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 Notes is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the 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. 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.

$26,530,000
State of Maine
General Obligation Bond Anticipation Notes

Dated: Date of Delivery **Due:** June 10, 2008

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 10, 2008, 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.

Set forth immediately below is certain information with respect to the Notes.

Principal Amount	Interest Rate	Yield	CUSIP No.
$26,530,000	4.00%	3.40%	56052ATT3

The Notes are offered when, as and if issued by the State and received by the Underwriter subject to the approval of legality by Edwards Angell Palmer & Dodge LLP, Bond Counsel, Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriter by their counsel, Preti, Flaherty, Beliveau & Pachios, LLP, Augusta, Maine. It is expected that the Notes in definitive form will be available for delivery to the Securities Depository in New York, New York on October 16, 2007.

UBS Investment Bank

October 10, 2007

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The Appendices to this Official Statement, listed below (except Appendix K), are included solely for the purpose of modifying or replacing the corresponding Appendices of Appendix K hereto.

A – State of Maine Information Statement Supplement A-1

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$26,530,000
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 $26,530,000 General Obligation Bond Anticipation 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 10, 2008 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 23, 2007 relating to issuance of its $60,975,000 General Obligation Bonds which Official Statement is included as Appendix K 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 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 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.

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. A complete copy of the proposed form of opinion of Bond Counsel is 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 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.

Notes purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Notes, or, in some cases, at the earlier redemption date of such 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.

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

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 Notes may adversely affect the value of, or the tax status of interest on, the 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 Notes. Prospective Noteholders are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Prospective Noteholders 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. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent Maine judicial decisions, or statutory enactments intended to ensure the constitutionality of Maine tax law, could, among other alternatives, adversely affect the Maine tax exemption of outstanding municipal bonds and notes, including the Notes, to the extent constitutionally permissible, or result in the exemption from Maine income tax of interest on non-Maine municipal bonds and notes, either of which could adversely affect the market price of the Notes.

Although Bond Counsel is of the opinion that interest on the 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 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 Opinion

The opinion 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 form set forth in Appendix G to this Official Statement.

Secondary Market Disclosure

In order to assist UBS Securities LLC, the underwriter which is purchasing the Notes (the "Underwriter"), 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 Notes to provide notices of certain events. 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.

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.

UNDERWRITING

The Notes are being purchased by the Underwriter. The Underwriter has agreed to purchase the Notes at a price of $26,605,834.80, which purchase price reflects an Underwriter's discount, from the public offering price of the Notes, in the amount of $25,244.50. The purchase contract relating to the Notes provides that the Underwriter will purchase all of the Notes, if any Notes 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 Underwriter. The initial public offering prices of the Notes stated on the cover page hereof may be changed, from time to time, by the Underwriter. The State has been advised by the Underwriter that (i) it presently intends to make a market in the Notes, (ii) it is 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 Notes will develop. The Underwriter may offer and sell the Notes to certain dealers (including dealers depositing the Notes into unit investment trusts, certain of which may be sponsored or managed by the Underwriter) and others at a price lower than the public offering price of the Notes stated on the 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: October 10, 2007

APPENDIX A

STATE OF MAINE INFORMATION SUPPLEMENT

The last paragraph under "FISCAL MANAGEMENT – Revenue Forecasting" on page A-11 of Appendix K hereto is deleted and replaced with the following:

In its March, 2007 report, the Revenue Forecasting Committee projected a decrease of approximately $33,700,000 in General Fund revenues for fiscal year 2007. This projection was amended at a subsequent special meeting of the Committee held in late May, 2007. At that meeting, fiscal year 2007 General Fund revenues were adjusted upward by approximately $17,800,000. In its March, 2007 report, the Revenue Forecasting Committee also projected a decrease of approximately $40,600,000 in General Fund revenues for fiscal years 2008 and 2009. These revenue projections were adjusted slightly at the Committee's May meeting, with an upward adjustment of just over $1,500,000 over the course of the coming biennium. The biennial budget for fiscal years 2008 and 2009, Public Law 2007, chapter 240, effective June 7, 2007 ("2007 Chapter 240") reflects these most recent revenue projections.

Part QQQ of 2007 Chapter 240 provides that the Joint Standing Committee of the Legislature on Appropriations and Financial Affairs (the "AFA Committee") shall serve as the steering committee to streamline State government as described below (the "Initiative"). The Initiative must achieve a targeted spending reduction of a minimum of $10,100,000 during fiscal years 2008 and 2009. The AFA Committee shall submit a report of its findings and recommendations to the Legislative Council of the Legislature no later than January 8, 2008 and is authorized to submit legislation to the next regular session of the Legislature which is expected to convene in January 2008. If the AFA Committee fails to identify at least $10,100,000 in savings through legislation submitted to and enacted by the next regular session of the Legislature, the Commissioner of Administrative and Financial Services shall achieve savings through the process of curtailing allotments in accordance with State law. For additional information regarding curtailment of allotments, see "Fiscal Management – Overview of the Budget Process."

The next to last paragraph under "FISCAL MANAGEMENT – General Fund Appropriation Limit" on page A-13 of Appendix K hereto is deleted and replaced with the following:

Public Law 2007, chapter 1, effective February 13, 2007 ("2007 Chapter 1"), as modified by 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 2005 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.

The last two paragraphs under "FISCAL MANAGEMENT – Citizen Initiated Legislation" on page A-13 of Appendix K hereto are deleted and replaced with the following:

At the initiative of certain citizens of the State pursuant to the Constitution of the State, Public Law 2007, chapter 469, "An Act to Allow a Tax Credit for College Loan Repayment" ("2007 Chapter 469") was considered and enacted by the State Legislature and signed into law by the Governor. 2007 Chapter 469 authorizes, subject to certain conditions, a tax credit to reimburse educational loan payments for a State resident who earns certain degrees from certain higher education institutions in the State and who lives, works and pays taxes in the State after earning any such degree. It is currently expected that the General Fund revenue loss attributable to the tax credit authorized by 2007 Chapter 469 will be approximately $148,000 in fiscal year 2009, as 2007 Chapter 469 begins to be implemented, approximately $1,000,000 in fiscal year 2010 and approximately $9,000,000 for the two fiscal years 2011 and 2012.

The last three rows of 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:

Fiscal Year Ending June 30	General Fund Expenditures Authorized	Highway Fund Expenditures Authorized
2007	$2,978,358,710	$346,221,340
2008	3,130,092,239	341,139,816
2009	3,188,564,162	344,443,786

The third, fourth and fifth paragraphs under "STATE BUDGETS" on page A-17 of Appendix K hereto are deleted and replaced with the following:

Following review of spending requests for fiscal years 2008 and 2009, the Governor proposed a budget for fiscal years 2008 and 2009 that fully funds the current operational needs of State government. The Governor modified and resubmitted his budget proposal twice and the Legislature, having made its own modifications to the Governor's proposal, enacted 2007 Chapter 240 which makes further adjustments to the fiscal year 2007 budget and establishes the budget for fiscal years 2008 and 2009. 2007 Chapter 240 includes approximately $249,000,000 for funding K-12 Education which is required to bring the State's share of the cost of essential programs and services for public education to the statutorily mandated 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." 2007 Chapter 240 also includes a school consolidation plan that is expected to reduce the General Fund cost of funding K-12 Education by approximately $36,000,000 in fiscal years 2008 and 2009.

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

Total General Fund expenditures for fiscal year 2006 were approximately 15.8% greater, on a budgetary basis, than those for fiscal year 2002. 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, expenditures which have been budgeted in each of fiscal years 2007, 2008 and 2009. The following amounts are subject to change upon reconciliation of the budget act and miscellaneous acts with fiscal impact.

	2007	2008	2009
Governmental Support and Operations	$230,312,728	$244,232,033	$246,452,414
Economic Development & Workforce Training	40,465,044	38,783,173	41,232,338
Education	1,421,516,207	1,485,469,616	1,536,757,282
Arts, Heritage & Cultural Enrichment	8,904,371	8,980,524	9,100,641
Natural Resources Development & Protection	71,414,198	74,007,892	75,173,989
Health & Human Services	967,053,559	1,014,713,882	1,017,641,189
Justice & Protection	238,692,603	263,905,119	262,206,309
Total	$2,978,358,710	$3,130,092,239	$3,188,564,162

General Fund expenditures for fiscal years 2008 and 2009 are currently budgeted at approximately $6,318,700,000, of which approximately 47.8% will be attributable to education, approximately 32.2% will be attributable to health and human services inclusive of Medicaid and approximately 20% will be attributable to other purposes of State government.

The two sentences before the last sentence in the first paragraph under "CERTAIN EXPENDITURES AND OBLIGATIONS – Education Funding" on page A-19 of Appendix K hereto are deleted and replaced with the following:

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. The budget for fiscal years 2008 and 2009, 2007 Chapter 240, includes approximately $249,000,000 to fund the increase in the State's share of K-12 Education costs attributable to the Initiated School Finance Act.

The information under "CERTAIN EXPENDITURES AND OBLIGATIONS - Debts of the State" on pages A-20 and A-21 of Appendix K hereto is deleted and replaced with the following:

Debts of the State

As of June 30, 2007, there were outstanding general obligation bonds of the State in the principal amount of $448,760,000, including the principal amount of $398,280,000 to be paid from the General Fund, the principal amount of $50,460,000 to be paid from the Highway Fund and the principal amount of $20,000 to be paid from the Self-Liquidating 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 2008. 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.

As of the date hereof, there are outstanding bond anticipation notes of the State in the aggregate principal amount of $44,340,000. Following the issuance of the Notes and application of other available funds, if any, there will be authorized by the voters of the State for certain purposes, but unissued, bonds and notes in the aggregate principal amount of $95,052,000. 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, authorizes the Treasurer of State, under the direction of the Governor, to issue general obligation bonds of the State not exceeding the following amounts and for the following purposes, provided that a majority of the voters of the State voting in elections held in the following months have approved each amount and purpose set forth below.

Amounts	Purposes	Election Dates
$ 43,500,000	Building renovations, improvements and additions at all campuses of the Maine Community College System, the Maine Maritime Academy and the University of Maine System; replenishment of the School Revolving Renovation Fund for school repairs and renovations; and capital improvements for cultural and educational assets	November, 2007
55,000,000	Stimulate economic development and job creation by providing $5,000,000 in loans and grant funds and $50,000,000 in research, development and commercialization funds for targeted technology sectors, awarded after a competitive process administered by the Maine Technology Institute	November, 2007
35,500,000	Investment in land conservation, water access, wildlife habitat, outdoor recreation opportunities, farmland, working waterfront, state parks, historic sites and riverfront, community and farm infrastructure	November, 2007
29,725,000	Natural resource, agricultural and transportation infrastructure	June, 2008
$163,725,000	TOTAL	

In addition to the Notes and the external cash flow borrowing expected to be issued as described above, the State expects during the fiscal year ending June 30, 2008 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, 2008.

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

The second paragraph under "REVENUES OF THE STATE – General" on page A-25 of Appendix K hereto is deleted and replaced with the following:

Revenues for August, 2007 were approximately $91,396,000, which is approximately $8,223,000 or 9.9% in excess of estimated revenues for the month. Revenues for the two months ended August 31, 2007 were approximately $314,646,000, which is approximately $19,000 in excess of estimated revenues for the two month period. Revenues for both periods reflect the reversal of amounts accrued in June, 2007, for a total of $172,161,328. Individual income tax revenue was more than estimated revenues for the month by approximately $5,992,000 or 13.0% and for the two month period by approximately $5,631,000 or 4.0%. Sales, use and service provider tax revenue was $3,519,000 or 277.0% less than estimated for August and $3,389,000 or 3.3% less than estimated for the two month period. Corporate income tax revenue was less than estimated amounts by $5,600,000 or 124.4% in August and $6,972,000 or 53.6% year to date. Tobacco taxes were under budgeted amounts for the month by $543,000, and $921,000 year to date. Estate taxes were over budgeted amounts for the month by $700,000 but under by $783,000 year to date. Insurance companies taxes were close to budget for the month and over budget by $1,359,000 for the two month period. Other miscellaneous revenues were over budget by approximately $9,400,000 or 57.7% for the month, and $2,655,000 or 8.4% for the two month period. The foregoing revenue information has been prepared based on preliminary, unaudited month end figures and is subject to change. For additional information, see Appendix C hereto.

Revenues for September, 2007 and year-to-date results are still being compiled and are not available as of the date of this Official Statement. Preliminary information regarding September, 2007 revenues is expected to be released by October 17, 2007.

The Consensus Economic Forecasting Commission is also expected to release its latest findings and recommendations for adjustments, if any, to the economic assumptions for fiscal years 2008 and 2009 by November 1, 2007. The Revenue Forecasting Committee is expected to submit its latest analyses, findings and recommendations for adjustments, if any, to the General Fund and Highway Fund revenue for fiscal years 2008 and 2009 and the following biennia by December 1, 2007.

The following is inserted on page A-27 of Appendix K hereto immediately prior to "CERTAIN PUBLIC INSTRUMENTALITIES."

State Investment Pool

As described above under the heading "Governmental Organization – Executive Branch – Treasurer of State," when there is excess 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 October 1, 2007 was approximately $750,000,000.

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 was rated A1+ and P1 by Standard & Poor's and Moody's, respectively, and bore interest at 5.45% with a maturity of August 31, 2007. This investment was made in accordance with State law and State investment pool policy under which the maximum investment allowed in any single issuer of commercial paper is $20,000,000 and ratings of A1 and P1 or better are required.

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 22, 2007, the Treasurer of State ceased investing in asset backed commercial paper. 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. As of the date of this Official Statement, the State investment pool includes approximately $1,750,000 of commercial paper investments, none of which is classified as asset backed commercial paper.

On September 6, 2007, in a notice to holders, the security trustee for the Mainsail Commercial Paper, Bank of New York, stated that it had received details of a restructuring proposal for Mainsail from Barclays Capital. The restructuring proposes that all commercial paper investors under Mainsail's $4,000,000,000 program will be paid back in full at par via a liquidity facility to be determined and underwritten by Barclays Capital. The plan is now awaiting approval by the security trustee, Bank of New York, in what appears to be an extensive process. As of October 1, 2007, no Mainsail payment had been received by the State and the State cannot predict the outcome of this matter. The State does not expect this default to adversely affect the State's ability to meet all of its obligations when due.

APPENDIX C

CERTAIN REVENUES OF THE STATE

Undedicated Revenues, General Fund, Year Ended June 30, 2007..... C-2

Undedicated Revenues, General Fund, Two Months Ended August 31, 2007..... C-3

Highway Fund Revenues, Year Ended June 30, 2007..... C-4

Highway Fund Revenues, Two Months Ended August 31, 2007..... C-5

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
TWELVE MONTHS ENDED JUNE 30, 2007

	Month				Year to Date			
	Actual	**Budget**	**Variance Over/(under)**	**Percent Over/(under)**	**Actual**	**Budget**	**Variance Over/(under)**	**Percent Over/(under)**
Sales and Use Tax	$175,994,519	$172,822,029	$3,172,490	1.8%	$971,455,721	$974,740,367	$(3,284,646)	(0.3)%
Service Provider Tax	8,458,522	8,472,167	(13,645)	(0.2)%	49,400,532	48,911,765	488,767	1.0%
Individual Income Tax	184,557,871	174,703,431	9,854,440	5.6%	1,353,934,495	1,347,619,508	6,314,987	0.5%
Corporate Income Tax	43,657,636	31,998,947	11,658,689	36.4%	183,851,533	172,078,755	11,772,778	6.8%
Cigarette and Tobacco Tax	13,870,933	14,068,096	(197,163)	(1.4)%	158,953,466	158,502,981	450,485	0.3%
Public Utilities Tax	-	-	-	-	16,317,029	16,891,746	(574,717)	(3.4)%
Insurance Companies Tax	24,230,464	25,876,960	(1,646,496)	(6.4)%	74,452,542	76,336,389	(1,883,847)	(2.5)%
Estate Tax	8,565,760	9,071,874	(506,114)	(5.6)%	54,820,038	55,465,498	(645,460)	(1.2)%
Property Tax - Unorg Territory	972,918	1,446,684	(473,766)	(32.7)%	11,376,293	11,597,312	(221,019)	(1.9)%
Income from Investments	632,836	645,467	(12,631)	(2.0)%	1,215,836	1,517,319	(301,483)	(19.9)%
Transfer to Municipal Revenue Sharing	(21,046,096)	(19,787,822)	(1,258,274)	(6.4)%	(130,490,756)	(129,710,869)	(779,887)	(0.6)%
Transfer from Lottery Commission	4,507,956	4,748,329	(240,373)	(5.1)%	50,624,741	50,334,250	290,491	0.6%
Other Revenues	34,340,549	33,507,949	832,600	2.5%	223,683,920	220,713,733	2,970,187	1.3%
Total Collected	$478,743,868	$457,574,111	$21,169,757	4.6 %	$3,019,595,390	$3,004,998,754	$14,596,636	0.5%

NOTES:
(1) Included in the above is $21,046,096 for the month and $130,490,756 year to date, that was set aside for Revenue Sharing with cities and towns. Of this, $26,754,358 was transferred to the Disproportionate Tax Burden Fund
(2) Figures reflect estimates of the Maine State Revenue Forecasting Committee approved in May 2007.
(3) This report has been prepared from preliminary month end figures and is subject to change.

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
TWO MONTHS ENDED AUGUST 31, 2007

	Month				Year to Date			
	Actual	**Budget**	**Variance Over/(under)**	**Percent Over/(under)**	**Actual**	**Budget**	**Variance Over/(under)**	**Percent Over/(under)**
Sales and Use Tax[1]	$(2,080,850)	$ 1,222,665	$(3,303,515)	(270.2)%	$ 94,345,093	$ 97,521,862	$(3,176,769)	(3.3)%
Service Provider Tax[1]	(167,790)	47,325	(215,115)	(454.5)%	4,101,540	4,313,551	(212,011)	(4.9)%
Individual Income Tax[1]	52,138,736	46,146,425	5,992,311	13.0%	146,895,958	141,264,930	5,631,028	4.0%
Corporate Income Tax[1]	(1,099,888)	4,500,000	(5,599,888)	(124.4)%	6,027,813	13,000,000	(6,972,187)	(53.6)%
Cigarette and Tobacco Tax	16,182,679	16,725,663	(542,984)	(3.2)%	30,548,228	31,469,596	(921,368)	(2.9)%
Public Utilities Tax	347,980	-	347,980	-	347,980	-	347,980	-
Insurance Companies Tax	51,926	61,550	(9,624)	(15.6)%	1,839,896	480,845	1,359,051	282.6%
Estate Tax[1]	(2,800,286)	(3,500,000)	699,714	20.0%	(783,193)	-	(783,193)	-
Property Tax - Unorg Territory	-	-	-	-	-	-	-	-
Income from Investments	507,457	500,000	7,457	1.5%	534,809	500,000	34,809	7.0%
Transfer to Municipal Revenue Sharing	(2,488,301)	(2,647,738)	159,437	6.0%	(12,819,891)	(13,061,119)	241,228	1.8%
Transfer from Liquor Commission	1,650	-	1,650	-	2,700	-	2,700	-
Transfer from Lottery Commission	5,119,656	3,833,400	1,286,256	33.6%	9,479,509	7,666,800	1,812,709	23.6%
Other Revenues[1]	25,682,786	16,283,072	9,399,714	57.7%	34,125,792	31,471,134	2,654,658	8.4%
Total Collected	$ 91,395,756	$83,172,362	$ 8,223,394	9.9%	$314,646,234	$314,627,599	$ 18,635	0.0%

NOTES:
(1) Actual and budgeted amounts for the month and year to date reflect the reversal of accruals made at June 30, 2007, for a total of $172,161,328.
(2) Included in the above is $2,488,301 for the month and $12,819,891year to date that was set aside for Revenue Sharing with cities and towns.
(3) Figures reflect estimates of the Maine State Revenue Forecasting Committee approved in July, 2007.
(4) 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, 2007

	Month				Year to Date			
	Actual	Budget	Variance Over/(under)	Percent	Actual	Budget	Variance Over/(under)	Percent
Fuel Taxes	$42,112,101	$41,458,505	$653,596	1.6%	$226,824,018	$227,484,941	$(660,923)	(0.3)%
Motor Vehicle Registration & Fees	10,505,943	9,038,912	1,467,031	16.2%	87,291,874	86,476,317	815,557	0.9%
Inspection Fees	395,714	401,975	(6,261)	(1.6)%	4,342,519	4,379,756	(37,237)	(0.9)%
Fines, Forfeits & Penalties	132,048	183,847	(51,799)	(28.2)%	1,668,000	2,018,239	(350,239)	(17.4)%
Earnings on Investments	279,200	58,357	220,843	378.4%	1,105,987	795,000	310,987	39.1%
All Other	763,126	661,110	102,016	15.4%	9,588,686	9,603,076	(14,390)	(0.1)%
Total Revenue	$54,188,132	$51,802,706	$2,385,426	4.6%	$330,821,084	$330,757,329	$63,755	0.0)

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

STATE OF MAINE
HIGHWAY FUND
REVENUES
TWO MONTHS ENDED AUGUST 31, 2007

	Month				Year to Date			
	Actual	Budget	Variance Over/(under)	Percent	Actual	Budget	Variance Over/(under)	Percent
Fuel Taxes[1]	$(1,689,082)	$(1,682,407)	$(6,675)	(0.4)%	$16,993,061	$19,944,919	$(2,951,858)	(14.8)%
Motor Vehicle Registration & Fees	7,858,716	7,000,142	858,544	12.3%	14,065,229	13,827,507	237,722	1.7%
Inspection Fees	484,292	497,095	(12,803)	(2.6)%	905,672	879,195	26,477	3.0%
Fines, Forfeits & Penalties	-	176,550	(176,550)	(100.00)%	-	345,656	(345,656)	(100.0)%
Earnings on Investments	175,292	130,000	45,292	34.8%	175,292	130,000	45,292	34.8%
All Other	794,873	614,551	180,322	29.3%	1,299,791	1,216,391	83,400	6.9%
Total Revenue	$7,624,091	$6,735,961	$888,130	13.2%	$33,439,045	$36,343,668	$(2,904,623)	(8.0)%

NOTES:

(1) Actual and budgeted amounts for the month and year to date reflect the reversal of accruals made at June 30, 2007 for a total of $22,382,055.

(2) 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-7 of Appendix K hereto are deleted and replaced with the six 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	Tax-Exempt	Authorized but Unissued after Oct. BAN
DAG	2003 PL, Chapter 50	Provide funds to the Maine Farms for the Future Program-Grants	$ -	$ 100,000.00
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, excluding organizations eligible to participate in the programs under MRSA, Title 5, section 13103 and the Univ. of ME system.-Grants	$ -	$ 25,000.00
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	$ -	$ 1,700,000.00
DECD	2005 PL, Chapter 462	Provides funds for the Maine Biomedical Research Fund to support capital infrastructure and equiptment.	$ -	$ 3,000,000.00
DECD	2005 PL, Chapter 462	Provides funds for the Marine Infrastructure and Technology Fund administered by the Maine Technology Institute.	$ -	$ 500,000.00
DEP	2007 PL, Chapter 39	Waste Water Construction grants	$ 750,000.00	$ 10,000,000.00
DEP	2007 PL, Chapter 39	SRF	$ -	$ 1,700,000.00
DOE	2005 PL, Chapter 462	Provides funds for the development of the Sunrise Business and Career Center in the Town of Jonesboro	$ -	$ 832,000.00
DHHS	2007 PL, Chapter 39	Drinking Water Program	$ -	$ 1,700,000.00
MSCAF	2005 PL, Chapter 462	Provides funds for the New Century Community Program	$ 100,000.00	$ 100,000.00
MCCS	2003 P&S, Chapter 33	Repairs, upgrades and facility Improv-Acquisition: KVCC Parking Lot	$ 175,000.00	$ 275,000.00

SPO	1999 PL, Chapter 514	1999 Land for Maine's Future $50 Million Bond Fund	$ 2,780,000.00	$ -
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 conservation, water access, outdoor recreation, wildlife and fish habitat, farmland preservation and working waterfront preservation	$ 1,400,000.00	$ 8,600,000.00
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	$ 300,000.00	$ 565,000.00
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	$ -	$ 400,000.00
DOT	2003 P&S, Chapter 33	Port & Ferry Improvements	$ -	$ 1,825,000.00
DOT	2003 P&S, Chapter 33	Trail Improvements	$ -	$ 400,000.00
DOT	2005 PL, Chapter 462	Ferry Vessels and facilities	$ -	$ 2,600,000.00
DOT	2005 PL, Chapter 462	Airports	$ 250,000.00	$ 650,000.00
DOT	2005 PL, Chapter 462	Transit and Bus Improvements	$ -	$ 150,000.00
DOT	2007 PL, Chapter 39	Highway and Bridge Improvements	$ 20,000,000.00	$ 50,000,000.00
DOT	2007 PL, Chapter 39	Portland IMT	$ -	$ 500,000.00
DOT	2007 PL, Chapter 39	IRAP,FRIP, and State Rail Track Improvement	$ -	$ 1,200,000.00
DOT	2007 PL, Chapter 39	Buses, FRIP, and State Rail Track Capital Imp.	$ -	$ 2,500,000.00
DOT	2007 PL, Chapter 39	Aviation	$ -	$ 2,200,000.00

DOT	2007 PL, Chapter 39	SHIP and Searsport Study	$ -	$ 900,000.00
DOT	2007 PL, Chapter 39	Mountain Div and Trails	$ 250,000.00	$ 500,000.00
UMS	2003 PL, Chapter 50	Provide funds for the Maine Economic Improvement Fund, in anticipation of $12 mil in federal and other funding, for research and development activities.	$ 375,000.00	$ 580,000.00
UMS	2005 PL, Chapter 462	Provides funds for the Laboratory for Surface Science Technology	$ -	$ 600,000.00
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	$ 225,000.00	$ -
		TOTAL	**$ 26,605,000.00**	**$ 95,052,000.00**

GENERAL FUND BONDS[1]
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)	3,395,000.00	146,715.80	3,541,715.80
TOTAL	$398,280,000.00	$62,984,273.19	$461,264,273.19

HIGHWAY FUND BONDS[2]
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)	2,700,000.00	108,000.00	2,808,000.00
TOTAL	$50,460,000.00	$8,477,378.16	$58,937,378.16

[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 BONDS[1]
Debt Service Requirements to Maturity
June 30, 2007

Fiscal Year	Principal	Interest	Total Debt Service
2008 (Final Maturity)	$20,000.00	$750.00	$20,750.00
TOTAL	$20,000.00	$750.00	$20,750.00

[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

Agency	Date of Agreement	Original Principal Amount	Principal Amount Outstanding 6/30/07	Principal & Interest Due FY 08
Department of Transportation	May, 2002	$ 5,000,000	$ 3,015,000	$ 667,675
Department of Transportation	May, 2002	2,000,000	620,000	324,081
Administrative & Financial Services	December, 2002	309,830	41,088	42,713
Secretary of State	June, 2003	6,500,000	1,385,000	1,440,400
Department of Transportation	December, 2003	793,200	426,703	152,104
Department of Education	December, 2003	2,335,000	960,000	503,335
Administrative & Financial Services	March, 2004	3,000,000	770,000	791,175
Public Safety	February, 2005	1,300,000	447,635	458,777
Department of Corrections	March, 2005	1,200,000	751,469	270,383
Administrative & Financial Services	April, 2005	2,900,000	1,499,295	782,062
Department of Transportation	May, 2005	1,200,000	715,309	280,353
Department of Transportation	June, 2005	300,000	103,588	106,394
Administrative & Financial Services	April, 2006	4,100,000	3,105,912	1,141,449
Department of Transportation	September, 2005	2,000,000	1,324,783	515,217
Administrative & Financial Services	October, 2005	9,200,000	9,200,000	3,425,170
Public Safety	April, 2006	1,800,000	1,212,104	649,493
Administrative & Financial Services	July, 2006	10,000,000	8,531,364	1,652,727
Department of Corrections	August, 2006	3,600,000	3,600,000	690,812
Department of Education	September, 2006	19,226,266	14,617,444	5,305,320
Administrative & Financial Services	February, 2007	14,000,000	14,000,000	2,455,177
Administrative & Financial Services	February, 2007	800,000	808,027	261,363
Public Safety	March, 2007	1,300,000	1,300,000	463,245
Department of Transportation	March, 2007	2,500,000	2,500,000	680,318
Administrative & Financial Services	April, 2007	4,500,000	4,500,000	1,228,588
TOTALS:		$99,864,296	$75,434,721	$24,288,331

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.

