
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

KIRSTEN LC FIGUEROA
COMMISSIONER

DOUGLAS E. COTNOIR, CPA, CIA
STATE CONTROLLER

November 27, 2019

**To the Honorable Janet T. Mills, 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 2019 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.

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

Internal Control Structure

The 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 2019, a net \$29.1 million was transferred into the fund, resulting in an ending balance of \$236.9 million.

MAJOR INITIATIVES AND FUTURE PROJECTS

Fiscal Stability

The enacted budget for the State's fiscal year 2020-2021 biennium reflects Governor Janet Mills' priorities for her first term in office. In addition to contributing to the Maine Budget Stabilization Fund, the budget provides for several State policy issues including: funding major infrastructure projects through a combination of appropriations and several voter approved general obligation bonds; making health care more affordable and accessible; combating Maine's opioid crisis; increasing K-12 public education funding and the minimum teacher salary as well as fixing crumbling schools; investing in workforce training and higher education for Maine workers and young adults; delivering property tax relief for Maine seniors, families and small businesses; and, investing in forward-looking initiatives for infrastructure, energy, climate and planning.

Liquidity and Reserves

The State's cash position has continued to show significant improvement during fiscal year 2019 and into fiscal year 2020. Again, internal borrowing for cash flow purposes was not needed at any time in the 2019 fiscal year.

Of the \$272.9 million in the Maine Budget Stabilization Fund (BSF) at the close of fiscal year 2018, \$65 million was specifically set aside by law as a Reserve for Riverview Psychiatric Center (the Reserve). The purpose of the Reserve was to provide General Fund resources to reimburse the Centers for Medicaid and Medicare Services (CMS) for disallowed disproportionate share hospital payments occurring during the period that the Center was de-certified. The fiscal year 2020-2021 biennial budget transferred \$19.8 million into the BSF in fiscal year 2019 and set aside an additional \$14.5 million in the Reserve, bringing the total amount set aside in the Reserve to \$79.5 million.

During fiscal year 2019, \$19.2 million was transferred to the Department of Health and Human Services (DHHS) from the Reserve and, at the close of fiscal year 2019, another \$18.1 million was deposited in the BSF as part of the "cascade" of required transfers from General Fund Unappropriated Surplus. The final balance in the BSF on June 30, 2019 was \$297.2 million, of which \$60.3 million was set aside in the Reserve. The total BSF balance represents 6% of the State's 2019 fiscal year General Fund revenue. The \$236.9 million balance of non-Reserve funds in the BSF was an increase of \$29.1 million over the fiscal year 2018 non-Reserve BSF balance of \$207.8 million.

The remaining \$60.3 million in the Reserve has since been transferred to DHHS and the State has paid all outstanding debts to CMS related to the disallowed disproportionate share hospital payments. The balance remaining in the BSF after repaying CMS was \$238.4 million.

Stress-Testing State Revenues

On October 1, 2018, the Consensus Economic Forecasting Commission and the Revenue Forecasting Committee issued a joint report from the first formal biennial "stress-testing" for State revenues as required by law. "Stress-testing" is part of the continuing assessment of Maine's capacity to address both economic and financial uncertainties and is intended 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 BSF in each of the recession scenarios.

The two forecasting groups concluded that the total BSF balance of \$273 million at the end of fiscal year 2018 was not sufficient to fully offset the revenue shortfalls estimated through fiscal year 2022 as the result of a moderate or severe recession. However, at that level the BSF would provide the Governor and Legislature time during the preliminary stages of a recession to make the changes necessary to bring the budget back into balance. The statutory

maximum for the BSF is 18 percent of prior year General Fund revenues. At the time of the stress test, the 18% would have been \$646 million and the groups determined this level would be sufficient to fully offset the moderate recession modeled in the 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. They also determined that 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.

Education

In the enacted budget for the fiscal year 2018-2019 biennium, the State appropriated nearly \$1.3 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 \$1.3 billion equated to just over 50.1% of the total cost of education, not including teacher retirement, retired teachers' health insurance and retired teacher's life insurance, or just over 53% when those items are included. The increase in the State's budgeted appropriation in fiscal year 2019 over fiscal year 2018, was 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. The State's actual contribution to the total cost of education for fiscal year 2019 was ultimately just over 49.58% when not including teacher retirement, retired teachers' health insurance and retired teachers' life insurance.

