SUPPLEMENT DATED JULY 5, 2017

TO THE

OFFICIAL STATEMENT DATED JUNE 7, 2017

Relating to

$98,060,000
STATE OF MAINE
GENERAL OBLIGATION BONDS
$15,020,000 2017 Series A (Federally Taxable)

and

$83,040,000 2017 Series B

The State of Maine Information Statement appearing as Appendix A to the Official Statement dated June 7, 2017, as supplemented by the Supplement dated July 3, 2017 (the "July 3 Supplement" and collectively, the "Official Statement") for the above-referenced Bonds, is hereby further supplemented as set forth below.

Except as specifically provided herein, the State of Maine Information Statement (the "Information Statement") has not been updated or supplemented since the date of the Official Statement to which it is attached and contains information only through its date, except as specifically set forth in the July 3 Supplement and this Supplement. The Information Statement, together with the July 3 Supplement and this Supplement, should be read in its entirety.

The section of the Information Statement entitled "STATE BUDGETS – Recent Developments – 2018-2019 Biennial Budget" is amended by deleting the last paragraph thereof and inserting the following paragraph in its place:

"Late in the evening of July 3, Legislative leaders and the Governor reached agreement on a budget for the 2018-2019 biennium. The Legislature convened a final Conference Committee to vote to include additional initiatives and an adjustment to the budget, consisting of a two year moratorium on certain rule making for behavioral health services, additional funding for Headstart of $575,000 each year from the Temporary Assistance for Needy Families block grant and the elimination of an increase in the lodging tax from 9% to 10.5%. Upon the Conference Committee's adjournment, the Legislature then passed the 2018-2019 biennial budget emergency bill to be enacted with the required two-thirds vote early in the morning of July 4. The Governor then signed the bill into law."

State of Maine

SUPPLEMENT DATED JULY 3, 2017

TO THE

OFFICIAL STATEMENT DATED JUNE 7, 2017

Relating to

$98,060,000
STATE OF MAINE
GENERAL OBLIGATION BONDS
$15,020,000 2017 Series A (Federally Taxable)

and

$83,040,000 2017 Series B

The State of Maine Information Statement appearing as Appendix A to the Official Statement dated June 7, 2017 (the "Official Statement") for the above-referenced Bonds, is hereby supplemented as set forth below.

Except as specifically provided herein, the State of Maine Information Statement (the "Information Statement") has not been updated or supplemented since the date of the Official Statement to which it is attached and contains information only through its date, except as specifically set forth in this Supplement. The Information Statement, together with this Supplement, should be read in its entirety.

The section of the Information Statement entitled "STATE BUDGETS" is supplemented by the addition of the following section:

Recent Developments – 2018-2019 Biennial Budget

The Legislature and Governor were unable to reach agreement on a budget for the 2018-2019 biennium by the start of the new fiscal year, July 1, 2017. On June 30, 2017, the Governor signed a proclamation declaring a civil emergency and an executive order directing State departments and agencies to take the necessary steps for a State government shutdown. The order was effective at 12:01 a.m. on July 1, 2017 and remains in effect until terminated by the Governor or 5:00 p.m. on July 3, 2017, whichever is earlier. Pending further legislative action on the budget during the evening of July 3, it is possible that the Governor's order will be extended, as he determines to be necessary.

The Legislature and Governor have continued to negotiate the terms of an acceptable budget since June 30, but have not yet reached agreement. The State continues to provide essential services and pay most benefits administered by the Department of Health and Human Services. The Governor is reviewing designations of emergency personnel on a case-by-case basis to provide for the health and safety of the public and protection of State property, including revenues.

The Governor has also announced that administrative leave with pay will be provided to State employees for Monday, July 3, assuming that the budget that is finally passed funds State government operations from July 1st. Additionally, the Governor announced that employees working as designated emergency workers on Monday will receive compensatory time off for the work they performed on Monday as well.

The Legislative Conference Committee also voted late Sunday evening (July 2) to include language in the budget proposal authorizing compensation to state employees, both for those who were declared emergency personnel and for those who were not declared emergency personnel during the civil emergency to be included in the budget proposal that is to be considered by the Legislature on July 3. Finally, the Legislative Conference Committee approved language directing the Department of Administrative and Financial Services to issue payroll checks no later than three days after a final budget is enacted for the scheduled payrolls on both July 5th and July 12th in the case that the final budget is not enacted prior to each of the scheduled payroll dates.

As described in the Official Statement under the heading "DESCRIPTION OF THE BONDS," Article V, Part Third, Section 5 of the Constitution of the State provides that if sufficient funds are not appropriated to pay the principal of and interest on all bonded debt (including the Bonds), when due, then the Treasurer of State is obligated to set apart from the first General Fund revenues received an amount sufficient to make payment of principal of and interest on the Bonds as such principal and interest become due.

The first debt service payment date for any outstanding general obligation bonds of the State is December 1, 2017. In addition, the State is obligated to make payments on two lease arrangements on July 13 and July 25, respectively. Neither lease constitutes "bonded debt" within the meaning of the constitutional provision cited above. The State has already paid the amount due on July 13, but has not yet done so for the July 25 payment.

Budget negotiations are expected to continue through the evening of July 3 in order to come to a resolution to obtain the Governor's signature. If a budget were passed to be enacted by midnight on July 3 and the Governor used the full 10 days permitted by law before signing the bill, the maximum length of time that State government would be partially closed would be to July 14.

Notwithstanding the foregoing, the State cannot now predict how long the current partial shutdown will continue or when a budget for the 2018-2019 biennium will be enacted into law.

State of Maine

New Issue

This Official Statement provides information about the Bonds. Some of the information appears on this cover page for ready reference. A prospective investor should read the entire Official Statement to make an informed investment decision.

$98,060,000
STATE OF MAINE
GENERAL OBLIGATION BONDS
Consisting of
$15,020,000 2017 Series A
(Federally Taxable)
and
$83,040,000 2017 Series B

Dated: Date of Delivery **Due: as shown on the inside cover**

Bond Ratings	Moody's Investors Service, Inc. See "RATINGS" herein. S&P Global Ratings. See "RATINGS" herein.
Interest Payment Dates	June 1 and December 1, commencing December 1, 2017.
Redemption	The Bonds are not subject to redemption prior to maturity.
Source of Payment	The Bonds will be general obligations of the State of Maine ("the State") and the full faith and credit of the State are pledged to the punctual payment of principal of and interest on the Bonds, with the State Treasurer being obligated under the Maine Constitution to set aside available General Fund revenues to the extent needed to make said payments if legislative appropriations are insufficient, as more fully described herein. See "DESCRIPTION OF THE BONDS" herein.
Tax Matters	In the opinion of Locke Lord LLP, Bond Counsel to the State, interest on the Series B Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended. Interest on the Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series A Bonds is included in the gross income of the owners of the Series A Bonds for federal income tax purposes. Under existing law, interest on the Bonds is excluded from gross income for State income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.
Purpose	The Bonds are being issued to finance certain capital expenditures of the State. See "DESCRIPTION OF THE BONDS" herein.
Initial Denominations	Multiples of $5,000.
Closing	June 21, 2017.
Global Book-Entry System	The Bonds, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository") of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased.
Bond Counsel	Locke Lord LLP. See "TAX MATTERS" herein.
Financial Advisor	FirstSouthwest, a Division of Hilltop Securities Inc., See "FINANCIAL ADVISOR" herein.
Issuer Contact	Terry Hayes, Treasurer of State. See "MISCELLANEOUS" herein.

Official Statement dated June 7, 2017

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

$98,060,000
State of Maine
General Obligation Bonds

$15,020,000
General Obligation Bonds, 2016 Series A
(Federally Taxable)

Maturity (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No.
2018	$9,810,000	2.00%	1.10%	56052AZA7
2019	5,210,000	2.00	1.30	56052AZB5

$83,040,000
General Obligation Bonds, 2016 Series B

Maturity (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No.
2019	$ 4,595,000	5.00%	0.90%	56052AZC3
2020	9,810,000	5.00	1.00	56052AZD1
2021	9,805,000	5.00	1.11	56052AZE9
2022	9,805,000	5.00	1.23	56052AZF6
2023	9,805,000	5.00	1.34	56052AZG4
2024	9,805,000	5.00	1.46	56052AZH2
2025	9,805,000	5.00	1.61	56052AZJ8
2026	9,805,000	5.00	1.78	56052AZK5
2027	9,805,000	5.00	1.88	56052AZL3

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

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$98,060,000
STATE OF MAINE
GENERAL OBLIGATION BONDS
Consisting of
$15,020,000 2017 Series A
(Federally Taxable)
and
$83,040,000 2017 Series B

INTRODUCTION

This Official Statement, including the cover page hereof and the Appendices hereto, sets forth certain information in connection with the issuance by the State of Maine (the "State" or "Maine") of its $15,020,000 General Obligation Bonds, 2017 Series A (Federally Taxable) (the "Series A Bonds") and its $83,040,000 General Obligation Bonds, 2017 Series B (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds"). The Bonds are authorized by, and are being issued pursuant to, Article IX, Section 14, of the Constitution of the State and certain laws of the State which were ratified by voters of the State voting in elections thereon. See Appendix D hereto. The Bonds will be general obligations of the State.

DESCRIPTION OF THE BONDS

The Bonds will bear interest from the date of their delivery payable semiannually on June 1 and December 1 of each year, commencing December 1, 2017, until payment of the principal of the Bonds. Interest on the Bonds will be paid on the interest payment dates, and principal of the Bonds will be paid at maturity, to The Depository Trust Company, New York, New York ("DTC") or its nominee as registered owner of the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, disbursement of such payments to DTC is the responsibility of the State, disbursement of such payments to the Direct Participants (as defined under the heading "The Depository Trust Company" below) is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (as defined under the heading "The Depository Trust Company" below) is the responsibility of the Direct Participants or Indirect Participants (as defined under the heading "The Depository Trust Company" below) as more fully described herein. See "The Depository Trust Company" below. The Bonds will bear interest at the rates and will mature on the dates and in the amounts set forth on the inside cover page hereof. Interest on the Bonds will be computed on the basis of a 30-day month and a 360-day year.

The Bonds are not subject to redemption prior to maturity.

The Bonds are general obligations of the State and the full faith and credit of the State are pledged to the punctual payment of principal of and interest on the Bonds. Article V, Part Third, Section 5 of the Constitution of the State provides that **if sufficient funds are not appropriated to pay the principal of and interest on all bonded debt (including the Bonds), when due, then the Treasurer of State is obligated to set apart from the first General Fund revenues received**

an amount sufficient to make payment of principal of and interest on the Bonds as such principal and interest become due.

The Bonds are being issued to finance certain capital expenditures of the State. See Appendix D hereto.

INFORMATION CONCERNING THE STATE

Certain information regarding the State is included in Appendix A hereto. Updated information since the Preliminary Official Statement dated May 30, 2017 is set forth on pages A-28 - A-29 with respect to the State budget and on pages A-35 - A-36 with respect to the Department of Health and Human Services' budget and the status of Riverview Psychiatric Hospital and related federal funding. The State's audited financial statements for the fiscal year ended June 30, 2016 and certain other selected financial information pertaining to the State are included in Appendix B hereto. Certain information with respect to revenues of the State is included in Appendix C hereto. Certain information regarding authorized and outstanding debt of the State is included in Appendix D hereto. Certain information derived from actuarial valuation reports for the retirement programs administered by the Maine Public Employee Retirement System is included in Appendix E hereto. Selected economic information pertaining to the State is included in Appendix F hereto.

LITIGATION

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

TAX MATTERS

Series B Bonds – Tax Exempt Bonds

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

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series B Bonds. Failure to comply with these requirements may result in interest on the Series B Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the

Series B Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Series B Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Series B Bonds is excluded from gross income for Maine income tax purposes. Bond Counsel expresses no opinion regarding any other Maine tax consequences arising with respect to the Series B Bonds. Bond Counsel also has not opined as to the taxability of the Series B Bonds or the income therefrom under the laws of any state other than Maine. A complete copy of the proposed form of opinion of Bond Counsel with respect to the Series B Bonds is set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Series B Bonds is less than the amount to be paid at maturity of such Series B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series B Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series B Bonds which is excluded from gross income for federal income tax purposes and is exempt from Maine personal income taxes. For this purpose, the issue price of a particular maturity of the Series B Bonds is the reasonably expected initial offering price to the public (as defined in the Notice of Sale). However, if the competitive sale requirements (as defined in the Notice of Sale) are not met, the issue price of a particular maturity of the Series B Bonds is the first price at which a substantial amount of such maturity of the Series B Bonds is sold to the public. The original issue discount with respect to any maturity of the Series B Bonds accrues daily over the term to maturity of such Series B Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series B Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series B Bonds. Beneficial Owners of the Series B Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series B Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series B Bonds in the original offering to the public at the reasonably expected initial offering price to the public, or, if applicable, the first price at which a substantial amount of such Series B Bonds is sold to the public.

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

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series B Bonds may adversely affect the value of, or the tax status of interest on, the Series B Bonds.

Prospective Beneficial Owners should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Series B Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Series B Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Series B Bonds. Prospective Beneficial Owners are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Series B Bonds is excluded from gross income for federal income tax purposes and for Maine personal income taxes purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series B Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Beneficial Owners should consult with their own tax advisors with respect to such consequences.

Series A Bonds – Federally Taxable Bonds

In the opinion of Bond Counsel, under existing law, interest on the Series A Bonds is included in gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other federal tax law consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Series A Bonds.

Bond Counsel is also of the opinion that, under existing law, interest on the Series A Bonds is excluded from gross income for Maine income tax purposes. Bond Counsel expresses no opinion regarding any other Maine tax consequences arising with respect to the Series A Bonds. Bond Counsel also has not opined as to the taxability of the Series A Bonds or the income therefrom under the laws of any state other than Maine. A complete copy of the proposed form of opinion of Bond Counsel with respect to the Series A Bonds is set forth in Appendix G hereto.

The following discussion is generally limited to "U.S. owners," meaning beneficial owners of Series A Bonds that for United States federal income tax purposes are individual citizens or residents of the United States, corporations or other entities taxable as corporations created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), and certain estates or trusts with specific connections to the United States. ***Partnerships holding Series A Bonds, and partners in such partnerships, should consult their tax advisers regarding the tax consequences of an investment in the Series A Bonds (including their status as U.S. owners).***

Prospective purchasers of the Series A Bonds upon their original issuance at prices other than the respective prices indicated on the inside cover of this Official Statement, and prospective purchasers of the Series A Bonds at other than their original issuance, should consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Payment of Interest

In general, interest paid or accrued on the Series A Bonds, including qualified stated interest on Discount Bonds (as defined below), if any, will be treated as ordinary income to U.S. owners. A U.S. owner using the accrual method of accounting for U.S. federal income tax purposes must include interest paid or accrued on the Series A Bonds in ordinary income as the interest accrues, while a U.S. owner using the cash receipts and disbursements method of accounting for U.S. federal income tax purposes must include interest in ordinary income when payments are received or constructively received by the owner, except as described below under the section entitled "Original Issue Discount and Original Issue Premium."

Original Issue Discount and Original Issue Premium

Certain of the Series A Bonds ("Discount Bonds") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity (the principal amount) over the "issue price" of a Discount Bond, provided that excess equals or exceeds a statutory de minimis amount (one-quarter of one percent of the Discount Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity (or, if required by applicable Treasury Regulations, to an earlier call date)). The issue price of a Discount Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the time a U.S. owner owns a Discount Bond (i) is interest includable in the U.S. owner's gross income for federal income tax purposes, and (ii) is added to the U.S. owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale, or other disposition of the Discount Bond. The effect of OID is to accelerate the recognition of taxable income for a US owner using the cash method of accounting during the term of the Discount Bond.

Certain of the Series A Bonds ("Premium Bonds") may be offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). If a U.S. owner purchases a Premium Bond, that owner will be considered to have purchased such Premium Bond with "amortizable bond premium" equal in amount to such excess. The U.S. owner may elect (which election shall apply to all securities purchased at a premium by such U.S. owner), in accordance with the applicable provisions of Section 171 of the Code, to amortize that premium as an offset to the interest payments on the Premium Bond using a constant yield to maturity method over the remaining term of the Premium Bond (or, if required by applicable Treasury Regulations, to an earlier call date). Pursuant to Section 67(b)(11) of the Code, the amortization of that premium is not considered a miscellaneous itemized deduction. Any amortization of bond premium will reduce the basis of the Premium Bond pursuant to Section 1016(a)(5) of the Code.

Owners of Discount Bonds and Premium Bonds should consult their tax advisers as to the determination for federal tax purposes of the amount of OID or amortizable bond premium properly accruable or amortizable in any period with respect to the Discount Bonds or Premium Bonds and as to other federal tax consequences and the treatment of OID and amortizable bond premium for purposes of state or local taxes on, or based on, income.

Sale, Exchange, Retirement or Other Taxable Disposition of Series A Bonds

Upon the sale, exchange, retirement or other taxable disposition of a Series A Bond, a U.S. owner will recognize gain or loss equal to the difference between the amount realized from the sale, exchange, retirement or other disposition and the owner's adjusted basis in the Series A Bond or applicable portion of the adjusted basis. The owner's adjusted basis generally will equal the cost of the Series A Bond to the owner, increased by any OID includible in the owner's ordinary income for the Series A Bond and reduced by any principal payments on the Series A Bond previously received by the owner (including any other payments on the Series A Bond that are not qualified stated interest payments) and by any amortizable bond premium allowed as a deduction, as described above under the section entitled "Original Issue Discount and Original Issue Premium." Any gain or loss recognized upon a sale, exchange, retirement or other disposition of a Series A Bond (excluding amounts attributable to accrued interest or OID) will generally be capital gain or loss and will be long-term capital gain or loss if the U.S. owner's holding period in the Series A Bond exceeds one year. Long-term capital gains of individuals are currently eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

General information reporting requirements will apply to payments of principal and interest made on Series A Bonds and the proceeds of the sale of Series A Bonds to non-corporate holders of the Series A Bonds, and "backup withholding," currently at a rate of 28%, will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of Series A Bonds that is a U.S. owner generally can obtain complete exemption from backup withholding by providing a properly completed Internal Revenue Service ("IRS") Form W-9 (Request for Taxpayer Identification Number and Certification).

Medicare Tax Affecting U.S. Owners

A U.S. owner of a Series A Bond that is an individual or estate, or a trust not included in a special class of trusts that is exempt from such tax, is subject to a 3.8% Medicare tax on the lesser of (1) the U.S. owner's "net investment income" for the taxable year and (2) the excess of the U.S. owner's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between $125,000 and $250,000, depending on the individual's circumstances). A U.S. owner's net investment income generally includes interest income on, and net gains from the disposition of, Series A Bonds, unless such interest income or net gains are derived in the ordinary course of a trade or business (other than a trade or business that consists of certain passive or trading activities). A U.S. owner that is an individual, estate, or trust, should consult its tax adviser regarding the applicability of the Medicare tax.

