeemed a total of \$107.4 million of various series of its Mortgage Purchase Program bonds at par. The bonds carried interest rates from 3.5 percent to 5.95 percent, and maturities from 2007 to 2034.

On February 13, 2007, Maine Educational Loan Authority, a non-major component unit (MELA), issued \$50 million of Student Loan Revenue Bonds. The 2007 Series bonds are nontaxable auction rate securities and mature June 1, 2041. The proceeds from this bond will be used to acquire and originate nonguaranteed supplemental educational loans.

In accordance with the Higher Education Loan Purchase Program, the Finance Authority of Maine (FAME) purchased FFELP student loan portfolios totaling approximately \$7.3 million in July 2007. During July 2007, 2005 Subordinate Series B bonds totaling \$5.5 million were retired with the proceeds from the 2007 Series bond issue.

On September 7, 2007, the U.S. Congress passed, and the President has indicated his intention to sign, the College Cost Reduction and Access Act. The Act reduces certain fees paid by the Federal government to lenders and guarantors participating in the Federal Family Education Loan Program (FFELP) starting on October 1, 2007. FAME expects to receive less revenue in its Federal student loan guaranty program and its Federal student loan secondary market program (HELPP) as a result of the fee reductions.

COMMERCIAL PAPER

On August 8, 2007, approximately \$20 million was invested in Mainsail II Commercial Paper, "Mainsail". At that date, Mainsail was rated A1+ and P1 by Standard & Poor's and Moody's, respectively. On August 20, 2007, Mainsail announced it might be forced to sell assets because it had been unable to raise short-term funding due to market volatility. This resulted in the State's Mainsail position being frozen. On August 31, 2007, the date of the maturity of the Mainsail II Commercial Paper, the payment of principal and accrued interest was not made.

As of December 14, 2007, no Mainsail payment had been received by the State. The State does not expect this default to adversely affect its ability to meet all of its obligations when due. The State, however, cannot predict the outcome of this matter.



Required Supplementary Information - Budgetary Reporting

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2007
(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	\$ 2,814,411	\$ 2,894,048	\$ 2,912,019	\$ 17,971	\$ 229,661	226,777	\$ 226,824	\$ 47
Assessments and Other	102,537	109,319	111,673	2,354	94,838	92,874	93,293	419
Federal Grants	22,025	16,810	16,762	(48)	-	-	-	-
Service Charges	37,157	38,242	36,691	(1,551)	5,703	5,422	7,322	1,900
Income from Investments	6,164	1,424	7,646	6,222	1,350	795	1,106	311
Miscellaneous Revenue	12,826	21,051	29,763	8,712	283	330	2,791	2,461
Total Revenues	<u>2,995,120</u>	<u>3,080,894</u>	<u>3,114,554</u>	<u>33,660</u>	<u>331,835</u>	<u>326,198</u>	<u>331,336</u>	<u>5,138</u>
Expenditures								
Governmental Support and Operations	243,014	261,585	253,803	7,782	36,090	37,591	35,404	2,187
Economic Development & Workforce Training	42,861	43,261	40,668	2,593	-	-	-	-
Education	1,421,686	1,425,921	1,419,038	6,883	-	-	-	-
Health and Human Services	912,515	1,045,165	1,008,391	36,774	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	71,894	73,863	70,867	2,996	41	40	40	-
Justice and Protection	240,247	248,460	242,654	5,806	38,104	37,785	36,806	979
Arts, Heritage & Cultural Enrichment	8,881	9,075	8,999	76	-	-	-	-
Transportation Safety & Development	-	-	-	-	284,762	322,830	272,746	50,084
Total Expenditures	<u>2,941,098</u>	<u>3,107,330</u>	<u>3,044,420</u>	<u>62,910</u>	<u>358,997</u>	<u>398,246</u>	<u>344,996</u>	<u>53,250</u>
Revenues Over (Under) Expenditures	<u>54,022</u>	<u>(26,436)</u>	<u>70,134</u>	<u>96,570</u>	<u>(27,162)</u>	<u>(72,048)</u>	<u>(13,660)</u>	<u>58,388</u>
Other Financing Sources (Uses)								
Operating Transfers Net	(60,448)	(73,724)	(77,871)	(4,147)	3,448	3,852	14,568	10,716
Other Budgeted Resources	-	-	-	-	-	-	-	-
Proceeds from Pledged Future Revenues	-	-	-	-	-	-	-	-
Net Other Financing Sources (Uses)	<u>(60,448)</u>	<u>(73,724)</u>	<u>(77,871)</u>	<u>(4,147)</u>	<u>3,448</u>	<u>3,852</u>	<u>14,568</u>	<u>10,716</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (6,426)</u>	<u>\$ (100,160)</u>	<u>\$ (7,737)</u>	<u>\$ 92,423</u>	<u>\$ (23,714)</u>	<u>\$ (68,196)</u>	<u>\$ 908</u>	<u>\$ 69,104</u>
Fund Balances at Beginning of Year			286,486				129,159	
Fund Balances at End of Year			<u>\$ 278,749</u>				<u>\$ 130,067</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
\$ -	\$ -	\$ -	\$ -	\$ 217,591	\$ 238,669	\$ 198,865	\$ (39,804)
-	-	-	-	108,398	118,613	93,192	(25,421)
2,549,184	2,724,279	2,153,681	(570,598)	10,336	11,911	3,769	(8,142)
1,179	1,179	1,149	(30)	131,179	134,262	74,189	(60,073)
17	17	672	655	2,303	2,381	4,599	2,218
20,521	21,698	5,157	(16,541)	186,798	178,676	216,679	38,003
<u>2,570,901</u>	<u>2,747,173</u>	<u>2,160,659</u>	<u>(586,514)</u>	<u>656,605</u>	<u>684,512</u>	<u>591,293</u>	<u>(93,219)</u>
13,301	20,568	9,282	11,286	137,180	166,244	144,933	21,311
151,213	151,382	88,587	62,795	24,662	31,490	25,045	6,445
194,489	215,158	184,991	30,167	6,314	10,292	7,729	2,563
1,833,060	1,960,948	1,613,390	347,558	456,400	482,740	364,908	117,832
946	1,681	541	1,140	66,262	76,802	59,816	16,986
41,596	55,664	37,129	18,535	99,138	132,385	90,441	41,944
107,001	122,665	89,306	33,359	32,244	35,942	26,953	8,989
3,247	3,414	2,794	620	1,342	1,661	996	665
205,471	199,954	163,921	36,033	30,088	16,955	13,118	3,837
<u>2,550,324</u>	<u>2,731,434</u>	<u>2,189,941</u>	<u>541,493</u>	<u>853,630</u>	<u>954,511</u>	<u>733,939</u>	<u>220,572</u>
20,577	15,739	(29,282)	(45,021)	(197,025)	(269,999)	(142,646)	127,353
(5,703)	(6,028)	10,063	16,091	188,970	174,051	125,747	(48,304)
-	-	-	-	-	-	-	-
(5,703)	(6,028)	10,063	16,091	188,970	174,051	125,747	(48,304)
<u>\$ 14,874</u>	<u>\$ 9,711</u>	<u>\$ (19,219)</u>	<u>\$ (28,930)</u>	<u>\$ (8,055)</u>	<u>\$ (95,948)</u>	<u>\$ (16,899)</u>	<u>\$ 79,049</u>
		22,741				248,473	
		<u>\$ 3,522</u>				<u>\$ 231,574</u>	

Required Supplementary Information - Budgetary Reporting

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2007
(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	\$ 278,749	\$ 130,067	\$ 3,522	\$ 231,574
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	203,368	1,232	-	8,403
Intergovernmental Receivables	-	-	595,710	-
Other Receivables	54,484	215	93,532	71,928
Inventories	1,788	-	557	-
Due from Component Units	179	-	-	-
Due from Other Funds	18,010	(69,079)	4,931	21,272
Other Assets	-	-	-	74
Deferred Revenues	(213,411)	(7,545)	(557)	(23,375)
Total Revenue Accruals/Adjustments	64,418	(75,177)	694,173	78,302
Expenditure Accruals/Adjustments:				
Accounts Payable	(317,402)	(15,235)	(520,319)	(30,995)
Due to Component Units	(5,398)	(224)	(2,718)	(4,732)
Bonds Issued	-	-	-	-
Accrued Liabilities	(20,961)	(9,108)	(5,666)	(7,460)
Taxes Payable	(131,242)	(25)	-	-
Intergovernmental Payables	-	-	(110,913)	-
Due to Other Funds	(24,513)	(2,739)	(20,484)	(2,706)
Total Expenditure Accruals/Adjustments	(499,516)	(27,331)	(660,100)	(45,893)
Fund Balances - GAAP Basis	\$ (156,349)	\$ 27,559	\$ 37,595	\$ 263,983

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY REPORTING

Statutory/Budgetary Presentation

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.

Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Detailed 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, 2007, the legislature deappropriated \$15.2 million of original 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.

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.

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 2006-2007, 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 March 31, 2005, 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 June 19, 2007, 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.

Compliance at the Legal Level of Budgetary Control

The following schedules depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds. The schedules provide further detail at the agency level within departments for transparency.



Required Supplementary Information – State Retirement 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, 2007	8,302,466,643	11,209,708,127	2,907,241,484	74.1%	1,595,199,514	182.2%
June 30, 2006	7,556,514,663	10,598,346,071	3,041,831,408	71.3%	1,546,315,522	196.7%
June 30, 2005	7,013,846,148	10,048,587,643	3,034,741,495	69.8%	1,516,390,862	200.1%
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%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2007	303,075,774	303,075,774	100.0%
2006	286,438,610	303,438,610	105.9%
2005	261,697,901	274,697,901	105.0%
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%

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, 2007	2,134,633,222	1,879,685,508	(254,947,714)	113.6%	345,008,132	-73.9%
June 30, 2006	1,974,083,999	1,759,072,188	(215,011,811)	112.2%	326,272,608	-65.9%
June 30, 2005	1,874,310,141	1,641,144,382	(233,165,759)	114.2%	304,975,678	-76.5%
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%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2007	8,957,077	9,226,517	103.0%
2006	8,449,017	8,577,898	101.5%
2005	7,587,753	7,594,557	100.1%
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%

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. Employees of participating local districts are not considered state 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, 2007 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 2004, 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 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 10 years remained at June 30, 2007.

The IUUAL of PLDs are amortized over periods established for each PLD separately. During fiscal years 2007 and 2006, various PLD's contributed approximately \$186,741 and \$128,881 to reduce or pay in full their initial unpooled unfunded actuarial liability, respectively. The Consolidated Plan has no Pooled Unfunded Actuarial Liability.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2007 are as follows:

Investment Return – 7.75% per annum, compounded annually

Salary Increases – 4.75% to 10.0% per year

Mortality Rates – Active State employee members and active participating local district members, non-disabled State employee retirees and non-disabled participating local district members – UP 1994 Tables; Active teacher members and non-disabled teacher retirees – 85% of UP 1994 Tables; All recipients of disability benefits – RPA 1994 Table for pre-1995 Disabilities.