One of the focus areas in Governor Mills' biennial budget proposal for fiscal years 2020-2021 was K-12 Education. The Governor proposed that the State contribute \$1.38 billion to the cost of K-12 Education in fiscal year 2020, an increase of \$87.8 million or 6.8%, as compared to the fiscal year 2019 contribution. The 2020-2021 biennial budget, as ultimately enacted by the Legislature, raised the state share of education funding to nearly 51%, not including teacher retirement, retired teachers' health insurance and retired teacher's life insurance. The contribution included: \$115 million in new state support for education; \$18 million for the School Revolving Loan Fund, which provides critical funding to repair school infrastructure; and funding to pave the way for a \$40,000 minimum teacher salary, initially reimbursing towns at 100% to offset the cost on local budgets. The enacted biennial budget also provided funding for higher education and workforce training including nearly a 3.3% increase for higher education and training programs at the University of Maine System, the Community College System, and the Maine Maritime Academy to help keep tuition fees down, and nearly \$9 million across several programs for scholarship funds, adult education, adult degree completion, and early college.

Healthcare

Another priority for Governor Mills is improving the affordability and accessibility of health care. One of her first acts in office was to direct the implementation of the Medicaid expansion approved by voters in November 2017 toward providing life-saving, affordable health care coverage for an estimated 70,000 Mainers. The enacted biennial budget for fiscal years 2020-2021 provides \$125 million for Medicaid expansion, which is expected to be matched with nearly \$700 million in federal funds. The budget also provides \$5 million to support domestic violence and sexual assault services and an additional \$10 million for smoking prevention and cessation. In addition, the budget supports efforts to combat the opioid crisis by funding prevention efforts and eliminating red tape that prevents people from getting help. Another law passed during the First Regular Session of the 129th Legislature, and signed by Governor Mills, increased appropriations to the DHHS by \$7.4 million over the biennium for evidence-based tobacco use prevention and cessation services and for tobacco use cessation medications and counseling provided to MaineCare members.

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 2019, MaineDOT released a \$2.44 billion work plan for all MaineDOT work activities for calendar years 2019 through 2021. The work plan consists of \$1.5 billion in capital work over three years, consisting of \$1.2 billion for highway and bridge projects and \$297 million in multi-modal projects. For calendar year 2019, the plan includes \$80.8 million for 70 miles of highway construction and rehabilitation, \$107 million for 382 miles of preservation paving, and \$26 million for 600 miles of light capital paving.

Property Tax Relief

The enacted biennial budget for fiscal years 2020 -2021 allocated an additional \$75 million in property tax relief for hardworking Mainers, seniors, families and small businesses and increased revenue sharing to local municipalities from 2.5% to 3% in 2020 and to 3.75% in 2021. Additional provisions increased the Homestead Exemption for Maine residents by \$5 thousand, to \$25 thousand, and expanded eligibility for the Property Tax Fairness Credit that will allow another 13,000 Mainers to get property tax relief.

Looking to the Future

Governor Mills' priorities also encompass innovation and planning for Maine's Future. The Governor transitioned the Office of Policy and Management, created during the prior administration, into the Governor's Office of Policy Innovation and the Future. The Office's mission is to identify Maine's long-term challenges, develop goals and strategies, then help coordinate between state agencies to achieve them. Areas of focus include climate change, early childhood education, and economic issues like workforce development, broadband and the State's rural and innovation economies.

Combating climate change and encouraging clean energy policy is one of the Administration's top priorities. Maine has established mandates with targets for reducing greenhouse gas emissions and increasing renewable energy and has joined the United States Climate Alliance, a bipartisan coalition of 25 states committed to addressing climate change. The Administration spearheaded the establishment of the Maine Climate Council, which is charged with establishing strategies and initiatives to help the state meet its greenhouse gas reductions and renewable energy generation targets.

The biennial budget for fiscal years 2020-2021 allocates funding for Maine's forward-looking initiatives and for revitalized planning efforts across state government.

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, 2018. This is the twelfth consecutive year 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.

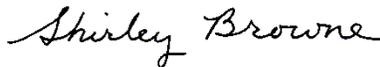
State government continues to have many accomplishments of which it can be proud. Consistent with the vision of Governor Mills to improve and enhance the fiscal administration of governmental operations, the Office of the State Controller continues to improve and refine its skills to meet the challenges 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 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.

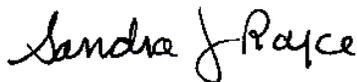
Sincerely,



Douglas E. Cotnoir, CPA, CIA
State Controller



Shirley A. Browne, CIA
Deputy State Controller



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



STATE OF MAINE

OFFICIALS OF STATE GOVERNMENT AS OF JUNE 30, 2019

EXECUTIVE

Janet T. Mills, *Governor*

LEGISLATIVE

Troy D. Jackson, *President of the Senate*

Sara Gideon, *Speaker of the House*

Constitutional/Statutory Officers

Aaron Frey, *Attorney General*

Pola Buckley, *State Auditor*

Matthew Dunlap, *Secretary of State*

Henry Beck, *State Treasurer*

JUDICIAL

Leigh Ingalls Saufley, *Chief Justice of the State Supreme Court*



STATE OF MAINE ORGANIZATION CHART AS OF JUNE 30, 2019

MAINE VOTERS

LEGISLATIVE BRANCH

Senate
House of Representatives
Legislative Council
Office of Fiscal and Program Review
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
Judicial Nominations Advisory Committee
Office of Public Advocate
Land for Maine's Future Board