	Amount of Debt	Per Capita (1)	Debt to Estimated Full Valuation (2)	Debt to Personal Income (3)
General Fund	$398,280,000	$301.37	0.27%	0.93%
Highways & Bridges	50,460,000	38.18	0.03	0.12
Self-liquidating	20,000	0.02	0.00	0.00
Total	$448,760,000	$339.57	0.30%	1.05%

(1) Based on population estimate of 1,321,574 for 2006 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 2007 of $148,946,200,000.

(3) Based on State of Maine total personal income reported by the U.S. Department of Commerce for 2006, second quarter annualized, of $42,749,735,000.

Debt Ratio Statistics

June 30, 2007

Debt to Full Value	
1997	0.67%
2007	0.30%
Debt to Personal Income	
1997	1.82%
2007	1.05%
Per Capita Debt	
1997	$378.19
2007	$339.57

The table entitled "DEBT SERVICE PAID OVER PAST TEN FISCAL YEARS" at the top of page D-8 of Appendix K hereto is deleted and replaced with the following:

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

APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

Upon delivery of the Notes, Edwards Angell Palmer & Dodge LLP, as Bond Counsel, proposes to issue its approving opinion as to the 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

$26,530,000
State of Maine
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 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 Note certificate will be issued in the aggregate principal amount thereof and will be deposited with DTC.

DTC, the world's largest 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 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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.

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.

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 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 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 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 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 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.

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

Pursuant to the Municipal Securities Disclosure Rule, 17 CFR §240.15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC"), the Underwriter shall not purchase or sell the Notes unless the Underwriter has reasonably determined that the State, as issuer of the Notes, has undertaken in a written agreement or contract for the benefit of the holders of the Notes to provide certain information in the manner and to the locations described below. In order to assist the Underwriter in complying with 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 K

OFFICIAL STATEMENT DATED MAY 23, 2007
RELATING TO ISSUANCE OF

$60,975,000
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.

$60,975,000
STATE OF MAINE
General Obligation Bonds

Dated: Date of delivery **Due:** June 1, 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 will be issued to pay at maturity on June 8, 2007 the principal amount of certain bond anticipation notes issued by the State to finance certain 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 June 1 and December 1, commencing December 1, 2007) 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 scheduled payment of the principal of and interest on the Tax-Exempt General Purpose Bonds maturing on June 1, 2010 through June 1, 2017 (the "Insured Bonds") when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Insured Bonds by MBIA INSURANCE CORPORATION.

MBIA

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 June 4, 2007.

UBS Investment Bank **Bear, Stearns & Co. Inc.**

A. G. Edwards **Banc of America Securities LLC** **Jackson Securities**

Merrill Lynch & Co. **RBC Capital Markets**

May 23, 2007

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS
$60,975,000
State of Maine
General Obligation Bonds

Tax-Exempt General Purpose Bonds

Maturity (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No.
2008	$5,290,000	4.500%	3.620%	56052ASU1
2009	5,295,000	4.250	3.670	56052ASV9
2010	5,295,000*	4.000	3.670	56052ASW7
2011	5,290,000*	4.000	3.690	56052ASX5
2012	5,290,000*	4.000	3.720	56052ASY3
2013	5,290,000*	4.000	3.760	56052ASZ0
2014	5,290,000*	4.000	3.800	56052ATA4
2015	4,290,000*	4.000	3.820	56052ATB2
2015	1,000,000*	5.000	3.820	56052ATC0
2016	5,290,000*	4.000	3.850	56052ATD8
2017	5,290,000*	4.000	3.890	56052ATE6
Total	$52,910,000			

Taxable General Purpose Bonds

Maturity (June 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP† No.
2008	$810,000	5.500%	5.258%	56052ATF3
2009	810,000	5.500	5.162	56052ATG1
2010	810,000	5.500	5.130	56052ATH9
2011	805,000	5.500	5.150	56052ATJ5
2012	805,000	5.500	5.176	56052ATK2
2013	805,000	5.250	5.206	56052ATL0
2014	805,000	5.256	100	56052ATM8
2015	805,000	5.296	100	56052ATN6
2016	805,000	5.326	100	56052ATP1
2017	805,000	5.356	100	56052ATQ9
Total	$8,065,000			

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.

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* The scheduled payment of the principal of and interest on the Tax-Exempt General Purpose Bonds maturing on June 1, 2010 through June 1, 2017 (the "Insured Bonds") when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Insured Bonds by MBIA Insurance Corporation. See "Bond Insurance" herein.

† 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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State House
Augusta, Maine

Treasurer of State

David G. Lemoine
State Offices
Augusta, Maine

Commissioner of Administrative and Financial Services

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Boston, MA

Underwriters' Counsel

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Augusta, Maine

$60,975,000
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 $52,910,000 Tax-Exempt General Purpose Bonds (the "Tax-Exempt Bonds") and its $8,065,000 Taxable General Purpose 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.

The scheduled payment of the principal of and interest on the Tax-Exempt General Purpose Bonds maturing on June 1, 2010 through June 1, 2017 (the "Insured Bonds") when due will be guaranteed under a financial guaranty insurance policy (the "Policy") to be issued concurrently with the delivery of the Insured Bonds by MBIA Insurance Corporation ("MBIA" or the "Insurer"). A specimen of the Policy is set forth in Appendix J hereto. See also "BOND INSURANCE."

DESCRIPTION OF THE BONDS

The Bonds will bear interest from the date of their delivery payable semiannually on June 1 and December 1 of each year, commencing December 1, 2007, 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 will be issued to pay at maturity on June 8, 2007 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.

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to Appendix J to this Official Statement for a specimen of the Policy.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "Bond Insurance." Additionally, MBIA makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds.

The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bonds. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any owner of an Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Insured Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. MBIA does not guaranty the market price of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2007, MBIA had admitted assets of $11.2 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $4.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2007 and for the three month period ended March 31, 2007 and March 31, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference in this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and
(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

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.

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.

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. 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.

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. ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") are currently expected to assign their municipal bond ratings of "Aaa," "AAA" and "AAA," respectively, to the Insured Bonds based on the issuance of the Policy by the Insurer. The assignment of such ratings is a condition precedent to the issuance of the Insured Bonds. Moody's, S&P and Fitch have assigned their municipal bond ratings of "Aa3," "AA" and "AA," respectively, to the Bonds other than the Insured 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 $61,386,091.05, which purchase price reflects an Underwriters' discount, from the public offering price of the Bonds, in the amount of $279,525.00. 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 23, 2007

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX A

State of Maine Information Statement

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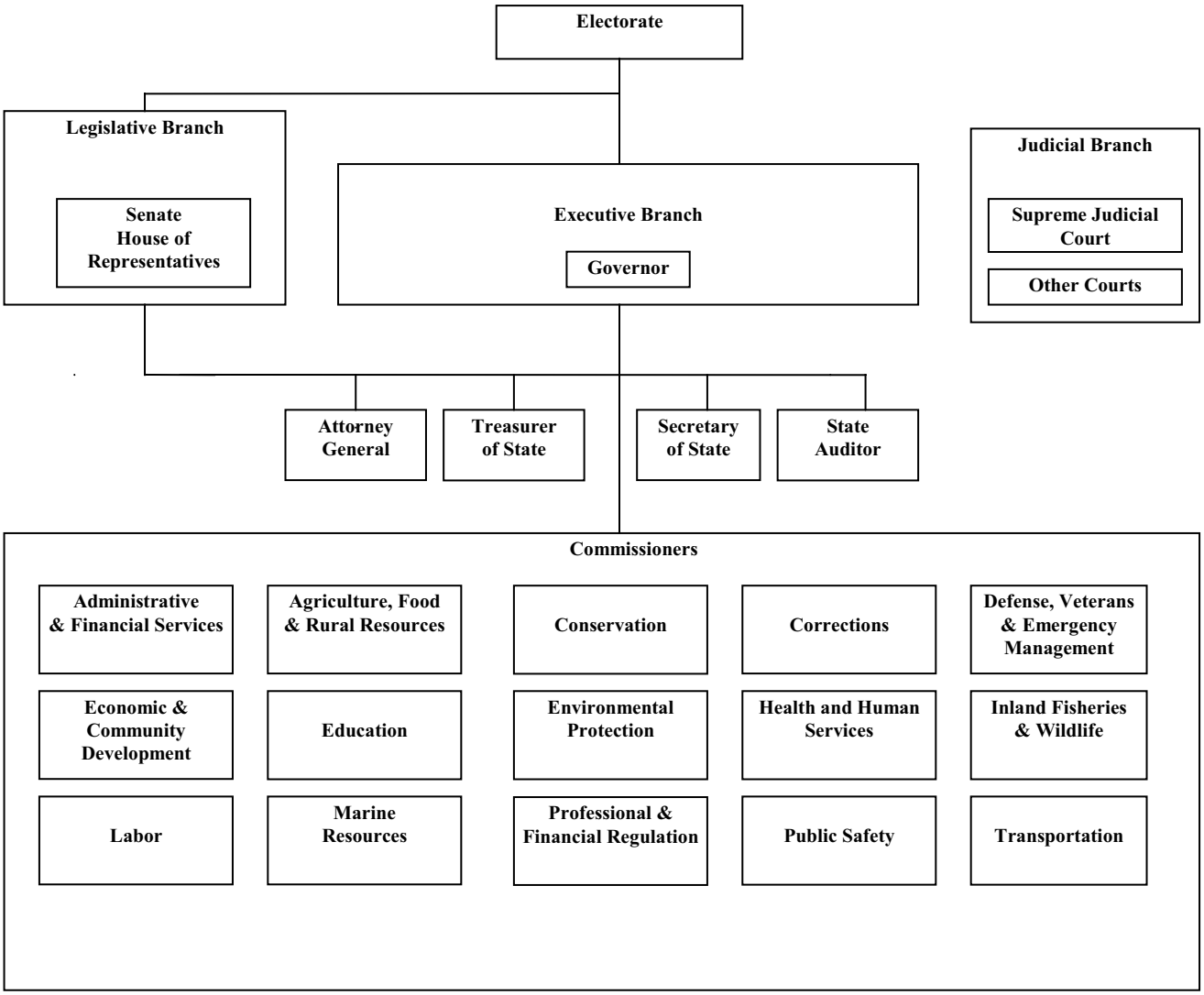
GOVERNMENTAL ORGANIZATION

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 State 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 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). 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.

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 $3.06 billion for fiscal year 2007, $3.22 billion for fiscal year 2008 and $3.35 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 March 1 and December 1 annually, 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 February 1 and November 1 annually, 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.

In its March, 2007 report, the Revenue Forecasting Committee projected a decrease of approximately $33,700,000 in General Fund revenues for fiscal year 2007. There is pending legislation to amend the budget for fiscal year 2007 in order to address such decrease. In its March, 2007 report, the Revenue Forecasting Committee also projected a decrease of approximately $40,600,000 in General Fund revenues for fiscal years 2008 and 2009. It is expected that pending legislation to enact the biennial budget for fiscal years 2008 and 2009 will be amended in order to address such decrease.

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 $3.22 billion for fiscal year 2008 and $3.35 billion for fiscal year 2009.

2005 Chapter 2 provides that the additional cost for 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.

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 Maine Budget 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"), 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 2005 Chapter 519. Up to $30,000,000 of this amount may be used to reduce lags in claims payment to providers of the State's Medicaid program (the "MaineCare Program" or "MaineCare"). The balance of funds are to be used specifically for the payment of outstanding settlements to hospitals participating in the MaineCare Program and to increase interim payment rates for those facilities.

As of March 31, 2007, the approximate balances in the Maine Budget Stabilization Fund and the Reserve for General Fund Operating Capital were $113,000,000 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 March 31, 2007, the approximate balances in the Retiree Health Insurance Internal Service Fund and the Capital Construction and Improvements Reserve Fund were $37,000,000 and $8,600,000, respectively. Of the latter amount, $1,600,000 is set aside for the purchase and improvement of a specific piece of property.

Citizen Initiated Legislation

At the statewide election held November 7, 2006, the voters of the State voted not to enact legislation known as "An Act to Create a Taxpayer Bill of Rights " which had been placed on the ballot at the initiative of certain citizens of the State pursuant to the Constitution of the State.

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 Authorize a Tribal Commercial Track and Slot Machines in Washington County" ("Initiated LD 805") at the statewide election to be held November 6, 2007.

If enacted, Initiated LD 805 would, subject to certain conditions, authorize the operation of slot machines at an Indian tribal commercial track and the issuance of a high-stakes beano license to a federally recognized Indian tribe to operate games on nontribal land in Washington County, Maine. The State does not currently expect that Initiated LD 805, if enacted, will have an adverse impact on revenues of the State.

At the initiative of certain citizens of the State pursuant to the Constitution of the State, there is pending before the State Legislature legislation known as "An Act To Create Jobs by Expanding Educational Opportunities for Maine Residents" ("Initiated LD 1815"). If Initiated LD 1815 is not enacted in the current session of the State Legislature in the form presented by such citizens, then the voters of the State will vote whether to enact Initiated LD 1815 at the statewide election to be held November 6, 2007.

If enacted, Initiated LD 1815 would authorize, subject to certain conditions, a tax credit to reimburse educational loan payments for a State resident who earns certain degrees from certain higher education institutions in the State and who lives, works and pays taxes in the State after earning any such degree. As of the date hereof, the State has not determined the impact, if any, that Initiated LD 1815, if enacted, will have on 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 A hereto.

The State is implementing an upgrade to its statewide financial management information system known as the Maine Financial and Administrative Statewide Information System ("MFASIS"). The new system encompasses purchasing, accounting, cash management, and financial reporting. The State currently expects that State departments will begin using the upgraded MFASIS software on or about July 1, 2007. Training and extensive testing will continue until full implementation of the new system. Although the system upgrade represents a significant technological change, the State currently expects that implementation of the new system will not adversely affect operations of departments using MFASIS. Implementation has been delayed until early in fiscal year 2008 to assure efficiency and to minimize disruption during the transition.

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, 2006 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, 2006 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, 2006 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, 2006."

Annual financial reports prepared by the State controller for the fiscal year ending June 30, 2006 and for prior fiscal years are available upon request directed to Barbara Raths, 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, 2006 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 January 31, 2007 with respect to the fiscal year ending June 30, 2006 is set forth in Appendix B hereto. Single audit reports prepared by the Department of Audit for the fiscal year ending June 30, 2005 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, 2006 is unaudited and therefore is subject to change.

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STATE BUDGETS

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

Fiscal Year Ending June 30	General Fund Expenditures Authorized	Highway Fund Expenditures Authorized
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*	2,972,742,818	346,472,994
2008*	3,160,415,029	341,538,186
2009*	3,230,009,255	347,044,087

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

For additional information regarding fiscal year 2007 expenditures, see "Certain Expenditures and Obligations – General Fund Expenditures."

Following review of spending requests for fiscal years 2008 and 2009, the Governor proposed a budget for fiscal years 2008 and 2009 that fully funds the current operational needs of State government. The Governor has modified and resubmitted his budget proposal twice. The Governor's current biennial budget proposal represents a 7.7% increase as compared to estimated expenditures in fiscal years 2006 and 2007. This increase includes approximately $200,000,000 for funding K-12 Education which is required to bring the State's share of the cost of essential programs and services for public education to a 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 Governor's budget proposal included consolidation of the State's current regional and municipal school administrative units into larger units of school administration. It was estimated that the consolidation would reduce the General Fund cost of funding K-12 Education by approximately $36,000,000 in fiscal years 2008 and 2009. Other consolidation proposals, with comparable cost reductions, are also being considered by the State Legislature.

2007 Chapter 1 amending the budget for fiscal year 2007 was enacted in February, 2007 and resulted in a net increase in General Fund expenditures of approximately $76,000,000 and was based on the State's Revenue Forecasting Committee's revised projections, released in December, 2006, of an increase in revenue for fiscal year 2007. It is expected that the budget for fiscal year 2007 will be further amended based on the State's Revenue Forecasting Committee's revised projections, released in March, 2007, of a decrease in revenue for fiscal year 2007.

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 2006 were approximately 15.8% greater, on a budgetary basis, than those for fiscal year 2002. 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 9.3% greater, on a budgetary basis, than those for fiscal years 2006 and 2007.

The following table sets forth, by certain major categories, expenditures which the State currently expects will be budgeted in each of fiscal years 2007, 2008 and 2009. The following amounts are subject to change upon enactment of final budget acts and upon reconciliation of budget acts and miscellaneous acts with fiscal impact.

	2007	2008	2009
Governmental Support and Operations	$227,836,668	$242,730,871	$258,134,484
Economic Development and Workforce Training	40,941,407	38,102,025	44,752,196
Education	1,422,927,279	1,486,621,513	1,539,612,977
Arts, Heritage and Cultural Enrichment	8,871,431	8,905,135	9,036,050
Natural Resources Development and Protection	71,501,618	73,524,331	75,108,422
Health and Human Services	961,131,296	1,051,267,378	1,039,628,162
Justice and Protection	239,533,119	259,259,420	263,732,164
Total	$2,972,742,818	$3,151,505,538	$3,230,004,455

It is expected that total General Fund expenditures for fiscal years 2008 and 2009 will be approximately $6,381,500,000, of which approximately 47.4% will be attributable to education, approximately 11% will be attributable to health and human services other than Medicaid, approximately 22% will be attributable to Medicaid and approximately 19.6% will be attributable to other purposes of State government.

For additional information regarding General Fund expenditures during fiscal years 2002 through 2006, and for information regarding Highway Fund expenditures during fiscal years 2002 through 2006, 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 kindergarten to grade 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 at least (a) as a target, 55% of the statewide adjusted total cost of the components of certain essential educational programs and services described below ("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 provides that (a) as a target, the State will 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 will 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 State's share of K-12 Education costs. The budget for fiscal years 2008 and 2009 includes approximately $200,000,000 to fund the State's share of K-12 Education costs. 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.

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 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 32.7% of General Fund appropriations. Furthermore, expenditures for MaineCare are the largest, and are approximately two-thirds, of all health and human spending. The MaineCare Program is currently expected to grow at an average annual rate of 8% 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. While significant steps have been taken to contain the rate of increase

in the MaineCare Program, costs continue to rise, mirroring the generally increasing costs of all health care both in Maine and across the nation.

Debts of the State

As of March 31, 2007, there were outstanding general obligation bonds of the State in the principal amount of $432,075,000, including the principal amount of $401,485,000 to be paid from the General Fund, the principal amount of $30,570,000 to be paid from the Highway Fund and the principal amount of $20,000 to be paid from the Self-Liquidating Fund. As of the date hereof, there are outstanding bond anticipation notes of the State in the principal amount of $54,540,000 which mature June 8, 2007. 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 cash flow purposes in fiscal year 2008. The State expects first to use interfund borrowings to satisfy its cash flow needs and second to borrow externally, if necessary. Any external borrowing is currently expected to be met using a proposed line of credit with a bank and any additional borrowing could be accomplished through the issuance of tax anticipation notes. Any external borrowing is not currently expected to exceed $120,000,000. 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 $35,539,672. 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, authorizes the Treasurer of State, under the direction of the Governor, to issue general obligation bonds of the State not exceeding the following amounts and for the following purposes, provided that a majority of the voters of the State voting in elections held in the following months have approved each amount and purpose set forth below.

Amounts	Purposes	Election Dates
$112,975,000	Improvements to highways and bridges, airports, public transit facilities, ferry and port facilities and bicycle and pedestrian trails	June, 2007
18,300,000	Drinking water programs and construction of wastewater treatment facilities	June, 2007
43,500,000	Building renovations, improvements and additions at all campuses of the Maine Community College System, the Maine Maritime Academy and the University of Maine System; replenishment of the School Revolving Renovation Fund for school repairs and renovations; and capital improvements for cultural and educational assets	November, 2007

Amounts	Purposes	Election Dates
55,000,000	Stimulate economic development and job creation by providing $5,000,000 in loans and grant funds and $50,000,000 in research, development and commercialization funds for targeted technology sectors, awarded after a competitive process administered by the Maine Technology Institute	November, 2007
35,500,000	Investment in land conservation, water access, wildlife habitat, outdoor recreation opportunities, farmland, working waterfront, state parks, historic sites and riverfront, community and farm infrastructure	November, 2007
29,725,000	Natural resource, agricultural and transportation infrastructure	June, 2008
$295,000,000	TOTAL	

Other than the Bonds, the State does not expect to issue any additional notes or bonds during the fiscal year ending June 30, 2007.

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, 2007, the aggregate principal amount of such lease obligations outstanding was $72,017,667. 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 State 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, 2006 available at http://www.msrs.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, 2006, the System's State employee and teacher defined benefit plan membership, for actuarial purposes, was comprised of approximately 42,643 active members, 6,006 terminated vested members and 25,731 retirees and surviving beneficiaries. The defined benefit plan covering the State's judges had, at June 30, 2006, 56 active members, one terminated vested member and 43 retirees and surviving beneficiaries. At the same date, the defined benefit plan covering the State's legislators had 174 active members, 65 terminated vested members and 107 retirees and surviving beneficiaries. As of June 30, 2006, 269 PLD's participated in the Maine State Retirement System. The State itself has no retirement obligations to the PLD's or to their covered employees. As of June 30, 2006, the System's group life insurance plan, for actuarial purposes, was comprised of approximately 31,908 active members and 14,061 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, 2006, the unfunded actuarial liability of the plan was $3,043,079,648 and 22 years remained in the amortization period. As of June 30, 2006, the present value of accrued benefits was approximately $8,585,575,164 and there were assets with a market value of $7,503,201,781, resulting in an unfunded liability for benefits earned to date of approximately $1,082,373,383. The judicial retirement plan had an actuarial surplus of $1,248,240 at June 30, 2006. The legislative retirement plan had neither a surplus nor an unfunded liability.

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, 2006, the unfunded actuarial liability of the plan was approximately $85,000,000.

Actuarial valuations are prepared annually by the consulting actuaries to the Board of Trustees of the System. The June 30, 2006 actuarial valuations were prepared by Cheiron. The actuarial balance sheet for the plan covering State employees and public school teachers from the June 30, 2006 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, 2006 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.

Public Law 2005, chapter 636 requires the State, beginning in fiscal year 2008, to fund a portion of health insurance premiums for certain retired county and municipal law enforcement officers and firefighters under the age of 65. Eligible retirees must buy into coverage, which is provided through the same group health plan as active employees participate in or, in the absence of available coverage for retirees, the State Employees' Health Plan. The State share of participating retirees' premium is equal to 45 percent of a benchmark plan which, like the retired teachers' plan, provides comprehensive coverage.

As of June 30, 2006, there were 9,107 eligible retired State employees and 7,081 eligible retired teachers. In fiscal year 2006, the State paid into a retiree health insurance fund $71.1 million for retired State employees and $12 million for retired teachers. Premium charges paid from the Retiree Health Insurance Internal Service Fund were $39.1 million and $14.1 million, respectively. Overall, net assets of the Retiree Health Insurance Internal Service Fund increased by $54.2 million to $61.8 million, at June 30, 2006, as a result of a premium increase in anticipation of the implementation of GASB 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 Legislature is currently considering the creation of a trust fund and various funding alternatives. In accordance with 2006 Chapter 519, fifteen percent of surplus will be dedicated on an ongoing basis to assist with funding the actuarially determined amortization schedule.

Employee Relations

As of March 31, 2007, the State had approximately 14,474 employees.

The State Employees Labor Relations Act allows State employees in the Executive Branch to engage in collective bargaining. As of March 31, 2007, approximately 12,781 employees were covered by the law. The Maine State Employees Association is the bargaining agent for 4 bargaining units which include approximately 10,000 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, 2007. It is currently expected that new contracts will be in effect on or before June 30, 2007.

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, 2006:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds			
Due from Other Funds	**General**	**Highway**	**Federal Fund**	**Other Special Revenue**
General	$ -	$ -	$ 3,294	$ -
Highway	-	-	1,494	-
Federal	17,611	9	46	2,082
Other Special Revenue	546	187	459	432
Employment Security	-	-	26	-
Non-Major Enterprise	2	30	6,716	2
Internal Service	8,732	2,828	2,820	1,259
Fiduciary	5,182	-	-	-
Total	$32,073	$ 3,054	$14,855	$3,775

Due from Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Total**
General	$ 1	$ 10,849	$ 4,531	$ 18,675
Highway	-	-	218	1,712
Federal	-	-	218	19,966
Other Special Revenue	-	19	351	1,994
Employment Security	-	-	-	26
Non-Major Enterprise	-	-	36	6,786
Internal Service	-	397	552	16,588
Fiduciary	-	-	-	5,182
Total	$ 1	$ 11 265	$ 5,906	$ 70,929

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, 2006:

Schedule of Advances to or from Other Funds
June 30, 2006

(Dollars in Thousands)

Fund Type	**Working Capital Receivable**	**Working Capital Payable**
General	$ 111	
Other Special Revenue		$ -
Internal Service		111
Total All Funds	$ 111	$ 111

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 March, 2007 were approximately $173.6 million, which is $3.4 million, or 1.9%, less than estimated revenues for the month. Revenues for the nine months ended March 31, 2007 were approximately $1,874.6 million, which is $7.9 million, or 0.4%, more than estimated revenues for the nine month period. Corporate taxes are on budget for the month and year to date. Individual income tax revenues were less than estimated revenues for the month by approximately $246,000 or 0.6% and were more than budgeted amounts for the nine month period by approximately $2.1 million, or 0.3%. Sales tax revenue is $1.9 million or 3.0% less than estimated for March and $556,000 or 0.1% more than estimated for the nine month period. Service provider taxes are under for the month by $580,000 or 13.4%, and over for the nine month period by $864,000, or 2.8%. The insurance company tax was under budget in March by $2.3 million, or 16.1%, and by $1.7 million, or 6.4% for the nine month period. Tobacco and estate taxes are both slightly over budget for the month. For the nine month period, tobacco taxes are less than projected amounts by $2.9 million or 2.3%. Estate taxes are over projected amounts by $2.3 million or 6.7%. Miscellaneous revenues are over budget for the nine month period by approximately $6.5 million, or 4.5%. The foregoing revenue information has been prepared based on preliminary, unaudited month end figures and is subject to change. For additional information, see page C-4 herein.

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 2006, the maximum rate applies to Maine taxable income of $36,550 or greater for married persons filing joint returns ($18,250 for single individuals and married persons filing separate returns and $27,400 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 $0.259 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 $0.27 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, 2006 are $0.267 per gallon on gasoline and $0.279 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 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 have declined from approximately $63,000,000 in fiscal year 2000 to approximately $46,000,000 in fiscal year 2005. The State expected to receive approximately $50,000,000 in fiscal year 2007 pursuant to the Settlement Agreement. As of April 2007, however, the State had received approximately $46,300,000. 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 has commenced 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 have commenced similar litigation seeking payment of amounts 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 $263,485,000 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 $16,485,000 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, 2007, the aggregate principal amount of the Authority's bonds outstanding was $171,620,000. 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, 2007 is $22,761,736 and for the State fiscal year ending June 30, 2008 is $22,155,355.

