
INTRODUCTORY SECTION



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

SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

ALEXANDER E. PORTEOUS
COMMISSIONER

DOUGLAS E. COTNOIR, CPA, CIA
STATE CONTROLLER

December 6, 2018

**To the Honorable Paul R. LePage, Governor,
The Honorable Members of the Legislature, and
Citizens of the State of Maine**

We are pleased to present the State of Maine's Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP). The annual CAFR, required by Title 5 MRSA § 1547, is compiled and published by the Office of the State Controller (OSC). The report is the primary means of reporting the State's financial activities. The objective of this report is to provide a clear picture of our government as a single, unified entity, as well as providing traditional fund based financial statements.

INTRODUCTION TO THE REPORT

Responsibility

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

Adherence to Generally Accepted Accounting Principles

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

Format of Report

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

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

Internal Control Structure

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

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

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

Independent Auditors

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

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

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

Management's Discussion and Analysis (MD&A)

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

PROFILE OF THE GOVERNMENT

The State of Maine was the twenty-third state admitted to the Union on March 15, 1820 under the Missouri Compromise. By this time the population of Maine had reached nearly 300,000. The newly admitted state had nine counties and 236 towns. The city of Portland was the original site of the capital of Maine upon its admission to the Union. The Capital moved to Augusta in 1832 as a more central location from which to govern. The State has an area of 33,215 square miles and 3,500 miles of continuous coastline. Maine boasts 6,000 lakes and approximately 17 million acres of forest land. Geographically, the State includes 16 counties. The most populous county is Cumberland which includes Maine's largest city, Portland.

Reporting Entity

The Governor and Legislature govern all funds and accounts for every executive agency, board, commission, public trust, authority and component unit. The State of Maine financial reporting entity reflected in the CAFR, which is more fully described in Note 1 to the Basic Financial Statements, includes these funds, agencies, organizations, boards, commissions, authorities and major component units in accordance with GASB Statement No. 14 as amended by GASB Statement No. 39 and GASB Statement No. 61. There are 7 major component units, 5 non-major component units, one blended component unit, and one fiduciary component unit included in the CAFR. The major component units are discretely presented in the financial statements, and the blended component unit is included as separate funds in the fund financial statements. The fiduciary component unit is presented in the fiduciary fund and similar component unit financial statements, along with the other fiduciary activities of the State. The fiduciary activities are not included in the government-wide financial statements because the resources of these funds are not available to support the State's own programs.

The departments of the primary government record their daily financial operations in the State accounting system called AdvantageME operated by the OSC.

Budgetary Control

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

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

The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in Title 5 MRSA § 1665, subsection 1. This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits. The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent

of this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

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

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

The State uses encumbrance accounting as an extension of formal budgetary control. This requires that purchase orders, contracts, and other commitments be recorded to reserve a portion of an appropriation or allocation for expenditure. Appropriated and allocated balances are available for subsequent expenditure to the extent that there are approved encumbrances at the end of a fiscal year. Unencumbered appropriations in the General Fund and in the Highway Fund are carried forward to a subsequent year only when authorized by law, otherwise the balances lapse at year-end. For financial statement purposes, unless amounts would create deficits, fund balance is classified based on existing resources, if any, which will liquidate the encumbrances outstanding at June 30 (shown as restrictions, commitments or assignments of fund balance).

Maine Budget Stabilization Fund

The Maine Budget Stabilization Fund, established in Title 5 § 1532, to replace the Maine Rainy Day Fund, is a designation of the unassigned 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 or to supplement school funding in situations where a municipality suffers a sudden and severe change in their property valuation.

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. In fiscal year 2018, a net \$76.6 million was transferred into the fund, resulting in an ending balance of \$272.9 million.