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
Health and Human Services
Inland Fisheries and Wildlife
Labor
Marine Resources
Professional and Financial Regulation
Public Safety
Transportation
Workers' Compensation Board

MISCELLANEOUS BOARDS & COMMISSIONS

Human Rights Commission
Maine Arts Commission
Maine Historic Preservation Commission
Public Utilities Commission
State Liquor & Lottery Commission

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, 2018

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS



STATE OF MAINE
OFFICE OF THE STATE AUDITOR

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Pola A. Buckley, CPA, CISA
State Auditor

B. Melissa Perkins, CPA
Deputy State Auditor

INDEPENDENT AUDITOR'S REPORT

Honorable Troy Jackson
President of the Senate

Honorable Sara Gideon
Speaker of the House of Representatives

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2019, and the related notes to the financial statements. We did not audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the State of Maine's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, Efficiency Maine Trust, Finance Authority of Maine, Maine Community College System, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, and the University of Maine System. The financial statements of these named component units comprise 100 percent of the assets, net position, and revenue of the aggregate discretely presented component units; 93 percent of assets, 96 percent of fund balance/net position, and 63 percent of revenue of the aggregate remaining fund information (Maine Public Employees Retirement System and Maine Governmental Facilities Authority); and 3 percent of the assets, and less than 1 percent of the net position and revenue of the governmental activities (Maine Governmental Facilities Authority). The financial statements of these named component units were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these component units, is based solely on the report of the other auditors. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 17 to 27, and Budgetary Comparison Information, State Retirement Plans, Other Post-Employment Benefit Plans, and Information about Infrastructure Assets Reported Using the Modified Approach on pages 125 to 161, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

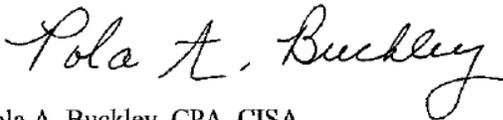
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements on pages 163 to 221 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, our report dated November 27, 2019, on our consideration of the State of Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters will be issued under separate cover. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Maine's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Maine's internal control over financial reporting and compliance.



Pola A. Buckley, CPA, CISA
State Auditor
Office of the State Auditor

Augusta, Maine
November 27, 2019

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, 2019. 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 net position of Governmental Activities increased by \$335.7 million, while net position of Business-Type Activities increased by \$57.6 million. The State's assets and deferred outflows exceeded its liabilities and deferred inflows by \$1.1 billion at the close of fiscal year 2019. Of this amount \$3.2 billion was reported as negative "Unrestricted" net position. A negative balance means that it would be necessary to convert restricted assets (e.g., capital assets) to unrestricted assets if all ongoing obligations were immediately due and payable. Component units reported net position of \$3.1 billion, an increase of \$175.7 million (5.9 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 \$1.5 billion, an increase of \$358.0 million from the previous year. The General Fund's total fund balance was a \$367.5 million, an increase of \$37.3 million from the previous year. The Highway Fund total fund balance was \$34.9 million, an increase of \$31.6 million from the prior year.
- The proprietary funds reported net position at year-end of \$825.0 million, an increase of \$127.3 million from the previous year. The increase is primarily the result of an increase in the Employment Security Fund of \$42.1 million and an increase in four Internal Service Funds; Retiree Health Insurance of \$24.7 million, Employee Health Insurance of \$38.3 million, Transportation Facilities of \$2.4 million and Workers' Compensation of \$2.5 million.

Long-term Debt:

- The State's liability for general obligation bonds increased by \$196.1 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued \$286.6 million in bonds and made principal payments of \$90.5 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page .

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 Position presents all of the State's assets, deferred outflows, liabilities and deferred inflows with the difference between the two reported as net position. Over time, increases and decreases in net position are an indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position 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 and human services, education, governmental support and operations, justice and 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, Ferry 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 one "blended" component unit, the Maine Governmental Facilities Authority (MGFA) with Governmental Activities as described above. Maine reports 12 other component units (7 major and 5 non-major) as discretely presented component units of the State, and one component unit is reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

Government-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting. The following summarizes the impact of the transition from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements but are included on government-wide statements.
- Certain tax revenues that are earned, but not available, are reported as revenues in the Governmental Activities, but are reported as deferred inflows on the governmental fund statements.
- Other long-term assets that are not available to pay for current period expenditures are recorded as deferred outflows in governmental fund statements, but not deferred on the government-wide statements.
- Internal service funds are reported as Governmental Activities in the government-wide statements, but reported as proprietary funds in the fund financial statements.
- Governmental fund long-term liabilities, such as certificates of participation, net pension liabilities, 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 position balances are allocated as follows:
 - *Net Investment in Capital Assets* are capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction or improvement of those assets.
 - *Restricted Net Position* 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.
 - *Unrestricted Net Position* is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 and Supply Fund. Internal service funds are reported as Governmental Activities on the government-wide statements.