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, 2007, amounts committed by the Authority pursuant to these authorizations were $29,626,675 and $17,159 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, 2007, the student loan insurance obligations of the Authority were $899,203,853. 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, 2007, the aggregate principal amount outstanding of the Authority's obligations undertaken pursuant to the Authority's Capital Reserve Provisions was $22,721,614 for electric rate stabilization projects and $15,191,999 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, 2007, the aggregate principal amount of the Authority's bonds and notes outstanding was approximately $1,524,675,000. 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, 2007, the Authority's Indian housing mortgage insurance obligations were approximately $418,000. 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, 2007, the aggregate principal amount of the Bond Bank's bonds outstanding was $1,011,950,000 of which (a) $72,575,000 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) $41,325,000 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, 2007, the aggregate principal amount of the Authority's bonds outstanding was $1,412,993,524. 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, 2007, 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, 2007, 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, 2007, the aggregate principal amount of the System's bonds outstanding was $187,545,000.

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, 2007, the aggregate principal amount of the Authority's bonds outstanding was $339,300,000.

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, 2007, 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, 2007, there were no outstanding bonds of the Authority.

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX B

Selected Financial Information
Pertaining to the State of Maine
for Fiscal Years 2002 through 2006

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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.

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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, 2006, 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 Child Development Services System, 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 Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine State Housing Authority, Maine State Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, and University of Maine System. Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions of the fund financial statements as follows:

Government-Wide Financial Statements	Percent of Assets	Percent of Revenues
Component Units	100%	100%

Fund Financial Statements	Percent of Assets	Percent of Revenues or Additions
Proprietary Funds-Governmental Activities-Internal Service Funds	37%	2%
Fiduciary Funds – Pension (and Other Employee Benefit) Trusts	100%	100%
Fiduciary Funds- Private Purpose Trust Funds	99%	99.6%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for those component units and funds, is based 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, 2006, 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, the State changed its methods of applying accounting principles regarding accounting for interim payments to Medicaid providers, and recognizing certain tax revenues; it also corrected the reporting of certain capital assets. As discussed in Note 3 to the financial statements, the State's reporting entity changed to include a new component unit.

As discussed in Note 3 to the financial statements, the State implemented Governmental Accounting Standards Board Statements, #42 - *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance* Recoveries, #44 – *Economic Condition Reporting: The Statistical Section,* #46 – *Net Assets Restricted by Enabling* Legislation and #47 – *Accounting for Termination Benefits.*

Neria R. Douglass, JD, CIA
State Auditor

January 31, 2007, except for Note 16, as to which the date is February 28, 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, 2006. 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 7.9 percent from the previous fiscal year. Net assets of Governmental Activities increased by $245 million, while net assets of Business-type Activities increased by $43.7 million. The State's assets exceeded its liabilities by $3.9 billion at the close of fiscal year 2006. Component units reported net assets of $1.8 billion, an increase of $100 million (roughly six percent) from the previous year.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $215.5 million, a decrease of $188.9 million from the previous year. The General Fund's total fund balance was a negative $177.6 million, a decrease of $89 million from the previous year, as restated. The Highway Fund total fund balance also decreased by $73.4 million.

- The proprietary funds reported net assets at year end of $629.9 million, an increase of $138.4 million. This increase is due to two major factors: an increase in the Retiree Health Insurance Fund of $54.2 million, and an increase in the Employee Health Insurance Fund of $34.3 million.

Long-term Debt:

- The State's liability for general obligation bonds decreased by $19.5 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $52.4 million in bonds and made principal payments of $71.9 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 13 other component units as discretely presented component units of the State, and two component units are 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;

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

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

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements. 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 7.9 percent to $3.9 billion at June 30, 2006, 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	
	2006	2005*	2006	2005	2006	2005*
Current and other noncurrent assets	$2,220,676	$ 1,787,227	$ 526,219	$ 521,130	$ 2,746,895	$ 2,308,357
Capital assets	3,750,134	3,491,601	79,030	49,961	3,829,164	3,541,562
Total Assets	5,970,810	5,278,828	605,249	571,091	6,576,059	5,849,919
Current liabilities	1,733,519	1,247,806	35,985	32,710	1,769,504	1,280,516
Long-term liabilities	784,758	823,449	87,500	100,327	872,258	923,776
Total Liabilities	2,518,277	2,071,255	123,485	133,037	2,641,762	2,204,292
Net assets:						
Investment in capital assets, net of related debt	3,347,672	3,084,318	79,030	49,961	3,426,702	3,134,279
Restricted	172,449	290,385	476,832	459,538	649,281	749,923
Unrestricted	(67,588)	(167,130)	(74,098)	(71,445)	(141,686)	(238,575)
Total Net Assets	$ 3,452,533	$ 3,207,573	$ 481,764	$ 438,054	$ 3,934,297	$ 3,645,627

* *As restated*

Changes in Net Assets

The State's fiscal year 2006 revenues totaled $7 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 48.2 percent and 37 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 $6.7 billion for the year 2006. (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 8 percent of total costs. Total net assets increased by $288.7 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005*	2006	2005	2006	2005*
Revenues						
Program Revenues:						
Charges for Services	$ 412,033	$ 374,463	$ 450,117	$ 382,747	$ 862,150	$ 757,210
Grants/Contributions	2,561,125	2,498,863	20,535	24,109	2,581,660	2,522,972
General Revenues:						
Corporate Income Taxes	305,872	244,842	-	-	305,872	244,842
Individual Income Taxes	1,403,790	1,296,606	-	-	1,403,790	1,296,606
Fuel Taxes	177,904	176,020	-	-	177,904	176,020
Property Taxes	53,272	50,962	-	-	53,272	50,962
Sales & Use Taxes	1,156,201	1,049,890	-	-	1,156,201	1,049,890
Other Taxes	263,506	223,326	-	-	263,506	223,326
Investment Earnings	28,881	20,650	-	-	28,881	20,650
Other	145,628	142,745	-	-	145,628	142,745
Total Revenues	6,508,212	6,078,367	470,652	406,856	6,978,864	6,485,223
Expenses						
Governmental Activities:						
Governmental Support	530,008	480,837	-	-	530,008	480,837
Arts, Heritage & Culture	12,191	13,273	-	-	12,191	13,273
Business Lic & Reg	53,547	49,553	-	-	53,547	49,553
Economic Development & Workforce Training	160,093	171,092	-	-	160,093	171,092
Education	1,494,438	1,412,524	-	-	1,494,438	1,412,524
Health & Human Services	3,167,521	3,051,822	-	-	3,167,521	3,051,822
Justice & Protection	340,281	322,072	-	-	340,281	298,852
Natural Resources	166,358	148,087	-	-	166,358	171,307
Transportation Safety	322,438	246,837	-	-	322,438	246,837
Interest	36,873	32,530	-	-	36,873	32,530
Business-Type Activities:						
Employment Security	-	-	103,867	113,642	103,867	113,642
Alcoholic Beverages	-	-	-	7	-	7
Lottery	-	-	179,628	161,691	179,628	161,691
Airport	-	-	22	892	22	892
Marine Ports	-	-	1,378	1,829	1,378	1,829
Ferry Services	-	-	6,707	7,876	6,707	7,876
Military Equip. Maint.	-	-	64,437	50,908	64,437	50,908
Dirigo Health	-	-	47,122	13,587	47,122	13,587
Other	-	-	3,860	2,107	3,860	2,107
Total Expenses	6,283,748	5,928,627	407,021	352,539	6,690,769	6,281,166
Excess (Deficiency) before Special Items and Transfers	224,464	149,740	63,631	54,317	288,095	204,057
Special Items	(31,212)	30,881	31,787	(50,000)	575	(19,119)
Transfers	51,708	50,211	(51,708)	(50,211)	-	-
Increase (Decrease) in Net Assets	244,960	230,832	43,710	(45,894)	288,670	184,938
Beginning Net Assets *	3,207,573	2,976,741	438,054	483,948	3,645,627	3,460,689
Ending Net Assets	$ 3,452,533	$ 3,207,573	$ 481,764	$ 438,054	$ 3,934,297	$ 3,645,627

* *As restated*

Governmental Activities

Revenues for the State's Governmental Activities totaled $6.5 billion while total expenses equaled $6.3 billion. The increase in net assets for Governmental Activities was $245 million in 2006. This is due, primarily, to increases in employment and construction, which resulted in higher-than-expected revenues in the major tax lines. The users of the State's programs financed $412 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $2.6 billion. $3.5 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 2006

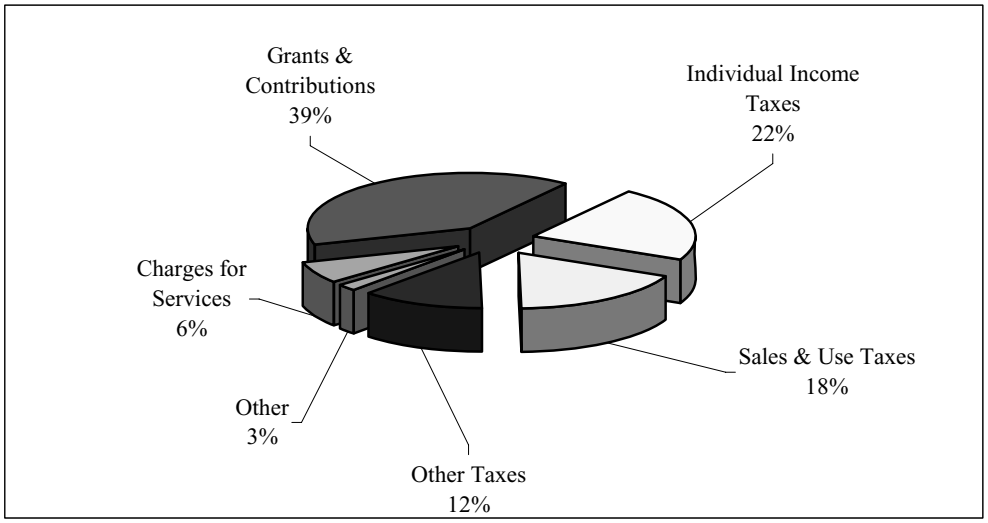
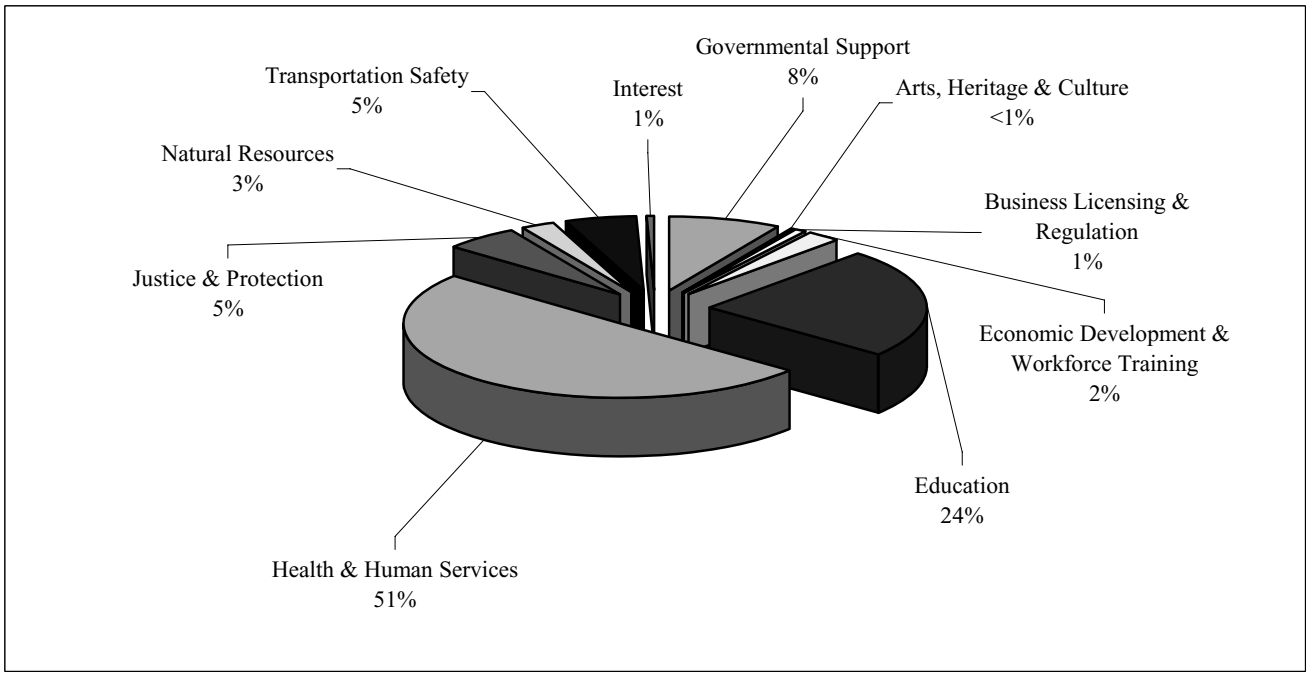


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2006



Business-type Activities

Revenues for the State's Business-type Activities totaled $470.8 million while expenses totaled $407.6 million. The increase in net assets for Business-type Activities was $43.7 million in 2006, due mainly to the creation of the STAR Fund (State Transit, Aviation and Rail Transportation Fund), which was recorded as a special item.

Table A-5 presents the cost of State Business-type Activities: employment security, alcoholic beverages, lottery, airport, marine ports, ferry services, 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)

	Total Cost		Net (Cost) Revenue	
Category	2006	2005	2006	2005
Employment Security	$ 103,867	$ 113,642	$ 19,407	$ 10,182
Alcoholic Beverages	-	7	12,525	12,575
Lottery	179,628	161,691	51,334	50,274
Airport	22	892	5	(754)
Marine Ports	1,378	1,829	(1,291)	(1,402)
Ferry Services	6,707	7,876	(3,243)	(3,827)
Military Equip. Maint.	65,013	50,908	5,414	(4,431)
Dirigo Health	47,122	13,587	(21,236)	(8,371)
Other	3,860	2,107	268	71
Total	$ 407,597	$ 352,539	$ 63,183	$ 54,317

The cost of all Business-type Activities this year was $407.6 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $63.2 million. The State's Business-type Activities transferred $51.7 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	2006	2005*	Change
General	$ (177,631)	$(88,594)	$ (89,037)
Highway	9,712	83,083	(73,371)
Federal	22,190	31,240	(9,050)
Other Special Revenue	258,033	261,473	(3,440)
Other Governmental	103,174	117,188	(14,014)
Total	$ 215,478	$ 404,390	$(188,912)

* *As restated*

The State's governmental fund balances decreased during fiscal year 2006 from fiscal year 2005 by $188.9 million. The General Fund's decrease was due mainly to the restatement of fund balance from recognizing revenues as available if collected within 12 months of year end, to 60 days. Also, two special items in fiscal year 2005 not present in 2006 accounted for the change: the return of $68.5 million of excess equity from the retiree health insurance fund, and $50 million in proceeds from the sale of the state's liquor operating rights. Net operating expenditures were $19 million higher in fiscal year 2006. The Highway Fund fund balance decreased by $73.4 million from fiscal year 2005. The return of excess equity from the retiree health program in 2005 not applicable to 2006 was $17.4 million for this fund. Operationally, transportation, safety and development expenditures were $108 million higher in fiscal year 2006. Transportation projects undertaken during fiscal year 2006 accounted for most of the increase.

Budgetary Highlights

For the 2006 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $2.9 billion, an increase of about $200 million from the original legally adopted budget of approximately $2.7 billion. Actual expenditures on a budgetary basis amounted to approximately $113 million less than those authorized in the final budget; however, after deducting the encumbered obligations that will come due in fiscal year 2007, $71.4 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 $71.4 million mainly due to higher than expected personal income tax, corporate tax, and sales tax revenues.

As a part of the final budget adjustment for Fiscal Year 2006, the Legislature approved a direct appropriation to the State's Budget Stabilization Fund in the amount of $29 million. The additional appropriation increased the balance in the Fund to $79.9 million as of June 30, 2006. This item is further explained in Note 2 of Notes to the Financial Statements.

The cost of the State's Medicaid Program exceeded the $632 million in resources approved in the legally adopted budget for Fiscal Year 2006, requiring additional budgetary resources amounting to approximately $75 million. The Legislature adjusted the budget by advancing the funding from the budgeted resources for Fiscal Year 2007, causing a potential shortfall by the same amount. The budget adjustments were required to meet the cost of the weekly cycle payments as well as continue to make "interim payments" to providers as a result of continuing claims processing problems with the Department of Health and Human Services Maine Medical Claims Management System known as MECMS. We note that the Department has submitted an emergency request for Fiscal Year 2007 which will be considered by the Legislature.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2006, the State had roughly $3.8 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2006, the State acquired or constructed more than $350 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	
	2006	2005*	2006	2005	2006	2005*
Land	$ 394,069	$ 383,348	$ 38,161	$ 7,304	$ 432,230	$ 390,652
Buildings	506,881	476,315	9,322	8,747	516,203	485,062
Equipment	254,007	226,825	20,220	19,904	274,227	246,729
Improvements	17,233	25,022	61,218	51,410	78,451	76,432
Infrastructure	2,861,522	2,636,582	-	-	2,861,522	2,636,582
Construction in Progress	14,527	26,025	925	708	15,452	26,733
Total Capital Assets	4,048,239	3,774,117	129,846	88,073	4,178,085	3,862,190
Accumulated Depreciation	(298,105)	(282,516)	(50,816)	(38,112)	(348,921)	(320,628)
Capital Assets, net	$ 3,750,134	$ 3,491,601	$ 79,030	$ 49,961	$ 3,829,164	$3,541,562

* *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 8,836 highway miles or 17,952 lane miles within the State. Bridges have a deck area of 11.5 million square feet among 2,967 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2006, the actual average condition was 75.0. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 77 at June 30, 2006. Preservation costs for fiscal year 2006 totaled $51.1 million compared to estimated preservation costs of $51.8 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 33, P&S 2003 ,and Chapter 38, P&S 2001, none was spent during FY 2006.

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 $909 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	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	$ 467,550	$ 487,095	$ -	$ -	$ 467,550	$ 487,095
Other Long-Term Obligations	441,512	575,708	135	383	441,647	576,091
Total	$909,062	$1,062,803	$ 135	$ 383	$909,197	$1,063,186

During the year, the State reduced outstanding long-term obligations by $71.9 million for outstanding general obligation bonds and $260.1 million for other long-term debt. Also during fiscal year 2006, the State incurred $173.2 million of additional long-term obligations.

Credit Ratings

Three of the major bond rating agencies regularly assess the State's credit rating. During fiscal years 2006 and 2005, Moody's Investors Service rated the State at Aa3, Standard & Poor's rated it at AA-, and Fitch Ratings rated it at AA.

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

Maine continues to recover economically. Our State is home to many renowned institutions of higher education, both public and private, industries, vacation areas, and world famous retailers, keeping the economy relatively stable and an incubator for new ideas and growth. Unemployment has remained near the national average due to these stabilization factors. The State of Maine, with an international reputation for recreational, cultural, historical and educational institutions, remains a significant spoke of the New England economy. Maine's economy remains diversified.

Inflation continued to rise though the past year. The Consumer Price Index rose nearly 4% from July 2005 to July 2006; however, fuel and utilities prices rose much faster. The rise in oil prices to over $70 a barrel in late summer due to unrest in the Middle East put pressure on both household and government budgets. Though oil prices have fallen into the $55 to $60 per barrel range, they will continue to affect budgeting decisions throughout fiscal year 2007.

Personal income continues to rise in Maine faster than inflation. According to the latest statistics available, personal income is estimated to have risen by 5.6% in calendar year 2006. The solid 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 4.7% in December of 2006 which is slightly above the national rate of 4.5%.

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 2006-2007 Biennium, the Legislature's Office of Program and Fiscal Review estimated structural gap at approximately $701.3 million between revenue and costs to maintain current services. The 2006-2007 biennial budget was brought into balance with the enactment of Public Law 2005, Chapter 12, **"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, 2005, June 30, 2006, and June 30, 2007."** The Budget has been amended several times through various public laws to ensure adequate resources are available for the fiscal years of the biennium.

The budget will require further amendment in fiscal year 2007 to ensure adequate resources are available for the State's Medicaid Program to pay "cycle payments" on a timely basis and to pay outstanding bill from the various hospitals throughout the State. It is anticipated that the resources to pay for these costs will be managed through a reforecast of revenues and the use of any unappropriated surplus that may accrue by June 30, 2007.

New Accounting Standard

The State maintains a retiree healthcare 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 healthcare plan participants are paid as they occur. The portion of active and retired employee's healthcare 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%. To fully amortize this liability over a 30-year period, utilizing an amortization

growth rate of 4.5% 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% 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% and declining to 5.1% 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% 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% for the purpose of this study. In order to quality 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

DIRIGO
MAINE

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2006
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 534,963	$ 22,237	$ 557,200	$ 94,271
Cash and Cash Equivalents	277	757	1,034	40,091
Cash with Fiscal Agent	21,400	-	21,400	2,201
Investments	70,790	-	70,790	605,882
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	16,017	-	16,017	-
Restricted Deposits and Investments	23,802	449,748	473,550	-
Inventories	7,466	810	8,276	1,704
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	374,179	-	374,179	-
Loans Receivable	4,286	-	4,286	29,467
Notes Receivable	-	-	-	530
Other Receivables	404,450	53,535	457,985	43,802
Internal Balances	2,764	(2,764)	-	10,511
Due from Other Governments	668,469	-	668,469	138,640
Due from Primary Government	-	-	-	2,747
Loans receivable from primary government	-	-	-	3,915
Due from Component Units	772	-	772	-
Other Current Assets	3,404	444	3,848	38,277
Total Current Assets	2,133,039	524,767	2,657,806	1,012,038
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	35,125	1,452	36,577	6,152
Assets Held in Trust	-	-	-	2,410
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	841	-	841	-
Restricted Deposits and Investments	-	-	-	596,459
Investments	-	-	-	448,947
Receivables, Net of Current Portion:				
Taxes Receivable	51,671	-	51,671	-
Loans Receivable	-	-	-	1,124,087
Notes Receivable	-	-	-	161,563
Other Receivables	-	-	-	5,543
Due from Other Governments	-	-	-	1,090,326
Loans receivable from primary government	-	-	-	42,353
Due From Primary Government	-	-	-	2,495
Other Noncurrent Assets	-	-	-	34,470
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	3,270,118	39,086	3,309,204	98,845
Buildings, Equipment and Other Depreciable Assets	778,121	90,760	868,881	960,428
Less: Accumulated Depreciation	(298,105)	(50,816)	(348,921)	(339,672)
Capital Assets, Net of Accumulated Depreciation	3,750,134	79,030	3,829,164	719,601
Total Noncurrent Assets	3,837,771	80,482	3,918,253	4,234,406
Total Assets	$ 5,970,810	$ 605,249	$ 6,576,059	$ 5,246,444

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

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Liabilities				
Current Liabilities:				
Accounts Payable	$ 1,145,467	$ 5,120	$ 1,150,587	$ 62,069
Accrued Payroll	46,806	1,151	47,957	795
Compensated Absences	669	135	804	2,196
Tax Refunds Payable	130,001	-	130,001	-
Due to Component Units	13,676	-	13,676	-
Due to Other Governments	241,226	-	241,226	4,044
Due to Primary Government	-	-	-	1,652
Amounts Held under State & Federal Loan Programs	-	-	-	30,155
Undistributed Grants and Administrative Funds	-	-	-	9,472
Allowances for Losses on Insured Commercial Loans	-	-	-	6,273
Claims Payable	24,177	-	24,177	-
Bonds and Notes Payable	79,765	-	79,765	237,438
Revenue Bonds Payable	14,595	-	14,595	119
Obligations under Capital Leases	6,154	-	6,154	1,238
Certificates of Participation and Other Financing Arrangements	11,003	-	11,003	-
Pledged Future Revenues	3,915	-	3,915	-
Accrued Interest Payable	8,281	-	8,281	17,775
Deferred Revenue	3,404	14,430	17,834	65,321
Other Current Liabilities	4,380	15,149	19,529	37,704
Total Current Liabilities	1,733,519	35,985	1,769,504	476,251
Long-Term Liabilities:				
Compensated Absences	40,657	-	40,657	-
Due to Other Governments	136	-	136	7,080
Amounts Held under State & Federal Loan Programs	-	-	-	42,945
Claims Payable	48,804	-	48,804	-
Bonds and Notes Payable	387,785	-	387,785	2,879,934
Revenue Bonds Payable	171,620	-	171,620	2,503
Obligations under Capital Leases	33,937	-	33,937	3,890
Certificates of Participation and Other Financing Arrangements	25,578	-	25,578	-
Pledged Future Revenues	42,353	-	42,353	-
Deferred Revenue	15,838	87,500	103,338	774
Pension Obligation	18,050	-	18,050	-
Other Noncurrent Liabilities	-	-	-	79,083
Total Long-Term Liabilities	784,758	87,500	872,258	3,016,209
Total Liabilities	2,518,277	123,485	2,641,762	3,492,460
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,347,672	79,030	3,426,702	571,960
Restricted:				
Highway Fund Purposes	9,401	-	9,401	-
Federal Programs	22,190	-	22,190	-
Natural Resources	20,827	-	20,827	-
Capital Projects and Debt Service	38,090	-	38,090	-
Unemployment Compensation	-	476,832	476,832	-
Other Purposes	11,033	-	11,033	981,488
Funds Held as Permanent Investments:				
Expendable	59,634	-	59,634	-
Nonexpendable	11,274	-	11,274	-
Unrestricted	(67,588)	(74,098)	(141,686)	200,536
Total Net Assets	$ 3,452,533	$ 481,764	$ 3,934,297	$ 1,753,984

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 530,008	$ 71,507	$ 6,628	$ -
Arts, Heritage & Cultural Enrichment	12,191	920	2,449	-
Business Licensing & Regulation	53,547	65,588	1,216	-
Economic Development & Workforce Training	160,093	2,966	82,316	-
Education	1,494,438	8,605	190,614	-
Health & Human Services	3,167,521	15,097	1,956,406	-
Justice & Protection	340,281	75,035	68,638	-
Natural Resources Development & Protection	166,358	76,921	32,573	24,268
Transportation Safety & Development	322,438	95,394	196,017	-
Interest Expense	36,873	-	-	-
Total Governmental Activities	6,283,748	412,033	2,536,857	24,268
Business-Type Activities:				
Employment Security	103,867	102,611	20,663	-
Alcoholic Beverages	-	12,525	-	-
Lottery	179,628	230,962	-	-
Airport	22	27	-	-
Marine Ports	1,378	87	-	-
Ferry Services	6,707	3,464	-	-
Military Equipment Maintenance	65,013	70,427	-	-
Dirigo Health	47,122	25,886	-	-
Other	3,860	4,128	-	-
Total Business-Type Activities	407,597	450,117	20,663	-
Total Primary Government	$ 6,691,345	$ 862,150	$ 2,557,520	$ 24,268
Component Units:				
Child Development Services	$ 27,801	$ 4,558	$ 22,228	$ -
Finance Authority of Maine	29,572	15,449	21,855	-
Maine Educational Center for the Deaf and Hard of Hearing	6,312	120	1	-
Loring Development Authority	3,488	1,389	75	11
Maine Community College System	96,422	22,277	26,119	6,386
Maine Educational Loan Authority	4,419	3,523	1,216	-
Maine Maritime Academy	22,891	11,768	2,792	1,421
Maine Municipal Bond Bank	69,042	50,369	1,303	37,193
Maine Port Authority	2,188	125	93	505
Maine Technology Institute	8,023	49	7,724	-
Maine State Housing Authority	204,397	72,359	147,896	-
Northern New England Passenger Rail Authority	10,547	5,068	5,942	975
University of Maine System	600,012	242,316	182,420	4,746
Total Component Units	$ 1,085,114	$ 429,370	$ 419,664	$ 51,237