Post Retirement Benefit Increases – 3.75% 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 active 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 employers and employees. Many assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 2007 and 2006, the net assets held in trust for group life insurance benefits were \$50.6 million and \$43.5 million, respectively. At June 30, 2007 and 2006, the plan had actuarially determined liabilities of \$135.5 and \$129.8 million, respectively.

The System is in the process of implementing new premium rates in Group Life Insurance that were adopted by the Board after an extensive premium study and valuation of the Group Life Insurance Program in 2006. This study resulted in changes in both the funding structure and premium rates that become effective in fiscal 2008.

**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 8,834 highway miles or 17,947 lane miles of roads and 2,965 bridges having a total deck area of 11.5 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
2007	76.0	78.0
2006	75.0	77.0
2005	79.3	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).

Fiscal Year	Estimated Spending	Actual Spending
2008	\$ 100	\$ -
2007	61	73.3
2006	52	51.1
2005	48	46.1
2004	30	35.3
2003	36	34.3

Transportation Bonds

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 462, PL 2005, \$27 million was spent during FY2007.

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No representation is made hereby that the information set forth in Section II of Appendix B has been prepared in full conformity with generally accepted accounting principles.

GOVERNMENTAL FUNDS
COMBINED STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY
For the Years Ended June 30
(thousands \$000's)

	2003	2004	2005	2006	2007
Revenues					
Taxes					
Sales, Use and Service Provider Tax	\$ 924,841	\$ 996,147	\$1,033,595	\$1,105,148	\$1,142,801
Individual Income Tax	1,129,483	1,226,380	1,345,416	1,323,049	1,427,163
Corporate Income Tax	95,839	117,308	142,792	197,604	193,184
Cigarette and Tobacco Tax	98,414	96,605	96,351	156,951	158,953
Inheritance and Estate Tax	30,520	32,076	32,256	75,331	54,820
Gasoline, Use Fuel and Motor Carrier Tax	190,925	216,044	224,033	225,889	231,214
Insurance Tax	85,542	99,116	93,326	103,108	89,437
Public Utilities Tax	46,947	49,831	50,515	45,975	40,758
Other Industry or Occupation Taxes	72,796	93,694	131,831	150,888	202,616
Real Estate Transfer Tax	21,529	28,412	32,995	33,953	29,355
Unorganized Territories Property Tax	16,487	16,266	17,264	19,354	19,864
Other Taxes	<u>35,913</u>	<u>28,035</u>	<u>28,470</u>	<u>41,073</u>	<u>9,047</u>
Total Taxes	2,749,236	2,999,914	3,228,844	3,478,323	3,599,212
From Federal Government	1,926,136	2,330,556	2,323,057	2,372,356	2,166,136
From Cities, Towns and Counties	8,555	13,873	9,945	8,264	12,050
From Private Sources	167,816	184,033	173,608	171,569	168,051
Service Charge for Current Services	118,584	204,926	234,561	196,689	153,736
Fines, Forfeitures & Penalties	35,183	47,290	43,800	47,908	52,386
Vehicle Registration and Drivers Licenses	86,151	85,772	87,801	90,830	90,457
Hunting, Fishing and Related Licenses	15,853	18,581	18,275	18,262	18,566
Transferred from Bureau of Alcoholic Beverages	26,073	27,183	(155)	26	-
Transferred from Lottery Commission	39,442	41,273	49,328	51,788	50,625
Transferred from Other Funds	32,234	55,548	42,543	30,881	30,958
Transferred for Revenue Sharing	(103,039)	(111,464)	(119,713)	(124,222)	(130,491)
Income from Investments	81	7,464	13,078	16,228	9,672
Other Revenues	<u>8,640</u>	<u>9,496</u>	<u>13,094</u>	<u>9,207</u>	<u>11,680</u>
	2,361,709	2,914,531	2,889,224	2,889,786	2,633,826
Other Financial Resources					
Proceeds of General Obligation Bonds	97,080	130,275	144,325	52,944	61,535
Other	<u>13,988</u>	<u>(11,191)</u>	<u>55,349</u>	<u>(89,766)</u>	<u>36,912</u>
Total Revenues and Resources	5,222,013	6,033,529	6,317,742	6,331,287	6,331,485
Expenditures⁽¹⁾					
Governmental Support & Operations	534,552	512,886	483,930	426,868	448,559
Arts, Heritage & Cultural Enrichment	-	12,734	13,329	12,564	13,349
Business Licensing & Regulation	-	47,060	52,025	55,207	60,357
Economic Development & Workforce Training	149,450	182,623	177,525	163,136	164,201
Education	1,333,940	1,358,734	1,427,663	1,496,135	1,620,175
Health & Human Services	2,587,557	2,784,166	2,889,647	3,039,911	2,983,031
Justice & Protection	122,331	330,457	373,969	410,304	396,099
Manpower	114,762	-	-	-	-
Natural Resources Development & Protection	135,055	199,504	184,554	187,130	202,609
Transportation Safety & Development	<u>474,178</u>	<u>479,893</u>	<u>494,062</u>	<u>497,402</u>	<u>494,624</u>
Total Expenditures	<u>5,451,825</u>	<u>5,908,057</u>	<u>6,096,704</u>	<u>6,288,657</u>	<u>6,383,004</u>
Excess Resources Over (Under) Expenditures	(229,812)	125,472	221,038	42,630	(51,519)
Fund Equity July 1 of preceding calendar year	<u>566,172</u>	<u>336,359</u>	<u>461,831</u>	<u>682,866</u>	<u>725,572</u>
Fund Equity June 30	<u>\$ 336,360</u>	<u>\$ 461,831</u>	<u>\$ 682,869</u>	<u>\$ 725,496</u>	<u>\$ 674,053</u>

(1) 2004 expenditures depict a statutory realignment of agencies among policy areas. Prior year amounts were not restated. Therefore, comparisons between 2004 and prior years may not be possible in certain instances.

GENERAL FUND
COMBINED STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY
For the Years Ended June 30
(thousands \$000's)

	2003	2004	2005	2006	2007
Revenues					
Taxes					
Sales, Use and Service Provider Tax	857,487	917,243	941,222	993,203	1,020,856
Individual Income Tax	1,071,702	1,164,070	1,277,638	1,254,511	1,353,934
Corporate Income Tax	91,188	111,616	135,863	188,015	183,853
Cigarette and Tobacco Tax	98,414	96,605	96,351	156,951	158,953
Inheritance and Estate Tax	30,520	32,076	32,256	75,331	54,820
Insurance Tax	71,078	72,206	75,669	76,066	74,452
Public Utilities Tax	29,285	27,991	25,403	20,627	16,317
Other Industry or Occupation Taxes	18,413	19,514	30,842	36,242	72,180
Real Estate Transfer Tax	10,771	22,196	24,113	24,595	22,207
Unorganized Territories Property Tax	9,930	10,709	10,623	11,559	11,376
Other Taxes	<u>27,674</u>	<u>18,942</u>	<u>19,021</u>	<u>31,215</u>	<u>2,956</u>
Total Taxes	2,316,462	2,493,168	2,669,001	2,868,315	2,971,904
From Federal Government	22,804	23,138	24,308	17,987	15,311
From Cities, Towns and Counties	1	5,894	1,768	57	116
From Private Sources	2,724	4,039	2,664	5,379	6,500
Service Charges for Current Services	26,585	110,827	81,126	35,196	30,256
Fines, Forfeitures & Penalties	26,987	38,219	35,507	37,781	41,415
Hunting, Fishing and Related Licenses	13,959	16,898	16,691	16,840	16,401
Transferred from Bureau of Alcoholic Beverages	26,073	27,183	(155)	26	0
Transferred from Lottery Commission	39,442	41,273	49,328	50,880	50,625
Transferred from Other Funds	19,313	31,545	24,233	15,090	15,051
Transferred for Revenue Sharing	(103,039)	(111,464)	(119,713)	(124,222)	(130,491)
Income from Investments	2,346	2,310	5,855	8,272	1,216
Other Revenues	<u>1,033</u>	<u>510</u>	<u>232</u>	<u>224</u>	<u>4,247</u>
	78,228	190,372	121,844	63,510	50,647
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	<u>108,718</u>	<u>(56,265)</u>	<u>27,688</u>	<u>(49,100)</u>	<u>14,134</u>
Total Revenues and Resources	2,503,408	2,627,275	2,818,533	2,882,725	3,036,684
Expenditures (5)					
Governmental Support & Operations (1)	325,303	302,843	297,169	228,574	253,529
Arts, Heritage & Cultural Enrichment	-	8,355	8,508	8,433	8,999
Economic Development & Workforce Training	49,084	48,019	41,756	45,361	40,668
Education (2)	1,151,066	1,145,855	1,206,089	1,277,692	1,419,036
Health & Human Services (3)	906,706	804,322	892,524	970,178	1,008,391
Justice & Protection	25,880	204,628	219,571	227,565	242,654
Manpower	20,460	-	-	-	-
Natural Resources Development & Protection	50,371	66,609	68,922	70,525	71,143
Transportation Safety & Development (4)	<u>4,328</u>	<u>3,601</u>	<u>3,584</u>	<u>188</u>	<u>-</u>
Total Expenditures	<u>2,533,198</u>	<u>2,584,232</u>	<u>2,738,123</u>	<u>2,828,516</u>	<u>3,044,420</u>
Excess Resources Over (Under) Expenditures	(29,790)	43,043	80,410	54,209	(7,736)
Fund Equity July 1 of preceding calendar year	<u>138,614</u>	<u>108,824</u>	<u>151,867</u>	<u>232,277</u>	<u>286,486</u>
Fund Equity June 30	<u>\$ 108,824</u>	<u>\$ 151,867</u>	<u>\$ 232,277</u>	<u>\$ 286,486</u>	<u>\$ 278,750</u>

- (1) Governmental Support & Operations includes the Governor's Office, the State Treasurer's Office and the Attorney General, Audit, Finance and Administration, Judicial, Legislative and State Departments.
- (2) Education includes the Education Department, the Maine Technical College System, the Maine Maritime Academy and the University of Maine System.
- (3) Health & Human Services includes the Human Services, Mental Health and Retardation and Corrections Departments.
- (4) Transportation Safety & Development includes the Transportation Department.
- (5) Beginning with 2004, expenditures depict a statutory realignment of agencies among policy areas. Prior year amounts were not restated. Therefore, comparisons between 2004 and prior years may not be possible in certain instances.