Fiduciary funds: The State is the trustee or fiduciary for assets that belong to others. The State is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These funds include pension and other employee benefit trusts administered by the Maine Public Employees Retirement System, a component unit, private-purpose trusts, and agency funds. Fiduciary funds are reported using the accrual basis of accounting, except for Agency funds which have no measurement focus. 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 and other post-employment benefit 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 position increased to \$1.1 billion over the course of fiscal year ended June 30, 2019, as detailed in Tables A-1 and A-2. The increase is primarily due to a decrease in total liabilities and an increase in net revenue for governmental and business-type activities.

TABLE A-1: CONDENSED STATEMENT OF NET POSITION
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018*	2019	2018	2019	2018*
Current and other noncurrent assets	\$ 3,221,439	\$ 2,567,112	\$ 558,389	\$ 519,249	\$ 3,779,828	\$ 3,086,361
Total capital assets net of accum depr	4,322,196	4,277,998	32,690	33,521	4,354,886	4,311,519
Total Assets	<u>7,543,635</u>	<u>6,845,110</u>	<u>591,079</u>	<u>552,770</u>	<u>8,134,714</u>	<u>7,397,880</u>
Deferred Outflows of Resources	<u>643,665</u>	<u>540,136</u>	<u>4,137</u>	<u>5,579</u>	<u>647,802</u>	<u>545,715</u>
Current liabilities	1,366,107	1,204,436	36,583	40,341	1,402,690	1,244,777
Non-current liabilities	5,780,957	5,711,822	27,060	44,818	5,808,017	5,756,640
Total Liabilities	<u>7,147,064</u>	<u>6,916,258</u>	<u>63,643</u>	<u>85,159</u>	<u>7,210,707</u>	<u>7,001,417</u>
Deferred Inflows of Resources	<u>459,341</u>	<u>223,785</u>	<u>1,283</u>	<u>493</u>	<u>460,624</u>	<u>224,278</u>
Net Position (Deficit)						
Net Investment in Capital Assets	3,559,387	3,580,547	32,690	33,521	3,592,077	3,614,068
Restricted	176,632	156,595	513,319	471,256	689,951	627,851
Unrestricted (deficit)	<u>(3,155,124)</u>	<u>(3,491,939)</u>	<u>(15,719)</u>	<u>(32,080)</u>	<u>(3,170,843)</u>	<u>(3,524,019)</u>
Total Net Position	<u>\$ 580,895</u>	<u>\$ 245,203</u>	<u>\$ 530,290</u>	<u>\$ 472,697</u>	<u>\$ 1,111,185</u>	<u>\$ 717,900</u>

* As Restated

The State's fiscal year 2019 revenues totaled \$8.9 billion. (See Table A-2) Taxes and Operating grants and contributions accounted for most of the State's revenue by contributing 49.0 percent and 34.8 percent, respectively. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled \$8.5 billion for the year 2019. (See Table A-2) These expenses are predominantly (69.5 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 5.6 percent of total costs. Total net position increased by \$393.3 million, primarily due to an increase in tax revenue and Operating grants and contributions.

TABLE A-2: CHANGES IN NET POSITION
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018*	2019	2018	2019	2018*
Revenues:						
Program Revenues:						
Charges for Services	\$ 571,632	\$ 564,220	\$ 641,371	\$ 623,684	\$ 1,213,003	\$ 1,187,904
Operating grants and contributions	3,074,939	3,002,173	10,921	9,510	3,085,860	3,011,683
General Revenues:						
Taxes	4,351,358	4,083,891	-	-	4,351,358	4,083,891
Other	223,558	194,927	-	-	223,558	194,927
Total Revenues	8,221,487	7,845,211	652,292	633,194	8,873,779	8,478,405
Expenses:						
Governmental Activities:						
Governmental Support	475,715	433,132	-	-	475,715	433,132
Education	1,845,272	1,774,309	-	-	1,845,272	1,774,309
Health & Human Services	4,054,201	3,804,516	-	-	4,054,201	3,804,516
Justice & Protection	484,735	433,728	-	-	484,735	433,728
Transportation Safety	613,171	627,901	-	-	613,171	627,901
Other	474,394	482,392	-	-	474,394	482,392
Interest Expense	51,140	51,788	-	-	51,140	51,788
Business-type Activities:						
Employment Security	-	-	82,683	83,159	82,683	83,159
Lottery	-	-	242,619	230,678	242,619	230,678
Alcoholic Beverages	-	-	144,600	137,426	144,600	137,426
Military Equipment Maintenance	-	-	1,104	10,895	1,104	10,895
Other	-	-	21,008	21,495	21,008	21,495
Total Expenses	7,998,628	7,607,766	492,014	483,653	8,490,642	8,091,419
Excess (Deficiency) before Special Items, Gain (Loss) on Sale of Assets and Transfers	222,859	237,445	160,278	149,541	383,137	386,986
Special Items	-	-	15,761	-	15,761	-
Gain (Loss) on Sale of Assets	-	-	(5,613)	-	(5,613)	-
Transfers	112,833	108,620	(112,833)	(108,620)	-	-
Increase (Decrease) in Net Position	335,692	346,065	57,593	40,921	393,285	386,986
Net Position, beginning of year	245,203	(100,862)	472,697	431,776	717,900	330,914
Ending Net Position	\$ 580,895	\$ 245,203	\$ 530,290	\$ 472,697	\$ 1,111,185	\$ 717,900