MAJOR INITIATIVES AND FUTURE PROJECTS

Fiscal Stability

Governor Paul R. LePage, recognized by the Cato Institute in fiscal year 2014, 2016 and again in 2018 as one of the nation's top Governors for fiscal management, has led a combination of comprehensive reforms that have closed the State's out-year structural gap projection from \$1.1 billion reported in 2010 to \$509 million reported in 2018, which includes \$147 million for 2017 voter approved, citizen initiated MaineCare expansion legislation, and have increased the reserves in the Maine Budget Stabilization Fund by \$77 million to \$272.9 million or 7.6% of the state's 2018 fiscal year general fund revenue. At the same time, the State's budget provided for the needs of several varying State policy issues including: major infrastructure funding through a combination of appropriations and several voter approved general obligation bonds; comprehensive reforms to support the State's efforts toward Maine's opiate crisis; veterans' services expansion; streamlining of veterans' occupational licensing; and, wage increases to address recruitment and retention of the State's corrections, law enforcement, child welfare and psychiatric personnel. Favorable financial performance has provided the State with the ability to continue phasing out smaller accruals for tax revenues for budgetary purposes in recent fiscal years. The State's cash position has continued to show significant improvement and internal borrowing for cash flow purposes was not needed again at any time in the 2018 fiscal year. Finally, the Administration conducted the first formal "stress-testing" for sales and individual income tax revenue as part of the continuing assessment of Maine's capacity to address both economic and financial uncertainties.

Stress-Testing State Revenues

At the recommendation of Governor LePage, the fiscal year 2018-2019 biennial budget included a provision to stress-test General Fund revenues to inform policymakers on the estimated impact of a moderate and severe recession on sales and individual income tax revenues, and the sufficiency and needs of the Budget Stabilization Fund (BSF) in each of the recession scenarios. The Legislature included this proposal as written in the enacted biennial budget. The first joint biennial report by the Consensus Economic Forecasting Commission and the Revenue Forecasting Committee was issued on October 1, 2018.

The two forecasting groups concluded that the current BSF of \$273 million is not sufficient to fully offset the revenue shortfalls estimated through fiscal year 2022 as the result of a moderate or severe recession. However, the BSF is at a level that will provide the Governor and Legislature time during the preliminary stages of the next recession to make the changes necessary to bring the budget back into balance. The statutory maximum for the BSF of 18 percent of prior year General Fund revenues (currently \$646 million) would be sufficient to fully offset a moderate recession modeled in this report. This means that estimated revenues during a moderate recession combined with drawdowns of the BSF would allow a level of spending equal to the base appropriation limitation for the duration of a revenue shortfall. A BSF of 10 percent of fiscal year 2018 revenue, the percentage recommended by Moody's Analytics to offset a moderate recession, would be sufficient to cover all the revenue shortfall in fiscal years 2019 and 2020, and approximately 30 percent (\$69 million) of the fiscal year 2021 shortfall. A BSF of this size would provide the Governor and Legislature 18 months to institute budget adjustments to bring the fiscal year 2021 budget back into balance.

Tax Reform

In fiscal year 2018, Governor LePage continued to lead with the goal of tax reduction and reform to ensure that the "State of Maine is competitive, attracting new job creators, retaining existing businesses by lowering taxes, reducing energy costs and providing a welcome atmosphere for businesses and capital investment." In addition to the historic tax reduction in the 2012-2013 biennium, and the compromise version of the tax reform package of the State's 2016-2017 biennial budget, the State has moved forward to address additional relief provided through: a repeal of

the education 3% income tax surcharge imposed on taxable income in excess of \$200,000; the establishment of a refundable income tax credit for the construction or expansion of major business headquarters in Maine; an expansion of the Opportunity Maine Tax Credit to retain and attract young people to the State of Maine; additional protections for the elderly from tax lien foreclosures; extension of Pine Tree Development Zone program benefits; the extension of benefits to encourage major investments in shipbuilding facilities and preservation of jobs; and legislation conforming to certain provisions of the most recent changes in federal tax law for 2018 tax returns.