General Revenues:
- Taxes:
  - Corporate
  - Individual Income
  - Fuel
  - Property
  - Sales & Use
  - Other
- Unrestricted Investment Earnings
- Non-Program Specific Grants, Contributions & Appropriations
- Miscellaneous Income
- Loss on Assets Held for Sale
- Tobacco Settlement

Special Items
Transfers - Internal Activities
- Total General Revenues and Transfers
  - Change in Net Assets

Net Assets - Beginning (As Restated)
Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (451,873)	$ -	$ (451,873)	$ -
(8,822)	-	(8,822)	-
13,257	-	13,257	-
(74,811)	-	(74,811)	-
(1,295,219)	-	(1,295,219)	-
(1,196,018)	-	(1,196,018)	-
(196,608)	-	(196,608)	-
(32,596)	-	(32,596)	-
(31,027)	-	(31,027)	-
(36,873)	-	(36,873)	-
(3,310,590)	-	(3,310,590)	-
-	19,407	19,407	-
-	12,525	12,525	-
-	51,334	51,334	-
-	5	5	-
-	(1,291)	(1,291)	-
-	(3,243)	(3,243)	-
-	5,414	5,414	-
-	(21,236)	(21,236)	-
-	268	268	-
-	63,183	63,183	-
(3,310,590)	63,183	(3,247,407)	-
-	-	-	(1,015)
-	-	-	7,732
-	-	-	(6,191)
-	-	-	(2,013)
-	-	-	(41,640)
-	-	-	320
-	-	-	(6,910)
-	-	-	19,823
-	-	-	(1,465)
-	-	-	(250)
-	-	-	15,858
-	-	-	1,438
-	-	-	(170,530)
-	-	-	(184,843)
305,872	-	305,872	-
1,403,790	-	1,403,790	-
177,904	-	177,904	-
53,272	-	53,272	-
1,156,201	-	1,156,201	-
263,506	-	263,506	-
28,881	-	28,881	12,255
-	-	-	264,955
104,272	448	104,720	6,430
(217)	-	(217)	301
41,573	-	41,573	-
(31,212)	31,787	575	-
51,708	(51,708)	-	-
3,555,550	(19,473)	3,536,077	283,941
244,960	43,710	288,670	99,098
3,207,573	438,054	3,645,627	1,654,886
$ 3,452,533	$ 481,764	$ 3,934,297	$ 1,753,984

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2006
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Current Assets:						
Equity in Treasurer's Cash Pool	$ 64,564	$ 45,396	$ 30,614	$ 226,401	$ 114	$ 367,089
Cash and Short-Term Investments	118	116	3	37	-	274
Cash with Fiscal Agent	4,503	3,091	-	10,866	-	18,460
Investments	-	-	-	-	70,790	70,790
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	3,124	-	-	-	12,893	16,017
Restricted Deposits and Investments	-	-	-	-	21,192	21,192
Inventories	1,422	-	1,680	-	-	3,102
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	339,381	21,638	-	13,160	-	374,179
Loans Receivable	1	80	-	4,205	-	4,286
Other Receivable	127,844	2,558	199,124	67,091	-	396,617
Due from Other Funds	18,675	1,712	19,966	1,994	-	42,347
Due from Other Governments	-	-	663,143	-	-	663,143
Due from Component Units	-	-	-	-	772	772
Other Current Assets	2,174	-	52	(34)	-	2,192
Total Current Assets	561,806	74,591	914,582	323,720	105,761	1,980,460
Noncurrent Assets:						
Equity in Treasurer's Cash Pool	4,419	2,962	1,998	14,778	8	24,165
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	-	-	-	-	841	841
Taxes Receivable	51,671	-	-	-	-	51,671
Working Capital Advances Receivable	111	-	-	-	-	111
Total Noncurrent Assets	56,201	2,962	1,998	14,778	849	76,788
Total Assets	$ 618,007	$ 77,553	$ 916,580	$ 338,498	$ 106,610	$ 2,057,248
Liabilities and Fund Balances						
Current Liabilities:						
Accounts Payable	$ 398,345	$ 47,948	$ 637,324	$ 34,490	$ 939	$ 1,119,046
Accrued Payroll	22,681	8,970	6,015	6,276	-	43,942
Tax Refunds Payable	130,001	-	-	-	-	130,001
Due to Other Governments	11,677	-	229,549	-	-	241,226
Due to Other Funds	32,073	3,054	14,855	3,775	-	53,757
Due to Component Units	2,235	40	4,364	4,542	2,495	13,676
Deferred Revenue	144,282	-	1,724	22,704	-	168,710
Other Accrued Liabilities	2,673	319	559	1,383	2	4,936
Total Current Liabilities	743,967	60,331	894,390	73,170	3,436	1,775,294
Long-Term Liabilities:						
Deferred Revenue	51,671	7,510	-	7,295	-	66,476
Total Long-Term Liabilities	51,671	7,510	-	7,295	-	66,476
Total Liabilities	795,638	67,841	894,390	80,465	3,436	1,841,770
Fund Balances:						
Reserved						
Continuing Appropriations	129,659	56,899	54,850	234,885	161	476,454
Debt Service	3,896	1,928	-	-	-	5,824
Capital Projects	-	-	-	-	32,266	32,266
Permanent Trusts	-	-	-	-	11,274	11,274
Other	44,241	80	-	8,441	59,473	112,235
Unreserved	(355,427)	(49,195)	(32,660)	14,707	-	(422,575)
Total Fund Balances	(177,631)	9,712	22,190	258,033	103,174	215,478
Total Liabilities and Fund Balances	$ 618,007	$ 77,553	$ 916,580	$ 338,498	$ 106,610	$ 2,057,248

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, 2006
(Expressed in Thousands)

Total fund balances for governmental funds		$ 215,478
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.	3,810,306	
Less: Accumulated depreciation	(168,835)	3,641,471
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	(467,550)	
Interest Payable Related to Long-term Financing	(5,244)	
Certificates of Participation and Other Financing Arrangements	(14,063)	
Pledged Future Revenues	(46,268)	
Compensated Absences	(37,938)	
Pension Obligation	(18,050)	(589,113)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		222,791
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.		(38,094)
Net assets of governmental activities		$ 3,452,533

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, 2006
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,926,835	$ 224,196	$ -	$ 193,772	$ -	$ 3,344,803
Assessments and Other Revenue	105,371	92,413	-	92,671	-	290,455
Federal Grants and Reimbursements	17,334	-	2,604,476	3,544	-	2,625,354
Service Charges	41,395	7,138	296	86,986	-	135,815
Investment Income	12,299	2,076	654	4,033	5,078	24,140
Miscellaneous Revenue	14,993	3,995	5,688	91,124	-	115,800
Total Revenues	3,118,227	329,818	2,611,114	472,130	5,078	6,536,367
Expenditures						
Current:						
Governmental Support & Operations	327,529	34,364	9,347	148,336	9,886	529,462
Economic Development & Workforce Training	45,324	-	86,407	24,195	6,400	162,326
Education	1,283,214	-	187,941	8,364	31,143	1,510,662
Heatlh and Human Services	1,097,456	-	2,026,258	239,283	1,167	3,364,164
Business Licensing & Regulation	-	-	955	55,109	-	56,064
Natural Resources Development & Protection	70,878	32	39,892	75,269	5,541	191,612
Justice and Protection	227,588	35,576	70,802	27,616	812	362,394
Arts, Heritage & Cultural Enrichment	8,504	-	2,573	896	682	12,655
Transportation Safety & Development	178	316,559	208,776	36,405	12,396	574,314
Debt Service:						
Principal Payments	57,985	13,950	3,155	-	-	75,090
Interest Payments	15,263	2,007	1,728	-	-	18,998
Total Expenditures	3,133,919	402,488	2,637,834	615,473	68,027	6,857,741
Revenues over (under) Expenditures	(15,692)	(72,670)	(26,720)	(143,343)	(62,949)	(321,374)
Other Financing Sources (Uses):						
Transfer from Other Funds	90,912	1,751	31,471	157,929	676	282,739
Transfer to Other Funds	(164,923)	(3,586)	(13,801)	(49,064)	(4,131)	(235,505)
Other	666	1,134	-	8,927	-	10,727
Proceeds from Pledged Future Revenues	-	-	-	22,111	-	22,111
Bonds Issued	-	-	-	-	52,390	52,390
Net Other Finance Sources (Uses)	(73,345)	(701)	17,670	139,903	48,935	132,462
Revenues and Other Sources over (under) Expenditures and Other Uses	(89,037)	(73,371)	(9,050)	(3,440)	(14,014)	(188,912)
Fund Balances at Beginning of Year (As Restated)	(88,594)	83,083	31,240	261,473	117,188	404,390
Fund Balances at End of Year	$ (177,631)	$ 9,712	$ 22,190	$ 258,033	$ 103,174	$ 215,478

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, 2006
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (188,912)
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	273,884	
Donated land	17,352	
Transfer of capital assets to STAR fund, net	(31,212)	
Depreciation expense	(23,209)	236,815
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(217)
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	(52,390)	
Proceeds from other financing arrangements	(1,800)	
Repayment of bond principal	71,935	
Repayment of other financing debt	10,972	
Accrued interest	(1,714)	27,003
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	16,186	
Pledged future revenues	3,155	
Claims payable	107,305	
Compensated absences	(3,686)	122,960
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		(50,753)
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.		98,064
Changes in net assets of governmental activities		$ 244,960

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

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2006
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	Internal Service Funds
Assets					
Current Assets:					
Equity in Treasurer's Cash Pool	$ -	$ -	$ 22,237	$ 22,237	$ 167,874
Cash and Short-Term Investments	-	-	757	757	3
Cash with Fiscal Agent	-	-	-	-	2,940
Restricted Assets:					
Restricted Deposits and Investments	449,748	-	-	449,748	2,610
Inventories	-	-	810	810	4,364
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	14,595
Other Receivable	28,239	-	25,296	53,535	7,833
Due from Other Funds	26	-	6,786	6,812	16,588
Other Current Assets	-	-	444	444	1,212
Total Current Assets	478,013	-	56,330	534,343	218,019
Noncurrent Assets:					
Equity in Treasurer's Cash Pool	-	-	1,452	1,452	10,960
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	171,620
Capital Assets - Net of Depreciation	-	-	79,030	79,030	108,663
Total Noncurrent Assets	-	-	80,482	80,482	291,243
Total Assets	478,013	-	136,812	614,825	509,262
Liabilities					
Current Liabilities:					
Accounts Payable	928	-	4,192	5,120	21,239
Accrued Payroll	-	-	1,151	1,151	2,864
Due to Other Governments	-	-	-	-	136
Due to Other Funds	-	1	11,265	11,266	5,906
Current Portion of Long-Term Obligations:					
Certificates of Participation and Other Financing Arrangements	-	-	-	-	5,138
Revenue Bonds Payable	-	-	-	-	14,595
Obligations Under Capital Leases	-	-	-	-	6,154
Claims Payable	-	-	-	-	24,177
Compensated Absences	-	-	135	135	669
Deferred Revenue	-	12,500	1,930	14,430	487
Other Accrued Liabilities	253	-	14,896	15,149	2,481
Total Current Liabilities	1,181	12,501	33,569	47,251	83,846
Long-Term Liabilities:					
Working Capital Advances Payable	-	-	-	-	111
Deferred Revenue	-	87,500	-	87,500	1,033
Certificates of Participation and Other Financing Arrangements	-	-	-	-	17,380
Revenue Bonds Payable	-	-	-	-	171,620
Obligations Under Capital Leases	-	-	-	-	33,937
Claims Payable	-	-	-	-	48,804
Compensated Absences	-	-	-	-	2,720
Total Long-Term Liabilities	-	87,500	-	87,500	275,605
Total Liabilities	1,181	100,001	33,569	134,751	359,451
Net Assets					
Invested in Capital Assets, Net of Related Debt	-	-	79,030	79,030	55,254
Restricted for:					
Unemployment Compensation	476,832	-	-	476,832	-
Other Purposes	-	-	-	-	45
Unrestricted	-	(100,001)	24,213	(75,788)	94,512
Total Net Assets	$ 476,832	$ (100,001)	$ 103,243	480,074	$ 149,811
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.				1,690	
Net Assets of Business-Type Activities				$ 481,764	

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

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities Internal Service Funds
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	
Operating Revenues:					
Charges for Services	$ -	$ 25	$ 332,546	$ 332,571	$ 412,630
Assessments	102,608	-	1,345	103,953	-
Miscellaneous Revenues	3	-	907	910	1,486
Total Operating Revenues	102,611	25	334,798	437,434	414,116
Operating Expenses:					
General Operations	-	-	301,194	301,194	299,520
Depreciation	-	-	3,452	3,452	15,114
Claims/Fees Expense	103,867	-	-	103,867	9,127
Other Operating Expenses	-	-	-	-	320
Total Operating Expenses	103,867	-	304,646	408,513	324,081
Operating Income (Loss)	(1,256)	25	30,152	28,921	90,035
Nonoperating Revenues (Expenses):					
Investment Revenue (Expense) - net	20,663	-	-	20,663	5,241
Interest Expense	-	-	-	-	(16,155)
Other Nonoperating Revenues (Expenses)- net	-	12,500	(393)	12,107	(604)
Total Nonoperating Revenues (Expenses)	20,663	12,500	(393)	32,770	(11,518)
Income (Loss) Before Capital Contributions, Transfers and Special Items	19,407	12,525	29,759	61,691	78,517
Capital Contributions, Transfers and Special Items:					
Capital Contributions from (to) Other Funds	-	-	448	448	3,417
Transfers from (to) Other Funds	(2,113)	(26)	(49,569)	(51,708)	14,267
Special Items	-	-	31,787	31,787	-
Total Capital Contributions, Transfers In (Out) and Special Items	(2,113)	(26)	(17,334)	(19,473)	17,684
Change in Net Assets	17,294	12,499	12,425	42,218	96,201
Total Net Assets - Beginning of Year	459,538	(112,500)	90,818		53,610
Total Net Assets - End of Year	$ 476,832	$ (100,001)	$ 103,243		$ 149,811
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				1,492	
Changes in Business-Type Net Assets				$ 43,710	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	Internal Service Funds
Cash Flows from Operating Activities					
Receipts from Customers and Users	$ 105,490	$ 25	$ 327,144	$ 432,659	$ 438,778
Payments of Benefits	(104,881)	-	-	(104,881)	-
Payments to Prize Winners	-	-	(144,416)	(144,416)	-
Payments to Suppliers	-	1	(116,232)	(116,231)	(311,840)
Payments to Employees	-	-	(34,018)	(34,018)	(39,009)
Net Cash Provided (Used) by Operating Activities	609	26	32,478	33,113	87,929
Cash Flows from Noncapital Financing Activities					
Operating Transfers in	-	-	3,653	3,653	1,127
Operating Transfers out	(2,113)	(26)	(53,222)	(55,361)	13,140
Net Cash Provided (Used) by Noncapital Financing Activities	(2,113)	(26)	(49,569)	(51,708)	14,267
Cash Flows from Capital and Related Financing Activities					
Payments for Acquisition of Capital Assets	-	-	(286)	(286)	(30,144)
Proceeds from Financing Arrangements	-	-	-	-	24,190
Principal and Interest Paid on Financing Arrangements	-	-	-	-	(38,719)
Proceeds from Sale of Capital Assets	-	-	(9)	(9)	-
Net Cash Provided (Used) by Capital Financing Activities	-	-	(295)	(295)	(44,673)
Cash Flows from Investing Activities					
Interest Revenue	20,663	-	(384)	20,279	5,241
Net Cash Provided (Used) by Investing Activities	20,663	-	(384)	20,279	5,241
Net Increase (Decrease) in Cash/Cash Equivalents	19,159	-	(17,770)	1,389	62,764
Cash/Cash Equivalents - Beginning of Year	430,589	-	42,216	472,805	121,623
Cash/Cash Equivalents - End of Year	$ 449,748	$ -	$ 24,446	$ 474,194	$ 184,387
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities					
Operating Income (Loss)	$ (1,256)	$ 25	$ 30,152	$ 28,921	$ 90,035
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	-	-	3,452	3,452	15,114
Decrease (Increase) in Assets					
Accounts Receivable	2,897	-	(4,353)	(1,456)	20,398
Interfund Balances	(18)	1	(2,935)	(2,952)	(30,067)
Inventories	-	-	29	29	(424)
Increase (Decrease) in Liabilities					
Accounts Payable	235	-	566	801	(1,912)
Accrued Payroll Expenses	-	-	(84)	(84)	1,168
Change in Compensated Absences	-	-	(248)	(248)	1,860
Other Accruals	(1,249)	-	5,899	4,650	(8,243)
Total Adjustments	1,865	1	2,326	4,192	(2,106)
Net Cash Provided (Used) by Operating Activities	$ 609	$ 26	$ 32,478	$ 33,113	$ 87,929
Non Cash Investing, Capital and Financing Activities					
Property Leased, Accrued, or Acquired	-	-	-	-	4,093
Contributed Capital Assets	-	-	448	448	3,417
Decrease of deferred revenue from the sale of liquor operations	-	12,500	-	12,500	-
Special Item - Transfer of assets to STAR fund	-	-	31,787	31,787	-

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

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2006
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 1,118	$ 5,605
Cash and Short-Term Investments	171,671	85,069	99
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	28,716	-	-
Loans to Institutions	-	1,090,623	-
Interest and Dividends	28,758	682	-
Due from Brokers for Securities Sold	11,265	-	-
Other	-	888	-
Investments at Fair Value:			
Debt Securities	3,358,480	-	-
Equity Securities	2,446,948	-	-
Common/Collective Trusts	3,570,959	-	-
Restricted Deposits & Investments	-	104,929	-
Other	6,037	134,471	-
Securities Lending Collateral	2,673,921	-	-
Due from other funds	-	5,182	-
Investments Held on Behalf of Others	-	3,988,760	62,774
Capital Assets - Net of Depreciation	3,644	3,379	-
Other Assets	-	19,826	300
Total Assets	12,300,399	5,434,927	68,778
Liabilities			
Accounts Payable	1,096	5,366	164
Due to Other Governments	-	1,513	-
Due to Brokers for Securities Purchased	24,752	-	-
Agency Liabilities	-	-	68,614
Obligations Under Securities Lending	2,673,921	-	-
Bonds Payable	-	1,208,025	-
Deferred Revenue	-	774	-
Other Accrued Liabilities	27,847	26,802	-
Total Liabilities	2,727,616	1,242,480	68,778
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	9,572,783	4,192,447	-
Total Net Assets	$ 9,572,783	$ 4,192,447	$ -

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, 2006
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 153,031	$ 1,919,484
State and Local Agencies	322,117	-
Investment Income:		
Net Increase (Decrease) in the Fair Value of Investments	518,542	210,464
Capital Gains Distributions from Investments	-	65,811
Interest and Dividends	166,834	95,389
Less Investment Expense:		
Investment Activity Expense	19,283	-
Cost of Securities Lending	909	-
Net Investment Income	665,184	371,664
Bond and Note Proceeds	-	242,769
Received from Institutions	-	95,409
Miscellaneous Revenues	-	21,530
Total Additions	1,140,332	2,650,856
Deductions:		
Benefits Paid to Participants or Beneficiaries	511,197	1,432,171
Construction and Program Costs	-	72,885
Bond Refunding and Refinancing Escrows	-	83,799
Principal Payments on Bonds	-	43,096
Interest Expense	-	54,295
Refunds and Withdrawals	18,940	4,308
Administrative Expenses	9,675	48,455
Transfers Out	-	9,793
Total Deductions	539,812	1,748,802
Net Increase (Decrease)	600,520	902,054
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	8,972,263	3,290,393
End of Year	$ 9,572,783	$ 4,192,447

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

DIRIGO
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STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2006
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Loring Development Authority	Maine Community College System	Maine Educational Center for the Deaf and Hard of Hearing
Assets					
Current Assets:					
Equity in Treasurer's Cash Pool	$ -	$ 41,310	$ -	$ 2,566	$ -
Cash and Cash Equivalents	2,454	4,552	799	10	566
Cash with Fiscal Agent	-	-	-	-	-
Investments	-	100,320	-	20,988	-
Inventories	-	-	-	1,192	-
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	-	35	-	-
Other Receivables	51	2,472	185	3,509	18
Due from Other Funds	-	-	-	-	-
Due from Other Governments	-	1,226	-	-	-
Due from Primary Government	1,468	-	647	632	-
Loans receivable from primary government	-	-	-	-	-
Other Current Assets	82	1,984	55	523	1
Total Current Assets	4,055	151,864	1,721	29,420	585
Noncurrent Assets:					
Equity in Treasurer's Cash Pool	-	2,696	-	167	-
Assets Held in Trust	-	-	-	-	3
Restricted Deposits and Investments	-	-	-	585	-
Investments	-	-	-	5,604	698
Receivables, Net of Current Portion:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	117,559	1,134	-	-
Other Receivables	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Due from Primary Government	-	-	-	-	-
Loans receivable from primary government	-	-	-	-	-
Capital Assets - Net of Depreciation	646	1,763	68,515	88,657	223
Other Noncurrent Assets	-	-	-	-	-
Total Noncurrent Assets	646	122,018	69,649	95,013	924
Total Assets	4,701	273,882	71,370	124,433	1,509
Liabilities					
Current Liabilities:					
Accounts Payable	2,092	1,568	78	1,022	237
Accrued Payroll	130	-	-	-	665
Compensated Absences	389	-	39	1,623	134
Due to Other Governments	-	-	3	-	-
Due to Primary Government	618	-	772	-	145
Amounts Held under State & Federal Loan Programs	-	-	-	-	-
Undistributed Grants and Administrative Funds	-	9,472	-	-	-
Allowances for Losses on Insured Commercial Loans	-	6,273	-	-	-
Bonds Payable	-	53	-	-	-
Obligations under Capital Leases	11	-	-	1,000	-
Accrued Interest Payable	-	538	-	-	-
Deferred Revenue	82	1,681	86	1,355	-
Other Current Liabilities	-	48	254	7,056	3
Total Current Liabilities	3,322	19,633	1,232	12,056	1,184
Long-Term Liabilities:					
Due to Other Governments	-	1,108	-	-	-
Amounts Held under State & Federal Loan Programs	-	42,945	-	-	-
Bonds Payable	-	175,330	-	-	-
Obligations under Capital Leases	32	-	-	3,490	-
Deferred Revenue	-	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-	-
Total Long-Term Liabilities	32	219,383	-	3,490	-
Total Liabilities	3,354	239,016	1,232	15,546	1,184
Net Assets					
Invested in Capital Assets, Net of Related Debt	603	1,762	68,287	84,752	223
Restricted	577	456	-	14,709	545
Unrestricted	167	32,648	1,851	9,426	(443)
Total Net Assets	$ 1,347	$ 34,866	$ 70,138	$ 108,887	$ 325

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

Maine Educational Loan Authority	Maine Maritime Academy	Maine Municipal Bond Bank	Maine Port Authority	Maine State Housing Authority	Maine Technology Institute	Northern New England Passenger Rail Authority	University of Maine System	Totals
$ -	$ 785	$ -	$ -	$ -	$ -	$ -	$ 49,610	$ 94,271
7,875	636	288	1,380	4,150	8,245	705	8,431	40,091
-	-	-	-	-	2,201	-	-	2,201
-	4,601	18,671	-	384,860	80	-	76,362	605,882
-	486	-	-	-	-	26	-	1,704
5,645	240	-	-	23,582	-	-	-	29,467
-	-	-	-	6	-	-	489	530
1,778	493	1,558	4	15,116	2	140	18,476	43,802
-	-	-	-	-	-	-	10,511	10,511
-	-	117,835	-	3,427	66	210	15,876	138,640
-	-	-	-	-	-	-	-	2,747
-	-	3,915	-	-	-	-	-	3,915
150	982	27,795	-	-	-	948	5,757	38,277
15,448	8,223	170,062	1,384	431,141	10,594	2,029	185,512	1,012,038
-	51	-	-	-	-	-	3,238	6,152
-	-	-	-	-	2,407	-	-	2,410
-	2,624	263,221	-	266,587	-	2,314	61,128	596,459
29,285	11,271	-	-	146,859	-	-	255,230	448,947
57,172	2,487	-	-	1,064,366	62	-	-	1,124,087
-	-	-	654	1,102	-	-	41,114	161,563
343	254	-	-	-	-	-	4,946	5,543
-	-	1,090,344	-	-	-	-	(18)	1,090,326
-	-	-	-	-	-	-	2,495	2,495
-	-	42,353	-	-	-	-	-	42,353
-	19,061	847	17,988	1,531	11	1,086	519,273	719,601
898	5,132	6,067	-	3,156	-	-	19,217	34,470
87,698	40,880	1,402,832	18,642	1,483,601	2,480	3,400	906,623	4,234,406
103,146	49,103	1,572,894	20,026	1,914,742	13,074	5,429	1,092,135	5,246,444
186	2,237	375	519	35,248	157	67	18,283	62,069
-	-	-	-	-	-	-	-	795
-	-	-	-	-	-	11	-	2,196
154	-	468	-	3,419	-	-	-	4,044
-	-	-	-	-	-	-	117	1,652
-	-	30,155	-	-	-	-	-	30,155
-	-	-	-	-	-	-	-	9,472
-	-	-	-	-	-	-	-	6,273
-	119	97,593	-	133,410	-	-	6,382	237,557
-	-	-	-	-	4	-	223	1,238
271	-	8,693	-	8,273	-	-	-	17,775
282	164	4,288	-	30,160	9,259	-	17,964	65,321
-	165	-	-	-	2,407	-	27,771	37,704
893	2,685	141,572	519	210,510	11,827	78	70,740	476,251
1,099	1,710	3,163	-	-	-	-	-	7,080
-	-	-	-	-	-	-	-	42,945
97,361	2,503	983,368	-	1,433,685	-	-	190,190	2,882,437
-	-	-	-	-	4	-	364	3,890
774	-	-	-	-	-	-	-	774
-	-	-	-	-	-	-	79,083	79,083
99,234	4,213	986,531	-	1,433,685	4	-	269,637	3,016,209
100,127	6,898	1,128,103	519	1,644,195	11,831	78	340,377	3,492,460
-	16,494	-	17,988	1,531	-	1,085	379,235	571,960
2,211	17,016	391,665	487	252,739	-	3,106	297,977	981,488
808	8,695	53,126	1,032	16,277	1,243	1,160	74,546	200,536
$ 3,019	$ 42,205	$ 444,791	$ 19,507	$ 270,547	$ 1,243	$ 5,351	$ 751,758	$1,753,984

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Loring Development Authority	Maine Community College System	Maine Educational Center for the Deaf and Hard of Hearing
Expenses	$ 27,801	$ 29,572	$ 3,488	$ 96,422	$ 6,312
Program Revenues					
Charges for Services	4,558	15,449	1,389	22,277	120
Program Investment Income	53	1,676	-	664	-
Operating Grants and Contributions	22,175	20,179	75	25,455	1
Capital Grants and Contributions	-	-	11	6,386	-
Net Revenue (Expense)	(1,015)	7,732	(2,013)	(41,640)	(6,191)
General Revenues					
Unrestricted Investment Earnings	-	-	95	1,135	33
Non-program Specific Grants, Contributions and Appropriations	-	-	930	43,555	6,097
Miscellaneous Income	170	-	21	1,471	259
Gain (Loss) on Assets Held for Sale	-	-	18	300	3
Total General Revenues	170	-	1,064	46,461	6,392
Change in Net Assets	(845)	7,732	(949)	4,821	201
Net Assets, Beginning of the Year (As Restated)	2,192	27,134	71,087	104,066	124
Net Assets, End of Year	$ 1,347	$ 34,866	$ 70,138	$ 108,887	$ 325

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

Maine Educational Loan Authority	Maine Maritime Academy	Maine Municipal Bond Bank	Maine Port Authority	Maine State Housing Authority	Maine Technology Institute	Northern New England Passenger Rail Authority	University of Maine System	Totals
$ 4,419	$ 22,891	$ 69,042	$ 2,188	$ 204,397	$ 8,023	$ 10,547	$ 600,012	$ 1,085,114
3,523	11,768	50,369	125	72,359	49	5,068	242,316	429,370
1,216	904	(3,113)	-	21,032	-	-	-	22,432
-	1,888	4,416	93	126,864	7,724	5,942	182,420	397,232
-	1,421	37,193	505	-	-	975	4,746	51,237
320	(6,910)	19,823	(1,465)	15,858	(250)	1,438	(170,530)	(184,843)
-	261	403	37	509	473	112	9,197	12,255
-	8,327	-	-	-	-	-	206,046	264,955
-	616	924	-	-	148	-	2,821	6,430
-	(20)	-	-	-	-	-	-	301
-	9,184	1,327	37	509	621	112	218,064	283,941
320	2,274	21,150	(1,428)	16,367	371	1,550	47,534	99,098
2,699	39,931	423,641	20,935	254,180	872	3,801	704,224	1,654,886
$ 3,019	$ 42,205	$ 444,791	$ 19,507	$ 270,547	$ 1,243	$ 5,351	$ 751,758	$ 1,753,984

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 all funds, organizations, agencies, boards, commissions and authorities. It includes as component units those legally separate organizations for which the State is financially accountable or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* defines financial accountability. The State is financially accountable for those entities for which it appoints a voting majority of the governing board and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government or if the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended Component Units - Blended component units are entities that are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise benefits the State exclusively, or almost exclusively. Therefore, the State reports these organizations' balances and transactions as though they were part of the primary government. The Maine Governmental Facilities Authority (MGFA) has been blended within the financial statements of the primary government.