Non-U.S. Owners

Under the Code, interest and OID on any Series A Bond whose beneficial owner is not a U.S. owner are generally not subject to United States income tax or withholding tax (including backup withholding) if the non-U.S. owner provides the payor of interest on the Series A Bonds with an appropriate statement as to its status as a non-U.S. owner. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the non-U.S. owner conducts a trade or business in the United States and the interest or OID on the Series A Bonds held by the non-U.S. owner is effectively connected with such trade or business, that interest or OID will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding). The foregoing is a brief summary of certain federal income tax consequences to a non-U.S. owner. ***Non-U.S. owners should consult their tax advisers regarding the tax consequences of an investment in the Series A Bonds.***

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ("FATCA") generally imposes a 30% withholding tax on interest payments and proceeds from the sale of interest-bearing obligations for payments made after the relevant effective date to (i) certain foreign financial institutions that fail to certify their FATCA status and (ii) investment funds and non-financial foreign entities if certain disclosure requirements related to direct and indirect United States shareholders and/or United States account holders are not satisfied.

Under applicable Treasury regulations, the FATCA withholding tax of 30% will generally be imposed, subject to certain exceptions, on payments of (i) interest on Series A Bonds and (ii) gross proceeds from the sale or other disposition of Series A Bonds on or after January 1, 2019, where such payments are made to persons described in the immediately preceding paragraph.

In the case of payments made to a "foreign financial institution" (generally including an investment fund), as a beneficial owner or as an intermediary, the FATCA withholding tax generally will be imposed, subject to certain exceptions, unless such institution (i) enters into (or is otherwise subject to) and complies with an agreement with the U.S. government (a "FATCA Agreement") or (ii) is required by and complies with applicable foreign law enacted in connection with an intergovernmental agreement between the United States and a foreign jurisdiction (an "IGA"), in either case to, among other things, collect and provide to the U.S. or other relevant tax authorities certain information regarding U.S. account holders of such institution. In the case of payments made to a foreign entity that is not a financial institution (as a beneficial owner), the FATCA withholding tax generally will be imposed, subject to certain exceptions, unless such entity either provides the withholding agent with a certification that it does not have any "substantial" U.S. owner (generally, any specified U.S. person that directly or indirectly owns more than a specified percentage of such entity) or identifies its "substantial" U.S. owners.

If Series A Bonds are held through a foreign financial institution that enters into (or is otherwise subject to) a FATCA Agreement, such foreign financial institution (or, in certain cases, a person paying amounts to such foreign financial institution) generally will be required, subject to certain exceptions, to withhold the 30% FATCA tax on payments of dividends or the items described above made to (i) a person (including an individual) that fails to comply with certain information requests or (ii) a foreign financial institution that has not entered into (and is not otherwise subject to) a FATCA Agreement and that is not required to comply with FATCA pursuant to applicable foreign law enacted in connection with an IGA. Coordinating rules may limit duplicative withholding in cases where the withholding described above in "Non-U.S. Holders" or "Information Reporting and Backup Withholding" also applies.

If any amount of, or in respect of, U.S. withholding tax were to be deducted or withheld from payments on Series A Bonds as a result of a failure by an investor (or by an institution through which an investor holds the Series A Bonds) to comply with FATCA, none of the City, any paying agent or any other person would, pursuant to the terms of the Series A Bonds, be required to pay additional amounts with respect to any Series A Bond as a result of the deduction or withholding of such tax. ***Non-U.S. owners should consult their tax advisers regarding the application of FATCA to the ownership and disposition of Series A Bonds.***

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular Beneficial Owner of Series A Bonds in light of the Beneficial Owner's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Series A Bonds, including the application and effect of state, local, foreign and other tax laws.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

Absence of Litigation

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

Treasurer's Certificate

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

Legal Opinions

The opinions of Locke Lord LLP with respect to the validity and tax status of the Bonds will be delivered at the time of delivery of the Bonds in substantially the forms set forth in Appendix G to this Official Statement.

Except as to matters expressly set forth in their opinion, the scope of engagement of Bond Counsel does not extend to passing upon or assuming responsibility for the accuracy or adequacy of any statement made in this Official Statement, and they make no representation that they have independently verified the same other than matters expressly set forth as their opinion.

Secondary Market Disclosure

In connection with the issuance of the Bonds, the State will undertake in the Bonds to provide annual financial information and notices of certain events pursuant to Municipal Securities Disclosure Rule, 17 CFR §240.15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission. Such undertakings of the State are summarized in Appendix H hereto.

The following information describes the instances in the previous five years of non-compliance known to the State with the terms of certain of its previous undertakings entered into pursuant to the Rule.

The State has provided continuing disclosure undertakings with respect to its general obligation bonds issued from time to time and with respect to certain bonds issued from time to time by the Maine Governmental Facilities Authority ("MGFA") and agreed therein to provide audited financial statements and annual financial information and operating data within one year after the June 30 end of each of its fiscal years. In order to fulfill such continuing disclosure undertakings, it has been the State's practice to post its official statements with respect to such bonds on EMMA and to associate such official statements with CUSIP numbers to which such continuing disclosure undertakings apply. On June 5, 2012, the State's official statement dated May 31, 2012, which included annual financial information and operating data for the fiscal year ended June 30, 2011 ("FY2011 Annual Financial Information"), was posted on EMMA. However, that filing did not specifically associate such official statement with CUSIP numbers to which continuing disclosure undertakings apply. On August 16, 2013, a corrective filing was made with respect to the FY 2011 Annual Financial Information. In addition, the State has determined that while its annual financial information and audited financial statements were filed with EMMA in a timely manner each year, such filings did not specifically associate such filings with the MGFA bonds CUSIP numbers to which its continuing disclosure undertakings apply. On August 19, 2013, the State made a corrective filing with respect to its annual financial information and audited financial statements for the years ended June 30, 2008 through 2012. On June 18, 2014, the State's official statement dated June 12, 2014, which included annual financial information and operating data for the fiscal year ended June 30, 2013 ("FY2013 Annual Financial Information"), was posted on EMMA. However, that filing did not specifically associate such official statement with CUSIP numbers to which the State's continuing disclosure undertakings apply. On July 14, 2014, a corrective filing was posted on EMMA with respect to the FY2013 Annual Financial Information.

As described above, the Maine Municipal Bond Bank (the "Bank") has issued its Grant Anticipation Bonds (Maine Department of Transportation) (the "GARVEE Bonds") and, in connection with such bonds, entered into substantially similar continuing disclosure agreements with the trustee for such bonds and the State, acting by and through the Treasurer of State and MaineDOT. On or about July, 2012, it was determined that MaineDOT had not complied in a timely fashion with its continuing disclosure undertaking to post on EMMA within three months after the end of each federal fiscal year annual financial information and operating data with respect to federal highway apportionments, obligation authority and reimbursement receipts available for GARVEE Bond payments. Such information for the federal fiscal years ended September 30, 2011 and 2012 was filed on EMMA on July 9, 2012 and January 8, 2013, respectively.

The Bank has issued its Transportation Infrastructure Revenue Bonds (the "TransCap Bonds"), Series 2008A, Series 2009A, Series 2009B and Series 2011A and, in connection with such bonds, entered into substantially similar continuing disclosure agreements with the trustee for such bonds and MaineDOT. Before the issuance of the TransCap Bonds, Series 2011A, it was determined that MaineDOT had not complied in a timely fashion with its continuing disclosure agreements pertaining to the TransCap Bonds with respect to certain annual financial information. On November 3, 2011, MaineDOT made filings that fulfilled all previously unmet continuing disclosure undertakings related to such TransCap Bonds and MaineDOT advised the Bank that it had implemented procedures that MaineDOT believed to be adequate to assure timely filing of information sufficient to comply with its continuing disclosure undertakings with respect to the TransCap Bonds. With respect to the December 30, 2012 filing deadline, certain financial information was filed on EMMA April 1, 2013. Audited financial statements of the State required to be filed by June 30 of each fiscal year for each fiscal year ended the prior June 30, were filed with EMMA in a timely manner; however, certain filings did not specifically associate such filings with TransCap Bonds CUSIP numbers to which continuing disclosure undertakings apply. On August 16, 2013, the State made a corrective filing with respect to those financial statements for the years ended June 30, 2009 through 2012.

THE DEPOSITORY TRUST COMPANY

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series A Bond certificate will be issued in the aggregate principal amount of each maturity thereof and will be deposited with DTC. One fully-registered Series B Bond certificate will be issued in the aggregate principal amount of each maturity thereof and will be deposited with DTC.

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

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

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

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

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

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

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

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

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

THE STATE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS OF THE BONDS. NO ASSURANCES CAN BE PROVIDED THAT IN THE EVENT OF BANKRUPTCY OR INSOLVENCY OF DTC OR A DIRECT PARTICIPANT OR INDIRECT PARTICIPANT THROUGH WHICH A BENEFICIAL OWNER HOLDS INTERESTS IN THE BONDS, PAYMENT WILL BE MADE BY DTC, THE DIRECT PARTICIPANT OR THE INDIRECT PARTICIPANT ON A TIMELY BASIS.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE HOLDER OF ALL OF THE BONDS, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS. THEREFORE, ANY STATEMENTS IN THE OFFICIAL STATEMENT SUMMARIZING THE TERMS OF PAYMENT AND REDEMPTION OF THE BONDS, ANY REQUIREMENTS OF NOTICE TO HOLDERS OF THE BONDS AND ANY RIGHTS OF CONSENT OF THE HOLDERS OF THE BONDS SHALL APPLY TO CEDE & CO., AS HOLDER OF THE BONDS, AND NO REPRESENTATIONS ARE MADE IN RESPECT OF THE FOREGOING TO THE BENEFICIAL OWNERS OF THE BONDS.

RATINGS

Moody's Investors Service, Inc. and S&P Global Ratings, a division of The McGraw-Hill Companies, Inc., have assigned their municipal bond ratings of "**Aa2**" with a "Stable" outlook and "**AA**" with a "Stable" outlook, respectively, to the Bonds. The State has furnished such rating agencies with certain information and materials concerning the Bonds and the State, some of which is not included in this Official Statement. Generally, each such rating agency bases its ratings on such information and materials and also on such investigations, studies and assumptions as each may undertake or establish independently.

The ratings are not a recommendation to buy, sell or hold the Bonds and each such rating should be evaluated independently and should not be relied on in making any investment decision. Such ratings reflect only the respective views of each rating agency, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies if, in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Bonds.

COMPETITIVE SALE OF BONDS

The Bonds were offered for sale at competitive bidding on June 7, 2017 in accordance with the Notice of Sale dated May 30, 2017 as supplemented (attached as Appendix I). Morgan Stanley & Co. LLC. (the "Series A Purchaser") was the successful bidder for the Series A Bonds. Information provided by the Series A Purchaser regarding interest rates and reoffering yields of the Bonds is set forth on the inside cover of this Official Statement. The Series A Bonds are being purchased from the State by the Series A Purchaser at an aggregate price of $15,163,894.90 reflecting the principal amount of $15,020,000, plus aggregate original issue premium of $152,460.20, less underwriter's discount of $8,565.30. J.P. Morgan Securities LLC (the "Series B Purchaser") was the successful bidder for the Series B Bonds. Information provided by the Series B Purchaser regarding interest rates and reoffering yields of the Bonds is set forth on the inside cover of this Official Statement. The Series B Bonds are being purchased from the State by the Series B Purchaser at an aggregate price of $99,761,959.24 reflecting the principal amount of $83,040,000, plus an aggregate original issue premium of $16,893,392.25, less underwriter's discount of $171,433.01.

Morgan Stanley & Co. LLC., an underwriter of the Bonds, has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

FINANCIAL ADVISOR

The State has retained FirstSouthwest, a Division of Hilltop Securities Inc., (the "Financial Advisor") to serve as its financial advisor in connection with the issuance of the Bonds. The Financial Advisor has not independently verified any of the information contained in this Official Statement and makes no guarantee as to its completeness or accuracy. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds, and receipt by the State of payment therefor. The State may engage the Financial Advisor to perform other services, including without limitation, providing certain investment services with regard to the investment of Bond proceeds.

MISCELLANEOUS

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

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

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

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

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

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

STATE OF MAINE

By: /s/ Terry Hayes
Treasurer of State

Dated: June 7, 2017

STATE OF MAINE INFORMATION STATEMENT

APPENDIX A

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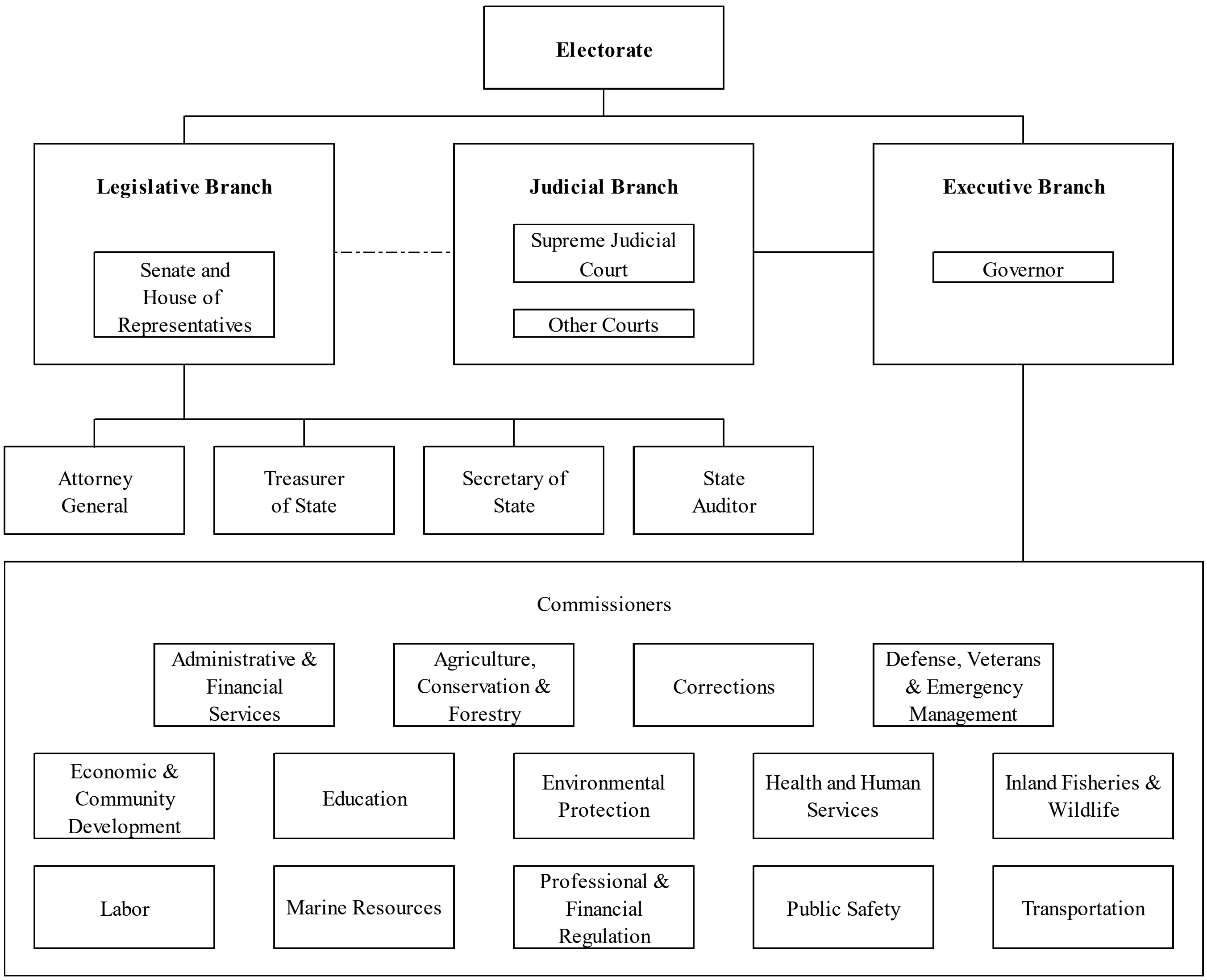
GOVERNMENTAL ORGANIZATION

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



Executive Branch

The Offices of Governor, Secretary of State, Treasurer of State and Attorney General are created by the Constitution of the State. The Governor is elected quadrennially at a general election and is limited to two consecutive four-year terms of office. The second term of the present Governor began in January 2015. The Secretary of State, Treasurer of State and Attorney General are each elected biennially by a joint ballot of the state Senators and Representatives in convention. A person may not serve more than four consecutive terms as either Secretary of State, Treasurer of State or Attorney General.

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

Governor's Cabinet. The Governor's cabinet, which assists the Governor in administration and policymaking, includes the commissioners who head the 14 executive departments and who serve at the pleasure of the Governor.

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

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

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

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

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

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

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

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

Office of the State Auditor

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

The Legislature

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

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

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

The Constitution requires the Legislature to enact appropriate statutory limits on the length of the first and second regular sessions. Under the statute currently in effect, the first regular session of the Legislature adjourns no later than the third Wednesday in June and the second regular session of the Legislature adjourns no later than the third Wednesday in April. The Legislature, in the case of emergency, may by a vote of two-thirds of the members of each of the Senate and House of Representatives present and voting, extend the date for adjournment by no more than five legislative days, and, in the case of further emergency, further extend the date for adjournment by five additional legislative days. The times for adjournment for the first and second regular sessions may also be extended for one additional legislative day for the purpose of considering any veto by the Governor of any bill or resolution passed by the Legislature. The 128^{th} Legislature is currently meeting in its first regular session.

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

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

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

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

The Judiciary

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

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

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

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

Independent Authorities and Agencies

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

County and Municipal Government

The State is divided into 16 county governments responsible for various functions, including the operation of county jails and registries of probate and deeds. Each county government assesses the costs of its operations upon the cities, towns and Unorganized Territories located within the county.

The State is further divided into 22 cities, 433 towns, 34 plantations, and 4 Indian nations or territories, which exercise the functions of municipal government, including the provision of elementary and secondary education. There are also a number of unorganized townships and coastal and inland islands and three Indian Reservations. Cities are governed by several variations of the mayor and council form of government. In most towns, executive power has been placed in a board of three, five, or seven selectmen, elected to terms of from one to three years and legislative power has been retained by the voters themselves, who assemble in periodic open town meetings. There are various regional districts for school, water supply, solid waste, wastewater disposal and other purposes.