* As Restated

Governmental Activities

Revenues for the State's Governmental Activities totaled \$8.2 billion while total expenses equaled \$8.0 billion. The increase in net position for Governmental Activities was \$335.7 million in 2019, which was primarily the result of an increase in tax revenue of \$267.5 million and current year transfers from the State's Business-Type Activities of \$112.8 million. The State's Business-Type Activities transfers of \$112.8 million (net) to the Governmental Activities, included statutorily required profit transfers, capital contributions, and the pledged profit of the Alcoholic Beverages Fund to finance the payment of the Liquor Revenue Bonds. These transfers are discussed further on page .

The users of the State's programs financed \$571.6 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of \$3.1 billion. \$4.6 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

TABLE A-3: TOTAL SOURCES OF REVENUES FOR GOVERNMENTAL ACTIVITIES FOR FISCAL YEAR 2019

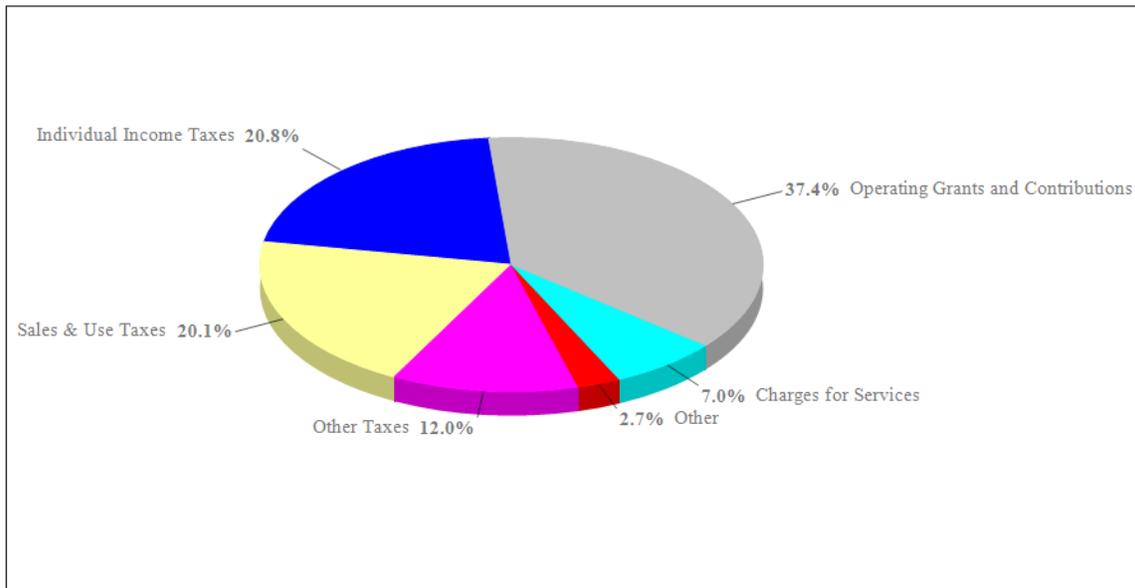
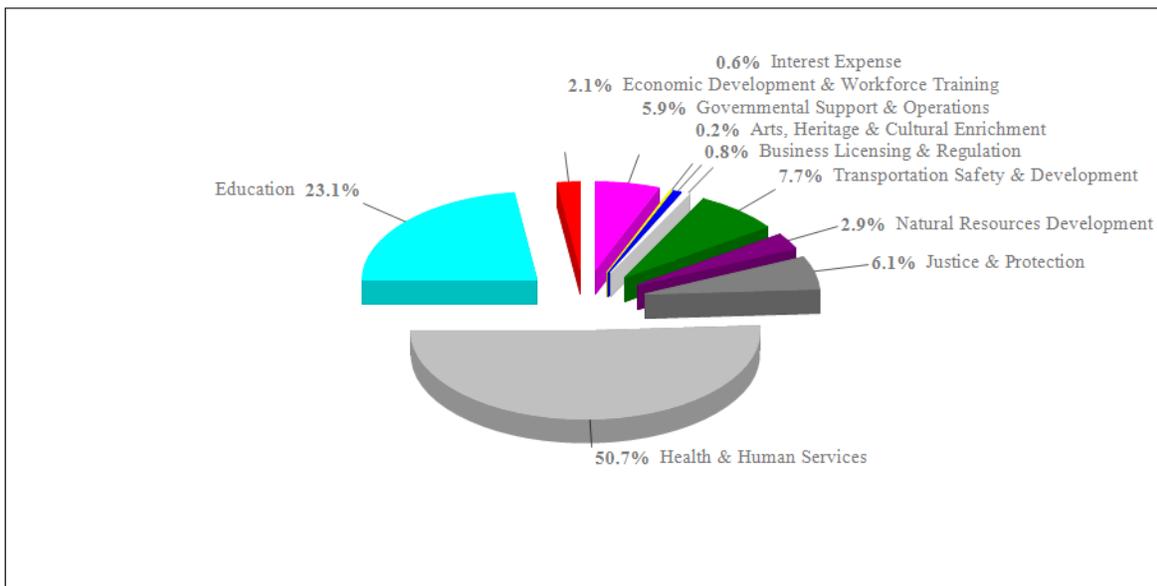