HIGHWAY FUND
STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY
For the Years Ended June 30
(thousands \$000's)

	2003	2004	2005	2006	2007
Revenues					
Taxes					
Gasoline, Use Fuel and Motor Carrier Tax	\$187,901	\$212,601	\$220,485	\$221,575	\$226,824
Other Taxes	<u>1,046</u>	<u>1,514</u>	<u>1,089</u>	<u>1,201</u>	<u>1,169</u>
Total Taxes	188,947	214,115	221,574	222,776	227,993
Service Charges for Current Services	5,209	4,977	4,988	5,397	5,440
Fines, Forfeitures & Penalties	2,532	1,919	1,518	1,810	1,668
Vehicle Registration and Drivers Licenses	86,151	85,772	87,801	90,830	90,457
Income from Investments	1,339	720	1,441	1,834	1,106
Other Revenues	<u>4,069</u>	<u>4,525</u>	<u>8,756</u>	<u>3,899</u>	<u>4,062</u>
	99,300	97,913	104,504	103,770	102,733
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	<u>(17,550)</u>	<u>(18,412)</u>	<u>(1,410)</u>	<u>(1,336)</u>	<u>15,179</u>
Total Revenues and Resources	270,697	293,616	324,668	325,210	345,905
Expenditures (2)					
Governmental Support & Operations	32,288	30,773	34,239	34,304	35,405
Economic Development & Workforce Training	45	-	-	-	-
Justice & Protection	32,175	33,116	32,460	35,453	36,806
Natural Resources Development & Protection	-	34	30	33	40
Transportation Safety & Development (1)	<u>240,480</u>	<u>219,420</u>	<u>232,868</u>	<u>245,443</u>	<u>272,746</u>
Total Expenditures	<u>304,988</u>	<u>283,343</u>	<u>299,597</u>	<u>315,233</u>	<u>344,997</u>
Excess Resources Over (Under) Expenditures	(34,291)	10,273	25,071	9,977	908
Fund Equity July 1 of preceding calendar year	<u>118,129</u>	<u>83,838</u>	<u>94,111</u>	<u>119,182</u>	<u>129,159</u>
Fund Equity June 30	<u>\$ 83,838</u>	<u>\$ 94,111</u>	<u>\$ 119,182</u>	<u>\$129,159</u>	<u>\$130,067</u>

(1) Includes payment of debt service on bonds of the State previously issued for highway purposes.

(2) Beginning with 2004, expenditures depict a statutory realignment of agencies among policy areas. Prior year amounts were not restated. Therefore, comparisons between 2004 and prior years may not be possible in certain instances.

OTHER SPECIAL REVENUES FUND
STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY
For the Years Ended June 30
(thousands \$000's)

	2003	2004	2005	2006	2007
Revenues					
Taxes					
Sales, Use and Service Provider Tax	\$ 67,354	\$ 78,904	\$ 92,374	\$ 111,945	\$ 121,944
Individual Income Tax	57,781	62,310	67,778	68,538	73,229
Corporate Income Tax	4,651	5,692	6,929	9,589	9,332
Gasoline, Use Fuel and Motor Carrier Tax	3,024	3,443	3,548	4,314	4,390
Insurance Tax	14,464	26,910	17,657	27,042	14,985
Public Utilities Tax	17,662	21,840	25,112	25,348	24,441
Other Industry or Occupation Taxes	54,383	74,180	100,988	114,646	130,436
Real Estate Transfer Tax	10,758	6,216	8,882	9,358	7,148
Unorganized Territories Property Tax	6,557	5,557	6,641	7,795	8,488
Other Taxes	<u>7,193</u>	<u>7,579</u>	<u>8,360</u>	<u>8,657</u>	<u>4,923</u>
Total Taxes	243,828	292,631	338,269	387,232	399,316
From Federal Government	1,903,332	2,307,418	2,298,749	2,354,369	2,150,825
From Cities, Towns and Counties	8,554	7,979	8,177	8,207	11,934
From Private Sources	165,092	179,994	170,944	166,190	161,551
Service Charges for Current Services	86,789	89,122	148,448	156,096	118,040
Fines, Forfeitures & Penalties	5,664	7,152	6,775	8,317	9,303
Hunting, Fishing and Related Licenses	1,779	1,684	1,584	1,422	2,165
Transfers from Other Funds	12,921	24,003	18,310	16,699	15,907
Income from Investments	3,542	1,032	2,153	4,199	5,344
Other Revenues	<u>3,538</u>	<u>4,189</u>	<u>3,938</u>	<u>5,080</u>	<u>3,371</u>
	2,191,211	2,622,573	2,659,078	2,720,579	2,478,440
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	<u>(70,750)</u>	<u>77,610</u>	<u>31,708</u>	<u>(37,337)</u>	<u>10,008</u>
Total Revenues and Resources	2,364,289	2,992,814	3,029,055	3,070,474	2,887,764
Expenditures (1)					
Governmental Support & Operations	168,996	163,332	143,526	154,236	154,215
Arts, Heritage & Cultural Enrichment	-	3,618	3,247	3,372	3,791
Business Licensing & Regulation	-	47,060	52,025	55,207	60,357
Economic Development & Workforce Training	77,258	126,004	112,620	110,875	113,633
Education	159,850	181,629	187,699	186,611	192,720
Health & Human Services	1,678,796	1,978,250	1,996,523	2,067,953	1,972,766
Justice & Protection	64,277	92,448	99,552	146,474	116,260
Manpower	94,302	-	-	-	-
Natural Resources Development & Protection	75,936	121,864	121,702	110,776	127,570
Transportation Safety & Development	<u>193,577</u>	<u>208,710</u>	<u>224,576</u>	<u>239,314</u>	<u>182,571</u>
Total Expenditures	<u>2,512,992</u>	<u>2,922,915</u>	<u>2,941,470</u>	<u>3,074,818</u>	<u>2,923,883</u>
Excess Resources Over (Under) Expenditures	(148,703)	69,899	87,585	(4,344)	(36,119)
Fund Equity July 1 of preceding calendar year	<u>266,777</u>	<u>118,074</u>	<u>187,973</u>	<u>275,558</u>	<u>271,214</u>
Fund Equity June 30	<u>\$ 118,074</u>	<u>\$ 187,973</u>	<u>\$ 275,558</u>	<u>\$ 271,214</u>	<u>\$ 235,095</u>

(1) Beginning with 2004, expenditures depict a statutory realignment of agencies among policy areas. Prior year amounts were not restated. Therefore, comparisons between 2004 and prior years may not be possible in certain instances.

GOVERNMENTAL FUNDS COMBINED BALANCE SHEETS

JUNE 30, 2007
(thousands \$000's)

	Total (Memorandum) (only)	General Fund	HIGHWAY Fund	Other Special Revenues	Capital Projects	Debt Service
ASSETS						
Equity in Treasurer's Cash Pool	\$ 255,485	\$ (6,202)	\$ 29,118	\$ 216,329	\$ 12,784	\$ 3,456
Cash - Other	25,386	852	1,414	9,222	13,898	
Accounts, Notes and Grants Receivable						
Net of Reserves for Uncollectible Accounts	300,305	277,751	22,554			
Due from Other Funds	7,216	4,491		2,725		
Working Capital Advances to Other Funds	28,435	111	16,766	11,558		
Prepaid Expenses and Other Assets	<u>60,403</u>	<u>307</u>	<u>60,044</u>	<u>52</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>677,230</u>	<u>277,310</u>	<u>129,896</u>	<u>239,886</u>	<u>26,682</u>	<u>3,456</u>
LIABILITIES AND EQUITY						
LIABILITIES:						
Accounts Payable	4,805	14		4,791		
Other Liabilities	<u>(1,628)</u>	<u>(1,454)</u>	<u>(171)</u>		<u>(3)</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,177</u>	<u>(1,440)</u>	<u>(171)</u>	<u>4,791</u>	<u>(3)</u>	<u>-</u>
EQUITY:						
Reserved for Encumbrances	82,653	23,845	2,586	51,115	5,107	
Reserved for Authorized Expenditures	310,169	57,713	46,898	183,980	21,578	
Reserved for Utility Loans	71		71			
Working Capital Advances to Other Funds	16,877	111	16,766			
Designated for Other Purposes	125,659	64,023	61,636			
Budget Stabilization Fund	115,480	115,480				
Unappropriated Surplus	<u>23,144</u>	<u>17,578</u>	<u>2,110</u>	<u>-</u>	<u>-</u>	<u>3,456</u>
TOTAL EQUITY	<u>674,053</u>	<u>278,750</u>	<u>130,067</u>	<u>235,095</u>	<u>26,685</u>	<u>3,456</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 677,230</u>	<u>\$ 277,310</u>	<u>\$ 129,896</u>	<u>\$ 239,886</u>	<u>\$ 26,682</u>	<u>\$ 3,456</u>

GENERAL FUND UNAPPROPRIATED SURPLUS
For the Years Ended June 30

	General Fund Unappropriated Surplus (Million)	General Fund Revenues (Million)	Surplus as Percentage of Revenues
2007	\$17.6	\$3,022.6	0.58%
2006	14.5	2,931.8	0.50%
2005	33.7	2,790.8	1.21%
2004	14.9	2,683.5	0.55%
2003	28.9	2,394.7	1.21%
2002	0.0	2,331.7	0%
2001	38.8	2,390.6	1.62%
2000	300.9	2,500.9	12.03%
1999	229.2	2,336.1	9.81%
1998	98.3	2,111.9	4.65%
1997	21.1	1,863.1	1.13%
1996	25.8	1,766.4	1.46%
1995	4.4	1,671.7	.26%
1994	3.8	1,623.8	.23%
1993	4.1	1,561.4	.26%
1992	13.3	1,512.4	.88%
1991	3.5	1,424.0	.24%
1990	61.0	1,420.3	4.22%
1989	163.1	1,431.5	11.39%
1988	134.5	1,283.7	10.40%
1987	60.2	1,117.5	5.39%

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**STATE OF MAINE
GENERAL OBLIGATION BONDS**

APPENDIX C

Certain Revenues of the State (Unaudited)

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STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
FISCAL YEARS ENDED JUNE 30, 2004 AND JUNE 30, 2005

	2004				2005			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Sales and Use Tax	\$ 917,243,245	\$ 905,721,382	\$ 11,521,863	1.3%	\$ 896,576,322	\$ 899,710,000	(\$ 3,133,678)	(0.3)%
Service Provider Tax	-	-	-	-	44,645,517	44,200,000	445,517	1.0
Individual Income Tax	1,156,715,909	1,130,761,691	25,954,218	2.3	1,270,225,329	1,259,880,674	10,344,655	0.8
Corporate Income Tax	111,616,051	103,752,841	7,863,210	7.6	135,862,913	123,300,647	12,562,266	10.2
Cigarette and Tobacco Tax	96,604,646	97,616,940	(1,012,294)	(1.0)	96,350,704	96,019,864	330,840	0.3
Public Utilities Tax	27,991,188	28,900,000	(908,812)	(3.1)	25,403,214	25,300,000	103,214	0.4
Insurance Companies Tax	72,206,053	69,415,308	2,790,745	4.0	75,669,053	69,615,872	6,053,181	8.7
Inheritance & Estate Tax	32,075,501	32,103,631	(28,130)	(0.1)	32,255,727	31,542,767	712,960	2.3
Property Tax - Unorganized Territory	10,709,308	10,202,624	506,684	5.0	10,622,666	10,580,086	42,580	0.4
Income from Investments	2,310,207	1,287,885	1,022,322	79.4	5,854,625	4,896,463	958,162	19.6
Transfer to Municipal Revenue Sharing	(111,464,335)	(109,152,033)	(2,312,302)	(2.1)	(119,712,814)	(118,681,657)	(1,031,157)	(0.9)
Transfer from Liquor Commission	27,182,743	27,056,396	126,347	0.5	21,467	-	21,467	-
Transfer from Lottery Commission	41,272,645	42,321,885	(1,049,240)	(2.5)	49,328,102	50,292,750	(964,648)	(1.9)
Other Revenues	299,076,397	280,487,661	18,588,736	6.6	267,742,227	264,281,977	3,460,250	1.3
Transfer to Sales Tax Reserve/ME Rainy Day	-	-	-	-	-	-	-	-
Total Undedicated Revenue	<u>\$2,683,539,557</u>	<u>\$2,620,476,211</u>	<u>\$63,063,346</u>	<u>2.4%</u>	<u>\$2,790,845,053</u>	<u>\$2,760,939,443</u>	<u>\$29,905,610</u>	<u>1.1%</u>