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

FISCAL MANAGEMENT

Department of Administrative and Financial Services

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

Constitutional Debt Limit

Article IX, Section 14, of the Constitution of the State provides that the Legislature shall not at any time create any debt or debts, liability or liabilities, on behalf of the State, which shall singly, or in the aggregate, with previous debts and liabilities incurred, exceed $2,000,000, (i) except to suppress insurrection, to repel invasion, or for purposes of war; (ii) except for temporary loans to be paid out of money raised by taxation during the fiscal year in which they are made; and (iii) excepting also that whenever two-thirds of both the Senate and the House of Representatives shall deem it necessary, by proper enactment ratified by a majority of the electors voting thereon at a general or special election, the

Legislature may authorize the issuance of bonds on behalf of the State at such times and in such amounts and for such purposes as may be approved by such action. See Exhibit D, "Selected Information Regarding Authorized and Outstanding Debt of the State - Authorized Expenditures," herein sets forth information regarding bonds currently authorized pursuant to certain enactments which have been ratified by a majority of the voters at various elections. Temporary loans to be paid out of moneys raised by taxation during any fiscal year shall not exceed in the aggregate during the fiscal year in question an amount greater than ten percent of all the moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, exclusive of proceeds or expenditures from the sale of bonds, or greater than one percent of the total valuation of the State, whichever is the lesser.

The Constitution also allows the Legislature to authorize the issuance of bonds (i) in the amount of up to $4,000,000 to guarantee student loans; (ii) to insure payments on up to $4,000,000 of mortgage loans for war veterans; and (iii) to insure payments on up to $90,000,000 of mortgage loans for industrial, manufacturing, fishing agricultural and recreational enterprises. The Finance Authority of Maine is authorized to guarantee student loans and to insure payments on certain mortgage loans. See "Certain Public Instrumentalities – Finance Authority of Maine." The Constitution also allows the Legislature to authorize the issuance of bonds to insure payments on up to $1,000,000 of mortgage loans for Indian housing. The Maine State Housing Authority is authorized to insure payments on mortgage loans for Indian housing. See "Certain Public Instrumentalities – Maine State Housing Authority" herein. Although the Constitution also allows the Legislature to authorize the issuance of bonds to insure the payment of revenue bonds of the Maine School Building Authority on school projects not exceeding $6,000,000, the statutory authorization for insurance of Maine School Building Authority revenue bonds has been repealed. No bonds are outstanding pursuant to any of the authorizations described in this paragraph.

Overview of the Budget Process

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

The State budget consists of a budget message by the Governor (or the Governor-elect) that outlines the financial policy of the State government for the ensuing period of four fiscal years, describing in connection therewith the important features of the financial plan. The Governor's budget overview must also lay out a vision for the State's long-range financial plan and describe how the proposed budget complements that longer vision, which includes the current biennium and the two succeeding biennia.

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

Pursuant to Public Laws of Maine 2005, chapter 2 ("2005 Chapter 2"), the total General Fund appropriation for each of the two fiscal years in the biennial budget may not exceed the General Fund appropriation limit established by law, except as otherwise provided by law. See "Fiscal Management – General Fund Appropriation Limit." 2005 Chapter 2 became effective for fiscal biennia of the State beginning July 1, 2005, amended pursuant to Public Laws of Maine 2005, chapters, 621, 636, 683 and Public Laws of Maine 2015, chapter 267 ("2015 Chapter 267") and is further subject to modification or repeal at any time by the Legislature.

On or before September 1 of even-numbered years, all departments and other agencies of the State government and corporations and associations receiving or desiring to receive State funds must prepare and submit to the State Budget Officer estimates of their expenditure and appropriation requirements for each fiscal year of the ensuing two-year fiscal period contrasted with the corresponding figures of the last completed fiscal year and the estimated figures for the fiscal year in progress. The growth in the State's General Fund appropriations pursuant to 2005 Chapter 2, as amended by Public Laws of Maine 2005, chapters 621, 636, 638 and 2015 Chapter 267, is limited by law to the average personal income growth for the prior ten calendar years, ending with the most recent calendar year for which data is available, in this state as estimated by the Department of Commerce, Bureau of Economic Analysis. State general purpose aid for kindergarten to grade 12 education ("GPA") is excluded from the General Fund appropriation limit until such time as the State's share of education funding reaches 55% of total state and local education funding. See "Fiscal Management – General Fund Appropriation Limit" and "State Budgets" below.

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

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

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

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

Revenue Forecasting

Statutory Responsibilities. A Revenue Forecasting Committee ("RFC") is responsible for providing the Governor, the Legislature and the State Budget Officer with analyses, findings and recommendations relating to the projection of revenues for the General Fund and the Highway Fund based on economic assumptions recommended by the Consensus Economic Forecasting Commission (the "Commission" or "CEFC"). The RFC includes the State Budget Officer, the Associate Commissioner for Tax Policy, the State Economist, an economist on the faculty of the University Maine System selected by the chancellor, the Director of the Office of Fiscal and Program Review of the Legislature and another member of the Legislature's nonpartisan staff familiar with revenue estimating issues appointed by the Legislative Council. The RFC meets at least four times a year.

The RFC develops current fiscal biennium and two ensuing fiscal biennia revenue projections using the economic assumptions recommended by the CEFC. The RFC submits recommendations for State revenue projections for the next two fiscal biennia and analyzes revenue projections for the current fiscal biennium. No later than December 1 of each even-numbered year, the RFC submits to the Governor, certain members of the Legislature and the State Budget Officer analyses, findings and recommendations for General Fund and Highway Fund revenue projections for the next two fiscal biennia. No later than May 1 and December 1 of each odd-numbered year and no later than March 1 and December 1 of each even-numbered year, the RFC submits to the Governor, certain members of the Legislature and the State Budget Officer analyses, findings and recommendations for adjustments to General Fund and Highway Fund revenue for the current and ensuing fiscal biennia.

The Governor's biennial budget includes a proposal that requires the CEFC to provide the State Economist, the State Budget Officer and the Associate Commissioner for Tax Policy with at least two alternative economic recession scenarios of varying levels of severity. The alternative scenarios are to be included in the CEFC's report due February 1st of each even-numbered year, and must include assumptions for calendar years that encompass the current and next two biennia. By October 1st of each even-numbered year the CEFC and RFC will jointly issue a report to the Governor, the Legislative Council and the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs that utilizes the alternative economic scenarios recommended by the CEFC. The report will includes analyses and findings that detail the stress impact such economic recession scenarios would have on the current General Fund revenue projections of sales and income tax revenues. In addition, the report must include an analysis of the sufficiency of the current level of the Budget Stabilization Fund and an estimate of the reserves in the Budget Stabilization Fund necessary to offset the declines in revenue as a result of potential economic recession scenarios.

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

The State Budget Officer uses the revenue projections of the RFC in setting revenue estimates for inclusion in the State budget and in preparing General Fund and Highway Fund revenue and expenditure forecasts for the budget.

The CEFC is responsible for providing the Governor, the Legislature and the RFC with analyses, findings and recommendations representing State economic assumptions relevant to revenue forecasting. The CEFC consists of five members appointed by the Governor as provided by law. Each CEFC member must have professional credentials and demonstrated expertise in economic forecasting. The CEFC meets at least four times a year.

The CEFC develops five-year and ten-year macroeconomic secular trend forecasts and one-year, two-year and four-year economic forecasts. The CEFC submits recommendations for State economic assumptions for the next fiscal biennium and analyzes economic assumptions for the current fiscal biennium. No later than November 1 of each even-numbered year, the CEFC submits to the Governor, the RFC and certain members of the Legislature analyses, findings and recommendations for economic assumptions related to revenue forecasting for the next fiscal biennium. No later than April 1 and November 1 of each odd-numbered year and no later than February 1 and November 1 of each even-numbered year, the CEFC submits to the Governor, the RFC and certain members of the Legislature the Commission's findings and recommendations for adjustments to the economic assumptions for the current fiscal biennium.

Fiscal Year 2017 and 2018 Reports. The Maine CEFC convened on March 29, 2017, to review and revise its November 2016 forecast. In connection with this review, the CEFC noted the following:

Preliminary data indicate that calendar year 2016 was a strong year for Maine's economy, with most aspects of the Maine economy improving. The U.S. economy also continued to grow since the Consensus Economic Forecasting Commission ("CEFC") last met in November 2016. Maine's real GDP increased 1.2% in the third quarter of 2016. This was the sixth consecutive quarter of real GDP growth. Personal income in Maine grew 4.1% from the first three quarters of 2015 to the first three quarters of 2016, while wage and salary income, which is the largest component of total personal income, grew 5.3% over the same period. This is stronger growth than the CEFC had forecast in November 2016.

The labor market has tightened considerably over the last two years as job growth accelerated. The 3.2 percent unemployment rate in February 2017 was tied for the lowest since 1976. Unemployment has been below four percent 13 of the last 16 months, a run matched only two other times in the last four decades. The broadest measure of labor underutilization, known as U-6, averaged 8.7 percent in 2016, the second lowest figure in the 14 years this data has been available (U-6 includes those who want a job but didn't engage in work search, those working part-time who prefer full-time work, as well as the unemployed).

Tighter labor market conditions are having two positive effects that are likely related. Average wages, adjusted for inflation, have increased the last two years at the fastest rate in two decades, the result of rising competition for workers. This appears to be what has spurred an increase in labor force participation. The recent rise in participation in the labor force bucks the long-term downward trend due to the advancing population age structure that has been occurring since the early 2000s.

Throughout the recovery, job gains have paralleled declining unemployment. Today there are fewer unemployed in Maine than at any time since 2001, when the labor force was smaller. Private sector jobs reached an all-time high in 2016, led by growth in healthcare, hospitality, and construction. Total nonfarm jobs finished the year just shy of the 2007 peak because of large declines in the number of state and local government jobs since then.

The CEFC made modest changes to the existing forecasts for employment, inflation, and personal income, but left corporate profits unchanged. Preliminary data for 2016 show stronger than expected growth in both employment and income, leading to a higher baseline level for this forecast. The Commission remains concerned about the demographic situation in Maine and the resulting impacts on workforce availability. There are additional concerns about the possibility of out-migration or decreased in-migration resulting from the three percent surtax on incomes over $200,000 as well as limitations on employment growth as the minimum wage reaches $11 and $12 per hour.

The forecast for wage and salary employment growth was revised downward for 2017 and 2018, but starting from a higher base so that the employment level is higher than previously forecast. The new forecast reaches 618,800 in 2019 and remains at that level for 2020 and 2021. CPI was revised slightly upward for 2017, from 2.4 percent to 2.7 percent, while 2018 was revised down from 2.6 percent to 2.5 percent. The remaining years were left unchanged. Total personal income was revised down by 0.4 percentage points in 2017 following the release of preliminary 2016 actual data from the U.S. Bureau of Economic Analysis resulting in stronger than anticipated growth. The downward revision was driven in part by concerns that the three percent surtax would cause high income taxpayers to either shift income or delay capital gains realizations. The forecast for 2018 was left unchanged while the forecasts for 2019-2021 were revised upward by 0.1, 0.2, and 0.3 percentage points, respectively. Wage and salary income growth for 2016 was also much stronger than previously forecast. 2017 was revised downward by 0.7 percentage points and 2018 was revised downward by 0.2 percentage points. The forecasts for 2019-2021 were revised upward, with 2018-2021 growth rates held steady at 3.7 percent.

The economic variables in the CEFC forecast play an important role in the revenue forecast. The Office of Tax Policy’s (OTP) tax models use the CEFC economic variables to help project revenue from the State’s major taxes. Data related to non-tax revenue lines were provided by a number of different state agencies and reviewed by staff in the Office of Fiscal and Program Review and the Bureau of the Budget to come up with consensus recommendations. The RFC reviewed OTP’s and other staff recommendations at its meeting on May 1, 2017 and agreed to those recommendations.

General Fund revenue estimates were revised downward by $16.8 million for fiscal year 2017 but upward by $5.7 million for fiscal year 2018 and $6.0 million for fiscal year 2019 (downward by an aggregate of $5.1 million for the three-year period). The estimates for the FY 2020-2021 biennium were revised downward by $1.7 million. It is important to note fiscal year 2020 reflects a smaller overall growth rate of 0.5%, largely as a result of Municipal Revenue Sharing returning to the 5% level under current law from the 2% level in place for fiscal year 2016 through fiscal year 2019.

The updated economic forecast from the CEFC resulted in the revenue forecasting model used by the Office of Tax Policy (“OTP”) projecting a small increase in fiscal year 2017 receipts, a relatively minor upward adjustment to the fiscal year 2018/2019 biennium, and a modest reduction to the fiscal year 2020/2021 biennium. The reduction in the fiscal year 2020/2021 biennium is the result of a more pessimistic forecast of automobile sales in the out years of the forecast period. In addition to the economic forecast, information regarding the collection and remittance of Maine sales tax by certain retailers has become available since the December forecast was issued. The additional revenue projected from this new information and an unrelated refund expected to be issued later this month, combined with the impact of the new CEFC forecast resulted in a net reduction in fiscal year 2017 sales and use tax revenue of $2 million, an increase in fiscal year 2018/2019 biennial revenue of $42 million, and a net increase in fiscal year 2020/2021 biennial revenue of $24 million.

The RFC has reduced its forecast of individual income tax receipts by $15.9 million in fiscal year 2017, $40.3 million in the fiscal year 2018/2019 biennium, and $$43.9 million in the fiscal year 2020/2021 biennium. While there was no so-called "April Surprise" to report for 2016 final payments in April 2017, the first estimated payment for tax year 2017 was $9.3 million under budget; flat compared to a year ago. The committee had expected an increase of 25% or more in the April and June estimated payments because of the 3 percent surtaxed passed by the voters last November. It's unclear at this time if the negative variance in the first estimated payment is from affected taxpayers utilizing safe-harbor provisions, or if the surtax is masking a significant reduction in estimated income for the 2017 tax year.

Based on this information, OTP made two recommended changes to the RFC. First, shift revenue from the surtax out of FY17 and into FY18. This assumes that taxpayers did avail themselves of the safe-harbor provisions in state law and will make any additional tax payments associated with the surtax later in the calendar year or next April when they file their 2017 return. Second, there is concern that high-income taxpayers impacted by the surtax may be taking some action to reduce their exposure to the surtax. The forecast accepted by the committee today assumes a reduction of approximately $250 million in taxable income by the top 1% of Maine resident tax returns and similarly situated non-resident returns. This reduction in taxable income translates into a total decrease in annual individual income tax liability of approximately $30 million; $10 million from the 3% surtax and $20 million from the regular income tax liability.

In total, these changes reduce individual income tax receipts by $15.9 million in fiscal year 2017, $18.6 million in fiscal year 2018, $21.7 million in fiscal year 2019, and $43.9 million in the fiscal year 2020/2021 biennium.

General Fund Appropriation Limit

Pursuant to 2005 Chapter 2 as amended by Public Laws of Maine 2005, chapters 621, 636, 683 and 2015 Chapter 267, the rate of growth of General Fund appropriations in a fiscal year is limited to the average personal income growth (the "Growth Limit Factor").

"Average personal income growth" means the average for the prior ten calendar years, ending with the most recent calendar year for which data is available, of the percent change in personal income in the State as estimated by the United States Department of Commerce Bureau of Economic Analysis.

As of December 1 of each even-numbered year, a General Fund appropriation limit is established for the ensuing two fiscal years. For the first fiscal year, the General Fund appropriation limit is equal to the "biennial base year appropriation" multiplied by one plus the Growth Limit Factor. For the second fiscal year, the General Fund appropriation limit is the General Fund appropriation limit of the first year multiplied by one plus the Growth Limit Factor. As amended in 2015 Chapter 267, "biennial base year appropriation" means the General Fund appropriation enacted for fiscal year 2016-17 as of December 1, 2016 and for subsequent fiscal years, the amount of the General Fund appropriation limit for the current year as of December 1 of even-numbered years.

The General Fund appropriation limit applies to all General Fund appropriations, except certain education costs described in the following paragraph. The General Fund appropriation limit was approximately $3.4 billion for fiscal year 2011, $3.5 billion for fiscal year 2012, $3.5 billion for fiscal year 2013, $3.6 billion for fiscal year 2014, $3.6 billion for fiscal year 2015, and $3.5 billion for both fiscal years 2016 and 2017. The Growth Limit Factor for fiscal year 2011 was 2.76%. The Growth Limit Factor for the 2012-2013 biennium was 2.05%. The Growth Limit Factor for the 2014-2015 biennium was 1.37%. The Growth Limit Factor for the 2016-2017 biennium is 1.08%. The Growth Limit Factor for the 2018-19 bienniun is 2.84%.

2005 Chapter 2 provides that the additional cost for certain essential educational programs and services ("Essential Programs and Services") for kindergarten to grade 12 education ("K-12 Education") over the fiscal year 2004-05 appropriation for general purpose aid for local schools is excluded from the General Fund appropriation limit until the State share of that cost reaches 55% of the total State and local cost (the "EPS Costs"). Current law provides that the State will pay 55% of the total State and local cost of K-12 Education for fiscal year 2018 and that the General Fund appropriation limit will include the State share of the cost of K-12 Education beginning with fiscal year 2018. See "Certain Expenditures and Obligations - Education Funding" herein.

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

"Baseline General Fund revenue" and other available budgeted General Fund resources that exceed the General Fund appropriation limit plus the EPS Costs must be transferred to the Maine Budget Stabilization Fund (the "Stabilization Fund"). If the Stabilization Fund is at its limit of 18% of General Fund revenue of the immediately preceding fiscal year, then amounts that would otherwise have been transferred to the Stabilization Fund must be transferred to the Tax Relief Fund for Maine residents. "Baseline General Fund revenue" means the recommended General Fund revenue forecast reported by the Revenue Forecasting Committee in its December 1 report in even-numbered years, increased by the estimated amount of net General Fund revenue decrease, if any, for all enacted changes reducing the state and local tax burden included in that forecast.

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

The fiscal year 2013 year-end balance in the Budget Stabilization Fund was $59.7 million. The increase in the Budget Stabilization Fund, as compared to the prior year balance, is primarily related to the transfers of $13 million from unappropriated surplus as authorized in 2011 Chapter 657, and of $42.1 million which represents the one-time transfer of 80% of the year-end reserves as authorized in 2013 Chapter 1. Public Laws of Maine 2013, chapter 451 authorized the transfer of $21 million from the Budget Stabilization Fund to the unappropriated surplus of the General Fund no later than June 30, 2015. Public Laws of Maine 2013, chapter 487 repealed this transfer, leaving the balance in the Budget Stabilization Fund as of June 30, 2013 at $59.7 million.