The MGFA was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. The MGFA is included as an internal service fund in the State's financial statements.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. Component units that are not material to the State's financial statements have not been included. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. Because of their nature, two of the component units are reported in the fiduciary funds. Those component units are the Maine State Retirement System and the Maine Health & Higher Educational Facilities Authority. The State's material discrete and fiduciary component units are:

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

The Finance Authority of Maine, created in 1983, provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, the Occupational Safety Program Fund Board, and the Small Business Enterprise Growth Fund Board. Additionally, the Authority administers the Maine College Savings Program. Net assets of the program, NextGen College Investing Plan, are included in the State's fiduciary fund financial statements. The Governor appoints the 15 voting members of the Authority.

The Maine Educational Center for the Deaf and Hard of Hearing is a comprehensive educational organization that offers educational, residential, transitional, and outreach programs while promoting deaf culture. The school offers services to meet the needs of infants, children and adults who are deaf or hard of hearing, their families, professionals, service providers, agencies and communities on a local, statewide, regional and national level. In 2006, the School changed its name from Governor Baxter School for the Deaf. The combined financial statements of the School include the activity of the School and its component unit, the Maine Foundation for the Deaf.

The Loring Development Authority is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the former Loring Air Force Base. The United States Air Force transferred title to approximately 3,600 acres of land, associated facilities, infrastructure and personal property to the Authority. The Governor appoints the 13 voting members of the Board of Trustees, subject to confirmation by the Senate. At least 7 of the members must be residents of Aroostook County; at least 4 must not be residents of Aroostook County; and one shall be a Commissioner of a department of State Government, *ex officio*.

The Maine Community College System, formerly the Maine Technical College System, is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the System include the activity of seven colleges, the central administrative office, the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

The Maine Educational Loan Authority was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. The Governor appoints six of the Authority's seven commissioners who must be residents of the State. The remaining member must be the Treasurer of State, ex officio. The Authority's fiscal year ends on December 31.

Maine Health & Higher Educational Facilities Authority – MHHEFA assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority consists of 12 members, one of whom must be the Superintendent of Financial Institutions, ex officio; one of whom must be the Commissioner of Health and Human Services, ex officio; one of whom must be the Commissioner of Education, ex officio; one of whom must be the Treasurer of State, ex officio; and eight of whom must be residents of the State appointed by the Governor. The Authority, pursuant to the Student Loan Corporations Act of 1983, may finance student loan programs of institutions of higher education.

Maine Maritime Academy is a college specializing in ocean and marine programs at the undergraduate and graduate levels. The operation of the Academy is subject to review by the federal government. State appropriations, student fees, and a subsidy from the Maritime Administration support the Academy. The financial statements of the Academy include the activity of the college and of a wholly-owned subsidiary "Essence Limited", whose purpose is to maintain and charter certain large donated vessels owned by the Academy for use in its programs.

The Maine Municipal Bond Bank is authorized to issue bonds providing funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations 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 Port Authority was established for the general purpose of acquiring, financing, constructing and operating port terminal facilities and railroad facilities within the State. Its mission is to improve the global competitiveness of Maine businesses by developing marine and rail facilities for the intermodal movement of people and cargo. The Governor appoints four of the five members of the Board of Directors. The fifth member is the Commissioner of Transportation.

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

commissioners. The remaining two commissioners are the Treasurer of State, ex officio, and the Director of the Maine State Housing Authority, ex officio. The Authority's fiscal year ends on December 31.

The Maine State Retirement System is the administrator of an agent, multiple-employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 267 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.

The Maine Technology Institute, a nonprofit corporation which commenced operations in November 1999, was established to encourage, promote, stimulate, and support research and development activity leading to commercialization of new products and services in the State's technology intensive sectors. The Governor appoints ten of the Board's twelve voting directors. The Commissioner of Economic and Community Development, President of the Maine Community College System and the Chancellor of the University of Maine System are ex officio voting directors.

The Northern New England Passenger Rail Authority, established on June 29, 1995 by the State of Maine Legislature, initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine. The Governor appoints five of the seven voting members of the Authority. The Commissioner of Transportation and Commissioner of Economic and Community Development are both directors, ex officio.

The University of Maine System is the State University. In 1968 all existing units of the State college system (Orono, Portland, Augusta, and the Law School) were merged by the 103rd Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. The combined financial statements of the System include the activity of seven Universities, eleven centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

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

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

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

Maine Educational Center for the Deaf
and Hard of Hearing
One Mackworth Island
Falmouth, ME 04105

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

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

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

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

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

Maine Maritime Academy
Pleasant Street
Castine, ME 04420

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

Maine Port Authority
16 State House Station
Augusta, ME 04333-0016

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

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

Maine Technology Institute
405 Water St, Ste 300
Gardiner, ME 04345

Northern New England Passenger Rail Authority
75 West Commercial St., Suite 204
Portland, ME 04101-4631

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 Public Broadcasting Corporation, the Maine Turnpike Authority, and the Maine Veteran's Home. The primary government has no material accountability for these organizations beyond making the board appointments.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $649.3 million of restricted net assets, of which $31.9 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 are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are reported as general revenues.

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

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

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

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

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

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

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the governmental funds when they become susceptible to accrual, that is, when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the State generally considers revenues as available if they are collected within 60 days of the end of the fiscal year.

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 they mature or become due for payment within the period.

Financial Statement Presentation

The State reports the following major governmental funds:

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

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

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

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

The State reports the following major enterprise funds:

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

The *Alcoholic Beverages Fund* was established to license and regulate 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 proceeds from bond issues.

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 lottery operations and transportation services, as well as the State's unemployment compensation program.

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

Fiduciary Fund Types:

Pension (and Other Employee Benefit) Trust Funds report those resources that are required to be held in trust for members and beneficiaries of the State's pension, death and disability benefit plans. These resources are managed by the Maine State Retirement System, which is presented with the State's fiduciary funds per GASB Statement No. 34.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments as well as component units which are fiduciary in nature. Examples include Abandoned Property, Public Reserved Lands, Permanent School funds, the NextGen College Investing Plan and MHHEFA.

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 follows the practice of pooling 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 those component units that participate in the cash pool, equity in the cash pool 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 the 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 $177 million of Workers' Compensation, $41 million of Bureau of Insurance, and $26 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 that have been invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine.

Inventories
The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Undistributed vaccines and food commodities at fiscal year end are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when food stamps are used (EBT cards), and when vaccines and food commodities are issued. Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost.

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

Receivables
Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements 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 that are due from related providers for interim payments are $247 million, net of an allowance for uncollectible amounts of $21.3 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, except for the residual amounts due between governmental and business-type activities and the amount the General Fund owes the Escheat Fund.

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.

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 are primarily 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 (i.e., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $10 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and

proprietary fund equipment is capitalized $3 thousand or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if not purchased, at fair value at date of acquisition. The historical cost for some capital assets is not available. The cost of these assets, at the date of acquisition, has been estimated. No interest has been capitalized on self-constructed assets, since non-capitalization of interest does not materially affect the financial statements.

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

Fixed assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them.

Accounts Payable
Accounts payable represent the gross amount of expenditures or expenses that have been 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 estimate at June 30, 2006 is $520 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 expenses and liabilities as they accrue. In the governmental fund financial statements, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

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

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

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

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

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

F. REVENUES AND EXPENDITURES/EXPENSES

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

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

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

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

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 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, established in 2003 in Chapter 451, Public Laws 2003 to replace the Maine Rainy Day Fund, is a designation included in the negative $355.4 million unreserved General Fund fund balance intended to be used when revenues are under budget and critical services must be preserved. The Governor may also allocate funds from the Budget Stabilization Fund for payment of death benefits for law enforcement officers, firefighters and emergency medical services persons.

Balances in the fund do not lapse, but carry forward each year. The money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. In addition to interest earnings, the fund is capitalized at the close of each fiscal year. As the third priority before any other transfer, the State Controller is required to transfer 35% of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap. In accordance with statute, the State Controller made the required transfer for fiscal year 2006.

The statutory cap for the fund is 12% 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 2006 actual General Fund revenue, the statutory cap at the close of fiscal year 2006 and during fiscal year 2006 was $352.2 million. At the close of fiscal year 2006, the balance of the Maine Budget Stabilization Fund was $79.9 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	$ 47,071
Increase in fund balance	32,832
Balance, end of year	$ 79,903

Budgetary Overexpenditures
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, 2006, the legislature approved $218 million of supplemental appropriations for the General Fund.

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

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
During fiscal year 2006, the State implemented the Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section.* The statement established and modified requirements related to the supplementary information presented in the statistical section of this report. The objectives of statistical section information are to provide financial statement users with additional historical perspectives, context, and detail to assist in using the information in the financial statements.

During fiscal year 2006, the State also implemented the following GASB Statements:

No. 42 –*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

No. 46 – *Net Assets Restricted by Enabling Legislation*

No. 47 – *Accounting for Termination Benefits*

Changes in Accounting Principle
The State has made a change in its accrual for incurred but not paid (IBNP) Medicaid claims settlements, which are actuarially estimated. The estimate at June 30, 2006 was $520 million. Receivables that were due from related providers for interim payments are $247.4 million, net of an allowance for uncollectible amounts. In fiscal year 2005, these amounts were recorded as a net

liability of $194 million, as the receivable amount could not be readily determined. In fiscal year 2006, the providers have agreed in theory to amounts owed to the State, and strides are being made in collections. There was no impact on fund balance as a result of this change.

Changes in Classification
The State recorded certain grants received by the Department of Transportation for $183.7 million as operating grants and contributions in the current year. In the prior year $172.6 million had been recorded as capital grants and contributions.

In prior years, the Maine Budget Stabilization Fund was reported as a General Fund fund balance reservation. Since GASB clarified its definition of fund balance reservations, the State reclassified it as part of the designated fund balance which is included in the unreserved fund balance.

Change in Accounting Estimate
The State has made a change in accounting estimate for allowance for doubtful accounts related to amounts receivable from healthcare providers for audit settlements. Due to many of the accounts being more than one year old, an estimate of $31 million was recorded in fiscal year 2006, and none in fiscal year 2005.

Restatement – Primary Government
The beginning general fund balance was reduced by $137.3 million to reflect a change in recognizing individual and corporate income taxes and sales and use taxes. Revenues are considered available if collected within 60 days of year-end. The State had reported revenues as available if collected within 12 months of year-end. The change was made to more accurately reflect financial resources available to pay liabilities of the current period. Beginning general fund balance was increased by $2.3 million for a revenue recognition item. The beginning net assets on the Governmental Activities in the Statement of Net Assets were increased $23.2 million for assets that should have been capitalized in the prior period.

Beginning net assets in the governmental funds balance sheet, special revenue fund, increased by $1.6 million to correct errors in reported federal revenue.

Restatement – Component Units
Beginning net assets on the Statement of Activities increased $869 thousand with the inclusion of Maine Technology Institute as a reported component unit.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Four internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2006. The Workers' Compensation Fund reported a deficit of $29 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $4 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $101 thousand because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. 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 $100 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 General Fund shows a deficit fund balance of $177.6 million at June 30, 2006 and a deficit of $88.6 million at June 30, 2005, as restated. The change in recognizing incomes, sales, and fuel taxes to 60 days from one year decreased the beginning fund balance by $137.3 million. Also as a result of the change in revenue recognition, accrued Medicaid liabilities reflect the total amounts owed, but revenues that will finance these amounts are only for 60 days. The Medicaid liabilities are expected to be paid in the ensuing year.

NOTE 5 - DEPOSITS AND INVESTMENTS

The deposit and investment policies of the State of Maine Office of the Treasurer are governed by Title 5 of the Maine Revised Statutes Annotated (MRSA). Per 5 MRSA § 135, the Treasurer may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State and any national bank or federal savings and loan association located in the State.

The 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 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% of the capital, surplus, and undivided profits of any trust company or national bank or 25% of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any one institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

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

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2006 consisted of:

Primary Government Deposits and Investments
(Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Private Purpose Trusts (1)	Agency Funds	Total
Equity in Treasurer's Cash Pool	$570,088	$ 23,689	$ 1,118	$ 5,605	$ 600,500
Cash and Cash Equivalents	277	757	-	72	1,106
Cash with Fiscal Agent	21,400	-	-	27	21,427
Investments	70,790	-	10,654	-	81,444
Restricted Equity in Treasurer's Cash Pool	16,858	-	-	-	16,858
Restricted Deposits and Investments	23,802	449,748	-	-	473,550
Investments Held on Behalf of Others	-	-	3,988,760	62,774	4,051,534
Other Assets	-	-	16,287	300	16,587
Total Primary Government	$703,215	$474,194	$4,016,819	$68,778	$5,263,006

1) Maine Health & Higher Educational Facilities Authority, a component unit that is fiduciary in nature, has been excluded.

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, 2006:

	Maturities in Years (Expressed in Thousands)						
	Less than 1	1-5	6-10	11-20	More than 20	No Maturity	Fair Value
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	$ 63,945	$ 28,381	$ -	$ -	$ -	$ -	$ 92,326
US Treasury Notes	8,599	8,359	-	-	-	-	16,958
Repurchase Agreements	25,026	-	-	-	-	-	25,026
Corporate Notes and Bonds	2,525	1,499	-	-	-	-	4,024
Commercial Paper	192,208	-	-	-	-	-	192,208
Certificates of Deposit	11,398		-	-	-	-	11,398
Money Market	291,387	-	-	-	-	-	291,387
Cash and Cash Equivalents	-	-	-	-	-	2,145	2,145
Unemployment Fund Deposits with US Treasury	-	-	-	-	-	449,748	449,748
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	922	4,930	2,372	1,800	3,931	4	13,959
US Treasury Notes	6,415	13,930	5,690	7,048	3,640	-	36,723
Repurchase Agreements	26	-	-	-	-	-	26
Corporate Notes and Bonds	680	6,994	800	306	1,781	-	10,561
Other Fixed Income Securities	-	107	199	-	-	-	306
Commercial Paper	2,116	-	-	-	-	-	2,116
Certificates of Deposit	125	-	-	-	-	-	125
Money Market	3,208	-	-	-	-	4,164	7,372
Cash and Cash Equivalents	-	-	-	-	-	26,827	26,827
Equities	-	-	-	-	-	52,986	52,986
Other	-	-	-	-	-	11	11
	$ 608,580	$ 64,200	$ 9,061	$ 9,154	$ 9,352	$ 535,885	$ 1,236,232
NextGen College Investing Plan							3,988,760
Other Assets							16,587
Cash with Fiscal Agent							21,427
Total Primary Government							$ 5,263,006

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% 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% of the debt securities are rated A or better.

The Primary Government's total investments by credit quality rating as of June 30, 2006 is presented below:

	Standard & Poor's Credit Rating (Expressed in Thousands)								
	A1	A	AA	AA+	AAA	BB	BBB	Not Rated	Total
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	$ -	$ -	$ -	$ -	$ 92,326	$ -	$ -	$ -	$ 92,326
US Treasury Notes	-	-	-	-	16,958	-	-	-	16,958
Corporate Notes and Bonds	-	-	-	2,525	1,499	-	-	-	4,024
Commercial Paper	158,363	-	-	-	-	-	-	33,845	192,208
Money Market	-	-	-	-	-	-	-	291,387	291,387
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	-	98	-	4,042	-	-	9,819	13,959
US Treasury Notes	-	-	-	-	36,373	-	-	350	36,723
Corporate Notes and Bonds	-	3,973	895	27	1,757	118	740	3,051	10,561
Commercial Paper	1,743	-	-	-	-	-	-	373	2,116
Money Market	-	-	-	-	-	-	-	7,372	7,372
Other Fixed Income Securities	-	-	180	-	-	-	-	126	306
Total Primary Government	$ 160,106	$ 3,973	$ 1,173	$ 2,552	$ 152,955	$ 118	$ 740	$346,323	$ 667,940

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, 2006, more than 5% of the cash pool's investments were in FHLB, Citizens Bank, and TD Banknorth. These investments are $45.5 million (5.8%), $205 million (26.3%), and $174.4 million (22.4%), respectively, of the cash pool's total investments.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments 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. The State does not have a policy regarding custodial credit risk for its trusts. Of the cash pool's $13.7 million invested in non-negotiable certificates of deposit, $6.9 million exceed the FDIC insured amounts for the institutions at which they were held. 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, 2006 was $59.5 million and was comprised of the following investments (in thousands):

U.S. Instrumentalities	$ 7,794
US Treasury Notes	4,107
Corporate Notes and Bonds	5,049
Other fixed Income Securities	306
Equities	40,411
Cash and Equivalents	1,801
Other	11
Total	$ 59,479

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to the vendors. During fiscal year 2006, these disbursements, on average, exceeded $157 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 STATE RETIREMENT SYSTEM

The Maine State Retirement System (The System) makes investments in a combination of equities, fixed income securities, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy. The System prohibits its investment managers from using leverage in its derivative financial instruments or from investing in speculative positions.

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, 2006, 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, 2006 were $3.1 billion and $3.1 billion, respectively. These amounts include assets of the State and local participating entities plans.

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 $4 billion at June 30, 2006.

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, 2006 was $50.9 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 CD's are FDIC insured or fully collateralized. The value of the Account at June 30, 2006 was $219.9 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. The Account intends to invest no more than a maximum of 10 percent of its assets in Maine CDs even though it has no prescribed limit on such investments.

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):

	Fair Value
Principal Plus Portfolio	$ 50,988
Cash Allocation Account	219,905
Fixed Income Securities	758,970
Total Fair Value	$1,029,863

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 $100.4 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 $17.5 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)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$ 525,545	$ 184,233	$ 1	$ (190,882)	$ 518,897
Highway	28,129	2,572	80	(6,505)	24,276
Federal	-	222,156	-	(23,032)	199,124
Other Special Revenue	13,466	71,757	4,952	(5,719)	84,456
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	567,140	480,718	5,033	(226,138)	826,753
Allowance for Uncollectibles	(141,290)	(84,101)	(747)		-
Net Receivables	$ 425,850	$ 396,617	$ 4,286		$ 826,753
Proprietary Funds:					
Employment Security	$ -	$ 35,881	$ -	$ (7,642)	$ 28,239
Alcoholic Beverages	-	6	-	(6)	-
Nonmajor Enterprise	-	25,825	-	(529)	25,296
Internal Service	-	7,833	186,215	-	194,048
Total Proprietary Funds	-	69,545	186,215	(8,177)	247,583
Allowance for Uncollectibles	-	(8,177)	-		-
Net Receivables	$ -	$ 61,368	$186,215		$ 247,583

Component Units - Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance for Uncollectibles	Net Receivables
Finance Authority of Maine	$ 2,472	$ -	$121,121	$(3,562)	$ 120,031
Maine Educational Loan Authority	2,121	64,124	-	(1,307)	64,938
Maine State Housing Authority	15,116	1,098,036	1,201	(10,181)	1,104,172
University of Maine System	25,906	-	42,220	(3,101)	65,025

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, 2006 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds			
Due from Other Funds	**General**	**Highway**	**Federal Fund**	**Other Special Revenue**
General	$ -	$ -	$ 3,294	$ -
Highway	-	-	1,494	-
Federal	17,611	9	46	2,082
Other Special Revenue	546	187	459	432
Employment Security		-	26	-
Non-Major Enterprise	2	30	6,716	2
Internal Service	8,732	2,828	2,820	1,259
Fiduciary	5,182	-	-	-
Total	$32,073	$3,054	$14,855	$3,775

Due from Other Funds	**Alcoholic Beverages**	**Non-Major Enterprise**	**Internal Service**	**Total**
General	$ 1	$10,849	$4,531	$18,675
Highway	-	-	218	1,712
Federal	-	-	218	19,966
Other Special Revenue		19	351	1,994
Employment Security	-	-	-	26
Non-Major Enterprise			36	6,786
Internal Service	-	397	552	16,588
Fiduciary	-	-	-	5,182
Total	$ 1	$11,265	$5,906	$70,929

Not included in the table above are the following 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 2006, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The General Fund transferred $13.5 million to other funds for the following purposes: $2.3 million to the Other Special Revenue Fund for the Fund for a Healthy Maine, $8.8 million to the Federal Fund for federal audit settlements within the Department of Health and Human Services, and $2.4 million to the Other Special Revenue Fund for the Clean Election fund.

The Other Special Revenue Fund transferred $7.3 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.

Interfund transfers for the year ended June 30, 2006, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 263	$28,938	$ -
Highway	1,751	-	-	-	-
Federal	9,740	-	-	19,591	-
Other Special Revenue	138,188	-	13,518	-	4,131
Other Governmental Funds	676	-	-	-	-
Employment Security	-	-	-	-	-
Non-Major Enterprise	617	3,586	20	218	-
Internal Service	13,951	-	-	317	-
Fiduciary	-	-	-	-	-
Total	$164,923	$3,586	$13,801	$49,064	$4,131

	Transferred From					
Transferred To	**Alcoholic Beverages**	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ 26	$ -	$51,986	$ -	$9,699	$ 90,912
Highway	-	-	-	-	-	1,751
Federal	-	2,113	27	-	-	31,471
Other Special Revenue	-	-	1,997	1	94	157,929
Other Governmental Funds	-	-	-	-	-	676
Employment Security	-	-	-	-	-	-
Non-Major Enterprise	-	-	244	-	-	4,685
Internal Service	-	-	-	-	-	14,268
Fiduciary	-	-	-	-	-	-
Total	$ 26	$2,113	$54,254	$ 1	$9,793	$301,692

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, 2006:

Primary Government - Capital Assets
(Expressed in Thousands)

	Beginning Balance*	Increases and Other Additions	Decreases and Other Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 383,348	$ 41,795	$31,074	$ 394,069
Construction in progress	26,025	16,837	28,335	14,527
Infrastructure	2,636,582	224,940	-	2,861,522
Total capital assets not being depreciated	3,045,955	283,572	59,409	3,270,118
Capital assets being depreciated:				
Buildings	476,315	33,112	2,546	506,881
Equipment	226,825	45,486	18,304	254,007
Improvements other than buildings	25,022	1,834	9,623	17,233
Total capital assets being depreciated	728,162	80,432	30,473	778,121
Less accumulated depreciation for:				
Buildings	115,209	14,931	876	129,264
Equipment	157,675	21,665	12,527	166,813
Improvements other than buildings	9,632	1,727	9,331	2,028
Total accumulated depreciation	282,516	38,323	22,734	298,105
Total capital assets being depreciated net	445,646	42,109	7,739	480,016
Governmental Activities Capital Assets net	$ 3,491,601	$ 325,681	$ 67,148	$ 3,750,134
Business-Type Activities:		**Net Additions**	**Net Deletions**	
Capital assets not being depreciated:				
Land	$ 7,304	$30,857	$ -	$ 38,161
Construction in progress	708	217	-	925
Total capital assets not being depreciated	8,012	31,074	-	39,086
Capital assets being depreciated:				
Buildings	8,747	575	-	9,322
Equipment	19,904	405	89	20,220
Improvements other than buildings	51,410	9,808	-	61,218
Total capital assets being depreciated	80,061	10,788	89	90,760
Less accumulated depreciation	38,112	12,745	41	50,816
Total capital assets being depreciated, net	41,949	(1,957)	48	39,944
Business-Type Activities Capital Assets, net	$ 49,961	$29,117	$ 48	$ 79,030

**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)

	Amount
Governmental Activities:	
Arts, Heritage and Cultural Enrichment	$ 71
Business Licensing and Regulation	309
Economic Development and Workforce Training	1,009
Education	249
Governmental Support and Operations	6,237
Health and Human Services	5,216
Justice and Protection	10,004
Natural Resources Development and Protection	4,139
Transportation Safety and Development	11,090
Total Depreciation Expense – Governmental Activities	$38,324

NOTE 9 - MAINE STATE RETIREMENT SYSTEM

PLAN DESCRIPTION

The Maine State Retirement System is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Maine State Retirement System Laws, Title 5 MRSA C. 421, 423, and 425. The System is a component unit of the State. Financial information for the System is included in the Statement of Fiduciary Net Assets and in the Statement of Changes in Fiduciary Net Assets. Additional schedules and information are presented in the accompanying Required Supplementary Information (RSI). The Maine State Retirement System issues a stand-alone financial report which includes schedules of funding progress and employer contributions. That comprehensive annual financial report for June 30, 2006 may be obtained from the Maine State Retirement System, 46 State House Station, Augusta, ME 04333.

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

At June 30, 2006, the membership consisted of:

Active vested and nonvested members	52,282
Terminated vested participants	7,141
Retirees and benefit recipients	32,918
Total	92,341

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 participating entity withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The participating entity remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members; and for those active employees, whether or not vested, who remain contributing System members.

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

The total funds managed by the System are constitutionally restricted, as held in trust, for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan.

The Maine State Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering an agent multiple employer plan. The statements include $2 billion of assets related to the participating local entities. 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 that is administered by a third party insurance company. Premiums paid, by or on behalf of those covered, are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company in the amount of benefits paid out and additional payments representing administrative fees.

FUNDING POLICY

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due.

Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 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 11 years remained at June 30, 2006.

For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability, and the amount of the unfunded liability. Amortization periods range from 4 years to 16 years.

In order to reduce any unfunded pension liability for State employees and teachers, the State is required to remit 20% of its General Fund unappropriated surplus to the System at year end. For fiscal 2006, this additional contribution was approximately $17.5 million. The amount will be paid by the State after year end.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 2006 for participating entities are:

State:	
Employees[1]	7.65-8.65%
Employer[1]	15.09-45.94%
Teachers:	
Employees	7.65%
Employer	17.23%
Participating Local Entities:	
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 participating local districts. 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	$286,439
Interest on net pension obligation	2,739
Adjustment to annual required contribution	(1,925)
Annual pension cost	287,253
Contributions made	303,439
Increase (decrease) in net pension obligation	(16,186)
Net pension obligation beginning of year	34,236
Net pension obligation end of year	$ 18,050

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2006	$287,253	105.63%	$18,050
2005	262,874	104.50%	34,236
2004	253,282	107.98%	46,060

The annual required contribution for the current year was determined as part of the June 30, 2006 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 7.75% return on investments, and (b) projected salary increases of 4.75% to 10 % per year, including cost of living. The assumptions include post retirement benefit increases of 3.75% 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. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability, (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 4 to 16 years.