Medicaid Reform

Governor LePage has moved Maine from decades of financial crisis in the State's Medicaid program to financial stability. To keep the State's Medicaid program on a sustainable path and protect the safety net, the Administration continues to pursue sensible eligibility reform, expand the use of the Holt-Winters forecast algorithm and improve targeted care management for MaineCare's high utilizers. With the State's Medicaid budget under control, the State of Maine again ended the fiscal year without a Medicaid shortfall. With those commitments firmly in place and financial stability established, the State has moved forward to focus on key priorities: supporting funding for additional members of the state's Medicaid waivers, increases in reimbursement rates and payment reforms, including those related to recruitment and retention of direct care workers; expanding availability for services in home or other residential community settings; and, providing State funds to replace expiring enhanced federal matching funds through the Patient Protection and Affordable Care Act for health homes and increased reimbursement for primary care physicians. Finally, the Department continues critical improvements to transform Riverview Psychiatric Recovery Center into a center of excellence for the treatment of Maine's most psychiatrically challenged citizens.

Education

The Administration continues to lead innovative education funding initiatives, including: the expansion of educational benefits through the Maine National Guard Postsecondary Fund to provide for a 100% tuition waiver at State and private non-profit postsecondary institutions; and, the establishment of regional education service agencies with the goal of improving programs and services for students, expanded access to experiential learning through career and technical education in Maine schools, grants that prioritize efficiencies through regional cost sharing, and funding for students to earn post-secondary credit while still in high school to develop technical and life skills for success in college, careers and civic life through the Bridge Year program. In fiscal year 2018, the State contributed slightly more than \$1 billion to the cost of K-12 education, comprised of a General Fund appropriation and a portion of funding received from Casino revenues that is now permanently considered part of the State's contribution to education. The State contributed 52.02% of the total cost of education, including teacher retirement, retired teachers' health insurance and retired teacher's life insurance. The increase in the State's contribution in fiscal year 2018 over fiscal year 2017, is sufficient to attain the increase in the state-share percentage of the total cost of funding public education from kindergarten to grade 12 by at least one percentage point, before new programs or initiatives as set forth in state statute.

Transportation

The Maine Department of Transportation (MaineDOT) receives its funding from the State Highway Fund, the TransCap Trust Fund, federal funds, proceeds from authorized bond sales, and other sources. In 2018, MaineDOT released a \$2.3 billion work plan for all MaineDOT work activities for calendar years 2018 through 2020. The work plan consists of \$1.4 billion in capital work over three years, consisting of \$1.1 billion for highway and bridge projects and \$296 million in multi-modal projects. For calendar year 2018, the plan includes \$67.6 million for 48 miles of highway construction and rehabilitation, \$93.8 million for 356 miles of preservation paving, and \$22 million for 600 miles of light capital paving.

Transparency

Governor LePage believes that State government should be accountable and transparent in its operations. As Governor, he introduced and signed legislation to improve the financial disclosure requirements of legislators and senior executive branch employees. Governor LePage also established Saturday office hours to meet Mainers one on one to discuss their concerns and issues. Additionally, the Governor's office created an interactive website to encourage citizens to share their proposals to save money in State government.

As part of the Governor's continuing promise to provide an accountable and more transparent State Government, his administration maintains the Maine Open Checkbook, a website designed to provide citizens with easy to follow information regarding State government spending. The idea behind Maine Open Checkbook is simple: every Maine citizen has a right to know how their hard-earned tax dollars are spent.

OTHER INFORMATION

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement of Excellence in Financial Reporting to the State of Maine for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This is the eleventh time that Maine has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we will be submitting it to the GFOA to determine its eligibility for another certificate.

The Certificate of Achievement is the highest recognition a government may receive for excellence in financial reporting. We thank the finance community and our auditors for their contributions in achieving this award.

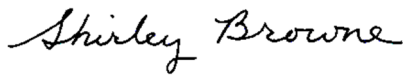
State government continues to have many accomplishments of which it can be proud. Consistent with the vision of Governor LePage to improve and enhance the fiscal administration of governmental operations, the Office of the State Controller continues to improve and refine its skills to meet the challenges of financial management in the 21st century. The Office provides assistance to many State agencies to help ensure the integrity and accountability of the programs they deliver to Maine's citizens. We partner with financial and program managers to find the best solutions to the State's financial challenges. In an environment where economic resources are limited and agencies are coping with budget constraints, the challenge of maintaining effective controls is greater than ever. We will continue to partner with each department, at its highest levels, to ensure that the tools are available to help each agency assess its risks and target controls to manage those risks effectively and within its budgetary constraints whenever possible.