Public Laws of Maine, chapter 595 ("2013 Chapter 595") further changed the priority of distribution for fiscal year 2014 only, after the transfers to the State Contingent account, Loan Insurance Reserve and Reserve for Retirement Costs, adding a one-time fixed transfer up to $20 million for the Reserve for Future Funding Needs. The Reserve for Future Funding Needs included a provision to transfer up to $1.3 million, directed to the Department of Health and Human Services Developmental Services Waiver program, by financial order, in fiscal year 2015 pursuant to 2013 Chapter 595, part X, sections 3 and 4. The remaining authorized one-time transfer of the unappropriated General Fund surplus of $18.7 million was available and placed in an undesignated status in the Reserve for Future Funding Needs. The remainder of the year-end balance was distributed as follows: Budget Stabilization Fund, 48%, a transfer of $8.5 million, Reserve for General Fund Operating Capital, 13%, a transfer of $2.3 million, Retiree Health Internal Service Fund, 9.0%, a transfer of $1.6 million, Capital Construction and Improvements Reserve Fund, 10%, a transfer of $1.8 million and the Tax Relief Fund for Maine Residents, 20%, a transfer of $3.5 million. The fiscal year 2014 year-end balance in the Budget Stabilization Fund was $68.2 million. The increase in the Budget Stabilization Fund, as compared to the prior year balance, is primarily related to the transfer of 48% of the year-end reserves as authorized in 2013 Chapter 1.

2015 Chapter 267 further changed the priority order of distribution beginning fiscal year ending June 30, 2015. In addition to fixed transfers to the State Contingent account, Loan Insurance Reserve, and Reserve for Retirement Costs (provided for this reserve account specifically in fiscal years 2012, 2013 and 2014), the Reserve for General Fund Operating Capital of $2.5 million and Retiree Health Insurance Internal Service Fund of $2.0 million that would have previously received a percentage transfer of the remaining year-end General Fund unappropriated surplus, were added to the fixed transfers. The Capital Construction and Improvements Reserve Fund transfer, previously included as a percentage transfer of remaining year-end surplus after fixed dollar transfers at 10%, was recommended by the Governor and enacted by the Legislature in 2015 Chapter 267 as a direct ongoing general fund appropriation for capital construction of $3 million in each fiscal year. The remaining year-end was surplus was distributed as follows: Budget Stabilization fund, 80%, and the Tax Relief Fund for Maine Residents, 20%. Public Laws of Maine, 2015, chapter 16 ("2015 Chapter 16") directed a transfer from the Reserve for Future Funding Needs of $4.3 million back to the general fund unappropriated surplus to fund the fiscal year 2015 appropriations in that bill. The fiscal year 2015 year-end balance in the Budget Stabilization Fund was a total of $111.1 million, $14.3 million of this total, the remaining balance from the Reserve for Future Funding Needs, transferred to the Budget Stabilization Fund as directed in 2013 Chapter 595. The fiscal 2015 year-end cumulative balance in the General Fund Reserve for Operating Capital is $7.4 million and the Tax Relief Fund for Maine Residents, $9.5 million. Finally, Maine Revenue Services has estimated that in order to provide the initial minimum reduction of 0.2 percentage points, the balance in the Tax Relief Fund for Maine Residents would need to be approximately $48.6 million and that aggregate unappropriated General Fund surpluses of over $200 million would be needed to generate such a balance in the fund.

Finally, the priority order of distribution beginning fiscal year ending, June 30, 2016 was most recently impacted by a one-time change in 2015 Chapters 483 and 513. The remaining year-end General Fund unappropriated surplus was adjusted to add an additional one-time fixed transfer of $13.4 million for the establishment of a process to procure biomass resources after the transfer for the Loan Insurance Reserve, $1 million, Reserve for General Fund Operating Capitol, $2.5 million and Retiree Health Insurance Internal Service Fund, $4 million set forth in 2015 Chapter 267. The fiscal year-end cumulative balance in the Budget Stabilization Fund as of June 30, 2016 was $112.4 million. The fiscal 2016 year-end cumulative balance in the General Fund reserve for Operating Capital is $9.9 million and the Tax Relief Fund for Maine Residents just under $200 thousand, the balances in this fund utilized in part for the resources to fund the state's fiscal year 2016 tax conformity. During fiscal year 2017, two additional one-time transfers have been made to the Maine Budget Stabilization fund, 2015 Chapter 481 of $10 million resulting from the funds received pursuant to the court order in State of Maine v. McGraw-Hill Companies, Inc. and Standard & Poor's Financial Services, LLC, and 2017 Chapter 2, $35 million from the unappropriated surplus of the General Fund, for a current cumulative balance of just in excess of $157 million.

Citizen Initiative Petitions

On November 4th, 2014 An Act To Strengthen the Maine Clean Election Act, Improve Disclosure and Make Other Changes to the Campaign Finance Laws, was approved by voters of the State at the November 2015 statewide election. This bill provides optional supplemental funding from the Maine Clean Election Fund ("MCEF") within the Commission on Governmental Ethics and Election Practices for certain legislative and gubernatorial candidates upon collection of additional qualifying contributions. It also increases initial distribution amounts for most qualifying candidates and increases by $1 million, from $2 million to $3 million, the annual transfer from the General Fund to the MCEF. Other revenue to the Commission would also increase by additional qualifying contributions as well.

In October of 2014, An Act to Establish Ranked-choice Voting was approved for circulation by the Secretary of State. The Secretary of State later determined that valid signatures were filed and the initiative was transmitted to the Legislature. As the initiative was not enacted by the Legislature, this initiative appeared on the November 2016 ballot. The initiative was approved by voters, but in response to a request by the Maine Senate for an Advisory Opinion pursuant Me. Const. art. VI, § 3, the Maine Supreme Judicial Court advised that the Ranked-Choice Voting Act conflicts with the Maine Constitution.

In June of 2015 "An Act to Raise the Minimum Wage" was approved by the Secretary of State for circulation. This initiative would raise the minimum hourly wage of $7.50 to $9.00 in 2017, and in $1.00 increments up to $12.00 in 2020; and to raise it for service workers who receive tips from the current rate of $3.75 to $5.00 in 2017, in $1.00 increments up to $12.00 in 2024. In January of 2016 this initiative was submitted to the Secretary of State who determined that valid signatures had been filed. The initiative was transmitted to the Legislature. As the initiative was not enacted by the Legislature, this initiative appeared on the November 2016 ballot and was passed by the voters.

In mid to late October of 2015, of three additional citizen initiatives that were approved by the Secretary for circulation, an Act to Require Background Checks for Gun Sales and an Act to Establish the Fund to Advance Public Kindergarten to Grade 12 Education were placed on the November 2016 ballot. An Act to Establish the Fund to Advance Public Kindergarten to Grade 12 Education would impose a 3% additional tax, referred to as a surcharge, on Maine taxable income in excess of $200 thousand for tax years beginning on or after January 1, 2017. Beginning January 1, 2018, 1/12th of each year's estimated collections from the 3% surcharge would be transferred monthly to the Fund to Advance Public Kindergarten to Grade 12 Education. Money in the fund would be used to supplement but not supplant General Fund appropriations by the General Purpose Aid to Local schools program. It is estimated that amounts generated by the surcharge would be approximately $157 million annually, increasing by an additional $12 million or more each subsequent year. This initiative was submitted to the Secretary of State who determined that valid signatures had been filed. The initiative was transmitted to the Legislature. As the initiative was not enacted by the Legislature, this initiative appeared on the November 2016 ballot and was passed by voters. An Act to Require Background Checks for Guns Sales was rejected by voters in November 2016.The petition for the citizen intiative entitled An Act to Tax and Regulate Marijuana has been combined with an the citizen initiative entitled An Act to Legalize Marijuana and has been approved by the Secretary of State. An Act to Legalize Marijuana proposes to legalize recreational marijuana and includes the assessment of a sales tax of 10%. Assuming a January 1, 2017 effective date, State General Fund gross revenues are estimated to increase by approximately $4 million in fiscal year 2017 from the sales tax. An Act to Tax and Regulate Marijuana regulates and taxes the cultivation and distribution of marijuana and marijuana products for persons 21 years of age or older. It places a sales tax of 10% on marijuana and marijuana products in addition to the ordinary sales tax. The tax generated by the bill is estimated to increase gross revenues to the General Fund by $9 million annually. If this initiative is successful, losses of fine revenues and increases in revenues for license fees are expected. Additional costs for personnel and other costs related to the new tax and program, in addition to revenues being dedicated for certain purposes are also expected. The Secretary of State had determined that petitioners had not submitted enough valid signatures. The petitioners appealed the Secretary of State's decision to Superior Court and the judge did not rule in favor of the State. This initiative appeared on the November 2016 ballot and was approved by voters. Additional legislation in the 128th first regular session, 2017 Chapter 1, delayed the effective date of certain portions of this law until February 1, 2018.

On November 4th, 2016 two new bills were introduced in the 128th First Legislature session. LD 719, An Act To Allow Slot Machines or a Casino in York County, had a Public Hearing on March 29, but has not yet had a work session. LD 1039, An Act To Enhance Access to Affordable Health Care, died between the houses as of April 27th. This bill included a fiscal note projecting additional annual General Fund appropriations of $54,495,000. If the Legislature does not pass them as presented, they will be presented to voters on the November 2017 ballot.

The Accounting System

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Reports and Practices

The State Controller prepares a Comprehensive Annual Financial Report ("CAFR") in accordance with standards established by GASB. This report is the official financial report of the State government.

The State Controller's annual financial report for the fiscal year ended June 30, 2016 is set forth in two separate publications. The first publication consists of the Basic Financial Statements of the State of Maine for the year ended June 30, 2016 which are set forth in Section I of Appendix B. Certain information which is included in the second publication and certain information which has been derived from provisions of the State Controller's annual financial reports for certain prior fiscal years comparable to the second publication is included in Section II of Appendix B. The information set forth in Section II of Appendix B is based on budgetary and legal requirements.

The Basic Financial Statements of the State of Maine for the year ended June 30, 2016 which are set forth in Section I of Appendix B have been prepared by the State Controller and have been audited by the Office of the State Auditor in accordance with auditing standards generally accepted in the United

States of America. The Office of the State Auditor has issued an unqualified opinion on the Basic Financial Statements.

Because of the variety of activities and programs run by the State, the State Controller has established several specialized accounting conventions, which are consistently applied within the fund accounting system. For more information on the basis of accounting used by the State, see Appendix B, Section I, "Notes to the Financial Statements, June 30, 2016."

Annual financial reports prepared by the State Controller for the fiscal year ending June 30, 2016 and for prior fiscal years are available upon request directed to Kristi Carlow, Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333, telephone: 207-624-7477; facsimile: 207-287-2367. The CAFR for the fiscal year ended June 30, 2016 and for prior fiscal years are also available at http://www.maine.gov/osc/finanrept/cafr.shtml.

Audit Reports

The State Auditor is required by law to audit the Basic Financial Statements included within the Comprehensive Annual Financial Report prepared by the State Controller for each fiscal year. The State Auditor's Independent Audit Opinion dated December 22, 2016 with respect to the fiscal year ending June 30, 2016 is set forth in Appendix B hereto. Single audit reports prepared by the Office of the State Auditor for the fiscal year ending June 30, 2016 and for certain prior fiscal years are available upon request directed to the Deputy State Treasurer. See "Miscellaneous" herein.

All information in this Official Statement for any period ending after June 30, 2016 is unaudited and therefore is subject to change.

STATE BUDGETS

Laws authorizing General Fund and Highway Fund expenditures for fiscal years 2014 through 2017 have been enacted and provide for such expenditures in the amounts set forth in the table below. Amounts listed for fiscal years 2018 and 2019 include legislation enacted through the month of April in the first regular session of the 128th Legislature.

Fiscal Year Ending June 30	General Fund Expenditures Authorized	Highway Fund Expenditures Authorized
2014	$3,199,811,630	$311,621,111
2015	3,216,129,636	321,687,608
2016	3,331,298,722	323,554,282
2017	3,403,471,296	331,044,352
2018	3,414,907,691	326,938,319
2019	3,415,807,160	324,300,777

For information regarding fiscal years 2014 through 2019 expenditures, see "Certain Expenditures and Obligations – General Fund Expenditures" below.

Prior to the December 2012 downward revenue projection the Bureau of the Budget updated its four year revenue and expenditure forecast in September 2012 for the fiscal year ending June 30, 2015. As required by State law, the forecast assumed the continuation of current laws and included reasonable and predictable estimates of growth in revenues and expenditures based on national and local trends and program operations. At the time of the forecast the structural gap was projected to be $755.5 million for the 2014-2015 biennium.

The gap assumed increases in General Purpose Aid for Local Schools (GPA) of $119.4 million in fiscal year 2014 and $135.1 million in fiscal year 2015 over the fiscal year 2013 level. The preliminary amounts would increase GPA $274.1 million over the previous 2012-2013 biennium and achieve the commitment made in 2005 Chapter 2, as amended by 2007 Chapters 240 and 539, for a 55% State share of education costs. The structural gap assumed Health and Human Services increases totaling $298.6 million for the biennium, which reflects increases for program growth and utilization in MaineCare over the 2014-2015 biennium in the amount of $148.1 million.

On December 1, 2012, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The December report reflected a downward adjustment of General Fund revenues of $35.5 million in fiscal year 2013, $58.3 million in fiscal year 2014 and $66.9 million in fiscal year 2015. The December report also projected revenues of $3.1 billion in fiscal year 2016 and $3.2 billion in fiscal year 2017.

On January 11, 2013, the Governor released the final recommended supplemental budget for the fiscal year 2012-2013 biennium, which addressed the revenue shortfall in the December forecast, and funded a projected Medicaid shortfall; offsets for the revenue shortfall were initially implemented by the Governor's temporary curtailment of allotments. 2013 Chapter 1 was enacted into law on March 6, 2013. This supplemental budget for fiscal year 2013 provided $2 million to address unmet needs in the consent decree for Bates vs. DHHS, $3.6 million for foster care/adoption assistance and $85.1 million for the State's Medicaid program. These appropriations were offset with savings initiatives originally included in the temporary curtailment, revenue enhancements, transfers from other funds, as well as targeted reductions in the Medicaid program. The Department of Health and Human Services was directed to reduce rates by 5% for services provided by licensed clinical professional counselors and licensed marriage and family therapists, limit hospital and therapeutic leave days from nursing facilities, and implement targeted care management for the top 20% of high-cost members in the Medicaid program. On June 14, 2013, the Governor signed an additional supplemental budget bill, 2013 Chapter 248, providing $35 million more in appropriation to the MaineCare program for fiscal year 2013.

Also on January 11, 2013, the Governor released the fiscal year 2014-2015 biennial budget recommendation. In part, to address the projected shortfall for current services in fiscal years 2014 and 2015, the Governor's recommended budget, Legislative Document ("LD") 1509, continues to delay the attainment of 55% for the total state and local cost of K-12 Education until the 2016-2017 biennium. In addition, the Governor's budget recommendation shifts the responsibility for funding the normal cost of teacher retirement from being 100% borne by the State to a state and local funding responsibility. This proposal would reduce funding to the Teacher Retirement program by $28.9 million in fiscal year 2014 and by $29.9 million in fiscal year 2015 and includes appropriations in the equivalent of 50% of the cost of normal teacher retirement, $14.4 million and $14.96 million in fiscal year 2014 and 2015, respectively, to the General Purpose Aid for Local Schools program distributed to schools through the school funding formula. The Governor's budget recommended increasing net appropriations to MaineCare in the amount of $169.2 million over the 2014-2015 biennium. The budget also suspended revenue sharing transfers temporarily of 5% of the Sales, Income, Corporate and Service Provider taxes to municipalities in the amount of $281.5 million over the 2014-2015 biennium. The recommended budget continued the freeze on employee merit increases and longevity pay, as well as the proposed level funding of employee and retiree health insurance for both 2014 and 2015. Finally, tax provisions included restructuring the Maine Residents Property Tax Program, sunset of the BETR program, coupled with movement of equipment in the BETR program to the BETE program, temporary suspension and change in the inflation adjustment pertaining to the income tax and the repeal of the sales tax exemption for publications issued at average intervals.

On May 1, 2013, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The May report reflected an increase to revenues of $43.5 million in fiscal year 2013, and a downward adjustment of $33.8 million in fiscal year 2014 and $24.3 million in fiscal year 2015. The May report also projected revenues of $3.1 billion in fiscal year 2016 and $3.2 billion in fiscal year 2017.

On May 8, 2013, the Governor released the recommended changes to the fiscal year 2014-2015 budget proposal, LD 1509, which included additional recommended changes for fiscal year 2013. This change package addressed the revenue shortfall forecasted in the May 1, 2013 report for the next biennium and utilized the additional revenue forecasted in fiscal year 2013 of $45.3 million to fund a projected MaineCare shortfall of $33.4 million, $1.0 million for the Maine Commission on Indigent Legal Services and $3.0 million in additional assistance for Maine's dairy farmers in fiscal year 2013. Recommended change for the 2014-2015 biennium included additional savings for retired teacher and retired state employee health insurance based upon the most recent actuarial valuation. This change package also provides savings from the transfer of available balances in Maine Revenue Services, and statewide initiatives for the installation of natural gas and reduction in rates for risk management. Finally, the Department of Health and Human Services was able to reduce their requests for the biennium by further refining savings proposals, recognizing a lesser reduction to federal funding than originally included and requesting additional staff to perform disability determinations in a timely manner thereby avoiding temporary Medicaid authorizations at a 100% state only cost.

The final version of LD 1509 was passed by the Legislature and vetoed by the Governor. The Legislature overrode the Governor's veto and Public Laws of Maine 2013, chapter 368 ("2013 Chapter 368") was enacted on June 26, 2013. The law included several of the Governor's proposals including the transition of 100% of the responsibility for the normal cost of Teacher Retirement to local schools. One-half of the normal cost is appropriated in the 2014-2015 biennium into the General Purpose Aid for Local Schools program. The Governor's proposal capped the State's cost of health insurance premiums for active employees for the 2014-2015 biennium at fiscal year 2011 levels resulting in savings to the General Fund of $3.8 million in fiscal year 2014 and $8.0 million in fiscal year 2015. In the final version of the bill, the Legislature authorized a 1.5% increase in spending for the State's health insurance program; however, because the bill was enacted after the deadline for the State's Health Plan design in April, 2013, the increased amount was not spent in fiscal year 2014. In addition, the approved budget froze merit increases for State employees in 2015 and froze longevity payments for the biennium resulting in savings of $4.6 million over the biennium. Finally, the approved budget adjusts funding for the State Police program share of funding between the General Fund and Highway Fund from 51% General Fund and 49% Highway Fund to 65% General Fund and 35% Highway Fund at a total cost to the General Fund of $6.5 million in fiscal year 2014 and $6.7 million in fiscal year 2015. The state police program funding share calculation remained unchanged in the funding calculation for the TransCap Trust Fund.