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2007

	2006				2007			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
	Sales and Use Tax	\$ 946,174,276	\$ 930,641,080	\$15,533,196	1.7%	\$971,455,721	\$974,740,367	\$(3,284,646)
Service Provider Tax	47,028,431	46,494,165	534,266	1.1	49,400,532	48,911,765	488,767	1.0%
Individual Income Tax	1,254,510,746	1,228,307,845	26,202,901	2.1	1,353,934,495	1,347,619,508	6,314,987	0.5%
Corporate Income Tax	188,015,557	175,150,000	12,865,557	7.3	183,851,533	172,078,755	11,772,778	6.8%
Cigarette and Tobacco Tax	156,951,370	151,738,325	5,213,045	3.4	158,953,466	158,502,981	450,485	0.3%
Public Utilities Tax	20,627,030	21,440,000	(812,970)	(3.8)	16,317,029	16,891,746	(574,717)	(3.4)%
Insurance Companies Tax	76,065,864	72,141,931	3,923,933	5.4	74,452,542	76,336,389	(1,883,847)	(2.5)%
Inheritance & Estate Tax	75,330,514	70,099,322	5,231,192	7.5	54,820,038	55,465,498	(645,460)	(1.2)%
Property Tax - Unorganized Territory	11,559,305	11,278,476	280,829	2.5	11,376,293	11,597,312	(221,019)	(1.9)%
Income from Investments	8,271,870	6,563,582	1,708,288	26.0	1,215,836	1,517,319	(301,483)	(19.9)%
Transfer to Municipal Revenue Sharing	(124,222,180)	(121,410,248)	(2,811,932)	(2.3)	(130,490,756)	(129,710,869)	(779,887)	(0.6)%
Transfer from Liquor Commission	25,653	-	25,653	-	50,624,741	50,334,250	290,491	0.6%
Transfer from Lottery Commission	50,879,646	50,334,250	545,396	1.1	223,683,920	220,713,733	2,970,187	1.3%
Other Revenues	220,607,603	214,959,376	5,648,227	2.6	49,400,532	48,911,765	488,767	1.0%
Transfer to Sales Tax Reserve/ME Rainy Day	-	-	-	-	-	-	-	-
Total Undedicated Revenue	<u>\$2,931,825,685</u>	<u>\$2,857,738,104</u>	<u>\$74,087,581</u>	<u>2.6%</u>	<u>\$3,019,595,390</u>	<u>\$3,004,998,754</u>	<u>\$14,596,636</u>	<u>0.5%</u>

**STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
TEN MONTHS ENDED APRIL 30, 2008**

	Month				Year to Date				Total Budgeted
	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Fiscal Year Ending 6/30/08
Sales and Use Tax	\$ 71,786,951	\$ 72,503,051	\$ (716,100)	(1.0%)	\$ 732,603,524	\$ 731,662,369	\$ 941,155	0.1%	\$ 978,237,102
Service Provider Tax	4,338,195	3,136,722	1,201,473	38.3%	38,870,026	37,243,442	1,626,584	4.4%	51,181,910
Individual Income Tax	331,881,135	301,254,999	30,626,136	10.2%	1,149,823,829	1,107,133,212	42,690,617	3.9%	1,400,532,225
Corporate Income Tax	28,736,923	25,350,000	3,386,923	13.4%	143,433,410	132,470,000	10,963,410	8.3%	182,170,000
Cigarette and Tobacco Tax	12,154,373	11,536,454	617,919	5.4%	125,741,516	127,565,559	(1,824,043)	(1.4%)	154,786,180
Public Utilities Tax	-	-	-	-	347,980	-	347,980	-	17,476,987
Insurance Companies Tax	9,915,667	10,183,047	(267,380)	(2.6%)	36,878,883	37,240,691	(361,808)	(1.0%)	76,751,673
Estate Tax	1,958,520	3,800,000	(1,841,480)	(48.5%)	25,640,080	30,100,000	(4,459,920)	(14.8%)	44,562,240
Property Tax - Unorganized Territory	-	-	-	-	10,238,664	10,403,375	(164,711)	(1.6%)	12,611,986
Income from Investments	(352,754)	400,000	(752,754)	(188.2%)	1,672,430	152,018	1,520,412	1000.2%	952,018
Transfer to Municipal Revenue Sharing	(22,273,903)	(20,545,083)	(1,728,820)	(8.4%)	(105,301,270)	(102,390,817)	(2,910,453)	(2.8%)	(133,218,185)
Transfer from Lottery Commission	2,779,358	3,756,477	(977,119)	(26.0%)	40,706,921	40,382,163	324,758	0.8%	48,834,250
Other Revenues	<u>16,218,133</u>	<u>22,551,938</u>	<u>(6,333,805)</u>	<u>(28.1%)</u>	<u>159,443,388</u>	<u>162,834,315</u>	<u>(3,390,927)</u>	<u>(2.1%)</u>	<u>206,171,058</u>
Total Undedicated Revenue	<u>\$457,142,598</u>	<u>\$433,927,605</u>	<u>\$23,214,993</u>	<u>5.3%</u>	<u>\$2,360,099,381</u>	<u>\$2,314,796,327</u>	<u>\$45,303,054</u>	<u>2.0%</u>	<u>\$3,041,049,444</u>

NOTES: (1) Included in the above is \$6,500,260 for the month and \$80,275,532 year to date that was set aside for Revenue Sharing with cities and towns.

(2) Figures reflect estimates of the Maine State Revenue Forecasting Committee approved in March 2008.

(3) This report has been prepared from preliminary month end figures and is subject to change.

**STATE OF MAINE
HIGHWAY FUND
REVENUES
FISCAL YEARS ENDED JUNE 30, 2004 AND JUNE 30, 2005**

	2004		2005	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Fuel Taxes	\$212,600,961	\$210,496,449	\$220,484,728	\$220,838,729
Motor Vehicle Registration & Fees	82,577,637	79,605,062	84,645,422	81,378,234
Inspection Fees	4,708,196	3,461,771	4,260,059	4,281,459
Fines, Forfeits & Penalties			1,518,580	1,890,359
Earnings on Investments			1,400,739	1,059,903
All Other Revenues	<u>12,141,193</u>	<u>11,181,035</u>	<u>13,728,627</u>	<u>13,817,473</u>
TOTAL	<u>\$312,027,987</u>	<u>\$304,744,317</u>	<u>\$326,078,155</u>	<u>\$323,266,157</u>

Source: Revenue Highway General Accounting

**STATE OF MAINE
HIGHWAY FUND
REVENUES
FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2007**

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	2006		2007	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Fuel Taxes	\$221,575,309	\$226,776,993	\$226,824,018	\$227,484,941
Motor Vehicle Registration & Fees	87,658,962	87,172,358	87,291,874	86,476,317
Inspection Fees	4,373,692	4,397,970	4,342,519	4,379,756
Fines, Forfeits & Penalties	1,809,813	1,973,665	1,668,000	2,018,239
Earnings on Investments	1,833,807	1,300,000	1,105,987	795,000
All Other Revenues	<u>9,294,574</u>	<u>9,286,173</u>	<u>9,588,686</u>	<u>9,603,076</u>
TOTAL	<u>\$326,546,157</u>	<u>\$330,907,159</u>	<u>\$330,821,084</u>	<u>\$330,757,329</u>

Source: Revenue Highway General Accounting

**STATE OF MAINE
HIGHWAY FUND
REVENUES
TEN MONTHS ENDED APRIL 30, 2008**

	Month				Year to Date				Total Budgeted Fiscal Year Ending 6-30-2008
	Actual	Budget	Variance Over/(under)	Percent Over/ (under)	Actual	Budget	Variance Over/(under)	Percent Over/ (under)	
Fuel Taxes	\$16,363,573	\$17,012,719	\$(649,146)	(3.8%)	\$167,430,292	\$166,947,633	\$ 482,659	0.3%	\$223,368,718
Motor Vehicle Registration & Fees	8,347,773	8,449,609	(101,836)	(1.2%)	67,910,305	68,556,173	(645,868)	(0.9%)	85,953,481
Inspection Fees	165,029	370,408	(205,379)	(55.4%)	3,292,982	3,682,966	(389,984)	(10.6%)	4,468,458
Fines, Forfeits & Penalties	163,606	150,000	13,606	9.1%	1,464,389	1,494,050	(29,661)	(2%)	1,794,049
Earnings on Investments	37,460	75,000	(37,540)	(50.1%)	1,111,891	900,000	211,891	23.5%	1,000,000
All Other	<u>602,871</u>	<u>779,868</u>	<u>(176,997)</u>	<u>(22.7%)</u>	<u>8,175,811</u>	<u>8,432,257</u>	<u>(256,446)</u>	<u>(3.0%)</u>	<u>9,771,333</u>
Total Revenue	<u>\$25,680,312</u>	<u>\$26,837,604</u>	<u>\$(1,157,292)</u>	<u>(4.3%)</u>	<u>\$249,385,670</u>	<u>\$250,013,079</u>	<u>\$(627,409)</u>	<u>(0.3%)</u>	<u>\$326,356,039</u>

Note: This report has been prepared from preliminary month end figures and is subject to change.