TABLE A-4: TOTAL EXPENSES FOR GOVERNMENTAL ACTIVITIES FOR FISCAL YEAR 2019



Business-Type Activities

Revenues for the State's Business-Type Activities totaled \$652.3 million while expenses totaled \$492.0 million. The increase in net position for Business-Type Activities was \$57.6 million in 2019, due primarily to the increase in revenue over expenses for Employment Security of \$45.7 million and a change in the accounting estimate related to Pension and Other Postemployment Benefit costs of \$15.8 million for Military Equipment Maintenance.

Table A-5 presents the cost of State Business-Type Activities: Employment Security, Alcoholic Beverages, Lottery, Ferry Services, Military Equipment Maintenance, Consolidated Emergency Communications 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	
	2019	2018	2019	2018
Employment Security	\$ 82,683	\$ 83,159	\$ 45,745	\$ 42,404
Alcoholic Beverages	144,600	137,426	58,330	51,837
Lottery	242,619	230,678	61,703	63,081
Ferry Services	13,632	12,950	(8,402)	(7,894)
Military Equipment Maintenance	1,104	10,895	1,626	333
Consolidated Emergency Communications	5,950	6,952	727	(674)
Other	1,426	1,593	549	454
Total	<u>\$ 492,014</u>	<u>\$ 483,653</u>	<u>\$ 160,278</u>	<u>\$ 149,541</u>

The cost of all Business-Type Activities this year was \$492.0 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-Type Activities was \$160.3 million, with Alcoholic Beverages and Lottery making up \$58.3 and \$61.7 million of the total, respectively. The \$112.8 million (net) of State's Business-Type Activities transferred to the Governmental Activities, included statutorily required profit transfers and the pledged profit of the Alcoholic Beverages Fund to finance the payment of the Liquor Revenue Bonds.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

TABLE A-6: GOVERNMENTAL FUND BALANCES
(Expressed in Thousands)

	2019	2018*	Change
General	\$ 367,487	\$ 330,177	\$ 37,310
Highway	34,859	3,280	31,579
Federal	15,367	18,789	(3,422)
Other Special Revenue	774,858	628,115	146,743
Other Governmental Funds	263,648	117,868	145,780
Total	<u>\$ 1,456,219</u>	<u>\$ 1,098,229</u>	<u>\$ 357,990</u>

* As Restated

As of the end of the fiscal year, the State's governmental funds reported combined ending fund balances of \$1.5 billion, an increase of \$358.0 million in comparison with the prior year. Of this total, \$63.7 million (4.4 percent) is classified as non-spendable, either due to its form or legal constraints, and \$797.1 million (54.7 percent) is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. Unspent bond proceeds and revenue restricted for transportation, natural resources or other programs are included in restricted fund balance. At the end of fiscal year 2019, the unassigned fund balance of the General Fund was \$237.1 million, an increase of \$67.5 million.

General Fund revenues and other sources surpassed General Fund expenditures and other uses resulting in an increase in the fund balance of \$37.3 million. Revenues and other sources of the General Fund increased by approximately \$230.5 million (6.0 percent), as compared to fiscal year end 2018, which is mainly attributed to an increase in tax revenue of \$264.8 million. General Fund expenditures and other financing uses increased by \$352.0 million (9.6 percent), as compared to fiscal year 2018. This is due, primarily, to an increase in expenditures for health and human services of \$168.0 million and education of \$92.1 million.