The enacted 2014-2015 biennial budget restored a portion of the revenue sharing by approving the Governor's proposal for a statewide study to reduce the cost of government through analysis of the structures and functions designed to save a total of $33.75 million in both structural and operational savings over the biennium, establishing a task force to review tax expenditures saving $40 million. In addition, the enacted budget included an increase in the Sales tax, from 5% to 5.5% and Meals and Lodging tax from 7% to 8%, with a sunset provision of June 30, 2015. The deferral of a portion of the June 2013 subsidy payment for General Purpose Aid to Local Schools in the amount of $18.5 million enacted in 2013 Chapter 1 was included and additional funding for the MaineCare program for fiscal years 2013 through 2015 was included. A new proposal for the elimination of benefits under the Maine Residents Property Tax program that resulted in an estimated savings of $50.7 million over the biennium and the establishment of the Property Tax Fairness Program at a General Fund cost of $65.5 million was accepted. The percentage level of retirement for the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs were reduced from 90% to 80% for the biennium, for a total savings of $11.7 million. A task force was included in the enacted version of the bill to continue the work on merging the two programs, originating from the Governor's proposal that included a merger of the two programs. Finally, the major tax initiatives included the suspension of the inflation adjustment for tax years beginning in 2014 through 2015, and amendment of the inflation adjustment calculation for tax years beginning after 2015 to be based on the Chained Consumer Price Index (C-CPI) instead of the Consumer Price Index (CPI), resulting in savings to the General Fund of $8.7 million oer the biennium.

On January 15, 2014, the Governor presented a request to the Appropriations and Financial Affairs Committee for net additional General Fund needs of $119.5 million for the 2014-2015 biennium. The request comprised of six departments and agencies offset by the increase in General Fund revenues in the December 1, 2013 Revenue Forecasting Committee update of $20.6 million and a revenue decrease from the reinstatement of the sales tax exemption for free newspapers of $3.1 million over the biennium. The Department of Health and Human services, MaineCare program comprised the majority of the request in the amount of $108 million. The remaining Health and Human Services requests of $14.7 million, primarily address the action plan to ensure staff and patient safety and comply with federal certification requirements at Riverview Psychiatric Center. Subsequently, on January 24, 2014, the Department of Health and Human Services presented an update of its forecast for MaineCare which resulted in a reduction in the net request over the biennium of $30 million. The final requested additional supplemental General Fund need over the 2014-2015 biennium by the Governor totaled to $89.5 million. On February 12, 2014 Health and Human Services further reduced the request for Riverview Psychiatric Center of $8.6M based on the Department's position of Riverview's status as an Institute for Mental Disease, in which the hospital decertification by the Center for Medicare and Medicaid (CMS) does not affect the continuance to draw disproportionate share funding. If the Center for Medicare and Medicaid Services ultimately disagrees with this opinion, the potential future findings may include an estimated $8.6 million for the period of January 1, 2014-June 30, 2014 and $6.35 million already drawn for the period of September 2, 2013 through December 30, 2013.

On April 3, 2014, Public Laws of Maine 2013, chapter 503 ("2013 Chapter 502") became law and primarily provided funding for the fiscal year 2014 portion of the Governor's request. The MaineCare shortfall was funded at less than the Governor's final request, at a net increase of $31M, due to the actual trending of current MaineCare cycle payments. Both savings initiatives and one-time resources were included to fill the gap, including elimination of the Income Tax Super Credit for substantially increased research and development for tax years beginning on or after January 1, 2014. Transfers to fund balance included $10.1 million from the forecasted December 1st increase in casino revenues targeted to Education over the biennium, $6.2 million in transfers resulting from the dissolution of the Dirigo Health Fund and other balances in the Fund for a Healthy Maine, $5.1 million, and lapsing personal services balances in the Education Unorganized Territory account of $1.8 million. On May 1, 2014 the Legislature voted to override the Governor's veto of LD 1858 (2013 Chapter 595),, funding primarily the remaining fiscal year 2015 portion of the Governor's request and enacting the remaining structures and operations savings initiatives (Part F of 2013 Chapter 368). Both savings initiatives and one-time transfers to fund balance were included to offset a reduced request primarily for MaineCare in fiscal year 2015. Timing of MaineCare payments from the current approximate timing of 7 to 12 days was extended permanently to one weekly payment cycle before required federal deadlines to yield one-time booked savings in the MaineCare program of $20 million. This language also provides the Department discretion in the application to those providers considered to have the financial ability to withstand the change in payments.

Prior to the December 2014 revenue projection, the Bureau of the Budget updated its four year revenue and expenditure forecast in September 2014 through the fiscal year ending June 30, 2017. As required by State law, the four year revenue and expenditure forecast assumes the continuation of current laws and includes reasonable and predictable estimates of growth in revenues and expenditures based on national and local trends and program operations. At the time of the forecast the structural gap was projected to be $461.1 million for the 2016-2017 biennium.

The gap assumes increases in General Purpose Aid for Local Schools (GPA) of $296.7 million in the 2016-2017 biennium to achieve the commitment made in 2005 Chapter 2, as amended by 2007 Chapters 240 and 539, for a 55% state share of education costs. The structural gap assumed restoration of state-municipal revenue sharing which reflects an increase over the 2014-2015 biennium of $85 million.

On December 1, 2014, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The December report reflected an adjustment upward of General Fund revenues of $45.5 million in fiscal year 2015, $28.4 million in fiscal year 2016 and $39.2 million in 2017. The December report also projected General Fund revenues of $3.4 billion in fiscal year 2018 and $3.5 billion in fiscal year 2019.

On January 9, 2015, the Governor's 2016-2017 Biennial Budget (LD 1019) recommendation was released. The Governor's proposal included significant changes to Maine's tax policies intended to bring relief to Maine families by transitioning from a tax code dependent on earnings to a more modern tax code dependent on consumption. The proposed changes included reductions to Maine's income tax rates, modernization of the sales tax base and increase in the general sales tax rate, the elimination of the estate tax, increases to the amount of pension income exempt from income tax and an exemption for military pension income. The Governor's recommendation also included increased funding for key priorities in the Department of Health and Human Services. The budget proposal provided $52 million in funding over the biennium to assist thousands of people waiting for services through MaineCare waivers. The Governor recommended an increase of $22 million over the biennium to support Nursing Facilities based on the 2013 Chapter 594, An Act to Implement the Recommendations of the Commission to Study Long-term Care Facilities. Recognizing the importance of primary care and preventative services, the budget included requests to continue funding so the State can continue to pay the enhanced rates for Health Homes and primary care physicians that were expired or set to expire through the federal Patient Protection and Affordable Care Act ("Affordable Care Act"). Thirty-eight positions and over $3 million in General Fund resources are included each year for the Riverview Psychiatric Center, in order to assist the hospital in meeting the requirement for re-certification by the federal Centers for Medicare and Medicaid Services. Approximately $50 million of the savings made available for funding the Department of Health and Human Services key priorities were based on a plan to transition the funding structure of the General Assistance program in order to gain better control of the expenditures and changing eligibility criteria to the federal mimimums in the Medicare Savings Program. The proposal also continued to delay the attainment of 55% State funding of education until the fiscal year 2018-2019 biennium and satisfied the remaining structural gap projected in December of 2014.

Throughout January of 2015, additional Governor's Bills were released to address a variety of 2015 Department funding requests. The Governor's proposals included $20 million for the Department of Health and Human Services to replace the reduction included in 2013 Chapter 595 which was booked in anticipation of savings associated with extending the timing of MaineCare payments from the current 7 to 12 days. The savings provision in 2013 Chapter 595 included language requiring the Department to mitigate the effects of this timing change at the request of providers. Based on provider feedback, the Department could not implement this policy and therefore requested additional appropriations. An additional funding request for unmet needs in the Augusta Mental Health Institute ("AMHI") Consent Decree to assist in meeting the requirements set forth in the settlement agreement was also put forward. As the State continues to work towards federal recertification of the Riverview Psychiatric Center, the Governor recommended 29 new positions and an additional $1.1 million to support the hospital, as recommended by an independent review. The Governor included funding requests for the Judicial Branch to accommodate increases in the cost of guardian ad litem services, psychological exam costs and increased facility costs at both the Bangor courthouse and the new Judicial Center. During review of the Governor's Bills, the Legislature combined most of the requests into one bill, LD 236. The amended version of LD 236 funded continued efforts toward recertification of Riverview Psychiatric Hospital, with

27 new permanent positions and an additional $1.1 million in funding, and provided funding of $20 million for Health and Human Services to offset one-time savings that could not be achieved in changes to cash management extending the timing of payments. Funding to the Department of Health and Human Services of $1.5 million to replace expiring federal funds to support enhanced levels of reimbursement for physicians and $4.0 million to repay the federal government for a portion of an audit finding. In addition, $1.7 million in funding for the Maine Commission on Indigent Legal Services and $2.5 million for the State Board of Corrections was provided to address anticipated shortfalls in these programs in fiscal year 2014-15. This LD was passed by the Legislature on March 31, 2015 and became law. Requests related to the Department of Education and the cultural agencies remained separate and became law, signed by the Governor, as 2015 Chapter 7. Finally, the State also conformed state tax laws to changes in federal tax law resulting in an estimated cost to the General Fund of $16 million in fiscal year 2015 (LD 138, Public Laws of Maine 2015, chapter 1). Resources to fund fiscal year 2015 initiatives in the bills discussed in this section comprised of a $45 million increase in fiscal year 2015 current law General Fund revenues per the December 1, 2014 Revenue Forecasting Committee report, approximately $2.2 million from a balance of prior year funds in the Fund for a Healthy Maine, $4.3 million in funding from the Reserve for Future Funding Needs enacted in PL 2013, chapter 595, part X for the 2014-2015 biennium and $3.3 million in one-time transfers from other funds to the General Fund.

On May 5, 2015 a public hearing was held for LD 1367, a resolution proposing an amendment to the Constitution of Maine to eliminate the income tax. This resolution proposed by the Governor would amend the Constitution of Maine to prohibit the Legislature, beginning January 1, 2020, from enacting or imposing a tax upon income of persons in this State and to prohibit the State from levying or collecting such a tax for any period beginning on or after January 1, 2020. On May 13th a work session was held in the Joint Standing Committee on Taxation which resulted in a majority of the Committee voting against the measure, with a divided committee report. As of June 30, 2015, this bill died between houses.

On May 1, 2015, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The May report reflected an upward adjustment of General Fund revenues of $22.1 million in fiscal year 2015, downward $32.3 million in fiscal year 2016 and upward $3.1 million in fiscal year 2017. The May report also projected revenues of $3.4 billion in fiscal year 2018 and $3.5 billion in fiscal year 2019.

On May 7, 2015, the Governor presented a change package to LD 1019 primarily consisting of revisions resulting from the May 1 Revenue Forecasting Committee's report and updated initiatives associated with the Governor's original 2016-2017 Biennial Budget recommendation. The Department of Health and Human Services no longer required additional funding over baseline funding for the State's MaineCare program's projected increase in health costs and an additional fiscal year 2016 cycle payment, based on the most recent MaineCare forecasts for the 2016-2017 biennium. The removal of the $14 million request for MaineCare over the biennium funded new initiativesincluding $7 million for two 7-bed secure residential facilities to house forensic patients that do not require a hospital level of care, building upon the Governor's recommendation to continue to move forward towards the recertification of Riverview Psychiatric Hospital. In addition, a one-time four percent rate increase, approximately $4 million over the biennium, is proposed to be applied to the assisted living reimbursement rate at Private Non-Medical Institutions beginning July 1, 2015 and a one-time eighteen month pilot project, just over $500 thousand for the biennium, for individuals with opioid or alcohol dependency who were recently incarcerated or have been referred by the Department of Corrections or the Drug Court were also included. Other new initiatives such as the transfer of the Department of Health and Human Services drinking water, subsurface waste and radiation control activities to the Department of Environmental Protection, wage parity in the Department of Corrections, between state correctional and county jail employees who perform similar direct supervision, language to limit the salaries of positions which are currently funded by one hundred percent federal funds in the Department of Defense to the thresholds allowed by the federal authority and the separation of the land and water quality program in the Department of Environmental Protection to establish separate programs for both land and water in the Department. Finally, the Governor's change package included funding and/or language for several bills proposed in the 127th Legislature, LD 13, An Act To Provide an Exemption from Sales Tax and Service Provider Tax to Nonprofit Collaboratives of Libraries, LD 48, An Act To Reduce Registration Fees and Excise Taxes for For-hire Vehicles with Adaptive Equipment Enabling Access by Persons with Disabilities and LD 1343, An Act To Increase Access to Postsecondary Education for Maine National Guard Members.

From February 2015 and well into March the Appropriations and Financial Affairs Committee conducted public hearings on the Governor's tax recommendations. The joint standing policy committees of the Legislature developed their own prioritized report-backs of the two year budget proposal, which were presented to the Appropriations and Financial Affairs Committee throughout the month of April. On June 30, 2015, the 127th Legislature enacted the 2015 Chapter 267, overriding the Governor's veto. 2015 Chapter 267 included a compromise version of the tax reform package presented by the Governor in January, 2015. The compromise version includes a reduction to the State's top marginal individual income tax rate from the current law 7.95% to 7.15% effective January 1, 2016. The Governor's budget proposal would have phased down the top marginal tax rate to 5.75% by tax year 2019. The individual income tax cuts are offset through the adoption of the current sales and use tax rate of 5.5%, previously scheduled to revert back to 5% on July 1, 2015, expansion of the sales tax base to include taxes on certain foods and drinks at 5.5% (effective January 1, 2016), continuation of the current meals and lodging tax rate of 8%, a subsequent increase in the lodging tax rate to 9% effective January 1, 2016, and an increase in the service provider tax rate from the current 5% to 6% on January 1, 2016, including an expansion of the service provider tax on cable and radio services. In addition, the compromise version included an adjustment to the transfer of certain major general fund revenue line for the State-municipal revenue sharing program, currently set at 5% to 2% for fiscal years 2016-2019 only. Finally, 2015 Chapter 267 includes increases to the exemption and State reimbursement in the Homestead property tax program.

On December 1, 2015, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The December report reflected an adjustment downward of General Fund revenues of $2.2 million in fiscal year 2016, upward in the amount of $4.9 million in fiscal year 2017. The December report also projected upward revenue revisions of $24.5 million in fiscal year 2018 and $35.5 million in fiscal year 2019.

On March 1, 2016, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The March report reflected an adjustment downward of General Fund revenues of $67.3 million in fiscal year 2016, upward in the amount of $5.4 million in fiscal year 2017. The March report also projected revenues upward in the amount of $1.7 million in fiscal year 2018 and $2.7 million in fiscal year 2019.

Beginning in early January of 2016, Public Laws of Maine, chapter 378 was signed by the Governor that included a comprehensive approach to Maine's drug abuse challenge that embraces initiatives for law enforcement, prevention, treatment and recovery. 2015 Chapter 378 provides $.7 million in fiscal year 2016 and ongoing funding of $3 million in fiscal year 2017. The appropriations are funded in the 2016-2017 biennium through one-time transfers back to the General Fund from the Gambling Control Board and Medical Use of Marijuana Other Special Revenue Funds. Later in the 127th 2nd Regular Session, Public Laws of Maine, chapters 485 ("2015 Chapter 485") and 488 ("2015 Chapter 488"), were signed by the Governor and provided the State additional tools to utilize in approaching Maine's drug abuse challenges. 2015 Chapter 485, increases the penalities for the illegal importation of scheduled drugs by one scheduled crime and creates a new crime of aggravated illegal importation. 2015

Chapter 488 establishes limits on the prescription of opiods, requiring those licensed and whose capability of prescribing is electronic to implement this law by July 1, 2017.

In mid January 2016, the Governor submitted an emergency bill conformed state tax laws to changes in federal tax laws, for tax years beginning on or after January 1, 2015 and for any prior tax years as specifically provided by the United States Internal Revenue Code of 1986, as amended. The bill repealed, for taxable years beginning on or after January 1, 2016, the addition modification that decouples Maine's individual income tax law from the federal deduction for qualified tuition and related expenses and also decoupled the Maine individual and corporate income taxes from the federal bonus depreciation deductions for tax years beginning on or after January 1, 2015. In addition, the Governor's proposal provided for the Maine Capital Investment Credit for tax years beginning on or after January 1, 2015 with respect to depreciable property placed in service in Maine. This bill was voted out of the Committee and several amendments were subsequently attached. At the same time, the Governor, Legislative Leaders and the Appropriations Committee, agreed to a compromise that included additional funding for education as well as tax conformity, resulting in Public Laws of Maine 388 ("2015 Chapter 388") and 389 ("2015 Chapter 389"). 2015 Chapter 388 provided for the conformity as proposed by the Governor to certain federal tax laws for tax year 2015 and beyond. 2015 Chapter 389 provided supplemental funding for the Department of Education, General Purpose Aid to Local Schools program, an additional $15 million in fiscal year 2017 and sets the State's contribution towards the total cost of education. See "CERTAIN EXPENDITURES AND OBLIGATIONS – Education Funding" below.

Public Laws of Maine, chapters 468 and 472, authorizes new issuance of additional securities from the Maine Government Facilities Authority for the Judicial Branch and the Department of Corrections. For the Judicial Branch, additional securities issuance up to $95.6 million were authorized for the costs associated with court facilities in Oxford, Waldo and York County. The Department of Corrections was authorized to issue up to $149.7 million for capital repairs and improvements to the Maine Correctional Center in South Windham and a facility owned by the Department in Washington County. Public Laws of Maine, chapters 478 ("2015 Chapter 478") and 479 ("2015 Chapter 479"), authorize General Obligation bond issuances contingent on the approval by voters. 2015 Chapter 478, authorizes a general obligation bond of $100 million to be presented to voters in November 2016, $80 million for Highways and Bridges, $20 million to ports, harbor, aviation, freight and rail. 2015 Chapter 479, authorizes a general obligation bond of $50 million to be presented to voters in June 2017, $45 million to the Maine Technology Institute targeted to Maine's seven technology sectors (biotechnology, composites and advanced materials, environmental, forest products and agriculture, information technology, marine technology and aquaculture and precision manufacturing), $5 million to the Small Enterprise Growth Fund for lending or investing in small business.