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**STATE OF MAINE
GENERAL OBLIGATION BONDS**

APPENDIX D

**Selected Information Regarding Authorized
and Outstanding Debt of the State**

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AUTHORIZED EXPENDITURES

The purposes for which authorized expenditures may be made, the expending department or agency, the authorizing acts and the balances of authorized expenditures were as of the date hereof as follows:

Agency	Law	Description	Total Bond Sale Taxable	Total Bond Sale Tax-Exempt	Balance of Authorized but Unissued after issuance of Bonds
DAG	2005 PL, Chapter 462	Provides funds for sustainable water sources and irrigation system development.	\$ -	\$ 250,000	\$ -
DAG	2003 PL, Chapter 50	Provide funds to the Maine Farms for the Future Program-Grants	\$ -	\$ 100,000	\$ -
DAG	2007 PL, Chapter 39	Agricultural water source development grant program. Provides funds to assist farmers in the development of environmentally sound water sources to manage weather-related risk and to comply with in-stream flow rules.	\$ -	\$ 500,000	\$ 1,000,000
DOC	2007 PL, Chapter 39	Bureau of Parks and Lands. Provides funds to make necessary capital improvements in the State's parks and historic sites.	\$ -	\$ 1,250,000	\$ 6,250,000
DECD	2003 PL, Chapter 50	Provide funds to the Marine Infrastructure and Technology Fund, in anticipation of \$1 mil in federal and private funding. Eligible institutions include Maine's private nonprofit institutions and state governmental and quasi-governmental agencies.	\$ -	\$ 50,000	\$ -
DECD	2003 PL, Chapter 50	Provide funds to the ME Bio Med Research Fund, in anticipation of approx. \$100 mil in federal and private funding, to support capital infrastructure and equipment.-Grants	\$ -	\$ 1,700,000	\$ -
DECD	2005 PL, Chapter 462	Provides funds for the Maine Biomedical Research Fund to support capital infrastructure and equipment.	\$ -	\$ 1,000,000	\$ 2,000,000
DECD	2005 PL, Chapter 462	Provides funds for the Marine Infrastructure and Technology Fund administered by the Maine Technology Institute.	\$ -	\$ -	\$ 500,000
DECD	2007 PL, Chapter 39	Provides funds for research, development and commercialization as prioritized by the Office of Innovation's 2005 Science and Technology Action Plan for Maine. The funds must be allocated to biotechnology, aquaculture and marine technology, composite materials technology, environmental technology, advanced technologies for forestry and agriculture, information technology and precision manufacturing technology through a competitive process, and must be awarded to Maine-based public and private entities to leverage matching funds on at least a one-to-one basis.	\$ -	\$ -	\$ 50,000,000
DECD	2007 PL, Chapter 39	Provides funds to make investments, under the Riverfront Community Development Program established in the Maine Revised Statutes, Title 5, section 13083-T, in competitive river-based community and economic revitalization projects, which must be matched with at least \$10,000,000	\$ -	\$ -	\$ 5,000,000

Agency	Law	Description	Total Bond Sale Taxable	Total Bond Sale Tax-Exempt	Balance of Authorized but Unissued after issuance of Bonds
DECD	2007 PL, Chapter 39	Provides funds so that eligible municipalities may apply for a public service infrastructure grant or loan from The Municipal Investment Trust Fund.	\$ -	\$ -	\$ 1,500,000
MRDA	2007 PL, Chapter 39	Maine Rural Development Authority	\$ 500,000.00	\$ -	\$ 1,000,000
DEP	2007 PL, Chapter 39	Waste Water Construction grants	\$ -	\$ 6,250,000	\$ 5,750,000
DEP	2007 PL, Chapter 39	SRF	\$ -	\$ 1,200,000	\$ 1,700,000
DOE	2005 PL, Chapter 462	Provides funds for the development of the Sunrise Business and Career Center in the Town of Jonesboro	\$ -	\$ 70,000	\$ 762,000
DOE	2007 PL, Chapter 39	School revolving loan fund. Provides funds for grants and loans to school administrative units for school repairs and renovations.	\$ -	\$ 1,500,000	\$ -
DHHS	2007 PL, Chapter 39	Drinking Water Program	\$ -	\$ 2,700,000	\$ 700,000
FAME	2007 PL, Chapter 39	Economic Recovery Loan Program	\$ -	\$ 1,500,000	\$ -
FAME	2007 PL, Chapter 39	Regional Economic Development Revolving Loan Program	\$ -	\$ 1,000,000	\$ -
FAME	2007 PL, Chapter 39	Agricultural Marketing Loan Fund	\$ 1,000,000.00	\$ -	\$ -
MSCAF	2005 PL, Chapter 462	Provides funds for the New Century Community Program	\$ -	\$ 223,571	\$ 100,000
MSCAF	2007 PL, Chapter 39	New Century Community program. Provides funds to revitalize downtown areas preserve and strengthen state and community historic and cultural assets and expand access to digital and educational resources.	\$ -	\$ -	\$ 2,000,000
MCCS	2003 P&S, Chapter 33	Repairs, upgrades and facility improvements. Acquisition: KVCC Parking Lot	\$ -	\$ 600,000	\$ -
MCCS	2007 PL, Chapter 39	Provides funds for interior and exterior building renovations, improvements and additions at all campuses of the Maine Community College System.	\$ -	\$ 1,700,000	\$ 13,800,000
MMA	2007 PL, Chapter 39	Provides funds for interior and exterior building renovations, improvements and additions at the Maine Maritime Academy Campus.	\$ -	\$ 750,000	\$ 750,000
SPO	1999 PL, Chapter 514	1999 Land for Maine's Future \$50 Million Bond Fund	\$ -	\$ 4,530,000	\$ -
SPO		Provides for the use of bond proceeds to be used for the acquisition of land and interest in land for conservation, water access, outdoor recreation, wildlife and fish habitat, farmland preservation and working waterfront preservation	\$ -	\$ 2,100,000	\$ 7,900,000

Agency	Law	Description	Total Bond Sale Taxable	Total Bond Sale Tax-Exempt	Balance of Authorized but Unissued after issuance of Bonds
SPO	2005 PL, Chapter 462	Provides for the use of bond proceeds to be used for the acquisition of land and interest in land for working waterfront preservation	\$ -	\$ 700,000	\$ 165,000
SPO	2007 PL, Chapter 39	Land for Maine's Future Board. Acquisition of land and interest in land for conservation; water access; outdoor recreation; wildlife and fish habitat; and farmland preservation.		\$ -	\$ 17,000,000
SPO	2007 PL, Chapter 39	Provides funds to be used for working waterfront preservation.	\$ -	\$ -	\$ 3,000,000
DOT	2003 P&S, Chapter 33	Port & Ferry Improvements	\$ 300,000.00	\$ -	\$ -
DOT	2003 P&S, Chapter 33	Rail Improvements	\$ 650,000.00	\$ -	\$ -
DOT	2003 P&S, Chapter 33	Transit & Park and Ride Improvements	\$ -	\$ 500,000	\$ -
DOT	2003 P&S, Chapter 33	Port & Ferry Improvements	\$ -	\$ 1,825,000	\$ -
DOT	2003 P&S, Chapter 33	Trail Improvements	\$ -	\$ 400,000	\$ -
DOT	2005 PL, Chapter 462	Ferry Vessels and facilities	\$ -	\$ 200,000	\$ 2,600,000
DOT	2005 PL, Chapter 462	Airports	\$ -	\$ 550,000	\$ 650,000
DOT	2005 PL, Chapter 462	Transit and Bus Improvements	\$ -	\$ 150,000	\$ 150,000
DOT	2005 PL, Chapter 462	Pedestrian and Bicycle Trails	\$ -	\$ 110,000	\$ -
DOT	2007 PL, Chapter 39	Highway and Bridge Improvements	\$ -	\$ 60,000,000	\$ 40,000,000
DOT	2007 PL, Chapter 39	Portland IMT	\$ 200,000.00	\$ -	\$ 300,000
DOT	2007 PL, Chapter 39	IRAP,FRIP, and State Rail Track Improvement	\$ 2,150,000.00	\$ -	\$ 1,200,000
DOT	2007 PL, Chapter 39	Buses, FRIP, and State Rail Track Capital Imp.	\$ -	\$ 1,150,000	\$ 2,500,000
DOT	2007 PL, Chapter 39	Aviation	\$ -	\$ 1,000,000	\$ 2,200,000
DOT	2007 PL, Chapter 39	SHIP and Searsport Study		\$ 375,000	\$ 900,000
DOT	2007 PL, Chapter 39	Mountain Div and Trails		\$ 500,000	\$ 500,000
UMS	2003 PL, Chapter 50	Educational Technology improvements		\$ 550,000	\$ -
UMS	2003 PL, Chapter 50	Provide funds for the Maine Economic Improvement Fund for research and development activities.		\$ 1,055,000	\$ -
UMS	2005 PL, Chapter 462	Provides funds for the Laboratory for Surface Science Technology	\$ 1,100,000.00	\$ -	\$ 400,000

Agency	Law	Description	Total Bond Sale Taxable	Total Bond Sale Tax-Exempt	Balance of Authorized but Unissued after issuance of Bonds
UMS	2005 PL, Chapter 462	Provides funds to renovate Camden Hall on the University of Maine Bangor Campus for a graduate school for biomedical science	\$ -	\$ 450,000	\$ -
UMS	2005 PL, Chapter 462	Provided funds for the career center facility at the University of Southern Maine's L-A College	\$ -	\$ 600,000	\$ -
UMS	2007 PL, Chapter 39	Provides funds for interior and exterior building renovations, improvements and additions at all campuses of the University of Maine System.	\$ -	\$ 3,500,000	\$ 19,500,000
Total			\$ 5,900,000.00	\$ 102,588,571	\$ 191,777,000

GENERAL FUND BONDS¹
Debt Service Requirements to Maturity
June 30, 2007

Fiscal Year	Principal	Interest	Total
2008	\$ 66,230,000.00	\$16,057,428.46	\$ 82,287,428.46
2009	61,030,000.00	13,334,455.48	74,364,455.48
2010	56,915,000.00	10,684,221.72	67,599,221.72
2011	51,550,000.00	8,166,715.47	59,716,715.47
2012	49,445,000.00	6,132,064.46	55,577,064.46
2013	46,685,000.00	4,219,927.46	50,904,927.46
2014	30,460,000.00	2,423,911.46	32,883,911.46
2015	23,940,000.00	1,285,353.28	25,225,353.28
2016	8,630,000.00	533,479.60	9,163,479.60
2017 (Final Maturity)	<u>3,395,000.00</u>	<u>146,715.80</u>	<u>3,541,715.80</u>
TOTAL	<u>\$398,280,000.00</u>	<u>\$62,984,273.19</u>	<u>\$461,264,273.19</u>

HIGHWAY FUND BONDS²
Debt Service Requirements to Maturity
June 30, 2007

Fiscal Year	Principal	Interest	Total
2008	\$10,750,000.00	\$2,050,995.01	\$12,800,995.01
2009	7,750,000.00	1,610,616.26	9,360,616.26
2010	6,065,000.00	1,275,291.26	7,340,291.26
2011	6,070,000.00	1,035,481.88	7,105,481.88
2012	4,150,000.00	782,693.75	4,932,693.75
2013	4,150,000.00	617,600.00	4,767,600.00
2014	3,425,000.00	451,600.00	3,876,600.00
2015	2,700,000.00	329,100.00	3,029,100.00
2016	2,700,000.00	216,000.00	2,916,000.00
2017 (Final Maturity)	<u>2,700,000.00</u>	<u>108,000.00</u>	<u>2,808,000.00</u>
TOTAL	<u>\$50,460,000.00</u>	<u>\$8,477,378.16</u>	<u>\$58,937,378.16</u>

¹ General Fund Bonds are expected to be paid from amounts in the General Fund. For a description of the General Fund, see "Fiscal Management - The Accounting System" herein.

² Highway Fund Bonds are expected to be paid from amounts in the Highway Fund. For a description of the Highway Fund, see "Fiscal Management - The Accounting System" herein.

SELF-LIQUIDATING BONDS¹
Debt Service Requirements to Maturity
June 30, 2007

Fiscal Year	Principal	Interest	Total Debt Service
2008 (Final Maturity)	<u>\$20,000.00</u>	<u>\$750.00</u>	<u>\$20,750.00</u>
TOTAL	<u>\$20,000.00</u>	<u>\$750.00</u>	<u>\$20,750.00</u>

¹ Self-liquidating bonds are expected to be paid from fees and charges to be paid by users of the public facilities financed with the proceeds of such bonds.