COMPONENT UNIT PARTICIPANTS

The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine State Retirement System have defined benefit pension plans. All are participating local entity participants in plans administered by the Maine State 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 5 MRSA § 285, and for a portion of the premiums for teachers, as authorized by 20-A MRSA § 13451. Pursuant to 5 MRSA § 285 most retired employees of the Maine Turnpike Authority, Maine Community College System, Maine Maritime Academy, Maine State 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 (5 MRSA § 285 1-B) are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities and their instrumentalities.

The State pays 100 percent of post retirement health insurance premiums for retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. The retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse. Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent.

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. Due to budgetary constraints and difficulties accumulating sufficient resources to fund retiree health care benefits on an actuarial basis, Chapter 673 PL 2003 authorizes the State to manage the retiree health insurance fund on a cost-reimbursement basis beginning June 30, 2005.

As of June 30, 2006, there were 9,107 retired eligible State employees and 7,081 retired teachers. In fiscal year 2006, the State paid into the Retiree Health Insurance Fund $71.1 million for retired employees and $12.0 million for retired teachers. Premium charges paid were $39.1 million and $14.1 million, respectively. Overall, Net Assets increased by $54.2 million to $61.8 million at June 30, 2006 as a result of an increase in cash of $22 million, and a decrease in amounts due to other funds of $30 million. The increase in cash relates to a premium increase in anticipation of the implementation of GASB Statement No. 45. The decrease in amounts due to other funds is due to legislation in fiscal year 2005 that required the transfer of certain excess equity amounts to the General Fund Compensation and Benefit Plan account. This was not required in fiscal year 2006.

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 for postretirement benefits of $2.6 billion.

The GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* These Statements, which will be implemented by the State for the fiscal year beginning July 1, 2006 and July 1, 2007, respectively, 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. 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 is currently

considering the creation of a trust fund and various funding alternatives.

POST RETIREMENT LIFE INSURANCE BENEFITS

The Maine State Retirement System provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of ten years. Payments of claims are made from a fund containing the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. For the fiscal year ended June 30, 2006, claims totaled $1.9 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 6,996 retired State employees and 5,024 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 2006 were:

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

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006	Due Within One Year
General Obligation Debt:					
General Fund	$439,110	$52,390	$57,915	$433,585	$69,280
Special Revenue Fund	47,825	-	13,950	33,875	10,415
Self Liquidating	160	-	70	90	70
Total	$487,095	$52,390	$71,935	$467,550	$79,765

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2006 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2007	$ 79,765	$ 18,755	$ 98,520
2008	70,901	15,529	86,430
2009	62,675	12,626	75,301
2010	56,875	9,910	66,785
2011	51,525	7,409	58,934
2012-2016	145,809	11,864	157,673
Total	$467,550	$ 76,093	$543,643

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2006 are as follows:

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

			Fiscal Year Maturities		
	Amounts Issued	**Outstanding 6/30/2006**	**First Year**	**Last Year**	**Interest Rates**
General Fund:					
Series 1991	$109,625	$ 3,770	1994	2007	5.70% - 8.95%
Series 1997	37,700	2,680	1998	2007	4.875% - 7.125%
Series 1998	54,500	10,410	1999	2008	4.20% - 6.50%
Series 1999	54,385	11,615	2000	2009	4.20% - 6.75%
Series 2000	66,290	22,420	2000	2010	4.875% - 7.75%
Series 2001	22,050	10,525	2002	2011	4.00% - 6.08%
Series 2002	27,610	16,560	2003	2012	3.00% - 5.75%
Series 2003	97,080	67,945	2003	2013	1.50% - 5.00%
Series 2004	117,275	97,745	2005	2014	2.00% - 5.27%
Series 2005	137,525	137,525	2006	2015	2.00% - 5.27%
Series 2006	52,390	52,390	2007	2016	4.00% - 5.51%
Total General Fund		$ 433,585			
Special Revenue Fund:					
Series 1991	26,500	$ 1,865	1994	2007	5.70% - 7.875%
Series 1997	5,000	500	1998	2007	4.30% - 5.00%
Series 1998	30,000	6,000	1999	2008	4.00% - 5.25%
Series 1999	16,900	5,070	2000	2009	4.00% - 5.50%
Series 2001	19,225	9,600	2002	2011	4.00% - 5.00%
Series 2004	13,000	10,840	2005	2014	2.00% - 4.00%
Total Special Revenue		$ 33,875			
Self Liquidating:					
Maine Veteran's Home	1,700	$90	1982	2008	8.3421%

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, 2006, general obligations bonds authorized and unissued totaled $97.1 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included $186.2 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by the Authority is not debt of the State or any political subdivision within the State; the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority may not issue securities in excess of $263.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2006, the Authority issued the Series 2005 Bonds, which totaled $8.9 million at an interest rate between 4% - 5%. At June 30, 2006, there were approximately $79.9 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 the construction of certain State buildings and to purchase equipment and vehicles, including school buses. Certificates of Participation are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State and school districts maintain custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid.

Neither Certificates of Participation nor the other financing arrangements constitute a legal debt, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

OTHER LONG-TERM OBLIGATIONS

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

The following schedule shows the changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2006:

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 189,570	$ 8,890	$ 12,245	$ 186,215	$ 14,595
COP's and Other Financing Arrangements	36,865	17,100	17,384	36,581	11,003
Compensated Absences	40,246	5,811	4,731	41,326	669
Claims Payable	185,463	88,898	201,380	72,981	24,177
Capital Leases	39,905	6,019	5,833	40,091	6,154
Pledged Future Revenues	49,423	-	3,155	46,268	3,915
Net Pension Obligation	34,236	-	16,186	18,050	-
Total Governmental Activities	$ 575,708	$ 126,718	$ 260,914	$ 441,512	$ 60,513
Business-Type Activities:					
Compensated Absences	$ 383	$ -	$ 248	$ 135	$ 135
Total Business-Type Activities	$ 383	$ -	$ 248	$ 135	$ 135

Debt service requirements (principal and interest) for all COP's and other financing arrangements of the primary government, from June 30, 2006 until maturity, are summarized in the following table:

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

	Governmental Funds			Internal Service Funds		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2007	$ 5,864	$ 472	$ 6,336	$ 19,734	$ 8,638	$ 28,372
2008	3,833	309	4,142	20,955	8,610	29,564
2009	2,065	164	2,229	20,634	7,272	27,906
2010	1,010	84	1,094	18,911	6,417	25,329
2011	630	46	676	14,150	5,669	19,819
2012 - 2016	660	17	677	65,115	19,736	84,851
2017 - 2021	-	-	-	46,890	5,562	52,452
2022 - 2026	-	-	-	2,345	124	2,469
Total	$14,062	$1,091	$15,153	$208,734	$62,029	$270,763

SHORT TERM OBLIGATIONS

The State of Maine issued and retired $124 million in Tax Anticipation Notes and $46.2 million in Bond Anticipation Notes during fiscal year 2006. Short term obligations are used to meet temporary cash flow operating needs. At June 30, 2006 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

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, 2006, the lease agreements outstanding totaled $1.7 million.

PLEDGED FUTURE REVENUES

On December 16, 2004, the Maine Municipal Bond Bank (MMBB) issued $48.4 million of GARVEE grant anticipation revenue bonds on behalf of the Maine Department of Transportation, to provide financing for construction of a new Waldo-Hancock bridge. Net proceeds from the bonds totaled $49.4 million including bond premium of approximately $900 thousand. The bonds payable bear interest rates from 2.5% to 5%, and have maturities from 2005 to 2015. The State has committed to appropriate each year a portion of the State's future federal transportation funds, in amounts 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 has 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 2006 were $167 million, and current year payments to MMBB were $366,480 (0.2% of federal transportation funds received).

OBLIGATIONS UNDER CAPITAL LEASES

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

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

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such

cancellation clauses are not considered because the likelihood that they will be exercised is considered remote.

Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below. At June 30, 2006 capital assets include $63.7 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $27.6 million.

OBLIGATIONS UNDER OPERATING LEASES

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

The following schedule includes the future minimum lease payments for capital leases reported in proprietary funds, and the future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year from June 30, 2006:

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

Fiscal Year	Capital Leases	Operating Leases
2007	$ 6,154	$ 1,328
2008	5,866	1,003
2009	5,454	819
2010	5,034	483
2011	4,779	320
2012-2016	16,291	1,143
2017-2021	6,080	378
2022-2026	205	-
2027-2030	40	-
Total Minimum Payments	49,903	$ 5,474
Less: Amount Representing Interest	9,812	
Present Value of Future Minimum Payments	$ 40,091	

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, while relatively small amounts will be paid by the General Fund and Highway Fund.

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.

COMPENSATED ABSENCES

Compensated absence liabilities will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related

employees. The net pension obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on their respective required contribution rates. Other claims and judgments attributable to governmental activities will generally be liquidated by the General Fund and related special revenue funds.

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)

Component Unit	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	1.0 - 3.90%	175,383	2003 – 2035
Maine Municipal Bond Bank	1.0 - 10.25%	1,080,961	1991 – 2036
Maine Educational Loan Authority	3.16 - 3.20%	97,361	2009 – 2039
Maine State Housing Authority	1.80 - 6.45%	1,567,095	2006 – 2039
University of Maine System	2.0 - 5.75%	196,572	2000 – 2035

Fiduciary Component Units Bonds Outstanding
(Expressed in Thousands)

Maine Health & Higher Educational Facilities Authority	2.0 - 7.3%	1,208,025	1988 - 2043

Between December 29, 2005 and May 18, 2006, the Maine Health and Higher Educational Facilities Authority issued $136.7 million in Series 2005B, 2006B, 2006C, and 2006D bonds with an average interest rate of 4.04%, 4.81%, 3.51%, and 3.50% respectively, a portion of which was used to refund $77.9 million of outstanding bonds. Approximately $751 thousand in issuance costs were paid. Total interest payments over the next 8 to 20 years were reduced by approximately $8.3 million. Proceeds were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. At June 30, 2006, there were approximately $68 million of advance refunded bonds remaining outstanding.

On November 3, 2005, the University of Maine System issued 2005 Series A Revenue Bonds, $9.2 million of which was used to advance refund $8.8 million of outstanding bonds. The refunding resulted in a deferred amount on refunding of $580 thousand, of which the unamortized balance was $530 thousand as of June 30, 2006. Total interest payments over the next 26 years were reduced by $550 thousand, and an economic gain of $400 thousand was obtained. At June 30, 2006, $8.7 million of advance refunded bonds remained outstanding.

Debt service principal maturities for outstanding bonds of the discretely presented component units, from June 30, 2006 until maturity, are summarized in the following table:

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	FAME	MMBB	MELA	MSHA	UMS	MHHEFA*
2007	$ 53	$ 98,510	$ -	$ 133,515	$ 6,318	$ 38,596
2008	53	97,999	-	36 ,695	7,017	43,659
2009	54	93,003	-	39,230	6,916	45,115
2010	54	88,786	11,615	40,135	7,292	45,755
2011	55	86,370	-	308,662	7,585	47,365
2012-2016	283	329,986	-	191,575	66,078	265,520
2017-2021	298	201,238	-	236,495	29,174	253,765
2022-2026	237	84,275	-	201,030	25,520	240,100
2027-2031	-	2,620	46,500	202,160	24,095	164,295
2032-2036	175,000	2,495	10,000	125,545	14,590	57,475
2037-2041	-	55	30,000	68,475	-	5,070
2042-2046	-	-	-	-	-	1,310
2047-2051	-	-	-	-	-	-
Net unamortized premium Or (deferred amount)	(704)	(4,376)	(754)	(16,422)	1,987	-
Total Principal Payments	$175,383	$1,080,961	$97,361	$1,567,095	$196,572	$1,208,025

- MHHEFA is reported in fiduciary fund financial statements.

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

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

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

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $250 million per occurrence. The State retains $2 million of this risk per occurrence, with the remainder being covered by a private insurance carrier (excess insurance). Settlements 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:

Type of Insurance	Coverage Per Occurrence	Risk Retention Per Occurrence	Excess Insurance Per Occurrence
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, 2006. This cost of claims includes case reserves, the development of known claims and incurred but not reported claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis and are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

At June 30, 2006 and 2005, the present value of the claims payable for the State's self-insurance plan was estimated at $3.2 million and $3.5 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)

	2006	2005
Liability at Beginning of Year	$3,547	$3,547
Current Year Claims and Changes in Estimates	1,424	1,415
Claims Payments	1,781	1,415
Liability at End of Year	$3,190	$3,547

As of June 30, 2006, fund assets of $18.4 million exceeded fund liabilities of $3.7 million by $14.7 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, 2006.

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 $783 thousand for the fiscal year ended June 30, 2006.

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, 2006:

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

	2006	2005
Liability at Beginning of Year	$ 53,343	$ 61,839
Current Year Claims and Changes in Estimates	8,955	1,329
Claims Payments	8,955	9,825
Liability at End of Year	$ 53,343	$ 53,343

Based on the actuarial calculation as of June 30, 2005, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $67.1 million. The discounted amount is $53.3 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, 2006, the State recorded a receivable of $5.2 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 $16.4 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2006 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 14,288	$ 6,980
Current Year Claims and Changes in Estimates	90,731	41,715
Claims Payments	94,465	42,801
Liability at End of Year	$ 10,554	$ 5,894

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.

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

The Commission has designated that 50 percent of its operating revenue be aggregated in a common prize pool.

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

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

The Tri-State Lotto Commission financial report for fiscal year 2006, 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	$ 41,846
Noncurrent Assets	110,793
Total Assets	$152,639
Current Liabilities	$ 27,224
Long-term Liabilities	112,488
Total Liabilities	139,712
Designated Prize Reserves	4,096
Unrealized Gain on Investments Held for Installment Prize Obligations	8,831
Total Net Assets	12,927
Total Liabilities and Net Assets	$152,639
Total Revenue	$ 65,794
Total Expenses	44,753
Allocation to Member States	21,041
Change in Unrealized Gain on Investments Held for Resale	(10,985)
Change in Net Assets	$ (10,985)

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 that are 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 2006, 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	$ 185,611
Investments in US Government Securities	42,036
US Government Securities Held for Prize Annuities	800,387
Due from Party Lotteries	24,551
Other Assets	1,594
Total Assets	$1,054,179
Amount Held for Future Prizes	$ 228,196
Grand Prize Annuities Payable	822,072
Other Liabilities	3,699
	1,053,967
Net Assets, Unrestricted	212
Total Liabilities and Net Assets	$1,054,179
Total Revenue	$ 2,694
Total Expenses	2,708
Excess (deficit) of revenue over expenses	(14)
Net assets, beginning	226
Net assets, ending	$ 212

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

Title 20 MRSA § 11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education.

The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code.

By statute, the program assets and liabilities are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen College Investing Plan had approximately $4 billion in net assets at June 30, 2006, which have been recorded in an Agency Fund on the financial statements of the State.

General Obligation Bonds of the State include $90 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 Appropriations and Financial Affairs in the Maine Legislature. During fiscal year 2006, the State paid $13.5 million for these services; $6 million from the General Fund and $7.5 million from the Federal Fund. At June 30, 2006, the State owed $474 thousand to this vendor.

The State of Maine pays a local company as a provider of services to individuals with developmental disabilities. The Executive Director of the company also serves as a member of the House in the Maine Legislature. During fiscal year 2006, the State paid $14 million for these services; $5.2 million from the General Fund and $8.8 million from the Federal Fund. No monies were owed to this vendor at June 30, 2006.

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, $216.6 million; Child Development Services, $18.1 million; Maine Community College System, $54.2 million; Maine Municipal Bond Bank, $19.8 million; Finance Authority of Maine, $14.5 million; Maine Maritime Academy, $7.6 million; Maine State Housing Authority, $20.3 million; Maine Technology Institute, $7.9 million; Loring Development Authority, $1.2 million; and the Maine Educational Center for the Deaf and Hard of Hearing, $6.3 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $32.7 million at June 30, 2006, 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 2006, the State expended $1.6 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 2006, FAME paid approximately $5.7 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

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

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 2006.

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 $1.3 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.

E.I. Dupont De Nemours & Company v. State Tax Assessor. This case involves corporate income tax, interest and penalties assessed against Dupont for years 1999 – 2001 in the amount of approximately $1 million. 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.

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.

In September 2005, the United States Department of Education (USDOE) estimated that it would disallow $5.3 million of federal financial participation in the State's Migrant Education Program. The State has settled

$2.3 million of this disallowance by de-obligating federal grant award balances for federal fiscal years 2003 and 2004. The USDOE and the State have come to an agreement where the State will use any unobligated funds to repay the balance at the end of each fiscal year. The State has not accrued a liability for the estimated disallowance at June 30, 2006.

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 $121.8 thousand for fiscal year 2006.

During the 2006 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%, 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 2006 fiscal year, the State expended $121.8 thousand of general obligation bond funds for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue for 90% of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50% for structures constructed after that date. Current outstanding remedial obligations total approximately $235 thousand. Bonds have not been issued to cover these outstanding obligations.

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

SAND AND SALT STORAGE PROGRAM

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the Sand and Salt Storage program to be $18.2 million. This consists of approximately $12.2 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 2006 fiscal year, $2.2 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2006, amounts encumbered for pollution abatement projects totaled $200 thousand; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $1.2 million. At June 30, 2006, DEP estimated the total cost (federal, State, and local) of future projects to be $389 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 December 15, 2000, submitted by the Maine Department of Environmental Protection (DEP), identified 356 long-term remediation

sites as of August 2000 that are covered by the insurance program. At June 30, 2006 there were 318 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 53.86% of the annual payments. As of June 30, 2006, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $827.8 million.

At June 30, 2006, the Department of Transportation had contractual commitments of approximately $73.1 million for construction of various highway projects. The State's share of that amount is expected to be approximately $12.2 million. Of these amounts, $3.4 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and five jurisdictions 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 pay $206 billion to the states and jurisdictions. In return, the states agreed to relinquish claims to further damages resulting from Medicaid costs.

As compensation, the PM's have also agreed to pay $8.6 billion to certain states and jurisdictions for their contribution to the overall settlement. These payments are subject to the adjustments referred to below.

Maine's percentage of the total settlement payment is 0.7693505%, which equals $1.58 billion. Annual payments will fluctuate subject to various adjustments and are contingent on the passage and enforcement of a State statute imposing economic conditions on the Non-participating manufactures (NPM's). 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 because of their need to make MSA payments, and if they prove Maine did not diligently enforce its statutes concerning NPM escrow, then the Participating Manufacturers may "adjust" or lower their annual payment pursuant to the MSA. This NPM adjustment may be sought each year. For the year 2003, the adjustment sought was 18%.

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

BAXTER COMPENSATION AUTHORITY

Chapter 439 PL 2001 established the Baxter Compensation Authority to provide monetary compensation to former students of the Baxter School for the Deaf (now named The Maine Educational Center for the Deaf and Hard of Hearing) who, while students, were subjected to abuse by a State employee or by inaction of the State. The Authority is established by the provisions of Title 5 MRSA § 601 as a public instrumentality of the State, limiting any liabilities to its available resources.

The Authority was initially capitalized by the legislature with $6 million, to settle cases and provide for its administrative expenses. In Chapter 673 PL 2003, the Legislature provided an additional $6 million on a one-time basis to pay additional claims that may come forward. Chapter 3 PL 2005 further provides an additional transfer of up to $8.1 million from the available unappropriated suplus of the General Fund at the close fiscal year 2005. During fiscal year 2006, $7.3 million was appropriated from the General Fund surplus to pay claims totaling $7.3 million. As of June 30, 2006, the Authority paid claims of $19.3 million. The Authority is no longer in operation as of June 2006.

DIRIGO HEALTH AGENCY

Experience Modification Program

Chapter 469 PL 2003 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.

Claims for calendar year 2006 will not be finalized until July 1, 2007, when a six month run-out period elapses. Due to limited claims and experience data for DirigoChoice members for 2006, 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 2006 totaled $6.4 million.

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.

The State Superintendent of Insurance determined that $43.7 million was saved by insurance companies because of Dirigo Health. The Board established a percentage of .02408 to be applied to claims paid by insurance companies. The savings was affirmed by the State Superior Court, but is now being appealed to the State Supreme Court. As of June 30, 2006, Dirigo Health has collected $3.5 million of this assessment. The total amount receivable cannot be measured as Dirigo Health does not know the paid claims amounts on which the assessment will be applied.

DISPROPORTIONATE SHARE PAYMENTS TO HOSPITALS

In State fiscal years 2004, 2005, and 2006, the Department of Health & Human Services funded the federal share of the Non-Categorical Childless Adult Medicaid Waiver with Disproportionate Share allotments. An undeterminable amount of the allotted funds may be required to fund Disproportionate Share payments to Acute Care Hospitals in the future.

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, 2006, the Fund included $16.3 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2006 of approximately $124.3 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, 2006, the amount reported in the Fund for claimant liability is $22 million. The General Fund shows a $5.2 million payable to the Escheat Fund.

DISCRETELY PRESENTED COMPONENT UNITS

NURSING HOME LOANS

The owners of certain financially troubled nursing homes, with the concurrence of The Maine Health and Higher Educational Facilities Authority (MHHEFA), started refinancing portions of MHHEFA's loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of MHHEFA expects that these refinancings will reduce annual debt service requirements, thereby eliminating its exposure in the Taxable Financing Reserve Fund and reducing its overall exposure. Through June 30, 2006, HUD completed refinancings for ten institutions which, at the time they were refinanced, had combined bond-related loans and advances due MHHEFA of approximately $48.4 million. As part of the refinancing completed by HUD, MHHEFA agreed to issue 8% subordinated notes receivable to these ten institutions from its operating fund. These notes totaled $7.8 million at June 30, 2006, record interest only to the extent that cash payments are received, and are subordinate to all HUD loans. If these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid.

The Authority advanced approximately $918 thousand from the operating fund as of June 30, 2006 to other financially troubled institutions, with combined loan amounts due the Authority of approximately $11.9 million at June 30, 2006, including loans of $10 million reserved at June 30, 2006. These advances were primarily made to assist these institutions in meeting debt service requirements. The Authority established a $2.1 million reserve in its operating fund related to amounts that have been advanced or are expected to require an advance to troubled institutions.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2006, loans outstanding pursuant to these authorizations are $28.7 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, 2006.

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, 2006.

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)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Maine Health and Higher Educational Facilities Authority *	$ 1,176,195	$ 99,152	no limit	22 MRSA § 2075
Finance Authority of Maine	40,628	2,378	$574,715	10 MRSA §1032, 1053
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,085,337	121,570	no limit	30-A MRSA §6006
Maine Educational Loan Authority	32,115	1,285	50,000	20-A MRSA §11424
Maine State Housing Authority	1,216,930	109,428	2,150,000	30-A MRSA §4906
Total	$3,551,205	$ 333,813		

* MHHEFA is reported in fiduciary fund financial statements.

NOTE 16 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On July 20, October 1, 2006, and January 12, 2007, the State issued $40.3 million, $10.3 million, and $4.7 million, respectively, of Bond Anticipation Notes that mature on June 8, 2007.

On July 31, 2006, the State issued $10 million of Certificates of Participation(COP's), with an interest rate of 4.46%, and a maturity date in 2013, for the purpose of developing a statewide communications system. On August 28, 2006, the State issued $2.4 million of COP's, with an interest rate of 4.291%, and with a maturity date in 2012, and $1.2 million with an interest rate of 4.532%, and a maturity date in 2017, both for the purpose of financing the upgrade of the State's correctional facilities. On September 22, 2006, the State issued $19.2 million of COP's with a maturity of 2010 and an interest rate of 5.37%, for the State's laptop program. On February 28, 2007, the State issued $800 thousand of COP's maturing on August 1, 2009, with an interest rate of 4%, for the accounting system upgrade and $14 million of COP's maturing on September 1, 2013, with an interest rate of 3.85%, for Maine Revenue Services computer system.

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% to enrollees. The impact of this program on the State's OPEB liability, required by GASB Statement No. 45, has not been determined.

COMPONENT UNITS

On February 1, 2006 the Maine State Housing Authority (MSHA) redeemed $79 million of its 2005 Series A and B General Housing Draw Down bonds, with variable interest rates maturing in 2010. In January and February, 2006, MSHA issued a total of $18 million 2005 Series A and B General Housing Draw Down bonds at par, with variable interest rates maturing in 2010.

In January and February 2006, MSHA redeemed a total of $32.2 million of various series of its Mortgage Purchase Program bonds at par. The bonds carried interest rates from 3.65% to 6.1%, and maturities from 2006 to 2037. In March 2006, MSHA committed to redeem an additional $13.6 million of Mortgage Purchase Program bonds at par. On March 14, 2006, MSHA issued $125 million of various series of its Mortgage Purchase Program bonds. These bonds carry interest rates ranging from 3.3% to 4.85%, with maturities from 2017 to 2036.

In accordance with the Higher Education Loan Purchase Program, the Finance Authority of Maine purchased FFELP student loan portfolios totaling approximately $9 million, $92 thousand, and $24 million in July 2006.

On September 7, 2006, the Maine Community College System (MCCS) issued $24.3 million of revenue bonds through the Maine Health and Higher Education Facilities Authority (MHHEFA) with an interest rate of 4.7% and a final maturity of July 2036. Approximately $23.2 million will be used for construction of new residence halls at three colleges.

NOTE 17 – SPECIAL ITEMS

Chapter 457 PL 2005 established the State Transit, Aviation and Rail Transportation (STAR) Fund to support purchasing, operating, maintaining, improving, repairing, constructing, and managing the State's transportation buildings, structures and improvements, and equipment. During 2006, the Airport fund transferred $4 million in assets and the Highway Fund transferred $31.2 million in assets to the STAR fund.