In April of 2016, 2015 Public Laws of Maine, chapter 465, An Act to Improve the Delivery of Services and Benefits to Maine's Veterans and Provide Tuition Assistance to Members of the National Guard was signed by the Governor. This bill included the work of the Commission to Strengthen and Align Services Provided to Maine's Veterans in Resolve 2015, chapter 48. This bill directs the Department of Defense, Veterans and Emergency Management to serve as the primary source of information for veterans in the State and establishes a Maine National Guard Post Secondary Fund to provide tuition benefits to eligible Maine National Guard Members. The bill is funded through a one-time deappropriation of $2.5 million from the delay in issuance of a $21 million revenue bond for the University of Maine and a one-time transfer of $.6 million from the Gambling Control Board, Other Special Revenue funds. 2015 Public Laws of Maine, chapter 481 ("2015 Chapter 481"), transfers funding awarded as a result of the State of Maine v. McGraw-Hill Companies, Inc. and Standard & Poor's Financial Services, LLC, of just over $21 million to provide $10 million in additional funding to the Maine Budget Stabilization Fund and the remaining funds for the 2016-2017 biennial cost of a sales tax exemption on fuel used in agriculture, wood harvesting and fishing, cost of living increase for Private Non-medical

Homes in the Department of Health and Human Services, additional funds for a substance abuse pilot program in the Department of Public Safety and additional funds for education in the Jobs for Maine's Graduate program and scholarships through the Maine State Grant Program in the Finance Authority of Maine. Finally, 2015 Public Laws of Maine 483 ("2015 Chapter 483"), provided one-time funding for the procurement of biomass resources through a transfer of $13.4 million contingent on available funds at the close of fiscal year 2016. 2015 Chapter 483 authorizes one or more 2-year contracts for up to 80 megawatts of biomass resources.

Prior to the December 2016 revenue projection, the Bureau of the Budget updated its four year revenue and expenditure forecast in September 2016 through the fiscal year ending June 30, 2019. As required by State law, the four year revenue and expenditure forecast assumes the continuation of current laws and includes reasonable and predictable estimates of growth in revenues and expenditures based on national and local trends and program operations. At the time of the forecast the structural gap was projected to be $165.3 million for the 2016-2017 biennium.

The gap assumes increases in General Purpose Aid for Local Schools (GPA) of $260 million in the 2016-2017 biennium to achieve the commitment made in 2005 Chapter 2, as amended by 2007 Chapters 240 and 539, for a 55% state share of education costs. The structural gap assumes the current law reduction of 5% to 2% for state-municipal revenue sharing to continue through fiscal year 2019.

On December 1, 2016, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The December report reflected an adjustment upward of General Fund revenues of $34.2 million in fiscal year 2017, and adjustments downward of $1.5 million in fiscal year 2018 and $30.1 million in 2019. The December report also projected General Fund revenues of $3.6 billion in fiscal year 2020 and $3.7 billion in fiscal year 2021.

On January 6, 2017, the Governor released the final supplemental budget for the 2016-2017 biennium and the final budget recommendation for the term of Governor Paul R. LePage for the upcoming 2018-2019 biennium. The recommended appropriations for the 2018-2019 biennium were 1.63% or $109,457,559 in excess of the total appropriations for the 2016-2017 biennium.

The Governor's final supplemental proposal included $35 million to the Budget Stabilization Fund, $4.8 million for the rebuild of the state's fish hatcheries in Casco and Grand Lake Stream, and just over $7 million to the University of Maine to support a continued six year freeze on in-state tuition for the 2017 fiscal year and funding for the early college program. In addition to the Governor's proposals submitted in the supplemental budget, the Appropriations and Financial Affairs Committee and the Governor supported another $5 million for additional funding targeted towards the development of Opioid Health Homes. The supplemental budget was voted unanimously by the Appropriations Committee to move forward for passage and enacted on March 15, 2017.

The biennial budget proposal continues the work in the current biennium and includes proposals to augment several citizens initiatives that were passed in November of 2016, specifically, the establishment of the fund to advance public education, legalization of recreational marijuana, and an act to raise the minimum wage. Major tax initiatives include the phase-in of a 5.75 percent flat tax and elimination of the transfer of funding to the Fund to Advance Public education from the recent passage of a citizen's initiative from the assessment of a surcharge on household income over $200,000, elimination of the estate tax, expansion of the pension exemption, expansion of the sales tax base and expansion and simplification of the child care credit, a net $313 million reduction in General Fund revenue. In addition to the modification of tax laws in relation to the State's funding, the administration has proposed a separate comprehensive property tax package to allow municipalities to collect additional tax revenues through provisions to provide more equitable and predictable treatment of land owned by land trust organizations and expansion of the authorization for municipalities to assess service charges against certain exempt property with a value of $10 million or more. Offsets included nearly $70 million in proposed net savings to the MaineCare program, with major initiatives including the elimination of separate facility based fees for hospital based physicians of $11.4 million, the reduction in the reimbursement of Critical Access hospitals to 101 percent of $4.5 million, the rebasing of the Hospital Tax year from 2012 to 2014 of $15.1 million and the elimination of the eligibility of able-bodied parents with earnings in excess of 40 percent of the Federal Poverty Limit, generating savings of $33 million. Finally, the Governor's proposal includes initiatives investing in the State's infrastructure, both in the Department of Transportation and for state owned facilities. The comprehensive proposal includes a funding shift away from the Highway Fund for the State Police of nearly $20 million per fiscal year in part to provide that funding.

On May 1, 2017, the Revenue Forecasting Committee issued a regularly scheduled update to the forecast. The May report reflected an adjustment downward of General Fund undedicated revenues of $16.8 million for total projected undedicated revenues in fiscal year 2017 of $3.413 billion, and adjustments upward of $5.7 million in fiscal year 2018 and $6.0 million in 2019 for total General Fund projected undedicated revenues of $3.550 billion and $3.605 billion in fiscal year 2018 and fiscal year 2019, respectively. See "Fiscal Management – Revenue Forecasting" above for an explanation of the revenue adjustments. The May report also projected General Fund undedicated revenues of $3.623 billion in fiscal year 2020 and $3.741 billion in fiscal year 2021. See "Revenues of the State" below.

On May 25, 2017, the Governor submitted revisions ("the Change Package") to the 2018-2019 biennial budget recommendation to the Committee on Appropriations and Financial Affairs. The proposal included an update to clarify provisions in the tax language originally submitted in the Governor's biennial budget recommendation, but did not make any substantive changes to the original tax proposals. In the Department of Corrections, the Governor proposed statutory language directing the Commissioner of the Department to submit a recommendation for funding plans to restructure the funding and operation of county jails, correctional facilities, and prisoner population and capacity by February 15, 2018. In addition, the proposal limits funding for County Jail Operations through the month of February of fiscal year 2018 and limits funding for Downeast Correctional Facilities through the month of March of fiscal year 2018 until the final restructuring plans are enacted in the Second Session of the 128th Legislature. The Governor's Change Package withdrew the biennial budget recommendation to establish a new Office of the Public Defender, instead directing the Commissioner of the Department of Administrative and Financial Services and the Director of the Office of Policy and Management to compose a group to study Indigent Legal Services. This proposal limits funding of the current Indigent Legal Services Agency through the month of January 2018 until final plans are enacted in the Second Session of the 128th Legislature.

In early June, the Committee on Appropriations and Financial Affairs concluded major portions of their work on the State's 2018-2019 biennial budget voting out four reports, a majority and two minority reports, with one member voting "Ought not to Pass". These alternative proposals will be scheduled for consideration by the full Legislature in the final weeks of the 128th First Regular Session, with the Statutory Adjournment date on June 21, 2017. The proposals draw from the Governor's recommendations, with the majority budget going forward with the implementation of the establishment of the fund to advance public education supported by the 3 percent income tax surcharge on taxable income in excess of $200,000 approved by voters in November of 2016. The two minority proposals eliminate, for tax years beginning in 2017 or after, the 3% income tax surcharge imposed on taxable income in excess of $200,000, funding provided in support of the Fund to Advance Public Kindergarten to Grade 12 Education, which is also eliminated. In addition, during the 128th First Regular Session, other spending bills have been set aside and placed on the Special Appropriations Table to be enacted in conjunction with the final budget bill. These spending bills include LD 243, An Act To Amend the Marijuana Legalization Act to Provide Licensing, Rulemaking and Regulatory and Enforcement Authority within the Department of Administrative and Financial Services; Assign Rulemaking, Regulatory and Enforcement Authority Related to Agricultural Purposes to the Department of Agriculture, Conservation and Forestry; and Allocate Funds for Implementation, transferring a total of $1.6 million from the general fund in fiscal year 2017 only, $1.4 million to the Department of Administrative and Financial Services to the Retail Marijuana Regulatory Coordination Fund and $200,000 to the Joint Select Committee on Marijuana Legalization Implementation. As of June 13, 2017, the Governor accepted the resignation of Richard Rosen as Commissioner of the Department of Administrative and Financial Services ("DAFS"). The Governor has appointed David R. Lavway, Deputy Commissioner of Operations at DAFS, as the Acting Commissioner.

CERTAIN EXPENDITURES AND OBLIGATIONS

General Fund Expenditures

The following table sets forth, by certain major categories, General Fund expenditures set forth in 2013 Chapter 368, the budget for fiscal years 2014 and 2015, as amended by 2013 Chapter 487, 2013 Chapter 502, 2013 Chapter 595, 2015 Chapters 7 and 16 and miscellaneous laws.

	2014	2015
Governmental Support and Operations	$240,632,732	$241,752,641
Economic Development & Workforce Training	31,261,438	32,643,008
Education	1,430,575,788	1,422,067,932
Arts, Heritage & Cultural Enrichment	7,450,637	7,350,161
Natural Resources Development & Protection	67,823,951	69,963,005
Health & Human Services	1,123,503,952	1,129,996,638
Justice & Protection	297,423,132	312,356,251
Business Licensing & Regulation	1,140,000	
Total	$3,199,811,630	$3,216,129,636

The following table sets forth, by certain major categories, General Fund expenditures set forth in 2015 Chapter 267, the budget for fiscal years 2016 and 2017 and miscellaneous laws through the 1st Regular Session of the 128th Legislature.

	2016	2017
Governmental Support and Operations	$ 255,750,510	$ 289,694,906
Economic Development & Workforce Training	42,417,329	44,632,867
Education	1,440,492,012	1,458,871,755
Arts, Heritage & Cultural Enrichment	8,315,529	7,957,592
Natural Resources Development & Protection	75,855,077	79,790,887
Health & Human Services	1,172,637,382	1,174,807,945
Justice & Protection	335,830,883	341,665,344
Total	$3,331,298,772	$3,403,471,296

The following table sets forth, by certain major categories, General Fund expenditures set forth in LD 390, the recommended budget for fiscal years 2018 and 2019 and miscellaneous laws through the month of May of the 1st Regular Session of the 128th Legislature.

	2018	**2019**
Governmental Support and Operations	$ 284,145,209	$ 308,619,131
Economic Development & Workforce Training	47,285,363	47,892,338
Education	1,494,183,026	1,512,401,421
Arts, Heritage & Cultural Enrichment	8,179,665	8,469,064
Natural Resources Development & Protection	78,710,556	81,400,871
Health & Human Services	1,139,897,222	1,105,723,552
Justice & Protection	362,506,650	351,300,783
Total	$3,414,907,691	$3,415,807,160

Total General Fund spending for fiscal years 2016 and 2017 is 3.58% and 5.83%, respectively, over fiscal year 2015. Total General Fund spending over the 2016 - 2017 biennium is approximately $6.7 billion. Of the $6.7 billion, 43.14% is attributable to education, 34.86% to health and human services, and 22.179% to other purposes of State government. For additional information regarding General Fund actual and recommended expenditures during fiscal years 2014 through 2019, and for information regarding Highway Fund actual and recommended expenditures during fiscal years 2014 through 2019, see Exhibits B and C hereto. See also “Certain Public Instrumentalities” herein.

Education Funding

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

Public Laws of Maine 2007, Chapter 539 which took effect on March 31, 2008 (“2007 Chapter 539”) provided that, as a target, (a) the State would provide 53.51% and 54.01%, respectively, of the statewide adjusted total cost of the components of Essential Programs and Services, and (b) the State would provide 100% of a school administrative unit’s special education costs calculated pursuant to applicable State law for fiscal years 2008 and 2009. The budget for fiscal years 2008 and 2009, as amended by 2007 Chapter 539, included approximately $1,966,000,000 to fund the State’s share of K-12 Education costs attributable to the Initiated School Finance Act. 2007 Chapter 539 also amended applicable law to provide that the State’s payment of 55% of the total State and local cost of K-12 Education would be delayed until fiscal year 2010, and that inclusion of the State share of the cost of K-12 Education in the General Fund appropriation limit would be delayed until fiscal year 2011.

For fiscal year 2014 the biennial budget enacted in 2013 Chapter 368 and amended in 2013 Chapters 487 and 502 contained a State commitment to the cost of K-12 education of $1,111,006,225 which was made up of General Fund appropriation and Education’s portion of funding received from casino revenues. The State's contribution towards the total cost of education including teacher retirement, retired teacher's health insurance and retired teacher's life insurance was 50.44% in fiscal year 2014.

For fiscal year 2015 the budget enacted in 2013 Chapter 368, amended by 2013 Chapter 487 and further amended by 2013 Chapter 502, which appropriated $9.6 million to offset the savings recommendation in the 2013 Chapter 368, Part F structure and operations review findings to the General Purpose Aid to Local Schools program. Further actions to amend funding in fiscal year 2015 were taken in 2013 chapters 581 and 595 which included additional funding of $300,000 for the Jobs for Maine's graduates program and one-time funding of $650,000 for the 2nd year of the comprehensive early college program resulting in State contribution to the costs of K-12 education of $1,120,789,831. The State's contribution towards the total cost of education including teacher retirement, retired teacher's health insurance and retired teacher's life insurance is 50.13% in fiscal year 2015.

In LD 1019, as recommended by the Governor, the State's contribution for fiscal year 2016 would have been $1,111,985,349, which equates to a State contribution towards the total cost of education including teacher retirement, retired teacher's health insurance and retired teacher's life insurance of 49.10% in fiscal year 2016. This proposal also included one-time transfers of $5,000,000 in both fiscal year 2016 and fiscal year 2017 from the General Fund to support the consolidation of school administrative units. As enacted 2015, Chapter 267 sets the State's contribution to the costs of K-12 education for fiscal year 2016 in the amount of $1,131,485,349, the total cost including teacher retirement, retired teacher's health insurance and retired teacher's life insurance at a percentage share of 50.08%. The one-time transfer proposed by the Governor in both fiscal years 2016 and 2017 of $5,000,000 each to support consolidation of school administrative units was reduced to a one-time transfer of $750,000 in each fiscal year, of which due to the significantly reduced funding as enacted was subsequently proposed by the Governor as a resource in support of tax conformity, 2015 Chapter 388.

Public Laws of Maine 2015, chapter 389 ("2015 Chapter 389") established the State's cost of K-12 Education fiscal year 2017 contribution at $1,157,947,004. The State's contribution towards the total cost of education including teacher retirement, retired teacher's health insurance and retired teacher's life insurance is 50.79% in fiscal year 2017. 2015 Chapter 389 directed the Commissioner of Education to submit by January 10, 2017 and January 10, 2018 to the Governor and the joint standing committee of the Legislature having jurisdiction over education matters, a report of the commission that includes findings and recommendations for action to reform public education funding and improve student performance in Maine. 2015 Chapter 389 continues to delay to fiscal year 2018 when the State must begin increasing the state share percentage of the funding for the cost of essential programs and services by at least one percentage point per year over the percentage of the previous year until the state share percentage of the total cost of funding public education from kindergarten to grade 12 reaches 55% as enacted in 2015 Chapter 267. 2015 Chapter 389, beginning in fiscal year 2016-17, adds charter schools to the list of essential programs and services components to be reviewed. Public Laws of Maine, chapter 463, authorizes a regional school unit to include an article in the warrant for its annual budget meeting providing that, in the event that the regional school unit receives more state education subsidy than the amount included in its budget, the regional school unit board is authorized to increase expenditures for school purposes in cost center categories approved by the regional school unit board, without a special budget meeting and budget validation referendum. The law also allows a regional school unit to include such articles for the purposes of increasing the allocation of finances in a reserve fund and decreasing the local cost share expectation for local property taxpayers for funding public education. Finally, the Department of Education provided additional one-time funding for municipalities due to a sudden and severe loss in the municipal valuation.

On January 6, 2017, upon the release of the Governor's proposed supplemental and final biennial budget for fiscal years 2018 and 2019, the Department of Education self-funded requests that were required to be submitted through the Legislature in the Governor's supplemental proposal. The State's contribution for fiscal year 2018 is expected to be $1,166,242,285, which would repeal the existing state funding formula to redirect State support to direct instruction, accountability, and teachers, through a statewide teacher contract. The State's contribution towards the total cost of education including teacher retirement, retired teacher's health insurance and retired teacher's life insurance is expected to be 50.87% in fiscal year 2018. This proposal also includes one-time transfers of $5,000,000 in both fiscal year 2018 and fiscal year 2019 from the General Fund to support voluntary regionalization efforts of school administrative units.

Throughout the first session of the 128th Maine Legislature, the Governor has both submitted and supported proposals to further reshape Maine's public education system to reflect the needs of our student population. LD 1330, An Act To Authorize a General Fund Bond Issue To Facilitate Innovative Approaches to Regional School Facilities and To Establish the Maine Innovative Regional School Facilities Finance Program is a Governor's bill that would authorize a $20 million general obligation bond for the development of multidistrict, consolidated and integrated prekindergarten through 16 school facilities and establish the Maine Innovative Regional School Facilities Finance Program to make loans to school administrative units for small-scale construction projects to existing buildings in order to improve the regional delivery of educational services. LD 1330 has been referred to the Appropriations and Financial Affairs Committee, but has not had a work session. LD 1576, An Act to Enable Earlier Introduction of Career and Technical Education in Maine Schools, that amends the career and technical education laws to enable career and technical education programs to serve students in grades 6 to 8. This bill as submitted by the Governor has been reported out of Committee on May 26, 2017 with a majority report of "Ought to Pass" and is scheduled on the House Calendar. The Office of Fiscal and Program review has projected no fiscal impact in its' preliminary fiscal impact statement. The language as put forward in LD 1576 was also submitted as part of the Governor's Change Package recommendation to the 2018-2019 biennial budget. LD 864, An Act to Provide for a Statewide Teachers Contract for School Teachers has been reported out of Committee as a divided report. The Governor supported the minority report that proposes to authorize the State to bargain for a contract for standard salary and benefits for public education employees in participating districts. The language of the minority report was also submitted as part of the Governor's Change Package recommendation to the 2018-2019 biennial budget. This statutory language as proposed would be repealed ninety days after the beginning to the 129th Maine Legislature, and a proposal from the Commissioner of the Department of Education would be submitted in its' place to incorporate this function into the school funding formula, effective in the fiscal 2020 school year. Several other policy proposals were put forward in the Governor's Change Package, such as phase out of the public charter school cap, transfer of .5 million in fiscal year 2019 from the General Purpose Aid to Local Schools program to the Child Development Services program funding special education, serving children with autism and the creation of a special education hardship fund.