INFORMATION REGARDING LEASE FINANCING AGREEMENTS

<u>Agency</u>	<u>Date of Agreement</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding 3/31/08</u>	<u>Principal & Interest Due 7/1/07 – 6/30/08</u>
Department of Transportation	May, 2002	\$ 5,000,000	\$ 2,465,000	\$ 667,675
Department of Transportation	May, 2002	2,000,000	315,000	324,081
Secretary of State	June, 2003	6,500,000	1,385,000	1,440,400
Department of Transportation	December, 2003	793,200	324,971	152,104
Department of Education	December, 2003	2,335,000	485,000	503,335
Department of Corrections	March, 2005	1,200,000	511,935	270,382
Administrative & Financial Services	April, 2005	2,900,000	1,133,977	782,062
Department of Transportation	May, 2005	1,200,000	588,445	280,353
Department of Transportation	June, 2005	300,000	52,256	106,394
Administrative & Financial Services	April, 2006	4,100,000	3,105,912	1,141,450
Department of Transportation	September, 2005	2,000,000	853,832	515,219
Administrative & Financial Services	October, 2005	9,200,000	6,553,630	3,425,170
Public Safety	April, 2006	1,800,000	1,212,105	649,492
Administrative & Financial Services	July, 2006	10,000,000	7,260,438	1,652,727
Department of Corrections	August, 2006	3,600,000	3,040,289	690,812
Department of Education	September, 2006	19,226,266	11,178,073	5,305,320
Administrative & Financial Services	February, 2007	14,000,000	12,065,454	2,455,177
Administrative & Financial Services	February, 2007	800,000	543,910	261,363
Public Safety	March, 2007	1,300,000	881,101	463,244
Department of Transportation	March, 2007	2,500,000	1,905,378	680,318
Administrative & Financial Services	April, 2007	4,500,000	3,975,706	1,228,588
Department of Education	August, 2007	4,618,993	3,823,739	1,313,218
TOTALS:		<u>\$99,873,459</u>	<u>\$63,661,151</u>	<u>\$24,308,884</u>

Debt Ratios

The following table sets forth certain ratios relating to the State's general obligation debt and certain lease financing agreements as of June 30, 2007.

	<u>Amount of Debt</u>	<u>Per Capita (1)</u>	<u>Debt to Estimated Full Valuation (2)</u>	<u>Debt to Personal Income (3)</u>
General Fund	\$398,280,000	\$302.37	0.24%	0.90%
Highways & Bridges	50,460,000	38.31	0.03	0.11
Self-liquidating	<u>20,000</u>	<u>0.02</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>\$448,760,000</u>	<u>\$340.70</u>	<u>0.27%</u>	<u>1.01%</u>

- (1) Based on population estimate of 1,317,207 for 2007 by the U.S. Department of Commerce, Bureau of the Census.
- (2) Based on assessed property valuation at full value by the Maine Revenue Services as of January 2008 of \$162,744,550,000.
- (3) Based on State of Maine total personal income reported by the U.S. Department of Commerce for 2007, second quarter annualized, of \$44,418,000,000.

Debt Ratio Statistics

June 30, 2007

Debt to Full Value	
1997.....	0.67%
2007.....	0.27%
Debt to Personal Income	
1997.....	1.82%
2007.....	1.01%
Per Capita Debt	
1997.....	\$378.19
2007.....	\$340.70

DEBT SERVICE PAID OVER PAST TEN FISCAL YEARS

Fiscal Year	General Fund Principal	General Fund Interest	Highway Fund Principal	Highway Fund Interest	Total Principal	Total Interest
1998	\$56,545,600	\$18,035,896	\$19,880,000	\$7,075,196	\$76,425,600	\$25,111,092
1999	57,235,000	17,716,780	22,380,000	7,305,133	79,615,000	25,021,913
2000	59,810,000	17,497,114	22,470,000	6,862,012	82,280,000	24,359,126
2001	65,850,000	18,082,743	21,820,000	5,619,484	87,670,000	23,702,227
2002	64,225,000	15,444,189	23,300,000	5,299,529	87,525,000	20,743,718
2003	63,880,000	12,941,300	21,215,000	4,003,828	85,095,000	16,945,128
2004	56,240,000	12,567,264	16,015,000	3,022,015	72,255,000	15,589,279
2005	53,440,000	12,525,813	13,280,000	2,477,535	66,720,000	15,003,348
2006	57,915,000	15,253,937	13,950,000	2,007,306	71,865,000	17,261,243
2007	69,280,000	17,364,513	10,415,000	1,387,084	79,695,000	18,751,597
2008	66,230,000	16,057,428	10,750,000	2,050,995	76,980,000	18,108,423

**BONDS OUTSTANDING AT JUNE 30
of Certain Fiscal Years
Compared to Total Governmental Funds Revenue**

Year Ended	General Fund	Highway Fund	Self-Liquidating	Total	Total Governmental Funds Revenue	Percent of State Revenues
1988	\$201,160,000	\$ 88,170,000	\$18,945,000	\$308,275,000	\$2,205,527,000	14.0%
1989	221,645,000	98,850,000	17,605,000	338,100,000	2,428,486,000	13.9
1990	202,405,000	87,610,000	16,260,000	306,275,000	2,421,264,000	12.6
1991	277,710,000	102,870,000	14,840,000	395,420,000	2,533,777,000	15.6
1992	308,890,000	107,395,000	13,395,000	429,680,000	2,995,325,000	14.0
1993	405,823,000	136,320,000	2,562,000	544,705,000	3,178,491,000	17.2
1994	383,618,000	143,355,000	2,312,000	529,285,000	3,311,809,213	16.0
1995	377,055,000	136,950,000	2,055,000	516,060,000	3,381,332,000	15.3
1996	369,457,945	144,440,000	1,792,055	515,690,000	3,598,717,000	14.3
1997	339,620,600	129,060,000	1,529,400	470,210,000	3,756,557,734	12.5
1998	337,575,000	139,180,000	1,290,000	478,045,000	4,168,141,000	11.5
1999	334,725,000	133,700,000	1,115,000	469,540,000	4,257,340,458	11.0
2000	341,205,000	111,230,000	940,000	453,375,000	4,604,954,195	9.8
2001	297,405,000	108,635,000	765,000	406,805,000	4,608,742,000	8.8
2002	260,790,000	85,335,000	600,000	346,725,000	4,808,788,859	7.2
2003	293,990,000	64,120,000	445,000	358,555,000	5,114,542,674	7.0
2004	355,025,000	61,105,000	290,000	416,420,000	5,902,866,220	7.1
2005	439,110,000	47,825,000	160,000	487,095,000	6,114,225,943	8.0
2006	433,585,000	33,875,000	90,000	467,550,000	6,336,819,316	7.4
2007	398,280,000	50,460,000	20,000	448,760,000	6,906,395,835	6.5

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**STATE OF MAINE
GENERAL OBLIGATION BONDS**

APPENDIX E

**Maine Public Employees Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet, June 30, 2007**

ASSETS (Present Value of expected income)	State Employees	MTRA Teachers	All Employees
(1) Invested Assets			
(a) Members Contribution Fund	\$ 660,555,571	\$1,128,807,358	\$1,789,362,929
(b) Retirement Allowance Fund	\$2,294,507,099	\$4,161,649,991	\$6,456,157,090
(c) Total Invested Assets (a + b)	\$2,955,062,670	\$5,290,457,349	\$8,245,520,019
(2) Future Contributions			
(a) Future Contributions	\$ 392,517,939	\$ 659,910,120	\$ 1,052,428,059
(b) Actuarial Costs	\$1,349,317,321	\$2,315,582,421	\$ 3,664,899,742
(c) Total Contribution Income (a + b)	\$1,741,835,260	\$2,975,492,541	\$ 4,717,327,801
(3) Present Value of Total Income (1 + 2)	\$4,696,897,930	\$8,265,949,890	\$12,962,847,820
LIABILITIES (Present Value of expected benefit payments)			
(1) Active Employees			
(a) Current Accrued Benefits	\$1,242,171,177	\$2,586,241,940	\$ 3,828,413,117
(b) Future Benefit Accruals	\$1,127,987,362	\$2,155,564,570	\$ 3,283,551,932
(c) Total Active Benefits (a + b)	\$2,370,158,539	\$4,741,806,510	\$ 7,111,965,049
(2) Inactive Employees			
(a) Total Inactive Benefits	\$2,326,739,391	\$3,524,143,380	\$ 5,850,882,771
(3) Present Value of Total Benefits (1 + 2)	\$4,696,897,930	\$8,265,949,890	\$12,962,847,820

*Actuarial Value

Maine Public Employees Retirement System
 Judicial Plan
 Actuarial Balance Sheet, June 30, 2007

Assets

(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	\$ 6,941,423
(b) Retirement Allowance Fund	\$41,283,630
(c) Total Invested Assets (a+b)*	\$48,225,053

(2) Future Contributions

(a) Member Contributions	\$ 2,414,853
(b) Actuarial Costs	\$ 4,865,554
(c) Total Contribution Income (a+b)	\$ 7,280,407

(3) Present Value of Total Income (1+2)	\$55,505,460
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Liabilities

(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	\$20,390,026
(b) Future Benefit Accruals	\$13,981,858
(c) Total Active Benefits (a+b)	\$34,371,884

(2) Inactive Employees

(a) Total Inactive Benefits	\$21,133,577
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(3) Present Value of Total Benefits (1+2)	\$55,505,460
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*Actuarial Value

Maine Public Employees Retirement System
 Legislative Plan
 Actuarial Balance Sheet, June 30, 2007

Assets

(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	\$ 1,783,293
(b) Retirement Allowance Fund	\$ 6,938,278
(c) Total Invested Assets (a+b)*	\$ 8,721,571

(2) Future Contributions

(a) Future Contributions	\$ 863,937
(b) Actuarial Costs	(\$2,231,210)
(c) Total Contribution Income (a+b)	(\$1,367,273)

(3) Present Value of Total Income (1+2)	\$ 7,354,298
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Liabilities

(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	\$ 1,547,489
(b) Future Benefit Accruals	\$ 2,705,634
(c) Total Active Benefits (a+b)	\$ 4,253,123

(2) Inactive Employees

(a) Total Inactive Benefits	\$ 3,101,175
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(3) Present Value of Total Benefits (1+2)	\$ 7,354,298
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*Actuarial Value

**Maine Public Employees Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet for Group Life Insurance, June 30, 2007**

ASSETS (Present Value of expected income)	State Employees	MTRA Teachers	All Employees
(1) Invested Assets			
(a) Members Contribution Fund	\$0	\$0	\$0
(b) Retirement Allowance Fund	\$20,773,757	\$19,143,079	\$ 39,916,837
(c) Total Invested Assets (a + b)*	\$20,773,757	\$19,143,079	\$ 39,916,837
(2) Future Contributions			
(a) Future Contributions	\$0	\$0	\$0
(b) Actuarial Costs	\$48,533,881	\$40,260,349	\$ 88,794,229
(c) Total Contribution Income (a + b)	\$48,533,881	\$40,260,349	\$ 88,794,229
(3) Present Value of Total Income (1 + 2)	\$69,307,638	\$59,403,428	\$128,711,066
LIABILITIES (Present Value of expected benefit payments)			
(1) Active Employees			
(a) Current Accrued Benefits	\$32,904,104	\$30,587,211	\$ 63,491,315
(b) Future Benefit Accruals	\$ 5,517,038	\$ 5,547,036	\$ 11,064,074
© Total Active Benefits (a + b)	\$38,421,142	\$36,134,247	\$ 74,555,389
(2) Inactive Employees			
(a) Total Inactive Benefits	\$30,886,496	\$23,269,181	\$ 54,155,677
(3) Present Value of Total Benefits (1 + 2)	\$69,307,638	\$59,403,428	\$128,711,066