The fund balance of the Highway Fund increased \$31.6 million, due mainly to the decrease in the Highway Fund's expenditures and other financing uses of \$62.6 million, of which \$56.6 million relates to transportation safety & development expenditures.

Budgetary Highlights

For the 2019 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to \$3.88 billion, an increase of about \$297 million from the original legally adopted budget of approximately \$3.58 billion. Actual expenditures on a budgetary basis amounted to approximately \$204.7 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2019, including the budgeted starting balance for fiscal year 2019, there were funds remaining of \$28.2 million to distribute in fiscal year 2019. Actual revenues exceeded final budget forecasts by \$14.5 million. At year end, the State transferred \$18.1 million to the Budget Stabilization Fund. Interest earnings along with legislatively and statutorily approved transfers increased the balance in the Budget Stabilization Fund to \$297.2 million as of June 30, 2019. This item is further explained in Note 2 of the Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2019, the State had roughly \$4.4 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2019, the State acquired or constructed more than \$123.5 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 17 to the financial statements.

TABLE A-7: CAPITAL ASSETS
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Land	\$ 644,484	\$ 641,049	\$ 2,389	\$ 2,389	\$ 646,873	\$ 643,438
Buildings	866,161	845,476	4,655	4,655	870,816	850,131
Equipment	311,748	307,118	24,666	32,701	336,414	339,819
Improvements other than buildings	113,590	113,492	42,757	42,757	156,347	156,249
Software	118,777	76,243	-	-	118,777	76,243
Infrastructure	2,931,726	2,901,466	-	-	2,931,726	2,901,466
Construction in Progress	58,088	58,946	5,674	971	63,762	59,917
Total Capital Assets	5,044,574	4,943,790	80,141	83,473	5,124,715	5,027,263
Accumulated Depreciation	722,378	665,792	47,451	49,952	769,829	715,744
Capital Assets, net	\$ 4,322,196	\$ 4,277,998	\$ 32,690	\$ 33,521	\$ 4,354,886	\$ 4,311,519

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 8,808 highway miles or 17,891 lane miles within the State. Bridges have a deck area of 12.3 million square feet among 2,971 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2019, the actual average condition was 70.0. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 74.0 at June 30, 2019. Preservation costs for fiscal year 2019 totaled \$132.8 million compared to estimated preservation costs of \$125.5 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 467, PL 2017, \$40 million in General Fund bonds were spent during fiscal year 2019. Of the amount authorized by Chapter 299, PL 2017, \$70 million in General Fund bonds were spent during fiscal year 2019.

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 percent 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 percent of the total valuation of the State of Maine, whichever is the lesser.

At year-end, the State had \$1.4 billion 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-8: OUTSTANDING LONG-TERM DEBT
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
General Obligation						
Bonds	\$ 543,400	\$ 376,115	\$ -	\$ -	\$ 543,400	\$ 376,115
Unmatured Premiums	60,378	31,631	-	-	60,378	31,631
Other Long-Term Obligations	840,527	877,487	779	806	841,306	878,293
Total	<u>\$ 1,444,305</u>	<u>\$ 1,285,233</u>	<u>\$ 779</u>	<u>\$ 806</u>	<u>\$ 1,445,084</u>	<u>\$ 1,286,039</u>

During the year, the State reduced outstanding long-term obligations by \$90.5 million for general obligation bonds and \$287.2 million for other long-term debt. Also during fiscal year 2019, the State incurred \$581.3 million of additional long-term obligations.

Credit Ratings

The State's credit was rated during fiscal year 2019 by Moody's Investors Service as Aa2 with a stable outlook and by Standard & Poor's as AA with a stable outlook.

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

Both the national and state economies had a good year in 2018 with annual data indicating that both the U.S. economy and Maine economy continue to grow. Since the last Consensus Economic Forecasting Commission (CEFC) meeting in late March 2019, the U.S. Bureau of Economic Analysis (BEA) has released considerable revisions to state personal income data, as anticipated by the CEFC in their April 2019 forecast, with the 2018 total personal income growth for Maine being revised up from 4.0% to 5.3%.

Maine's real GDP grew 2.6% in the first quarter of 2019. Personal income in Maine grew 5.3% from 2017 to 2018, while wage and salary income, which is the largest component of total personal income, grew 4.4% over the same period. The debt-to-income level for Maine businesses and households has increased slightly in the end of 2018, although it seems to have stabilized since its peak in the second quarter of 2017. The Consumer Price Index was up 1.8% in August 2019 from a year ago.

Nationwide, sentiment is becoming less optimistic for both consumers and small businesses. The Consumer Sentiment Index in September 2019 was down 6.9% from a year ago but up 3.8% from the previous month. The Small Business Optimism Index has fallen both month-over-month and since last year, by 1.5% and 5.9%, respectively.