As a result of the additional proposals in the Governor's Change Package to the 2018-2019 biennial budget, the State's contribution for fiscal year 2018 is expected to be $1,183,218,441. The State's contribution towards the total cost of education including teacher retirement, retired teacher's health insurance, retired teacher's life insurance, and the newly proposed additions in the Governor's Change Package to the state's contribution percentage, for eligible institutions' share of the postsecondary enrollment program, state contributions for the Department of Education, state contributions for the fund for the efficient delivery of educational services, and less any adjustment to the total allocation for student counts is now expected to be 51.23% in fiscal year 2018. Finally, LD 601, An Act to Return the Normal Cost of Teacher Retirement to the State, proposes to return the responsibility for fully funding the normal cost component of teachers' retirement back to the State and has been placed on the Special Appropriations Table to be considered for funding by the Appropriations and Financial Affairs Committee. The net General Fund cost of this proposal is $22.2 million in fiscal year 2018 and $22.3 million in fiscal year 2019.

Health and Human Services Funding

After education, proposed spending for health and human services and programs comprise the second most significant area of expenditure, at approximately $2.34 billion or 34.97% of General Fund appropriations for the 2016-2017 biennium. Furthermore, General Fund expenditures for the State's Medicaid program, MaineCare, are the largest, comprising $1.54 billion or 67.2%, of all health and human services spending. The State continues to make significant efforts to hold down the rate of increase in the growth of MaineCare expenditures. While remaining committed to provide access to care for the State's most vulnerable residents, the State is employing even more aggressive care management techniques, continues to standardize provider reimbursement rates and has developed more capacity in the area of third party recovery.

Prior to fiscal year 2014, the State had accrued a liability to hospitals for Medicaid services provided by such hospitals with the use of a Prospective Interim Payment methodology. In the 2012-2013 budget, Maine transitioned from the Prospective Interim Payment system to methodologies based on Diagnosed Related Groupings and Ambulatory Payment Classifications, which pays Maine's noncritical access hospitals on a real-time basis, based on claims. As of June 30, 2012, the aggregate liability totaled approximately $484.4 million, of which $186.3 million was the State share, with the balance expected to be paid on or after October 1, 2013 by the federal government as its federal match. On June 14, 2013, the Governor signed into law Public Laws of Maine 2013, chapter 269, An Act to Strengthen Maine's Hospitals and to Provide for a New Spirits Contract. This law authorized the Maine Municipal Bond Bank to issue up to $187.0 million of revenue bonds, the proceeds of which were used, together with federal moneys, to satisfy this obligation to the hospitals. The bonds are payable from moneys to be received in connection with an agreement for certain wholesale liquor activities. Payments to settle the debts owed to hospitals were made in September 2013. Other than settlement obligations that may arise during the normal course of operations during any one fiscal year, there are no further long-term obligations outstanding.

The 2014-2015 budget, 2013 Chapter 368, continued funding the priorities identified in previous budgets. The Department requested additional resources in both fiscal year 2014 and 2015 to address needs in the Medicaid program. In addition to the request for increases to the baseline budgets, the Department received the funding necessary to fill waiver slots on two of the State's largest Medicaid waivers serving those with developmental or intellectual disabilities. Funding was also provided for the General Assistance program while coupled with structural changes to the program that mitigated a larger request. The budget included funding to provide additional mental health services to those not Medicaid eligible in fiscal year 2014 and to fund adequately the foster care/adoption assistance programs based on the increasing number of children in care in both years of the biennium. In an effort to reduce expenditures and restructure the services offered by the Department of Health and Human Services, there are several proposals in the budget which would restructure some benefits for dually eligible members and implement two new waivers to better serve those with brain injury and other conditions. The Department also proposed to save funds based on the implementation of care management for high-cost users in the Medicaid program. An additional $31 million in Medicaid funding was provided for fiscal year 2014 in a supplemental budget prepared by the Legislature and enacted in 2013 Chapter 502.

The supplemental budget enacted as 2013 Chapter 502 also provided additional funding for the State's two psychiatric hospitals. In September of 2013, the Department of Health and Human Services was notified that the Riverview Psychiatric Center would no longer receive CMS hospital certification. This de-certification called into question the ability of the hospital to continue receiving Medicaid Disproportionate Share Hospital funding which accounts for more than half of its budget. The Department requested additional General Fund support to enact several changes at the hospital while they pursue re-certification. The Department also maintains that they are eligible to continue receiving Disproportionate Share Hospital funding as they are an Institute of Mental Disease and do not need Medicare hospital certification to receive this funding. Several items in 2013 Chapter 502 were intended to increase recruitment and retention at both Riverview Psychiatric Center and the Dorothea Dix Psychiatric Center in Bangor.

Public Laws of Maine 2015, chapter 16 ("2015 Chapter 16") contained adjustments to the fiscal year 2015 budget. This included funding to address both the physical environment at Riverview Psychiatric Center and personnel needs by establishing 29 new positions. The Department requested this funding to assist in regaining certification from the Centers for Medicare and Medicaid Services. This bill also contained funding to replace expiring federal funds that support enhanced payments for primary care physicians, as implemented by the Affordable Care Act. Public Law 2013, Chapter 595 modified the timing of MaineCare payments to providers resulting in a reduction in General Fund appropriation of $20 million. As set forth in the language enacting the reduction in Chapter 595, the department reported to the Appropriations Committee in September of 2014 the potential negative impact on certain provider groups. As a result, Chapter 16 restored the $20 million and did not require the modification of the timing of MaineCare payments. Additionally, $4 million was provided to repay the federal government for a portion of an audit finding included in the federal Department of Health and Human Services, Office of Inspector General report.

The Governor's 2016-2017 biennial budget recommendation, LD 1019, outlines the key priorities of the Department for that biennium. The Department requested funding to eliminate waitlists for home and community based services and for nursing home facilities. The Department has also requested funding for Health Homes for individuals with Stage A and Stage B conditions as well as reimbursement for primary care physicians due to a loss in federal funding under the Affordable Care Act. Additionally, the Department requested funding for core services under the Consent Decree including funding the Bridging Rental Assistance Program (BRAP) specifically for Consent Decree clients. The Governor's recommendation included offsets that proposed to align the current Federal Poverty Level standard to the federal minimum standard in the Medicare Savings Program for projected savings of $20 million in each fiscal year and standardize rates between hospital and non-hospital compensated physicians of $5 million in each fiscal year. The recommendation also includes rate adjustments for medication management, to provide consistency with other sections of policy and outpatient services, a total savings of $7 million in each fiscal year. Finally, the Governor's recommendation includes initiatives to reform payments to municipalities for the General Assistance program, of $5 million in each fiscal year and the elimination of 100 vacant positions in the Department of Health and Human Services, of $2 million in General Fund savings in each fiscal year.

2015, Chapter 267 includes compromise funding of key priorities of the Department of Health and Human Services. The enacted bill continues to provide an additional $2.9 million per fiscal year for the ongoing reimbursement of primary care physicians replacing expiring federal funds under the Affordable Care Act. Ongoing funding is provided to reduce waitlists for home and community based services for members with intellectual disabilities or autistic disorder, adults with brain injuries and other related conditions. Additional funds are included for cost of living adjustments for nursing homes, $8 million per fiscal year and private non-medical facilities, $3.2 million in each fiscal year as well. The Governor's recommendations were accepted to offset a reduction in disproportionate share payments based on the amount of available funding utilizing the historic levels of uncompensated care and the hospital specific limit of $1.9 million per fiscal year and to provide General Fund support for Riverview Psychiatric Hospital's recertification efforts for forensic consumers who the courts determine to be not criminally responsible, who may no longer meet the clinical level of care for residential treatment, but are in the care and custody of the Commissioner of Health and Human Services, of $1.4 million per fiscal year. Additional funding for the Riverview also includes funds for additional staffing, as passed in 2015 Chapter 16 and other planned costs as set forth in both a formal external assessment of hospital operations and preliminary long range planning documents from the Department. Funding totaling $7 million per fiscal year for core services under the Consent Decree for the Bridging Rental Assistance Program (BRAP) specifically for Consent Decree clients is also provided in the bill as requested by the Governor. Finally, funding for key provisions of welfare reform legislation that proposed additional assistance intended to reward work by families receiving public assistance and promote financial literacy and healthy savings habits of those families is also included. Material offsets include savings to the Department's baseline budget from the projected increase in both the regular (current rate of 61.88% to new rate of 62.67%) and federal CHIP enhanced (current rate of 73.32% to new rate of 96.87%) FMAP for Federal Fiscal Year 2016, continuation of a Department-wide general fund savings requirement, elimination of positions, and savings from changes in reimbursement of nonemergency use of emergency services to an office rate.

In the 127th 2nd Regular Session, Public Laws of Maine, chapter 484 ("2015 Chapter 484"), An Act to Improve the Integrity of Maine's Welfare Programs, prevents receipients from Temporary Assistance for Needy Families from expending funds on such items as tobacco, gambling, liquor, lotteries, bail and others. As put forward the Department convened a working group to discuss technology requirements that includes retailers in the State. 2015 Chapter 505 increases wages $2 and $4 per hour to selected positions based on recruitment and retention challenges at the State's psychiatric hospitals.

On January 6, 2017, upon the release of the Governor's proposed supplemental and final biennial budget, the Department of Health and Human Services did not have any requests for funding in the Governor's supplemental proposal. One-time funding for the establishment of Opioid Health Homes was included resulting from a collaborative effort between the Governor and the Legislature. In the Governor's recommended 2018-2019 biennial budget, the Department of Health and Human Services was able to support more than $30 million in new funding requirements driven by federal mandates, including increased Medicare Part B and Part D costs as well as an increased Medicaid rate for Federally Qualified Health Centers (FQHC). Additionally, through a variety of strategic and operational initiatives, the Department continues to employ, the Department is forecasting the ability to continue to offset increasing costs in areas such as long term care and pharmacy costs in the upcoming 2018-19 biennium. The Department continues to focus on Maine's neediest and most vunerable, putting forwarding spending priorites to eliminate the wait list for Section 29 of $12.2 million. Ongoing welfare reform efforts include a reduction in the time limits for the state's Temporary Assistance for Needy Families (TANF) program from 60 months to 36 months, the alignment of services for legal noncitizens to the federal standards, the elimination of the General Assistance program producing savings of $12.1 million and the removal of Good Cause Exemptions, with the provision remaining for Domestic Violence, initiatives directed towards the overarching goal of promoting independence and self-sufficiency to help Mainer's back to work.

The Governor's Change Package to the 2018-2019 biennial budget recommendation included an adjustment to continue the State's contract for the Tobacco Help Line and associated pharmacy contract benefit at a cost of $2.26 million per year in the Fund for a Healthy Maine. Additionally, the Governor's Change Package included updates of estimates of savings for State-funded Cash Benefits, State-funded Temporary Assistance for Needy Families Benefit and State-funded Supplemental Nutrition Assistance Program benefits to non-citizens who do not meet federal eligibility requirements, to a total savings of $2.26 million in fiscal year 2018 and $2.96 million in fiscal year 2019.LD 480, An Act to Prioritize Access by Maine's Most Vunerable Citizens to Welfare Resources, with a majority report out of the Health and Human Services Committee, "Ought not to Pass", also proposes to use these same savings in benefits to noncitizens to fund a contract to administer the workforce development for legal immigrants program, is scheduled to be considered on the House Calendar. The Governor's Change Package also withdraws the original recommendation to repeal the Maine Rx Plus Program, which lowers the price of prescription drugs for Maine citizens with incomes up to 350% of the Federal Poverty Level.

During the 128th First Regular Session other spending bills have been set aside and placed on the Special Appropriations Table, including several requesting general fund appropriations for the Department of Health and Human Services. The bills seek funding for various services, including dental services for adults with intellectual disabilities or autistic disorder, opiate addiction treatment access, recalculation of rates for services for persons with disabilities, increases for certain chiropractic reimbursement rates and brain injury services under MaineCare, and funding for the waiting list for home and community based benefits for members with intellectual disabilities or autistic disorder. In addition, the Department continues to move forward with preparations for an upcoming full survey of the Riverview Psychiatric Hospital during calendar year 2017, to regain compliance with Medicare Conditions of Participation that expired beginning October 1, 2013. As of May of 2017, the Department released a qualification for the construction of a Secure Forensic Rehabilitation Facility and a request for proposal for services within the facility to be located in Bangor, Maine. By letter dated June 7, 2017, the Department was notified of disallowance related to Riverview Psychiatric Hospital from the Associate Regional Administrator of the Division of Medicaid and Children's Health Operations, Boston Regional Office, for the amounts in federal financial participation (FFP) for Medicaid services and for disproportionate share hospital (DSH) payments claimed for the quarters ending December 31, 2013 through March 31, 2017, a total of $68,570 and $51,008,060, respectively, that would need to be repaid to the federal government, if this disallowance stands. State officials are reviewing options for reconsideration or an appeal of this decision. The Governor has alerted the Appropriations and Financial Affairs Committee of the Legislature of the receipt of the notice of disallowance. This matter is not expected to affect fiscal 2017 financial results and various options are available to address any final determination of liability. The State cannot now predict the outcome of this matter.

Debts of the State

As of April 30, 2017, there were outstanding general obligation bonds of the State in the principal amount of $442,610,000, including $380,990,000 to be paid from the General Fund and $61,620,000 to be paid from the Highway Fund. As of April 30, 2017, there are no outstanding bond anticipation notes of the State. Debt service requirements to maturity for the outstanding general obligation bonds are set forth in Exhibit D herein.

As of April 30, 2017, there are no outstanding tax anticipation notes of the State. As of April 30, 2017, there was no outstanding interfund borrowings from the State investment pool. The State plans to continue to use internal cash flow borrowing to meet cash flow needs in fiscal year 2017, if necessary. The State has budget authority to accommodate up to$150,000,000 of external borrowing in fiscal year 2018, if borrowing is deemed necessary. If external borrowing is required, a combination of tax anticipation notes and a proposed line of credit could be used. The timing and amount of any such borrowings will depend upon the actual cash flow needs of the State.

As of April 30, 2017, there is indebtedness authorized by the voters of the State for certain purposes, but unissued as either bonds or notes, in the aggregate principal amount of $149,883,697. As of March 31, 2017, the aggregate principal amount of bonds of the State authorized by the Constitution and implementing legislation for certain purposes, but unissued, is $99,000,000. See "Fiscal Management – Constitutional Debt Limit" and "Certain Public Instrumentalities – Finance Authority of Maine" and "– Maine State Housing Authority" herein.

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

Lease Financing Agreements

From time to time, the State enters into lease agreements for the purpose of acquiring or financing capital equipment and buildings. A lease agreement is secured solely by the equipment or building which is the subject of such agreement and is not a pledge of the full faith and credit of the State. Lease payment obligations are subject to appropriation by the Legislature. In certain instances, the State has issued certificates of participation in the lease payments to be made pursuant to certain lease agreements. As of April 30, 2017, the aggregate principal amount of such lease obligations outstanding was $76,692,526. For additional information regarding such lease agreements, see Appendix D hereto. For information regarding rental payments to be made by the State, subject to appropriation, to the Maine Governmental Facilities Authority, see "CERTAIN PUBLIC INSTRUMENTALITIES - Maine Governmental Facilities Authority."

Defined Benefit Retirement Programs

Overview. The Maine Public Employees Retirement System ("MainePERS" or "System") administers three defined benefit pension plans (often referred to as "Programs") on behalf of the State with approximately the following membership as of June 30, 2016: the State Employee and Teacher Retirement Program, with 39,942 active, 37,656 inactive non-vested, 7,783 terminated vested and 34,181 retired members and surviving beneficiaries; the Judicial Retirement Program, with 62 active, 1 inactive non-vested, 2 terminated vested and 74 retired members and surviving beneficiaries; and the Legislative Retirement Program, with 177 active, 107 inactive non-vested, 121 terminated vested and 174 retired members and surviving beneficiaries (collectively "State Plans"). In addition, MainePERS administers the Participating Local District Consolidated Plan on behalf of 283 participating state and local public entities ("PLDs"). The System also administers a group life insurance plan which provides or makes available life insurance benefits for active and retired System members and employees of certain PLDs. As of June 30, 2016, the System's group life insurance plan, for actuarial purposes, was comprised of approximately 31,224 active members and 18,212 retirees, which includes 5,416 PLD active members and 2,671 PLD retirees and surviving beneficiaries. A full actuarial valuation of the group life insurance program is done on a biennial basis, the most recent as of June 30, 2016. The State has no retirement or group life insurance obligations to the PLDs or to their covered employees. The trust fund balances associated with each plan administered by MainePERS are segregated. The funds are commingled only for investment purposes. The administrative operating expenses of the System are charged against each trust fund balance as directed by statute and in accordance with generally accepted accounting standards. The budgeted administrative operating expenses of the System for fiscal year 2017 are $13,403,717, as compared to $12,362,820 for fiscal year 2016.

The System's retirement programs provide defined retirement benefits based on members' three-year average final compensation and service credit earned as of retirement. Vesting (i.e., eligibility for benefits upon reaching qualification) occurs upon the earning of five years of service credit (effective October 1, 1999, the prior ten-year requirement was reduced by legislative action to five years for state employees and teachers; separate legislation enacted the same reduced requirement for judges, legislators, and employees of PLDs). Vesting also occurs upon the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for "regular service retirement plan" State employees and teachers, judges and legislative members is age 60, 62 or 65[1]. The normal retirement age is determined based upon the amount of service to which a member is credited as

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[1] Because of the nature of their jobs, certain employees, typically those in law enforcement positions, are members of a "special service retirement plan," rather than the "regular service retirement plan" which covers most employees. Special plans typically differ from regular plans in the areas of retirement eligibility requirements, benefit determination, and contribution rates. Special plans are typically more expensive than regular plans.

of a specific date. For "regular service retirement plan" PLD members, normal retirement age is 60 or 65, depending upon when plan membership commenced. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and death benefits which are established by statute for State employees and teacher members and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to members' accounts has been set by the System's Board of Trustees at the 10-year US Treasury Bond yield at the end of the prior calendar year, currently 2.45%. Employer contributions for terminated members are not refunded and remain assets of the applicable plan.