*Actuarial Value

Maine Public Employees Retirement System
Judicial Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2007

Assets

(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	\$0
(b) Retirement Allowance Fund	\$0
(c) Total Invested Assets (a+b)*	\$0

(2) Future Contributions

(a) Future Contributions	\$0
(b) Actuarial Costs	\$2,223,317
(c) Total Contribution Income (a+b)	\$2,223,317

(3) Present Value of Total Income (1+2)	\$2,223,317
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Liabilities

(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	\$1,875,815
(b) Future Benefit Accruals	\$ 37,758
(c) Total Active Benefits (a+b)	\$1,913,573

(2) Inactive Employees

(a) Total Inactive Benefits	\$ 309,744
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(3) Present Value of Total Benefits (1+2)	\$2,223,317
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*Actuarial Value

Maine Public Employees Retirement System

Legislative Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2007

Assets

(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	\$0
(b) Retirement Allowance Fund	\$0
(c) Total Invested Assets (a+b)*	\$0

(2) Future Contributions

(a) Future Contributions	\$0
(b) Actuarial Costs	\$17,684
(c) Total Contribution Income (a+b)	\$17,684

(3) Present Value of Total Income (1+2)	\$17,684
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Liabilities

(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	\$ 1,580
(b) Future Benefit Accruals	\$ 2,843
(c) Total Active Benefits (a+b)	\$ 4,423

(2) Inactive Employees

(a) Total Inactive Benefits	\$13,261
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(3) Present Value of Total Benefits (1+2)	\$17,684
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*Actuarial Value

**STATE OF MAINE
GENERAL OBLIGATION BONDS**

APPENDIX F

**Selected Economic Information
with Respect to the State**

Maine Population

Year	Population	Rank U.S.	Percent Increase	Per Square Mile
1920	768,000	35	-	24.9
1930	797,000	-	3.8%	25.8
1940	847,000	35	6.3%	27.4
1950	914,000	35	7.9%	29.6
1960	969,000	36	6.0%	31.4
1970	992,000	38	2.4%	32.1
1980	1,126,000	38	13.5%	36.5
1990	1,227,928	38	9.1%	39.8
2000	1,274,923	40	3.8%	41.3
2001	1,284,470	40	0.7%	41.6
2002	1,294,464	40	0.8%	41.9
2003	1,305,728	40	0.9%	42.3
2004	1,317,253	40	0.9%	37.2
2005	1,321,505	40	0.3%	41.3
2006	1,321,574	40	0.005%	43.0
2007	1,317,207	40	(.3%)	42.7

Source: U.S. Census Bureau.

Personal Income and Earnings by Industry in Maine 2003-2007

	2003	2004	2005	2006	2007
Total Personal Income (thousands of dollars)	\$37,532,859	39,487,538	40,616,400	42,202,194	44,418,212
Earnings by Place of Work	26,692,187	28,225,889	28,998,091	30,146,669	31,430,065
Farm earnings	96,609	115,984	91,310	114,816	142,673
Nonfarm earnings	26,595,578	28,109,905	28,906,781	30,031,853	31,287,392
Forestry, Fishing, Related Activities and other	329,393	326,588	342,467	370,555	394,199
Mining	9,728	12,033	11,970	15,550	17,034
Utilities	197,137	214,065	227,565	227,055	244,729
Construction	1,791,554	1,935,812	2,034,753	2,117,263	2,045,774
Manufacturing	3,683,742	3,720,994	3,791,471	3,826,512	3,900,813
Wholesale Trade	1,124,744	1,196,919	1,235,413	1,297,153	1,351,578
Retail Trade	2,449,995	2,539,910	2,573,454	2,631,221	2,736,020
Transportation and Warehousing	662,239	732,660	762,305	794,791	816,692
Information	585,509	597,661	617,235	629,681	651,344
Finance and Insurance	1,624,996	1,701,589	1,705,939	1,746,003	1,823,088
Real Estate and Rental and Leasing	470,207	521,163	513,956	520,685	504,806
Professional and Technical Services	1,538,772	1,667,769	1,732,436	1,846,558	1,956,026
Management of Companies and Enterprises	369,732	458,532	397,605	427,533	520,889
Administrative and Waste Services	723,896	735,545	769,606	827,110	882,836
Educational Services	383,561	401,212	405,393	426,526	490,909
Arts, Entertainment, and Recreation	274,905	289,090	283,224	300,378	324,406
Accommodation and Food Services	877,802	937,019	954,349	1,001,140	1,039,551
Other Services, except Public Administration	742,057	777,209	798,401	816,461	847,551
Government and Government Enterprises	5,052,838	5,308,871	5,550,969	5,791,511	6,027,596

Source: U.S. Bureau of Economic Analysis

**Per Capita Personal Income
Maine, New England, U.S.
1998-2007**

	Maine Income								
	Per Capita			As Percent of Income of		Annual Percent Increase			
	US	NE	Maine	US	NE	US	NE	Maine	
1998	\$26,883	\$31,677	\$23,596	87.8%	74.5%	6.1%	6.7%	6.4%	
1999	\$27,939	\$33,126	\$24,484	87.6%	73.9%	3.9%	4.6%	3.8%	
2000	\$29,845	\$36,117	\$25,973	87.0%	71.9%	6.8%	9.0%	6.1%	
2001	\$30,574	\$37,323	\$27,323	89.4%	73.2%	2.4%	3.3%	5.2%	
2002	\$30,821	\$37,364	\$27,816	90.3%	74.4%	0.8%	0.1%	1.8%	
2003	\$31,504	\$37,950	\$28,795	91.4%	75.9%	2.2%	1.6%	3.5%	
2004	\$33,123	\$40,058	\$30,169	91.1%	75.3%	5.1%	5.6%	4.8%	
2005	\$34,757	\$41,909	\$30,952	89.1%	73.9%	4.9%	4.6%	2.6%	
2006	\$36,714	\$44,327	\$32,095	87.4%	72.4%	5.6%	5.8%	3.7%	
2007	\$38,611	\$46,948	\$33,722	87.3%	71.8%	5.2%	5.9%	5.1%	

Source: U.S. Bureau of Economic Analysis.

State Valuation of Taxable Real and Personal Property

January 1989	\$ 43,361,250,000
January 1990	57,085,900,000
January 1991	64,905,350,000
January 1992	68,471,100,000
January 1993	67,751,400,000
January 1994	66,565,550,000
January 1995	66,425,500,000
January 1996	67,102,925,900
January 1997	68,286,600,000
January 1998	69,691,900,000
January 1999	71,779,350,000
January 2000	74,260,000,000
January 2001	78,389,400,000
January 2002	84,874,550,000
January 2003	94,034,050,000
January 2004	104,219,950,000
January 2005	118,038,020,000
January 2006	133,628,600,000
January 2007	148,946,200,000
January 2008	162,744,550,000

Source: State Revenue Services.

The State valuation of taxable property is equal to 100% of value.

The State valuation filed in January of each year is based on the value of property as of April 1, 21 months prior to the filing date.

Selected Labor Market Information for Maine

Annual Averages, 2003 through 2007

	2003	2004	2005	2006	2007
Nonfarm Wage and Salary Employment	606,800	611,700	611,700	614,700	617,400
Manufacturing Employment	64,100	63,000	61,400	60,000	59,100
Nonmanufacturing Employment	542,700	548,700	550,300	554,700	558,300
Average Weekly Hours of Manufacturing Production Workers	40.0	39.6	39.6	41.4	41.9
Average Hourly Earnings of Manufacturing Production Workers	\$16.28	\$16.97	\$17.28	\$18.58	\$19.19
Unemployment Rate	5.0%	4.6%	4.8%	4.6%	4.7%
Number Unemployed	34,231	31,695	33,718	32,496	33,356

Source: Maine Department of Labor, Center for Workforce Research and Information.

**Civilian Labor Force
Employed and Unemployed by Labor Market Area, Not Seasonally Adjusted
February, 2008**

AREA	CIVILIAN LABOR FORCE ¹			EMPLOYED ²			UNEMPLOYED ³			UNEMPLOYMENT RATE ⁴		
	Feb 08	Jan 08	Feb 07	Feb 08	Jan 08	Feb 07	Feb 08	Jan 08	Feb 07	Feb 08	Jan 08	Feb 07
LABOR MARKET AREAS⁵												
Augusta	43,600	42,920	43,380	41,170	40,570	41,110	2,430	2,350	2,270	5.6%	5.5%	5.2%
Augusta-Waterbury Combined ⁶	66,020	65,440	65,680	62,260	61,760	62,120	3,760	3,680	3,560	5.7	5.6	5.4
Bangor	71,500	71,400	71,100	67,700	67,600	67,100	3,800	3,800	4,000	5.3	5.3	5.6
Belfast	12,890	12,920	12,910	11,860	11,930	12,010	1,030	990	900	8.0	7.7	7.0
Boothbay Harbor	3,780	3,790	3,760	3,480	3,520	3,470	300	280	300	7.9	7.3	7.8
Bridgton-Paris	14,270	14,450	14,220	13,190	13,440	13,190	1,080	1,010	1,030	7.6	7.0	7.2
Brunswick	34,740	35,070	34,550	33,070	33,400	32,920	1,670	1,660	1,640	4.8	4.7	4.7
Calais	6,040	6,040	5,950	5,320	5,350	5,370	720	690	580	11.8	11.4	9.7
Camden	7,520	7,520	7,450	7,040	7,060	7,030	490	460	420	6.5	6.1	5.7
Conway, NH-ME ⁷	3,850	3,900	3,860	3,670	3,700	3,680	180	190	180	4.6	4.9	4.6
Dover-Foxcroft	9,440	9,520	9,320	8,650	8,740	8,530	790	790	790	8.3	8.2	8.5
Ellsworth	27,350	27,240	27,520	24,890	24,870	25,220	2,450	2,370	2,300	9.0	8.7	8.4
Farmington	17,240	17,020	17,260	16,070	15,850	16,170	1,170	1,160	1,090	6.8	6.8	6.3
Houlton	8,520	8,590	8,440	7,920	7,980	7,870	600	610	560	7.1	7.1	6.7
Lewiston-Auburn	57,600	58,100	57,200	54,400	54,900	54,100	3,200	3,200	3,100	5.6	5.5	5.5
Lincoln	3,690	3,740	3,670	3,430	3,480	3,380	260	270	280	7.1	7.1	7.7
Machias	7,660	7,450	7,680	6,850	6,670	6,970	810	780	710	10.6	10.5	9.3
Madawaska	2,950	2,990	3,070	2,750	2,760	2,880	200	230	190	6.7	7.7	6.2
Millinocket	3,880	3,910	3,870	3,520	3,530	3,510	360	380	360	9.2	9.7	9.3
Pittsfield	7,850	7,890	7,720	7,150	7,180	7,050	700	710	680	8.9	9.0	8.8
Portland-South Portland-Biddeford	202,000	204,200	202,300	193,500	195,700	194,400	8,500	8,500	7,900	4.2	4.2	3.9
Portland-South Portland-Sanford Combined ⁶	213,400	215,700	213,700	204,000	206,300	205,000	9,400	9,400	8,600	4.4	4.4	4.0
Portsmouth, NH-ME ⁷	9,530	9,590	9,430	9,170	9,150	9,040	360	440	390	3.8	4.6	4.1
Presque Isle	25,060	24,900	24,900	23,240	23,070	23,270	1,810	1,820	1,630	7.2	7.3	6.5
Rochester-Dover, NH-ME ⁷	11,430	11,490	11,370	10,950	10,800	10,810	480	690	560	4.2	6.0	4.9
Rockland	12,170	12,080	12,200	11,380	11,370	11,490	800	710	710	6.5	5.9	5.8
Rumford	10,520	10,580	10,850	9,800	9,810	10,090	720	770	760	6.8	7.3	7.0
Saint George	1,380	1,390	1,400	1,320	1,320	1,330	60	70	70	4.5	4.8	4.7
Sanford	11,380	11,480	11,390	10,520	10,550	10,600	860	930	790	7.6	8.1	6.9
Skowhegan	14,700	14,760	14,820	13,340	13,430	13,510	1,350	1,340	1,300	9.2	9.1	8.8
Waldoboro	9,100	9,090	9,170	8,600	8,610	8,710	500	490	460	5.5	5.3	5.0
Waterville	22,410	22,520	22,300	21,080	21,200	21,010	1,330	1,330	1,290	5.9	5.9	5.8
York	16,300	16,420	16,090	15,410	15,420	15,290	890	1,000	800	5.5	6.1	5.0
MAINE	696,800	699,500	695,600	656,600	659,100	657,300	40,300	40,300	38,300	5.8	5.8	5.5
UNITED STATES (000)	152,503	152,828	151,879	144,550	144,607	144,479	7,953	8,221	7,400	5.2	5.4	4.9