Each year the preparation of the CAFR requires the efforts of the finance people throughout the State from virtually all agencies, departments and component units. We sincerely appreciate the dedicated efforts of all of these individuals. I am especially proud of the dedication and contributions of the staff of the Office of the State Controller, who strive to maintain the public's trust in our financial operations. Their efforts culminate in the CAFR each year.

Sincerely,

A handwritten signature in black ink that reads "Douglas E. Cotnoir". The script is fluid and cursive, with the first name being more prominent.

Douglas E. Cotnoir, CPA, CIA
State Controller

A handwritten signature in black ink that reads "Shirley Browne". The script is cursive and elegant, with the first name being more prominent.

Shirley A. Browne, CIA
Deputy State Controller

A handwritten signature in black ink that reads "Sandra J. Royce". The script is cursive and clear, with the first name being more prominent.

Sandra J. Royce, CPA
Director, Financial Reporting & Analysis



STATE OF MAINE

OFFICIALS OF STATE GOVERNMENT

AS OF JUNE 30, 2018

EXECUTIVE

Paul R. LePage, Governor

LEGISLATIVE

Michael D. Thibodeau, President of the Senate

Sara Gideon, Speaker of the House

Constitutional/Statutory Officers

Janet T. Mills, Attorney General

Pola Buckley, State Auditor

Matthew Dunlap, Secretary of State

Terry Hayes, State Treasurer

JUDICIAL

Leigh Ingalls Saufley, Chief Justice of the State Supreme Court



STATE OF MAINE ORGANIZATION CHART AS OF JUNE 30, 2018

MAINE VOTERS

LEGISLATIVE BRANCH

Senate
House of Representatives
Legislative Council
Office of Fiscal and Program Review
Office of Legislative Information Services
Office of Policy and Legal Analysis
Office of the Revisor of Statutes
Maine-Canadian Legislative Advisory Commission
State House and Capitol Park Commission
Office of Executive Director of the Legislative Council
Commission on Interstate Cooperation
Commission on Uniform State Laws
Office of Program Evaluation and Gov't Accountability

EXECUTIVE BRANCH

Governor
Office of the Governor
Governor's Board on Executive Clemency
Governor's Select Committee on Judicial Appointments
Office of Public Advocate
Land for Maine's Future Board
Maine Land and Water Resources Council

The Governor
appoints all
Judicial Officers

JUDICIAL BRANCH

Supreme Judicial Court
Superior Court
District Court
Court Alternative Dispute Resolution Service
Administrative Office of the Courts
Committee on Judicial Responsibility and Disability
Board of Bar Examiners
Board of Overseers of the Bar
State Court Library Committee

CONSTITUTIONAL OFFICERS

Secretary of State
State Treasurer
State Attorney General

STATUTORY OFFICER

State Auditor

CABINET LEVEL DEPARTMENTS

Administrative and Financial Services
Agriculture, Conservation and Forestry
Corrections
Defense, Veterans and Emergency Management
Economic and Community Development
Education
Environmental Protection
Governor's Office of Policy and Management
Health and Human Services
Inland Fisheries and Wildlife
Labor
Marine Resources
Professional and Financial Regulation
Public Safety
Transportation

MISCELLANEOUS BOARDS & COMMISSIONS

Human Rights Commission
Maine Arts Commission
Maine Historic Preservation Commission
Public Utilities Commission
State Liquor & Lottery Commission
Workers' Compensation Board

MAJOR COMPONENT UNITS

Finance Authority of Maine
Maine Community College System
Maine Health and Higher Education Facilities Authority
Maine Municipal Bond Bank
Maine Public Employees Retirement System
Maine State Housing Authority
Maine Turnpike Authority
University of Maine System



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

State of Maine

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrell

Executive Director/CEO