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2006
(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	$ 2,556,608	$ 2,739,523	$ 2,813,763	$ 74,240	$ 229,661	226,777	$ 221,578	$ (5,199)
Assessments and Other	95,778	100,386	101,387	1,001	89,736	93,544	93,839	295
Federal Grants	26,660	23,477	20,066	(3,411)	-	-	-	-
Service Charges	36,232	41,740	41,395	(345)	7,293	7,293	7,138	(155)
Income from Investments	6,047	6,364	10,377	4,013	1,556	1,300	1,834	534
Miscellaneous Revenue	4,314	7,638	(67,753)	(75,391)	516	405	821	416
Total Revenues	2,725,639	2,919,128	2,919,235	107	328,762	329,319	325,210	(4,109)
Expenditures								
Governmental Support and Operations	250,979	253,967	228,571	25,396	35,201	35,386	34,304	1,082
Economic Development & Workforce Training	42,997	48,187	45,361	2,826	-	-	-	-
Education	1,153,241	1,286,445	1,277,692	8,753	-	-	-	-
Health and Human Services	946,482	1,038,472	970,178	68,294	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	71,527	73,138	70,525	2,613	42	41	33	8
Justice and Protection	231,137	232,614	227,565	5,049	37,285	37,191	35,453	1,738
Arts, Heritage & Cultural Enrichment	8,651	8,482	8,433	49	-	-	-	-
Transportation Safety & Development	4,179	266	188	78	265,138	354,505	245,456	109,049
Total Expenditures	2,709,193	2,941,571	2,828,513	113,058	337,666	427,123	315,246	111,877
Revenues Over (Under) Expenditures	16,446	(22,443)	90,722	113,165	(8,904)	(97,804)	9,964	107,768
Other Financing Sources (Uses)								
Operating Transfers Net	(53,473)	(61,858)	(36,510)	25,348	1,665	1,665	(1)	(1,666)
Proceeds from Pledged Future Revenues								
Net Other Financing Sources (Uses)	(53,473)	(61,858)	(36,510)	25,348	1,665	1,665	(1)	(1,666)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (37,027)	$ (84,301)	$ 54,212	$ 138,513	$ (7,239)	$ (96,139)	$ 9,963	$ 106,102
Fund Balances at Beginning of Year			232,274				119,196	
Fund Balances at End of Year			$ 286,486				$ 129,159	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 152,023	$ 153,170	$ 171,346	$ 18,176
-	-	-	-	108,956	109,847	93,667	(16,180)
2,506,450	2,829,216	2,858,339	29,123	16,933	20,296	3,544	(16,752)
-	12	296	284	179,587	183,976	132,307	(51,669)
7,989	-	654	654	2,093	2,085	4,033	1,948
(7,087)	8,180	4,421	(3,759)	185,800	199,275	52,272	(147,003)
2,507,352	2,837,408	2,863,710	26,302	645,392	668,649	457,169	(211,480)
10,277	24,814	8,521	16,293	149,017	154,182	145,715	8,467
138,968	143,033	85,247	57,786	23,718	32,717	25,628	7,089
181,259	201,275	182,374	18,901	5,156	7,132	4,237	2,895
1,867,083	2,091,545	2,226,518	(134,973)	418,029	433,558	275,961	157,597
994	1,477	989	488	61,417	69,312	54,218	15,094
38,395	58,057	38,005	20,052	97,966	110,433	72,771	37,662
134,252	147,146	119,565	27,581	30,255	35,100	26,909	8,191
3,020	3,241	2,488	753	1,306	1,306	884	422
199,183	227,183	199,714	27,469	35,040	41,699	34,685	7,014
2,573,431	2,897,771	2,863,421	34,350	821,904	885,439	641,008	244,431
(66,079)	(60,363)	289	60,652	(176,512)	(216,790)	(183,839)	32,951
2,507,352	(7,264)	15,485	22,749	173,515	170,279	141,615	(28,664)
						22,111	22,111
2,507,352	(7,264)	15,485	22,749	173,515	170,279	163,726	(6,553)
$ 2,441,273	$ (67,627)	$ 15,774	$ 83,401	$ (2,997)	$ (46,511)	$ (20,113)	$ 26,398
		6,967				268,586	
		$ 22,741				$ 248,473	

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 286,486	$ 129,159	$ 22,741	$ 248,473
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	200,222	827	-	11,038
Intergovernmental Receivables	-	-	432,273	-
Other Receivables	106,096	2,413	198,746	58,263
Due from Component Units	-			
Due from Other Funds	13,767	16,342	26,063	26,942
Other Assets	3,299	-	1,680	-
Deferred Revenues	(195,953)	(7,510)	(1,685)	(22,757)
Total Revenue Accruals/Adjustments	127,431	12,072	657,077	73,486
Expenditure Accruals/Adjustments:				
Accounts Payable	(392,881)	(47,452)	(631,694)	(32,124)
Due to Component Units	(2,235)	(40)	(4,364)	(4,542)
Bonds Issued	-	-	-	-
Accrued Liabilities	(34,358)	(8,970)	(6,715)	(6,276)
Taxes Payable	(130,001)			
Due to Other Funds	(32,073)	(75,057)	(14,855)	(20,984)
Total Expenditure Accruals/Adjustments	(591,548)	(131,519)	(657,628)	(63,926)
Fund Balances - GAAP Basis	$ (177,631)	$ 9,712	$ 22,190	$ 258,033

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.

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, 2006, the legislature approved $218 million of supplemental appropriations for the General Fund.

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

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

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

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 June 29, 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 March 29, 2006, 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 schedules on pages 135 through 143 depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds.

DIRIGO
MAINE

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, 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%
June 30, 1999	4,881,389,092	7,053,934,465	2,172,545,373	69.2%	1,209,804,594	179.6%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
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%
1999	246,155,629	268,001,527	108.9%

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, 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%
June 30, 1999	1,354,840,239	1,278,819,201	(76,021,038)	105.9%	233,507,942	-32.6%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
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%
1999	23,475,495	23,475,495	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 (PLD) 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, 2006 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 11 years remained at June 30, 2006.

The IUUAL of PLD's are amortized over periods established for each PLD separately. During fiscal years 2006 and 2005, various PLD's contributed approximately $128,881 and $6,800 to decrease 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, 2006 follows:

Investment Return – 7.75% per annum, compounded annually; changed from 8% used at June 30, 2005.

Salary Increases – 4.75% to 10% per year; changed from 5.5% to 9.5% used at June 30, 2005.

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; changed from 4% used at June 30, 2005.

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. Assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 2006 and 2005, the net assets held in trust for group life insurance benefits were $43.5 million and $41.8 million, respectively. At June 30, 2006 and 2005, the plan had actuarially determined liabilities of $129.8 and $127 million, respectively.

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 8,836 highway miles or 17,952 lane miles of roads and 2,967 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
2006	75.0	77.0
2005	79.3	77.0
2004	78.2	77.0

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

Fiscal Year	Estimated Spending	Actual Spending
2007	$ 61	$ -
2006	52	51.1
2005	48	46.1
2004	30	35.3
2003	36	34.3
2002	-	41.4

Transportation Bonds

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amounts authorized by Chapter 33, P&S 2003 and Chapter 38, P&S 2001, none was spent during fiscal year 2006.

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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)

	2002	2003	2004	2005	2006
Revenues					
Taxes					
Sales, Use and Service Provider Tax	878,777	924,841	996,147	1,033,595	1,105,148
Individual Income Tax	1,127,372	1,129,483	1,226,380	1,345,416	1,323,049
Corporate Income Tax	81,312	95,839	117,308	142,792	197,604
Cigarette and Tobacco Tax	97,599	98,414	96,605	96,351	156,951
Inheritance and Estate Tax	23,420	30,520	32,076	32,256	75,331
Gasoline, Use Fuel and Motor Carrier Tax	188,009	190,925	216,044	224,033	225,889
Insurance Tax	75,132	85,542	99,116	93,326	103,108
Public Utilities Tax	48,419	46,947	49,831	50,515	45,975
Other Industry or Occupation Taxes	67,731	72,796	93,694	131,831	150,888
Real Estate Transfer Tax	18,417	21,529	28,412	32,995	33,953
Unorganized Territories Property Tax	16,863	16,487	16,266	17,264	19,354
Other Taxes	33,006	35,913	28,035	28,470	1,073
Total Taxes	2,656,057	2,749,236	2,999,914	3,228,844	3,478,323
From Federal Government	1,701,108	1,926,136	2,330,556	2,323,057	2,372,356
From Cities, Towns and Counties	6,354	8,555	13,873	9,945	8,264
From Private Sources	191,739	167,816	184,033	173,608	171,569
Service Charge for Current Services	108,339	118,584	204,926	234,561	196,689
Fines, Forfeitures & Penalties	35,705	35,183	47,290	43,800	47,908
Vehicle Registration and Drivers Licenses	89,314	86,151	85,772	87,801	90,830
Hunting, Fishing and Related Licenses	15,886	15,853	18,581	18,275	18,262
Transferred from Bureau of Alcoholic Beverages	25,168	26,073	27,183	(155)	26
Transferred from Lottery Commission	39,318	39,442	41,273	49,328	51,788
Transferred from Other Funds	25,936	32,234	55,548	42,543	30,881
Transferred for Revenue Sharing	(101,150)	(103,039)	(111,464)	(119,713)	(124,222)
Income from Investments	13,103	81	7,464	13,078	16,228
Other Revenues	1,912	8,640	9,496	13,094	9,207
	2,152,732	2,361,709	2,914,531	2,889,224	2,889,786
Other Financial Resources					
Proceeds of General Obligation Bonds	27,610	97,080	130,275	144,325	52,944
Other	28,396	13,988	(11,191)	55,349	(89,766)
Total Revenues and Resources	4,864,795	5,222,013	6,033,529	6,317,742	6,331,287
Expenditures[1]					
Governmental Support & Operations	562,371	534,552	512,886	483,930	426,868
Arts, Heritage & Cultural Enrichment	-	-	12,734	13,329	12,564
Business Licensing & Regulation	-	-	47,060	52,025	55,207
Economic Development & Workforce Training	141,733	149,450	182,623	177,525	163,136
Education	1,321,525	1,333,940	1,358,734	1,427,663	1,496,135
Health & Human Services	2,350,221	2,587,557	2,784,166	2,889,647	3,039,911
Justice & Protection	108,156	122,331	330,457	373,969	410,304
Manpower	93,226	114,762	-	-	
Natural Resources Development & Protection	135,689	135,055	199,504	184,554	187,130
Transportation Safety & Development	434,220	474,178	479,893	494,062	497,402
Total Expenditures	5,147,141	5,451,825	5,908,057	6,096,704	6,288,657
Excess Resources Over (Under) Expenditures	(282,346)	(229,812)	125,472	221,038	42,630
Fund Equity July 1 of preceding calendar year	848,518	566,172	336,359	461,831	682,866
Fund Equity June 30	$ 566,172	$ 336,360	$ 461,831	$ 682,869	$ 725,496

(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)

	2002	2003	2004	2005	2006
Revenues					
Taxes					
Sales, Use and Service Provider Tax	836,134	857,487	917,243	941,222	993,203
Individual Income Tax	1,069,835	1,071,702	1,164,070	1,277,638	1,254,511
Corporate Income Tax	77,366	91,188	111,616	135,863	188,015
Cigarette and Tobacco Tax	97,599	98,414	96,605	96,351	156,951
Inheritance and Estate Tax	23,420	30,520	32,076	32,256	75,331
Insurance Tax	55,244	71,078	72,206	75,669	76,066
Public Utilities Tax	30,480	29,285	27,991	25,403	20,627
Other Industry or Occupation Taxes	18,107	18,413	19,514	30,842	36,242
Real Estate Transfer Tax	9,209	10,771	22,196	24,113	24,595
Unorganized Territories Property Tax	10,334	9,930	10,709	10,623	11,559
Other Taxes	23,876	27,674	18,942	19,021	31,215
Total Taxes	2,251,604	2,316,462	2,493,168	2,669,001	2,868,315
From Federal Government	21,578	22,804	23,138	24,308	17,987
From Cities, Towns and Counties	15	1	5,894	1,768	57
From Private Sources	2,697	2,724	4,039	2,664	5,379
Service Charges for Current Services	28,124	26,585	110,827	81,126	35,196
Fines, Forfeitures & Penalties	26,594	26,987	38,219	35,507	37,781
Hunting, Fishing and Related Licenses	14,858	13,959	16,898	16,691	16,840
Transferred from Bureau of Alcoholic Beverages	25,168	26,073	27,183	(155)	26
Transferred from Lottery Commission	39,318	39,442	41,273	49,328	50,880
Transferred from Other Funds	18,931	19,313	31,545	24,233	15,090
Transferred for Revenue Sharing	(101,150)	(103,039)	(111,464)	(119,713)	(124,222)
Income from Investments	3,829	2,346	2,310	5,855	8,272
Other Revenues	94	1,033	510	232	224
	80,056	78,228	190,372	121,844	63,510
Other Financial Resources					
Proceeds of General Obligation Bonds		-	-	-	-
Other	32,841	108,718	(56,265)	27,688	(49,100)
Total Revenues and Resources	2,364,501	2,503,408	2,627,275	2,818,533	2,882,725
Expenditures (5)					
Governmental Support & Operations (1)	358,086	325,303	302,843	297,169	228,574
Arts, Heritage & Cultural Enrichment	-	-	8,355	8,508	8,433
Business Licensing & Regulation	-	-	-	-	
Economic Development & Workforce Training	66,129	49,084	48,019	41,756	45,361
Education (2)	1,157,222	1,151,066	1,145,855	1,206,089	1,277,692
Health & Human Services (3)	898,413	906,706	804,322	892,524	970,178
Justice & Protection	24,849	25,880	204,628	219,571	227,565
Manpower	15,001	20,460	-	-	
Natural Resources Development & Protection	51,703	50,371	66,609	68,922	70,525
Transportation Safety & Development (4)	12,281	4,328	3,601	3,584	188
Total Expenditures	2,583,684	2,533,198	2,584,232	2,738,123	2,828,516
Excess Resources Over (Under) Expenditures	(219,183)	(29,790)	43,043	80,410	54,209
Fund Equity July 1 of preceding calendar year	357,797	138,614	108,824	151,867	232,277
Fund Equity June 30	$ 138,614	$ 108,824	$ 151,867	$ 232,277	$ 286,486

(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) 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)

	2002	2003	2004	2005	2006
Revenues					
Taxes					
Gasoline, Use Fuel and Motor Carrier Tax	$184,733	$187,901	$212,601	$220,485	$221,575
Other Taxes	661	1,046	1,514	1,089	1,201
Total Taxes	185,394	188,947	214,115	221,574	222,776
Service Charges for Current Services	5,134	5,209	4,977	4,988	5,397
Fines, Forfeitures & Penalties	1,958	2,532	1,919	1,518	1,810
Vehicle Registration and Drivers Licenses	86,038	86,151	85,772	87,801	90,830
Income from Investments	2,857	1,339	720	1,441	1,834
Other Revenues	603	4,069	4,525	8,756	3,899
	96,590	99,300	97,913	104,504	103,770
Other Financial Resources					
Proceeds of General Obligation Bonds		-	-	-	-
Other	3,404	(17,550)	(18,412)	(1,410)	(1,336)
Total Revenues and Resources	285.388	270,697	293,616	324,668	325,210
Expenditures (2)					
Governmental Support & Operations	30,562	32,288	30,773	34,239	34,304
Economic Development & Workforce Training	39	45	-	-	-
Justice & Protection	25,507	32,175	33,116	32,460	35,453
Natural Resources Development & Protection	-	-	34	30	33
Transportation Safety & Development (1)	241,542	240,480	219,420	232,868	245,443
Total Expenditures	297,650	304,988	283,343	299,597	315,233
Excess Resources Over (Under) Expenditures	(12,262)	(34,291)	10,273	25,071	9,977
Fund Equity July 1 of preceding calendar year	130,391	118,129	83,838	94,111	119,182
Fund Equity June 30	$118,129	$ 83,838	$ 94,111	$ 119,182	$129,159

(1) Includes payment of debt service on bonds of the State previously issued for highway purposes.
(2) 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)

	2002	2003	2004	2005	2006
Revenues					
Taxes					
Sales, Use and Service Provider Tax	42,643	67,354	78,904	92,374	111,945
Individual Income Tax	57,537	57,781	62,310	67,778	68,538
Corporate Income Tax	3,946	4,651	5,692	6,929	9,589
Gasoline, Use Fuel and Motor Carrier Tax	3,276	3,024	3,443	3,548	4,314
Insurance Tax	19,888	14,464	26,910	17,657	27,042
Public Utilities Tax	17,939	17,662	21,840	25,112	25,348
Other Industry or Occupation Taxes	49,624	54,383	74,180	100,988	114,646
Real Estate Transfer Tax	9,208	10,758	6,216	8,882	9,358
Unorganized Territories Property Tax	6,529	6,557	5,557	6,641	7,795
Other Taxes	8,469	7,193	7,579	8,360	8,657
Total Taxes	219,059	243,828	292,631	338,269	387,232
From Federal Government	1,679,530	1,903,332	2,307,418	2,298,749	2,354,369
From Cities, Towns and Counties	6,339	8,554	7,979	8,177	8,207
From Private Sources	189,042	165,092	179,994	170,944	166,190
Service Charges for Current Services	74,859	86,789	89,122	148,448	156,096
Fines, Forfeitures & Penalties	7,153	5,664	7,152	6,775	8,317
Hunting, Fishing and Related Licenses	1,028	1,779	1,684	1,584	1,422
Transfers from Other Funds	7,005	12,921	24,003	18,310	16,699
Income from Investments	4,772	3,542	1,032	2,153	4,199
Other Revenues	4,491	3,538	4,189	3,938	5,080
	1,974,219	2,191,211	2,622,573	2,659,078	2,720,579
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	(8,502)	(70,750)	77,610	31,708	(37,337)
Total Revenues and Resources	2,184,776	2,364,289	2,992,814	3,029,055	3,070,474
Expenditures (1)					
Governmental Support & Operations	167,402	168,996	163,332	143,526	154,236
Arts, Heritage & Cultural Enrichment	-	-	3,618	3,247	3,372
Business Licensing & Regulation	-	-	47,060	52,025	55,207
Economic Development & Workforce Training	70,354	77,258	126,004	112,620	110,875
Education	132,091	159,850	181,629	187,699	186,611
Health & Human Services	1,449,704	1,678,796	1,978,250	1,996,523	2,067,953
Justice & Protection	57,799	64,277	92,448	99,552	146,474
Manpower	78,225	94,302	-	-	-
Natural Resources Development & Protection	77,778	75,936	121,864	121,702	110,776
Transportation Safety & Development	168,544	193,577	208,710	224,576	239,314
Total Expenditures	2,201,897	2,512,992	2,922,915	2,941,470	3,074,818
Excess Resources Over (Under) Expenditures	(17,121)	(148,703)	69,899	87,585	(4,344)
Fund Equity July 1 of preceding calendar year	283,898	266,777	118,074	187,973	275,558
Fund Equity June 30	$ 266,777	$ 118,074	$ 187,973	$ 275,558	$ 271,214

(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.

GOVERNMENTAL FUNDS
COMBINED BALANCE SHEETS

JUNE 30, 2006
(thousands $000's)

	Total (Memorandum) (only)	General Fund	Highway Fund	Other Special Revenues	Capital Projects	Debt Service
ASSETS						
Equity in Treasurer's Cash Pool	$ 396,692	$ 72,666	$ 37,643	$ 268,837	$ 13,736	$ 3,810
Cash - Other	27,287	4,014	2,043	40	21,190	-
Accounts, Notes and Grants Receivable						
Net of Reserves for Uncollectible Accounts	250,605	212,567	21,036	17,002	-	-
Due from Other Funds	6,942	4,959	-	1,983	-	-
Working Capital Advances to Other Funds	16,877	111	16,766	-	-	-
Prepaid Expenses and Other Assets	54,739	307	54,418	14	-	-
TOTAL ASSETS	$ 753,142	$ 294,624	$ 131,906	$ 287,876	$ 34,926	$ 3,810
LIABILITIES AND EQUITY						
LIABILITIES:						
Accounts Payable	$ 21,813	$ 5,465	$ 2,330	$ 13,995	$ 23	-
Other Liabilities	5,757	2,673	417	2,667	-	-
TOTAL LIABILITIES	27,570	8,138	2,747	16,662	23	-
EQUITY:						
Reserved for Encumbrances	104,778	23,307	3,228	74,632	3,611	-
Reserved for Authorized Expenditures	387,897	106,352	53,671	196,582	31,292	-
Reserved for Utility Loans	80	-	80	-	-	-
Working Capital Advances to Other Funds	16,877	111	16,766	-	-	-
Designated for Other Purposes	62,298	62,298	-	-	-	-
Rainy Day Fund	79,903	79,903	-	-	-	-
Unappropriated Surplus	73,739	14,515	55,414	-	-	3,810
TOTAL EQUITY	725,572	286,486	129,159	271,214	34,903	3,810
TOTAL LIABILITIES AND EQUITY	$ 753,142	$ 294,624	$ 131,906	$ 287,876	$ 34,926	$ 3,810

GENERAL FUND UNAPPROPRIATED SURPLUS
For the Years Ended June 30

	General Fund Unappropriated Surplus (Million)	General Fund Revenues (Million)	Surplus as Percentage of Revenues
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%
1986	6.6	948.6	.70%

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STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX C

Certain Revenues of the State (Unaudited)

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Highway Fund Revenues, Nine Months Ended March 31, 2007	C-7

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
FISCAL YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2004

	2003				2004			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Sales and Use Tax	$ 857,486,801	$ 861,578,278	$ (4,091,477)	(0.5)%	$ 917,243,245	$ 905,721,382	$ 11,521,863	1.3%
Individual Income Tax	1,071,701,694	1,063,483,417	8,218,277	0.8	1,156,715,909	1,130,761,691	25,954,218	2.3
Corporate Income Tax	91,188,393	88,170,000	3,018,393	3.4	111,616,051	103,752,841	7,863,210	7.6
Cigarette and Tobacco Tax	98,414,470	105,684,505	(7,270,035)	(6.9)	96,604,646	97,616,940	(1,012,294)	(1.0)
Public Utilities Tax	29,285,143	30,400,000	(1,114,857)	3.7	27,991,188	28,900,000	(908,812)	(3.1)
Insurance Companies Tax	71,078,089	56,646,354	14,431,735	25.5	72,206,053	69,415,308	2,790,745	4.0
Inheritance & Estate Tax	30,520,320	23,821,692	6,698,628	28.1	32,075,501	32,103,631	(28,130)	(0.1)
Property Tax - Unorganized Territory	9,930,103	10,162,545	(232,442)	(2.3)	10,709,308	10,202,624	506,684	5.0
Income from Investments	2,345,855	1,889,000	456,855	24.2	2,310,207	1,287,885	1,022,322	79.4
Transfer to Municipal Revenue Sharing	(103,039,221)	(102,674,817)	(364,404)	(0.4)	(111,464,335)	(109,152,033)	(2,312,302)	(2.1)
Transfer from Liquor Commission	26,073,276	26,290,223	(216,947)	(0.8)	27,182,743	27,056,396	126,347	0.5
Transfer from Lottery Commission	39,442,111	39,635,176	(193,065)	(0.5)	41,272,645	42,321,885	(1,049,240)	(2.5)
Other Revenues	170,263,157	167,219,181	3,043,976	1.8	299,076,397	280,487,661	18,588,736	6.6
Transfer to Sales Tax Reserve/ME Rainy Day	-	-	-	-	-	-	-	-
Total Undedicated Revenue	**$2,394,690,190**	**$2,372,305,554**	**$22,384,636**	**0.9%**	**$2,683,539,557**	**$2,620,476,211**	**$63,063,346**	**2.4%**

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
FISCAL YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2006

	2005				2006			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Sales and Use Tax	$ 896,576,322	$ 899,710,000	($ 3,133,678)	(0.3)%	$ 946,174,276	$ 930,641,080	$15,533,196	1.7%
Service Provider Tax	44,645,517	44,200,000	445,517	1.0	47,028,431	46,494,165	534,266	1.1
Individual Income Tax	1,270,225,329	1,259,880,674	10,344,655	0.8	1,254,510,746	1,228,307,845	26,202,901	2.1
Corporate Income Tax	135,862,913	123,300,647	12,562,266	10.2	188,015,557	175,150,000	12,865,557	7.3
Cigarette and Tobacco Tax	96,350,704	96,019,864	330,840	0.3	156,951,370	151,738,325	5,213,045	3.4
Public Utilities Tax	25,403,214	25,300,000	103,214	0.4	20,627,030	21,440,000	(812,970)	(3.8)
Insurance Companies Tax	75,669,053	69,615,872	6,053,181	8.7	76,065,864	72,141,931	3,923,933	5.4
Inheritance & Estate Tax	32,255,727	31,542,767	712,960	2.3	75,330,514	70,099,322	5,231,192	7.5
Property Tax - Unorganized Territory	10,622,666	10,580,086	42,580	0.4	11,559,305	11,278,476	280,829	2.5
Income from Investments	5,854,625	4,896,463	958,162	19.6	8,271,870	6,563,582	1,708,288	26.0
Transfer to Municipal Revenue Sharing	(119,712,814)	(118,681,657)	(1,031,157)	(0.9)	(124,222,180)	(121,410,248)	(2,811,932)	(2.3)
Transfer from Liquor Commission	21,467	-	21,467	-	25,653	-	25,653	-
Transfer from Lottery Commission	49,328,102	50,292,750	(964,648)	(1.9)	50,879,646	50,334,250	545,396	1.1
Other Revenues	267,742,227	264,281,977	3,460,250	1.3	220,607,603	214,959,376	5,648,227	2.6
Transfer to Sales Tax Reserve/ME Rainy Day	-	-	-	-	-	-	-	-
Total Undedicated Revenue	**$2,790,845,053**	**$2,760,939,443**	**$29,905,610**	**1.1%**	**$2,931,825,685**	**$2,857,738,104**	**$74,087,581**	**2.6%**

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
NINE MONTHS ENDED MARCH 31, 2007

	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 6/30/07
Sales and Use Tax	$60,974,080	$62,835,644	(1,861,564)	(3.0%)	$655,837,985	$655,282,423	$555,562	0.1%	$974,740,367
Service Provider Tax	3,736,140	4,315,851	(579,711)	(13.4%)	31,981,520	31,117,676	863,844	2.8%	48,911,765
Individual Income Tax	44,066,211	44,312,087	(245,876)	(0.6%)	779,668,724	777,561,857	2,106,867	0.3%	1,327,119,508
Corporate Income Tax	18,679,646	18,679,646	-	-	106,541,808	106,541,808	-	-	172,078,755
Cigarette and Tobacco Tax	14,083,916	13,697,409	386,507	2.8%	120,356,860	123,250,918	(2,894,058)	(2.3%)	164,502,981
Public Utilities Tax	(1,737,832)	(1,737,832)	-	-	(1,854,396)	(1,737,832)	(116,564)	(6.7%)	16,891,746
Insurance Companies Tax	11,996,682	14,304,029	(2,307,347)	(16.1%)	25,395,847	27,118,442	(1,722,595)	(6.4%)	76,336,389
Estate Tax	3,602,473	3,505,457	97,016	2.8%	37,282,152	34,938,213	2,343,939	6.7%	52,465,498
Property Tax - Unorganized Territory	-	-	-	-	10,403,375	10,150,628	252,747	2.5%	11,597,312
Income from Investments	(149,334)	(182,168)	32,834	18.0%	1,547,482	1,504,400	43,082	2.9%)	1,517,319
Transfer to Municipal Revenue Sharing	(6,500,260)	(6,637,304)	137,044	2.1%	(80,275,532)	(80,095,692)	(179,840)	(0.2%)	(128,665,369)
Transfer from Liquor Commission	-	-	-	-	14,971	-	14,971	-	-
Transfer from Lottery Commission	4,568,248	4,748,533	(180,285)	(3.8%)	38,127,188	37,988,267	138,921	0.4%	50,334,250
Other Revenues	20,279,258	19,168,830	1,110,428	5.8%	149,618,046	143,167,509	6,450,537	4.5%	219,380,952
Total Undedicated Revenue	**$173,599,228**	**$177,010,182**	**$(3,410,954)**	**(1.9%)**	**$1,874,646,030**	**$1,866,788.617**	**$7,857,413**	**0.4%**	**$2,987,211,473**

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 2007.