¹ Civilian labor force, employed, and unemployed estimates are by place of residence. Current year estimates are preliminary; year-ago estimates are revised. Items may not add due to rounding. All data exclude members of the Armed Forces.

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 criteria: 1) they were not employed during the survey week; 2) they were available for work at that time; and 3) 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 Bangor; Lewiston-Auburn; Portland-South Portland-Biddeford; Portsmouth, NH-ME; and Rochester-Dover, NH-ME are Metropolitan Statistical Areas. Augusta, Brunswick, Rockland, Sanford, and Waterville are Micropolitan Statistical Areas.

⁶ Adjacent metropolitan and/or micropolitan statistical areas that have a specific level of economic integration, but still retain separate identities.

⁷ Maine portion of the area which includes towns in both Maine and New Hampshire.

Source: Maine Department of Labor, Center for Workforce Research and Information, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

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**STATE OF MAINE
GENERAL OBLIGATION BONDS**

APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

Upon delivery of the Tax-Exempt Bonds, Edwards Angell Palmer & Dodge LLP, as Bond Counsel, proposes to issue its approving opinion as to the Tax-Exempt Bonds in substantially the following form:

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

[Date of Delivery]

The Honorable David G. Lemoine
Treasurer of State
The State of Maine
39 State House Station
Augusta, Maine 04333

\$98,175,000
State of Maine
Tax-Exempt General Obligation Bonds
Dated Date of Delivery

We have acted as bond counsel to the State of Maine in connection with the issuance by the State of Maine of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State of Maine contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State of Maine and the full faith and credit of the State of Maine are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State of Maine with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State of Maine has covenanted to comply with all such requirements. Failure by the State of Maine to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

3. Interest on the Bonds is excluded from gross income for State of Maine income tax purposes. We express no opinion regarding any other State of Maine tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than the State of Maine.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Angell Palmer & Dodge LLP

PROPOSED FORM OF BOND COUNSEL OPINION

Upon delivery of the Taxable Bonds, Edwards Angell Palmer & Dodge LLP, as Bond Counsel, proposes to issue its approving opinion as to the Taxable Bonds in substantially the following form:

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

[Date of Delivery]

The Honorable David G. Lemoine
Treasurer of State
The State of Maine
39 State House Station
Augusta, Maine 04333

\$5,900,000
State of Maine
Taxable General Obligation Bonds
Dated Date of Delivery

We have acted as bond counsel to the State of Maine in connection with the issuance by the State of Maine of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State of Maine contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation. Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State of Maine and the full faith and credit of the State of Maine are pledged for the payment of the principal of and interest on the Bonds.
2. Interest on the Bonds is included in the gross income of the owners of the Bonds for federal income tax purposes.
3. Interest on the Bonds is excluded from gross income for State of Maine income tax purposes. We express no opinion regarding any other State of Maine tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than the State of Maine.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Angell Palmer & Dodge LLP

**STATE OF MAINE
GENERAL OBLIGATION BONDS**

APPENDIX H

The Depository Trust Company

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Tax-Exempt Bond certificate will be issued in the aggregate principal amount of each maturity thereof and will be deposited with DTC. One fully-registered Taxable Bond certificate will be issued in the aggregate principal amount of each maturity thereof and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries

made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions and defaults. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy to the State as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal, interest and redemption payments, if any, on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption proceeds, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, and disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds certificates will be printed and delivered to DTC.

The information in this Appendix H concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

NEITHER THE STATE NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS OF THE BONDS. NO ASSURANCES CAN BE PROVIDED THAT IN THE EVENT OF BANKRUPTCY OR INSOLVENCY OF DTC OR A DIRECT PARTICIPANT OR INDIRECT PARTICIPANT THROUGH WHICH A BENEFICIAL OWNER HOLDS INTERESTS IN THE BONDS, PAYMENT WILL BE MADE BY DTC, THE DIRECT PARTICIPANT OR THE INDIRECT PARTICIPANT ON A TIMELY BASIS.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE HOLDER OF ALL OF THE BONDS, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS. THEREFORE, ANY STATEMENTS IN THE OFFICIAL STATEMENT SUMMARIZING THE TERMS OF PAYMENT AND REDEMPTION OF THE BONDS, ANY REQUIREMENTS OF NOTICE TO HOLDERS OF THE BONDS AND ANY RIGHTS OF CONSENT OF THE HOLDERS OF THE BONDS SHALL APPLY TO CEDE & CO., AS HOLDER OF THE BONDS, AND NO REPRESENTATIONS ARE MADE IN RESPECT OF THE FOREGOING TO THE BENEFICIAL OWNERS OF THE BONDS.

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**STATE OF MAINE
GENERAL OBLIGATION BONDS**

APPENDIX I

Secondary Market Disclosure

Pursuant to the Municipal Securities Disclosure Rule, 17 CFR §240.15c2-12 (the “Rule”), promulgated by the Securities and Exchange Commission (the “SEC”), the Underwriters shall not purchase or sell the Bonds unless the Underwriters have reasonably determined that the State, as issuer of the Bonds, has undertaken in a written agreement or contract for the benefit of the holders of the Bonds to provide certain information in the manner and to the locations described below. In order to assist the Underwriters in complying with the Rule, the State has covenanted in the Bonds for the benefit of the Beneficial Owners that:

A. Within one year after the end of each fiscal year of the State, the State will provide to each nationally recognized municipal securities information repository (“NRMSIR”) and to any state information depository for the State (“SID”), financial information and operating data, for the prior fiscal year, of the type set forth in Appendices B, D and E of this Official Statement;

B. If not submitted as part of the annual financial information described in paragraph A above, then when and if available, the State will provide to each NRMSIR and SID, audited financial statements for the State prepared in accordance with generally accepted accounting principles in effect from time to time;

C. The State will provide, in a timely manner, to each NRMSIR and to any SID, notice of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. modifications to rights of the holders (including Beneficial Owners) of the Bonds;
8. bond calls;
9. defeasances;
10. release, substitution, or sale of property securing repayment of the Bonds;
and
11. rating changes; and

D. The State will provide, in a timely manner, to each NRMSIR and to any SID, notice of any failure of the State to comply with paragraph A above.

In a letter from the staff of the SEC to the National Association of Bond Lawyers, dated September 19, 1995, the SEC staff stated that undertakings pursuant to the Rule may not eliminate references to events 1 through 11 set forth in the Rule and in paragraph C above, regardless of whether any particular event is believed to be applicable to the Bonds. Certain of events 1 through 11 set forth in paragraph C above may not, however, be applicable. Events 3, 4 and 5 may not be applicable, since the terms of the Bonds do not provide for “debt service reserves,” “credit enhancements” or “credit or liquidity providers.” For a description of the Bonds, see “Description of the Bonds.” With respect to events 4 and 5, the State does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the State applies for or participates in obtaining the enhancement. With respect to event 6, for information on the tax status of the Bonds, see “Tax Matters.” Event 8 may not be applicable since the Bonds do not provide for redemption prior to maturity. Event 10 may not be applicable since the State has not granted any security interest to secure repayment of the Bonds.

The State expects to provide the information described in paragraph A above by providing an official statement or a preliminary official statement for its bonds, notes or other obligations that includes such information for the preceding fiscal year or, if no such official statement is available within one year after the end of such preceding fiscal year, by providing its controller’s annual financial report within such one year.

As of the date hereof, there is no SID.

The State may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the State, such other events are material with respect to the Bonds, but the State does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The covenants described herein under the heading “Secondary Market Disclosure” (the “Covenants”) are for the benefit of the Beneficial Owners and shall be enforceable by any Beneficial Owner. No Beneficial Owner may institute any suit, action or proceeding at law or in equity (“Proceeding”) for the enforcement of the Covenants, unless such Beneficial Owner shall have filed with the Treasurer of State and the Attorney General a written request to cure such breach, and the State shall have refused or failed to comply within a reasonable time. Any assertion of beneficial ownership must be included in such written request and must be supported by independent evidence or documents. All Proceedings shall be instituted only in a State court located in the City of Augusta, Maine for the equal benefit of all Beneficial Owners of the outstanding Bonds. If a court of competent jurisdiction finds that the State has breached any of the Covenants, then the sole remedy for any such breach shall be an order of specific performance of the Covenants and there shall be no right of acceleration of the Bonds. Moreover, Proceedings filed by Beneficial Owners against the State may be subject to the defense of sovereign immunity which may substantially limit the scope and nature of any legal

action against the State or of any order of specific performance that may be granted against the State.

The Covenants may only be amended if:

(i) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the State, or type of business conducted; the Covenants, as amended, would have complied with the Rule as of the date of issuance of the Bonds, after taking into account any amendments or changes in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by parties unaffiliated with the State; or

(ii) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of such Rule, ceases to be in effect for any reason, and the State elects that the Covenants shall be deemed amended accordingly.

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