The price of crude oil has fallen recently quarter-over-quarter, and by 17% since this time last year. Heating oil prices for the winter of 2018-2019 were higher than the previous winter, but prices for the first week of the 2019-2020 season were over 70 cents lower than last year, and New England's price of \$2.66 per gallon was the lowest on the East coast. Gasoline is currently averaging \$2.60 per gallon.

Existing single-family home sales in Maine were up 11% in September 2019 compared to the same month last year and average monthly housing permits for the September 2018-August 2019 period were 9.4% higher than the previous 12-month period. The median home price in Cumberland County increased by 7.2%, year-over-year, and increased by 3.2% for Maine as a whole. Mortgage delinquency rates in Maine have seen an uptick in recent quarters to 2.9% in the second quarter of 2019 and remain higher than the national rate of 2.6%. The foreclosure rate in Maine was 0.39% in the second quarter of 2019.

Overall, the primary sources of concern for the CEFC were uncertainty regarding possible changes in national trade, fiscal, and regulatory policies, and an awareness that unexpected events flowing from the current election cycle could negatively impact consumer confidence. Barring such surprises, the CEFC remains cautiously optimistic for the near term.

There were few explicit key assumptions made by the CEFC for this forecast. They noted that national policy concerns, including trade policies, pose uncertainty for the year heading into 2020, and that they remain cautiously optimistic in awaiting new data to answer questions about this uncertainty. The key assumptions made by the CEFC follow.

- As assumed in their previous forecast, the Federal Reserve will continue to target the 2.0 percent inflation rate going forward.
- Medicaid expansion will continue to have an impact in the upcoming years, but not more than already realized in the April 2019 forecast. This is reflected in the growth forecast for personal current transfer receipts.

Maine has seen modest employment growth thus far in 2019 and will likely see continued growth in 2020 before leveling off. The employment growth rate was increased modestly by 0.3 percentage points in 2019 to 0.8% and 0.2 percentage points in 2020 to 0.4%, with growth rates left unchanged for the remaining years of the forecast. This reflects data for the first half of 2019 showing estimated growth of 0.8%. Employment reaches a peak level of 636,200 in 2020 and stays at that level throughout the rest of the forecast period.

Wage and salary income also increased modestly for all years. The forecasts for both 2019 and 2020 were raised by 0.3 percentage points, given new data showing recent gains in average annual wages. The forecast for wage and salary income was also revised upwards in 2021, 2022, and 2023 by 0.1, 0.3, and 0.1 percentage points, respectively. The forecast for supplements to wages and salaries was revised upwards for 2019, 2020, and 2021, to follow the trend in wage and salary income growth. The forecast for 2019 was raised 0.6 percentage points to 4.0%, followed by upward revisions of 0.5 percentage points in 2020 and 0.2 percentage points in 2021. The forecasts for 2022 and 2023 were left unchanged. Growth rates for nonfarm proprietors' income; dividends, interest and rent; and personal current transfer receipts were left unchanged for all years. The overall result for total personal income was a 0.1 percentage point increase in 2020, 2022, and 2023.

The CEFC made no revisions to CPI, with the assumption that inflation will continue to move towards the Federal Reserve's inflation target rate. There was no other evidence to suggest changes to the CPI forecast were necessary.

The forecast for corporate profits was left unchanged for all years as well.

The Revenue Forecasting Committee (RFC) will meet to review and update the current revenue forecast to comply with the statutory reporting date in December 2019. Based on the CEFC forecast, the RFC will consider its revenue projections through the fiscal year ending June 30, 2021 for the General Fund, Highway Fund, Fund for a Healthy Maine and Medicaid/MaineCare Dedicated Revenue Taxes.

At June 30, 2019, the State of Maine reported an ending fund balance of \$367.5 million in the General Fund on a GAAP basis, an increase of more than \$35.2 million since the end of fiscal year 2018. The "unassigned" component of fund balance was \$237.1 million, an increase of more than \$67.4 million since the end of fiscal year 2018.

There are factors that adversely affect our General Fund Balance Sheet that we should continue to strive to improve over the next several years. The primary factors that have a significant impact on the State's Financial Statements compiled and issued in accordance with Generally Accepted Accounting Principles as applicable to governments include such items as accruing tax revenues for budgetary purposes and for financial statement purposes without accruing the offsetting liabilities for budgetary purposes and the demand from appropriations whose balances carry from year to year, which results in lower amounts accruing to the Unassigned Fund Balance of the General Fund. The State has eliminated the smaller tax line accruals on a budgetary basis and has made contributions to General Fund reserves a higher priority in the budget.

These actions, along with sound budgeting and fiscal management policies, have resulted in significant increases in the equity and cash positions of the General Fund. Consequently, the State has seen record levels in its Treasurer's Cash Pool and Budget Stabilization Fund and has not required external borrowing in the form of TANs or BANs for cash flow purposes.

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:

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