(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, 2003 AND JUNE 30, 2004

	2003		2004	
	Actual	Budget	Actual	Budget
Fuel Taxes	$187,901,008	$187,500,000	$212,600,961	$210,496,449
Motor Vehicle Registration & Fees	83,032,421	79,432,966	82,577,637	79,605,062
Inspection Fees	4,169,773	3,683,907	4,708,196	3,461,771
Fines, Forfeits & Penalties				
Earnings on Investments				
All Other Revenues	13,142,882	13,629,694	12,141,193	11,181,035
TOTAL	$288,246,084	$284,246,567	$312,027,987	$304,744,317

Source: Revenue Highway General Accounting

STATE OF MAINE
HIGHWAY FUND
REVENUES
FISCAL YEARS ENDED JUNE 30, 2005 AND JUNE 30, 2006

	2005		2006	
	Actual	Budget	Actual	Budget
Fuel Taxes	$220,484,728	$220,838,729	$221,575,309	$226,776,993
Motor Vehicle Registration & Fees	84,645,422	81,378,234	87,658,962	87,172,358
Inspection Fees	4,260,059	4,281,459	4,373,692	4,397,970
Fines, Forfeits & Penalties	1,518,580	1,890,359	1,809,813	1,973,665
Earnings on Investments	1,400,739	1,059,903	1,833,807	1,300,000
All Other Revenues	13,728,627	13,817,473	9,294,574	9,286,173
TOTAL	$326,078,155	$323,266,157	$326,546,157	$330,907,159

Source: Revenue Highway General Accounting

STATE OF MAINE
HIGHWAY FUND
REVENUES
NINE MONTHS ENDED MARCH 31, 2007

	Month				Year to Date				
	Actual	Budget	Variance Over/(under)	Percent Over/ (under)	Actual	Budget	Variance Over/(under)	Percent Over/ (under)	Total Budgeted Fiscal Year Ending 6-30-2007
Fuel Taxes	$ 17,903,623	$ 18,272,814	$ (369,191)	(2.0%)	$151,308,791	$151,988,669	$ (679,878)	(0.4%)	$227,484,941
Motor Vehicle Registration & Fees	7,738,806	9,220,182	(1,481,376)	(16.1%)	60,389,368	61,517,152	(1,127,784)	(1.8%)	86,476,317
Inspection Fees	277,693	354,276	(76,583)	(21.6%)	3,281,584	3,249,202	32,382	1.0%	4,379,756
Fines, Forfeits & Penalties	112,335	165,406	(53,071)	(32.1%)	1,279,558	1,484,396	(204,838)	(13.8%)	2,018,239
Earnings on Investments	70,214	50,000	20,214	40.4%	600,284	616,643	(16,359)	(2.7%)	795,000
All Other	571,545	600,398	(28,853)	(4.8%)	7,445,574	7,700,504	(254,930)	(3.3%)	9,603,076
Total Revenue	$ 26,674,216	$ 28,663,076	$(1,988,860)	(6.9%)	$224,305,159	$226,556,566	$(2,251,407)	(1.0%)	$330,757,329

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 Taxable	Total Tax-Exempt	Balance of Authorized but Unissued after Issuance of Bonds
DAG	2001 P&S, Chapter 71	Construct or retrofit ME farms manure pollution control structures	$ -	$ 100,000	$ -
DAG	2003 P&S, Chapter 33	Construct water sources to avoid crop drought damage	$ -	$ 95,000	$ -
DAG	2005 PL, Chapter 462	Provides funds for sustainable water sources and irrigation system development.	$ -	$ 500,000	$ 250,000.00
DAG	2003 PL, Chapter 50	Provide funds to the Maine Farms for the Future Program-Grants	$ -	$ 250,000	$ 100,000.00
DAFS	2001 P&S, Chapter 71	Establish internet-based Maine public library of geographic data; make grants to municipalities	$ -	$ 625,000	$ -
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, excluding organizations eligible to participate in the programs under MRSA, Title 5, section 13103 and the Univ. of ME system.-Grants	$ -	$ -	$ 50,000.00
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	$ -	$ 1,400,000	$ 1,700,000.00
DECD	2005 PL, Chapter 462	Provides funds for the Maine Biomedical Research Fund to support capital infrastructure and equipment.	$ -	$ 5,000,000	$ 3,000,000.00
DECD	2005 PL, Chapter 462	Provides funds for the Marine Infrastructure and Technology Fund administered by the Maine Technology Institute.	$ -	$ 3,500,000	$ 500,000.00
DEP	2005 PL, Chapter 462	Provides funds for a wastewater state revolving fund.	$ -	$ 1,900,000	$ -

Agency	Law	Description	Total Taxable	Total Tax-Exempt	Balance of Authorized but Unissued after Issuance of Bonds
DEP	2005 PL, Chapter 462	Provides funds for loans and grants for construction and improvements in the small community grants program	$ -	$ 1,000,000	$ -
DOE	2005 PL, Chapter 462	Provides funds for the development of the Sunrise Business and Career Center in the Town of Jonesboro	$ -	$ 67,000	$ 832,000.00
FAME-Small Enterprise Growth Fund	2005 PL, Chapter 462	Provides funds for Small Enterprise Growth Fund to make equity investments in small Maine companies with the potential for high growth.	$ 1,000,000.00	$ -	$ -
DHHS	2005 PL, Chapter 462	Provides funds for grants and low-interest loans to construct and upgrade public water systems.	$ -	$ 1,800,000	$ -
MSCAF	2005 PL, Chapter 462	Provides funds for the New Century Community Program	$ -	$ 634,429	$ 323,571.00
MCCS	2001 PL, Chapter 674	Purchase & install dormitory automatic sprinkler systems in public educations institutions in compliance with ADA of 1990	$ -	$ -	$ 549,101.00
MCCS	2003 P&S, Chapter 33	Repairs, upgrades and facility imprs-Acquisition: KVCC Parking Lot	$ -	$ 200,000	$ 600,000.00
SPO	1999 PL, Chapter 514	1999 Land for Maine's Future $50 Million Bond Fund	$ -	$ -	$ 4,530,000.00
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	$ -	$ -	$ 10,000,000.00
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	$ -	$ 1,125,000	$ 865,000.00
DOT	2003 P&S, Chapter 33	Port & Ferry Improvements	$ 800,000.00	$ -	$ 300,000.00
DOT	2003 P&S, Chapter 33	Rail Improvements	$ 5,500,000.00	$ -	$ 650,000.00
DOT	2003 P&S, Chapter 33	Transit & Park and Ride Improvements	$ -	$ 100,000	$ 500,000.00
DOT	2003 P&S, Chapter 33	Airport Improvements	$ -	$ 200,000	$ -
DOT	2003 P&S, Chapter 33	Port & Ferry Improvements	$ -	$ 100,000	$ 1,825,000.00
DOT	2003 P&S, Chapter 33	Trail Improvements	$ -	$ 350,000	$ 400,000.00

Agency	Law	Description	Total Taxable	Total Tax-Exempt	Balance of Authorized but Unissued after Issuance of Bonds
DOT	2005 PL, Chapter 462	Ferry Vessels and facilities	$ -	$ 700,000	$ 2,800,000.00
DOT	2005 PL, Chapter 462	Airports	$ -	$ 500,000	$ 1,200,000.00
DOT	2005 PL, Chapter 462	Transit and Bus Improvements	$ -	$ 200,000	$ 300,000.00
DOT	2005 PL, Chapter 462	Pedestrian and Bicycle Trails	$ -	$ 290,000	$ 110,000.00
DOT	2005 PL, Chapter 462	Highway and Bridge Improvements	$ -	$ 27,000,000	$ -
UMS	2003 PL, Chapter 50	Provide funds for the Advanced Engineered Wood Composites Ctr. to expand research facilities for engineered wood composite structures.	$ 300,000.00	$ -	$ -
UMS	2001 PL, Chapter 674	Purchase & install dormitory automatic sprinkler systems in public educations institutions in compliance with ADA of 1990 (Acquisition)	$ -	$ 2,037,000	$ -
UMS	2003 PL, Chapter 50	Provide funds for educational technology improvements. (Acquisition)	$ -	$ 350,000	$ 550,000.00
UMS	2003 PL, Chapter 50	Provide funds for the Maine Economic Improvement Fund, in anticipation of $12 mil in federal and other funding, for research and development activities.	$ -	$ 925,000	$ 1,055,000.00
UMS	2005 PL, Chapter 462	Provides funds for the Laboratory for Surface Science Technology	$ 500,000.00	$ -	$ 1,500,000.00
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	$ -	$ 550,000	$ 450,000.00
UMS	2005 PL, Chapter 462	Provided funds for the career center facility at the University of Southern Maine's L-A College	$ -	$ 1,400,000	$ 600,000.00
UMS	2005 PL, Chapter 462	Provides funds for the repair and improvement of the Witter Veterinary Facility at the University of Maine	$ -	$ 600,000	$ -
TOTAL			**$ 8,100,000.00**	**$ 53,498,429**	**$ 35,539,672.00**

GENERAL FUND BONDS[1]
Debt Service Requirements to Maturity
June 30, 2006

Fiscal Year	Principal	Interest	Total
2007	$ 69,280,000.00	$17,364,513.05	$ 86,644,513.05
2008	62,830,000.00	14,573,762.54	77,403,762.54
2009	57,625,000.00	11,999,421.78	69,624,421.78
2010	53,510,000.00	9,504,025.52	63,014,025.52
2011	48,155,000.00	7,134,869.27	55,289,869.27
2012	46,050,000.00	5,248,093.26	51,298,093.26
2013	43,290,000.00	3,483,831.26	46,773,831.26
2014	27,065,000.00	1,833,677.76	28,898,677.76
2015	20,545,000.00	841,030.38	21,386,030.38
2016 (Final Maturity)	5,235,000.00	240,289.50	5,475,289.50
TOTAL	$433,585,000.00	$72,223,514.32	$505,808,514.32

HIGHWAY FUND BONDS[2]
Debt Service Requirements to Maturity
June 30, 2006

Fiscal Year	Principal	Interest	Total
2007	$10,415,000.00	$1,387,083.76	$11,802,083.76
2008	8,050,000.00	954,856.26	9,004,856.26
2009	5,050,000.00	626,766.26	5,676,766.26
2010	3,365,000.00	406,191.26	3,771,191.26
2011	3,370,000.00	274,381.88	3,644,381.88
2012	1,450,000.00	129,593.75	1,579,593.75
2013	1,450,000.00	72,500.00	1,522,500.00
2014 (Final Maturity)	725,000.00	14,500.00	739,500.00
TOTAL	$33,875,000.00	$3,865,873.17	$37,740,873.17

[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 BONDS[1]
Debt Service Requirements to Maturity
June 30, 2006

Fiscal Year	Principal	Interest	Total Debt Service
2007	$70,000	$4,125	$74,125
2008 (Final Maturity)	20,000	750	20,750
TOTAL	$90,000	$4,875	$94,875

[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

Agency	Date of Agreement	Original Principal Amount	Principal Amount Outstanding 6/30/06	Principal & Interest Due FY 07
Department of Transportation	Sept, 1999	$ 401,960	$ 16,911	$ 17,132
Department of Transportation	March, 2000	3,935,239	548,497	580,858
Department of Transportation	May, 2002	5,000,000	3,545,000	669,962
Department of Transportation	May, 2002	2,000,000	910,000	321,363
Department of Education	June, 2002	2,078,731	42,859	43,400
Department of Education	September, 2002	12,194,805	834,848	844,971
Department of Education	December, 2002	150,037	10,868	11,000
Administrative & Financial Services	December, 2002	309,830	115,471	85,427
Department of Education	March, 2003	382,996	29,631	30,000
Administrative & Financial Services	April, 2003	2,200,000	580,715	594,346
Department of Education	April, 2003	111,264	8,632	8,750
Secretary of State	June, 2003	6,500,000	2,725,000	1,442,300
Department of Education	June, 2003	8,981,595	811,052	821,150
Administrative & Financial Services	November, 2003	1,600,000	275,000	279,641
Department of Transportation	December, 2003	793,200	557,485	152,104
Department of Education	December, 2003	2,335,000	1,425,000	504,495
Public Safety	March, 2004	1,205,000	410,000	417,175
Administrative & Financial Services	March, 2004	3,000,000	1,525,000	795,050
Public Safety	February, 2005	1,300,000	880,812	458,777
Department of Corrections	March, 2005	1,200,000	980,676	270,383
Administrative & Financial Services	April, 2005	2,900,000	2,211,556	782,062
Department of Transportation	May, 2005	1,200,000	962,124	280,353
Department of Transportation	June, 2005	300,000	203,546	106,394
Administrative & Financial Services	April, 2006	4,100,000	4,100,000	1,161,778
Department of Transportation	September, 2005	2,000,000	1,778,989	515,217
Administrative & Financial Services	October, 2005	9,200,000	9,200,000	0
Public Safety	April, 2006	1,800,000	1,800,000	661,516
TOTALS:		$77,179,657	$36,489,672	$11,855,605

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, 2006.

	Amount of Debt	Per Capita (1)	Debt to Estimated Full Valuation (2)	Debt to Personal Income (3)
General Fund	$433,585,000	$328.08	0.29%	1.01%
Highways & Bridges	33,875,000	25.63	0.02	0.08
Self-liquidating	90,000	0.07	0.00	0.00
Total	$467,550,000	$353.78	0.31%	1.09%

(1) Based on population estimate of 1,321,574 for 2006 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 2007 of $148,946,200,000.

(3) Based on State of Maine total personal income reported by the U.S. Department of Commerce for 2006, second quarter annualized, of $42,749,735,000.

Debt Ratio Statistics

June 30, 2006

Debt to Full Value	
1996	0.78%
2006	0.31%
Debt to Personal Income	
1996	2.13%
2006	1.09%
Per Capita Debt	
1996	$415.40
2006	$353.78

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
1997	$67,537,345	$19,365,916	$20,380,000	$8,120,220	$87,917,345	$27,486,136
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

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
1987	$183,990,000	$ 92,365,000	$20,220,000	$296,575,000	$1,979,718,000	15.0%
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

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX E

Maine State Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet, June 30, 2006

ASSETS (Present Value of expected income)	**State Employees**	**MTRA Teachers**	**All Employees**
(1) Invested Assets			
(a) Members Contribution Fund	$ 626,514,736	$ 1,051,726,245	$1,678,240,981
(b) Retirement Allowance Fund	2,094,922,796	3,731,055,769	5,825,978,565
(c) Total Invested Assets (a + b)*	$2,721,437,532	$4,782,782,014	$7,504,219,546
(2) Future Contributions			
(a) Future Contributions	$ 367,251,984	$ 643,388,248	$ 1,010,640,232
(b) Actuarial Costs	1,363,625,263	2,401,507,016	3,765,132,279
(c) Total Contribution Income (a + b)	$1,730,877,247	$3,044,895,264	$4,775,772,511
(3) Present Value of Total Income (1 + 2)	$4,452,314,779	$7,827,677,278	$12,279,992,057
LIABILITIES (Present Value of expected benefit payments)			
(1) Active Employees			
(a) Current Accrued Benefits	1,034,606,526	$2,183,182,959	$3,217,789,485
(b) Future Benefit Accruals	1,228,156,045	2,466,260,848	3,694,416,893
(c) Total Active Benefits (a + b)	$2,262,762,571	$4,649,443,807	$6,912,206,378
(2) Inactive Employees			
(a) Total Inactive Benefits	$2,189,552,208	$3,178,233,471	$5,367,785,679
(3) Present Value of Total Benefits (1 + 2)	$4,452,314,779	$7,827,677,278	$12,279,992,057

*Actuarial Value

Maine State Retirement System

Judicial Plan

Actuarial Balance Sheet, June 30, 2006

Assets
(Present Value of expected income)

(1) Invested Assets	
(a) Members Contribution Fund	$ 6,463,859
(b) Retirement Allowance Fund	37,886,790
(c) Total Invested Assets (a+b)*	$44,350,649
(2) Future Contributions	
(a) Future Contributions	$ 2,203,911
(b) Actuarial Costs	4,172,065
(c) Total Contribution Income (a+b)	$ 6,375,976
(3) Present Value of Total Income (1+2)	$50,726,625

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees	
(a) Current Accrued Benefits	$17,136,091
(b) Future Benefit Accruals	12,981,804
(c) Total Active Benefits (a+b)	$30,117,895
(2) Inactive Employees	
(a) Total Inactive Benefits	$20,608,730
(3) Present Value of Total Benefits (1+2)	$50,726,625

*Actuarial Value

Maine State Retirement System

Legislative Plan

Actuarial Balance Sheet, June 30, 2006

Assets
(Present Value of expected income)

(1) Invested Assets	
(a) Members Contribution Fund	$ 1,648,363
(b) Retirement Allowance Fund	6,296,105
(c) Total Invested Assets (a+b)*	$ 7,944,468
(2) Future Contributions	
(a) Future Contributions	$ 922,292
(b) Actuarial Costs	(1,705,928)
(c) Total Contribution Income (a+b)	$ (783,636)
(3) Present Value of Total Income (1+2)	$ 7,160,832

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees	
(a) Current Accrued Benefits	$ 1,598,422
(b) Future Benefit Accruals	2,927,456
(c) Total Active Benefits (a+b)	$ 4,525,878
(2) Inactive Employees	
(a) Total Inactive Benefits	$ 2,634,954
(3) Present Value of Total Benefits (1+2)	$ 7,160,832

*Actuarial Value

Maine State Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet for Group Life Insurance, June 30, 2006

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	17,986,784	16,090,539	$34,077,322
(c) Total Invested Assets (a + b)*	$17,986,784	$16,090,539	$34,077,322
(2) Future Contributions			
(a) Future Contributions	$ 0	$ 0	$ 0
(b) Actuarial Costs	48,114,193	39,954,850	88,069,043
(c) Total Contribution Income (a + b)	$48,114,193	$39,954,850	$88,069,043
(3) Present Value of Total Income (1 + 2)	$60,100,977	$56,045,389	$122,146,365
LIABILITIES (Present Value of expected benefit payments)			
(1) Active Employees			
(a) Current Accrued Benefits	30,352,263	$28,099,278	$58,451,541
(b) Future Benefit Accruals	4,864,210	4,872,839	9,737,048
© Total Active Benefits (a + b)	$35,216,473	$32,972,116	$68,188,590
(2) Inactive Employees			
(a) Total Inactive Benefits	$30,884,504	$23,073,272	$53,957,776
(3) Present Value of Total Benefits (1 + 2)	$66,100,977	$56,045,389	$122,146,365

*Actuarial Value

Maine State Retirement System

Judicial Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2006

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	2,226,791
(c) Total Contribution Income (a+b)	$ 2,226,791
(3) Present Value of Total Income (1+2)	$2,226,791

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees	
(a) Current Accrued Benefits	$1,867,766
(b) Future Benefit Accruals	41,204
(c) Total Active Benefits (a+b)	$1,908,970
(2) Inactive Employees	
(a) Total Inactive Benefits	$317,821
(3) Present Value of Total Benefits (1+2)	$2,226,791

*Actuarial Value

Maine State Retirement System

Legislative Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2006

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	17,319
(c) Total Contribution Income (a+b)	$ 17,319
(3) Present Value of Total Income (1+2)	$17,319

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees	
(a) Current Accrued Benefits	$884
(b) Future Benefit Accruals	3,338
(c) Total Active Benefits (a+b)	$4,222
(2) Inactive Employees	
(a) Total Inactive Benefits	$13,097
(3) Present Value of Total Benefits (1+2)	$17,319

*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

Source: U.S. Census Bureau.

Personal Income and Earnings by Industry in Maine 2002-2006

	2002	2003	2004	2005	2006
Total Personal Income (thousands of dollars)	$35,998,489	$37,5a32,859	$39,235,543	$40,611,518	$42,749,735
Earnings by Place of Work	25,568,925	26,692,187	28,291,659	29,134,209	30,476,593
Farm earnings	76,480	96,609	133,659	117,376	117,457
Nonfarm earnings	25,492,445	26,595,578	28,158,090	29,016,833	30,359,136
Forestry, Fishing, Related Activities and other	320,120	329,393	325,949	344,391	368,629
Mining	10,150	9,728	11,511	13,096	15,547
Utilities	202,478	197,137	199,075	205,595	202,201
Construction	1,643,537	1,791,554	1,904,798	1,996,780	2,115,014
Manufacturing	3,568,448	3,683,742	3,771,512	3,829,547	3,926,062
Wholesale Trade	1,039,787	1,124,744	1,203,463	1,240,601	1,319,677
Retail Trade	2,372,649	2,449,995	2,557,694	2,585,849	2,677,501
Transportation and Warehousing	653,012	662,239	711,365	735,812	769,669
Information	570,929	585,509	606,956	623,675	642,161
Finance and Insurance	1,563,099	1,624,996	1,677,842	1,674,888	1,724,576
Real Estate and Rental and Leasing	434,335	470,207	501,860	524,453	519,810
Professional and Technical Services	1,563,313	1,538,772	1,693,347	1,796,838	1,931,233
Management of Companies and Enterprises	390,248	369,732	453,458	386,841	419,283
Administrative and Waste Services	716,083	723,896	740,062	783,988	844,984
Educational Services	356,551	383,561	406,595	421,273	442,365
Arts, Entertainment, and Recreation	264,991	274,905	277,835	286,628	305,725
Accommodation and Food Services	834,634	877,802	928,505	954,006	1,018,772
Other Services, except Public Administration	704,720	742,057	772,895	792,848	815,537
Government and Government Enterprises	4,768,291	5,052,838	5,385,477	5,591,050	5,801,418

Source: U.S. Bureau of Economic Analysis

Per Capita Personal Income
Maine, New England, U.S.
1997-2006

	Maine Income							
	Per Capita			As Percent of Income of		Annual Percent Increase		
	US	NE	Maine	US	NE	US	NE	Maine
1997	$25,334	$29,687	$22,179	87.5%	74.7%	4.8%	5.3%	4.6%
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	$29,843	$36,116	$25,968	87.0%	71.9%	6.8%	9.0%	6.1%
2001	$30,562	$37,308	$27,291	89.3%	73.2%	2.4%	3.3%	5.1%
2002	$30,775	$37,330	$27,759	90.1%	74.4%	0.8%	0.1%	1.7%
2003	$31,466	$37,894	$28,713	91.3%	75.8%	2.2%	1.5%	3.4%
2004	$33,090	$39,969	$29,861	90.2%	74.7%	5.2%	5.5%	4.0%
2005	$34,471	$41,670	$30,808	89.4%	73.9%	4.2%	4.3%	3.2%
2006	$36,276	$43,852	$32,348	89.2%	73.8%	5.2%	5.2%	5.0%

Source: U.S. Bureau of Economic Analysis.

State Valuation of Taxable Real and Personal Property

January 1988	$ 37,975,000,000
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

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, 2002 through 2006

	2002	2003	2004	2005	2006
Nonfarm Wage and Salary Employment	606,500	606,800	611,700	611,700	614,700
Manufacturing Employment	68,000	64,100	63,000	61,400	60,200
Nonmanufacturing Employment	538,500	542,700	548,700	550,300	554,500
Average Weekly Hours of Manufacturing Production Workers	39.9	40.0	39.6	39.6	41.4
Average Hourly Earnings of Manufacturing Production Workers	$15.55	$16.28	$16.97	$17.28	$18.57
Unemployment Rate	4.4%	5.0%	4.6%	4.8%	4.6%
Number Unemployed	29,600	34,500	32,000	33,800	32,500

Source: Maine Department of Labor, Division of Labor Market Information Services.

Civilian Labor Force
Employed and Unemployed by Labor Market Area, Not Seasonally Adjusted
February, 2007

AREA	CIVILIAN LABOR FORCE[1]			EMPLOYED[2]			UNEMPLOYED[3]			UNEMPLOYMENT RATE[4]		
	Feb 07	Jan 07	Feb 06	Feb 07	Jan 07	Feb 06	Feb 07	Jan 07	Feb 06	Feb 07	Jan 07	Feb 06
LABOR MARKET AREAS[5]												
Augusta	43,240	43,620	43,400	40,960	41,420	41,080	2,270	2,190	2,320	5.3%	5.0%	5.3%
Augusta-Waterville Combined[6]	65,980	66,650	65,900	62,440	63,230	62,310	3,550	3,420	3,580	5.4	5.1	5.4
Bangor	72,400	72,400	71,700	68,400	68,500	68,000	4,000	3,900	3,600	5.5	5.3	5.1
Belfast	13,320	13,370	13,490	12,420	12,460	12,570	900	910	920	6.7	6.8	6.8
Boothbay Harbor	3,800	3,820	3,770	3,500	3,520	3,490	300	300	270	7.8	7.8	7.2
Bridgton-Paris	14,240	14,470	14,060	13,210	13,490	13,130	1,030	990	940	7.2	6.8	6.7
Brunswick	34,520	34,670	34,000	32,900	33,110	32,340	1,620	1,550	1,660	4.7	4.5	4.9
Calais	6,040	6,110	5,970	5,470	5,530	5,420	570	580	550	9.4	9.5	9.3
Camden	7,700	7,740	7,620	7,290	7,340	7,180	410	400	440	5.3	5.1	5.8
Conway, NH-ME[7]	3,790	3,830	3,790	3,640	3,690	3,660	150	140	130	3.9	3.7	3.5
Dover-Foxcroft	9,740	9,760	9,500	8,940	9,020	8,740	800	740	760	8.2	7.6	8.0
Ellsworth	27,860	27,760	27,860	25,540	25,530	25,570	2,320	2,230	2,280	8.3	8.0	8.2
Farmington	17,400	17,450	17,550	16,310	16,420	16,470	1,080	1,030	1,090	6.2	5.9	6.2
Houlton	8,520	8,620	8,460	7,960	8,050	7,870	560	570	600	6.6	6.6	7.1
Lewiston-Auburn	57,700	58,500	56,800	54,500	55,600	53,700	3,100	2,900	3,100	5.4	5.0	5.4
Lincoln	3,800	3,830	3,700	3,520	3,560	3,460	280	270	240	7.4	7.1	6.6
Machias	8,150	7,950	8,040	7,420	7,270	7,260	720	680	780	8.9	8.5	9.7
Madawaska	2,950	2,980	2,950	2,760	2,770	2,780	190	210	180	6.4	6.9	6.0
Millinocket	4,170	4,220	3,970	3,820	3,840	3,590	360	380	380	8.6	9.1	9.6
Pittsfield	7,740	7,860	7,720	7,070	7,140	7,040	670	720	670	8.6	9.1	8.7
Portland-South Portland-Biddeford	203,800	206,400	201,800	196,000	198,900	193,900	7,800	7,500	7,900	3.8	3.6	3.9
Portland-South Portland-Sanford Combined[6]	215,200	217,900	213,100	206,700	209,700	204,500	8,500	8,300	8,700	4.0	3.8	4.1
Portsmouth, NH-ME[7]	9,710	9,730	9,380	9,390	9,410	9,020	320	320	360	3.3	3.3	3.8
Presque Isle	25,310	25,440	25,140	23,710	23,760	23,470	1,600	1,680	1,670	6.3	6.6	6.6
Rochester-Dover, NH-ME[7]	11,600	11,430	11,340	11,170	10,980	10,840	440	450	500	3.8	3.9	4.4
Rockland	12,310	12,420	12,190	11,600	11,740	11,450	710	690	740	5.8	5.5	6.1
Rumford	10,840	10,890	10,830	10,110	10,120	10,090	740	770	750	6.8	7.0	6.9
Saint George	1,410	1,420	1,400	1,350	1,360	1,330	70	60	70	4.7	4.1	5.3
Sanford	11,430	11,570	11,320	10,670	10,770	10,540	760	800	780	6.6	6.9	6.9
Skowhegan	14,940	15,130	14,850	13,650	13,780	13,570	1,290	1,350	1,280	8.6	8.9	8.6
Waldoboro	9,390	9,400	9,340	8,940	8,950	8,850	450	450	480	4.8	4.7	5.2
Waterville	22,750	23,040	22,500	21,470	21,810	21,230	1,270	1,230	1,270	5.6	5.3	5.6
York	16,280	16,460	16,010	15,510	15,600	15,170	760	870	840	4.7	5.3	5.2
MAINE	**703,100**	**708,700**	**696,800**	**665,400**	**671,600**	**658,900**	**37,800**	**37,100**	**37,800**	**5.4**	**5.2**	**5.4**
UNITED STATES (000)	**151,879**	**151,924**	**149,686**	**144,479**	**144,275**	**141,994**	**7,400**	**7,649**	**7,692**	**4.9**	**5.0**	**5.1**

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, Labor Market Information Services, 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

$52,910,000
State of Maine
Tax-Exempt General Purpose 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

$8,065,000
State of Maine
Taxable General Purpose 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 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 2.2 million issues of U.S. and non-U.S. equity, 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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.

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 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 hereto;

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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APPENDIX J

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

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STATE OF MAINE • GENERAL OBLIGATION BONDS

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