Other Available Information

The following documents related to the System and the Programs are incorporated herein by reference:

- Comprehensive Annual Financial Report of the System for the fiscal year ended June 30, 2016 available at http://www.mainepers.org/PDFs/CAFRS/CAFR16.pdf.
- Actuarial Valuation Report for each of the retirement programs administered by the System as of June 30, 2016 available at http://www.mainepers.org/bonds.htm.
- Final Report of the State Employee and Teacher Retirement Program experience study, dated June 30, 2015 available at http://www.mainepers.org/PDFs/Bonds/MainePERS%20Experience%20Study%20Report%202015%20FINAL.pdf.
- "New Pension Plan Design and Implementation Plan" dated March 2012 prepared by the New Pension Plan Working Group available at http://www.mainepers.org/Pensions/NPP_Report_3-5-2012.pdf.
- New Pension Plan proposed legislation and plan document submitted to the Joint Standing Committee on Appropriations and Financial Affairs on January 15, 2013 available at http://www.mainepers.org/Pensions/NPPI%20Package%2001172013.pdf.
- New State/Teacher Retirement Plan Report to the Legislature, "New State/Teacher Plan 2 Proposed Legislation and Implementation Plan" submitted to the Joint Standing Committee on Appropriations and Financial Affairs on May 6, 2013 available at http://www.mainepers.org/Pensions/NPP%20Report%20Final%2005072013.pdf.

For additional information about the System contained in this Information Statement, see also Note 9 and Required Supplementary Information in the State's financial statements on pages B-60 – B-65 and B-101 – B-103 herein and "Appendix E – Maine Public Employees Retirement System Actuarial Balance Sheet, June 30, 2016".

Funding Policy and Status

The costs of the State Plans, including those of the State Employee and Teacher Retirement Program, generally consist of two elements:

Normal Costs - the present value of future pension benefits earned by employees in the current year. Normal costs are based on each year's projected annual collective employee earnings. Based on the rate-setting process as described below in the **Unfunded Actuarial Accrued Liability (UAAL)** section of this document, the State's share of normal cost for fiscal years 2016 and 2017 was projected to be $63,811,495. The State's share of the normal cost for fiscal years 2018 and 2019 is projected to be $62,660,919. Most State employees and teachers are required by statute to contribute 7.65% of their earnings. As previously noted, some State employees may pay a higher rate as a result of participation in a so-called "special plan", which typically permit a member to retire younger or with fewer years of service. Other State employees may pay a lesser rate as a result of a collective bargaining agreement or other arrangement with the State.

Unfunded Actuarial Accrued Liability (UAAL) - the amount by which the actuarial liability for current and former employees is greater than pension assets. The actuarial liability is the present value of prospective pensions owed to members when they retire based on service as of the calculation date.

State Employee and Teacher Retirement Program annual and/or biennial costs are defined as those normal and UAAL costs required by State law and the Maine Constitution to fund the plan. The State's employer normal cost contributions, along with current member contributions, support benefits currently being earned by active members. The State's unfunded actuarial accrued liability (UAAL) contribution is a payment on the amortized debt that represents the liability for benefits in excess of the amount supported by assets of the System. The Maine Constitution requires that the June 30, 1996 UAAL be fully funded in not more than 31 years from July 1, 1997. In addition, the Maine Constitution requires that unfunded liabilities resulting from experience losses must be retired over a period not exceeding 10 years.

Maine is one of 14 states that do not participate in Social Security for State employees, judges, legislators or teachers while they are active members of the State Plans. Neither the State nor covered plan members contribute any amounts to Social Security. This means that covered members do not earn Social Security credits.

The State appropriates funding for pension costs associated with the State Plans, covering all State employees and teachers, legislators and judges. Retirement, disability and death benefits provided by the System are funded by employee contributions as set by statute and by employer contributions determined on an actuarial basis. An actuarial valuation is prepared annually and the valuation completed in the even year for each of the state's three defined benefit plans is used to determine the State's employer contribution requirements for the ensuing biennium. For example, the valuation as of June 30, 2014 was used to set contributions for the 2016-2017 biennium, and the valuation dated as of June 30, 2016 was used to establish the contributions to be made in the 2018-2019 biennium.

For State employees and teachers, the State's actuarially determined contribution (the "ADC"), previously referred to as the annual required contribution (the "ARC"), is comprised of the normal cost contribution plus the payment required to amortize the State Employee and Teacher Retirement Program's UAAL. As of June 30, 2016, the actuarial value of assets of the State Employee and Teacher Retirement Program (which does not include members of the judicial and legislative programs) was $10,512,524,178 and the actuarial accrued liability was $13,069,954,948 resulting in a UAAL of $2,557,430,770 and a funded ratio of 80.4%. The State is obligated under an amendment to the Maine Constitution adopted in 1995 to amortize the UAAL of the State Employee and Teacher Retirement Program as of June 30, 1996 by no later than the end of fiscal year 2028. As of June 30, 2016, 12 years remained in the current, constitutionally mandated amortization period for the unfunded liability of the State Employee and Teacher Retirement Program. The Maine Constitution also prohibits the creation of new unfunded liabilities other than those arising from experience losses. Any such liabilities are required to be amortized within 10 years. The constitutional requirement does not apply to the Legislative Retirement Program or the Judicial Retirement Program. MainePERS monitors all relevant proposed bills to ensure continued compliance with the constitutional requirement.

The judicial retirement plan had an actuarial surplus of $544,511 at June 30, 2016. The legislative retirement plan had an actuarial surplus of $3,726,311 at June 30, 2016.

The ADC determined for the 2016-2017 biennial budget was based upon an estimate of the assets and liabilities as of June 30, 2014. The estimated assets included the June 30, 2014 assets (at market value), except that the private market values were based on the March 31, 2014 value, with a projection of total cash flows for the year. The liabilities included the June 30, 2013 liabilities, rolled forward based on projected actuarial assumptions for fiscal year 2014. This process allows the System to provide employer contribution rates to the State as early as possible in the biennial budget process. This same methodology was used to determine the ADC for the 2018-2019 biennial budget.

The amount paid by the State in fiscal year 2016 was $257,620,000. The amounts projected to be paid by the State, using the rate-setting process as described above, in fiscal years 2017, 2018 and 2019 are $258,266,000, $298,115,000 and $306,392,000, respectively.

The State has generally funded its actuarially determined contribution for State employees, teachers, judges and legislators as shown in the table below. Differences between the ADC and the actual contribution may be the result of the differences between projected and actual salary amounts for any given year. Differences may also be the result of additional contributions paid by the State, as previously required by statute, from general fund surplus money available at the close of a given fiscal year. In 2013, the statute was amended by the 126th Legislature such that general fund surplus money is no longer allocated to MainePERS.

Valuation Date 6/30/YY	Actuarially Determined Contribution	Actual Contribution	Percent Contributed
2016	$257,620,000	$257,620,000	100.0%
2015	264,812,000	264,812,000	100.0
2014	264,275,000	264,275,000	100.0
2013	264,381,000	264,381,000	100.0
2012	252,830,000	252,830,000	100.0
2011	328,075,000	333,944,000	101.8
2010	317,992,000	329,207,000	103.5
2009	320,112,000	320,112,000	100.0
2008	305,361,000	305,361,000	100.0
2007	303,076,000	303,075,774	100.0
2006	286,439,000	303,438,610	106.0
2005	261,698,000	274,697,901	105.0
2004	251,483,000	273,482,848	108.8
2003	252,709,000	263,209,148	104.2
2002	242,486,000	242,486,089	100.0

As of June 30, 2016, the State reported a net pension liability ("NPL") of $2,236,237,000 for the State Employee and Teacher Plan and Judical Plan. The State reported a net pension asset ("NPA" of $3,517,000 for the Legislative Plan. The NPL or NPA is calculated as the difference between the total pension liability ("TPL") and the market value of assets held by the Plan. The NPL was calculated using a discount rate of 7.125%. If the discount rate used was one percentage point lower or one percentage higher, the collective net pension liability of the State plans, measured as of June 30, 2015 for fiscal year 2016, would have been $3.66 billion or $1.04 billion, respectively. GASB Statement No. 68 replaced Statement No. 27 and now requires the NPL to be reported rather than the Net Pension Obligation ("NPO") required by Statement No. 27. The NPO was the cumulative difference between the annual pension cost and the employer's contributions to the plan, adjusted for interest and the effect of the actuarial amortization of past under- or over-contributions.

The following table sets forth a projection of the contributions expected to be made by the State to pay both the normal cost and to amortize the UAAL of the State Employee and Teacher Retirement Program for the period from fiscal year 2017 through fiscal year 2028. The dollar amounts (expressed as millions) are shown both as future year dollars and current year dollars (discounted at a 2.75% rate). The amounts shown in the table below include the results of the actuarial valuation as of June 30, 2016.

Projected Contributions

Fiscal Year	Normal Cost future dollars*	Normal Cost current dollars*	UAL Cost future dollars*	UAL Cost current dollars*	Total Cost future dollars*	Total Cost current dollars*
2017	$76	$76	$230	$230	$306	$306
2018	78	76	272	265	350	341
2019	79	75	280	265	359	340
2020	81	75	329	303	410	378
2021	83	74	338	303	421	377
2022	85	74	391	342	476	416
2023	87	74	392	333	479	407
2024	89	73	426	352	514	425
2025	91	73	486	391	577	464
2026	93	73	515	404	608	477
2027	95	72	469	358	564	430
2028	97	72	451	334	548	406

*All costs in millions.

The amounts in the preceding table are based on projections derived from the 2016 actuarial assumptions and other information then known to the State and the System. The actual amounts required to be contributed by the State in the future will likely differ from these amounts and, depending upon actual circumstances, such differences may be substantial. The actual contributions to be made by the State for any future fiscal year, including the amount required to amortize the then UAAL, will be based upon actual investment results and other factors as they occur in the future and the applicable actuarial valuation used to certify the contribution rates for such year and will reflect all actuarial assumptions and circumstances then in effect. The State cannot predict with certainty what the actual dollar amount of required contributions to the System will be for fiscal years beyond fiscal year 2019.

Pursuant to 2013 Chapter 368, beginning in fiscal year 2013-14, the employer normal cost for teacher members must be paid by local school administrative units. Those costs were previously paid by the State. The amount paid by the local school administrative units was $45,349,100 in fiscal year 2016. Based on the 2014 projections used to establish pension costs for fiscal years 2016 and 2017, the employer normal cost was projected to be $40,644,220 in fiscal year 2017. The amount of employer normal cost paid will be based on actual payroll. The State continues to pay the employer unfunded liability costs for teacher members. A proposal in the form of L.D. 601, currently being considered by the 128th Legislature, would move the responsibility for payment of the employer normal cost for teacher members back to the State.

Actuarial Assumption Changes. State law provides that at least once in each six-year period, the System's actuary is to make an investigation into account program demographics and changes in program demographics, employment patterns and projections, relevant economic measures and expectations and other factors that the Board or actuary considers significant. The actuary must also make recommendations for certain modifications of the actuarial assumptions, as needed. The System conducted an experience study in 2016, which has resulted in the adoption of different assumptions, as described below. The final report of the most recent experience study, is available at http://www.mainepers.org/bonds.htm.

The results of the experience study led to the adoption by the System's Board of Trustees on July 14, 2016 of certain changes in economic and demographic actuarial assumptions used in the calculation of liabilities of the State Employee and Teacher Retirement Program.

The key findings as it relates to the demographic assumptions were as follows:

Retirement	Both teachers and state employees who are remaining employed past normal or expected retirement ages increased.
Turnover	The number of teachers leaving before they vest is decreasing, and the number of state employees staying employed and vesting is decreasing.
Disability	The rate of disability retirements for teachers and state employees has decreased.
Mortality	Both teachers and state employees showed an increase in life expectancy.
Individual Salary (Merit)	Teachers are receiving higher increases and state employees lower increases than expected

The actuary recommended updating the demographic assumptions, moving partway towards the observed experience and keeping with sound actuarial practices. The MainePERS Board of Trustees adopted the demographic assumption changes recommended by the actuary. The aggregate impact of adoption of these demographic changes was estimated to increase the UAAL by approximately $156 million.

The MainePERS Board of Trustees approved a reduction in the discount rate assumption. The actuary recommended updating other economic assumptions consistent with sound actuarial practices. In addition to approving the reduction in the discount rate, the MainePERS Board of Trustees adopted the following changes to the economic assumptions, as recommended by the actuary:

	Old Assumption	New Assumption
Discount Rate	7.125%	6.875%
Inflation	3.5%	2.75%
Cost-of-Living	2.55%	2.20%

The impact of the reduction in the discount rate is estimated to increase the UAAL by approximately $418 million. The impact of the reduction in the inflation assumption was estimated to decrease the UAAL by approximately $541 million. The net impact of all the changes to the actuarial assumptions is an estimated increase in the UAAL by approximately $33 million.

The application of the newly adopted actuarial assumptions to the June 30, 2016 valuation resulted in an increase in the ADC for the 2018-2019 biennium by approximately $9 million.

Actuarial Valuation. By State law, the System's assets and liabilities are calculated annually by the System's actuaries. Each even year's valuation serves as the basis for the State's ADC in the biennium that begins two years from the date of the valuation. This report is delivered to the State in late October and contains an actuarial valuation of the plans administered by the System as of the end of the most recent fiscal year and sets out the ADC for the upcoming biennium. The report also includes, for each plan, a description of the actuarial assumptions and methods used, a brief summary of the principal plan provisions and a summary of member data. The actuarial reports for the fiscal year ended June 30, 2016 (the most recently completed actuarial reports) are incorporated by reference herein and are available at http://www.mainepers.org/bonds.htm ("2016 Valuations").

The actuarial valuation calculates the actuarial accrued liability for each of the defined benefit plans, which represents the present value of benefits the System will pay to its retired members and active members upon retirement, based on certain demographic and economic assumptions. Some examples of these assumptions include an expected rate of return on assets, age of retirement of active members, future salary increases for current employees and assumed mortality rates for retirees and beneficiaries. If the actual experience of a plan differs from these assumptions, the UAAL of the plan may increase or decrease to the extent of any such variance. This could have a resulting impact on the ADC, which may increase or decrease the amount of the State's contribution to the plans.

The actuarial valuation also compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms the UAAL of the system. The actuarial valuation will express the percentage that a plan is funded through a "funded ratio," which represents the actuarial value of assets of the plan divided by the actuarial accrued liability of such plan. The actuarial valuation will also state an actuarially determined contribution ("ADC"), which is a recommended amount that the State and other sponsoring employers contribute to the applicable plan. The ADC consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL.

With respect to the expected rate of return of assets, the actual rate of return on investments depends on the performance of its investment portfolio. The value of the securities and other investments in the investment portfolio changes from one fiscal year to the next, which, in turn, causes increases or decreases in the funded ratio of each plan and in the UAAL. Currently, the assumed rate of return is 6.875%. For fiscal year 2016, the actuarial rate of return of the assets was 4.42% as compared to a market rate of return of .6%. Information about the System's Investment Program is available at www. mainepers.org/Investments/Investments.htm.

The 2016 Valuation includes an analysis of the impact of both higher and lower actual rates of return, as compared to the current assumed rate of return of 6.875%. If the Programs were to earn 7.875% annual returns, the State's contribution rate would decline from the projected rate in the 2016 Valuation of 19.29% and the unfunded actuarial liability would be paid in full by 2026 rather than 2028. If, however, the Programs were to earn 5.875% annual returns, the contribution rate would rise to about 30% of payroll in order to meet the Constitutional requirement.

Again, as noted above, the actual future circumstances will likely vary from those assumed in the 2016 Valuation and thereby result in potentially significantly different required contribution amounts.

The following table sets out the actual rate of investment return as compared to the actuarial assumed rate of return (taking into account the three-year smoothing method described below) for the calendar years 2016 through 1991, inclusive.

Calendar Year	Actual Rate of Investment Return	Actuarial Assumed Rate of Return*
2016	.60%	6.875%
2015	2.00	7.125
2014	16.70	7.125
2013	11.20	7.25
2012	12.86	7.25
2011	0.22	7.25
2010	12.20	7.75
2009	21.50	7.75
2008	-27.60	7.75
2007	9.10	7.75
2006	11.30	7.75
2005	7.70	8.00
2004	13.10	8.00
2003	25.60	8.00
2002	-10.30	8.00
2001	-5.00	8.00
2000	-3.80	8.00
1999	15.30	8.00
1998	15.30	8.00
1997	18.50	8.00
1996	13.50	8.00
1995	25.70	8.00
1994	-0.10	8.00
1993	13.90	8.00
1992	7.20	8.00
1991	23.90	8.50

*Changes effective July 1 of stated year

In addition to the above-described assumptions, the actuarial valuations of the plans use the entry age normal ("EAN") method to calculate the actuarial value of assets and actuarial accrued liability. The System believes that the EAN method is a more accurate indicator of actuarial funding progress and it is now, in fact, the predominant method used by public retirement systems throughout the United States.

An additional actuarial method used in arriving at the actuarial valuation is so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over a period of three years to offset the effects of volatility of market values in any single year. The following chart presents, for each program, the actuarial accrued liability, the actuarial value of assets, the unfunded actuarial liability, the funded ratio of the plan based on the actuarial value of assets, the market value of assets, the funded ratio of the plan based on the market value of assets and the ratio of the actuarial value of assets over the market value of assets.

State & Teachers							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2016	$13,069,954,948	$10,512,524,178	$2,557,430,770	80.40%	$9,960,335,390	76.20%	105.60%
2015	12,616,287,054	10,375,552,498	2,240,734,556	82.20	10,242,097,022	81.20	101.30
2014	12,320,158,783	10,017,512,006	2,302,646,777	81.31	10,337,615,927	83.90	96.90
2013	11,830,649,882	9,177,749,627	2,652,900,255	77.58	9,091,347,964	76.85	101.00
2012	11,553,306,281	8,880,730,120	2,672,576,161	76.87	8,453,862,754	73.20	105.10
2011	11,281,665,186	8,736,885,121	2,544,780,065	77.44	8,677,947,874	76.90	100.70
2010	12,617,144,005	8,313,459,810	4,303,684,195	65.90	7,239,332,094	57.40	114.80
2009	12,321,219,332	8,325,951,236	3,995,268,096	67.60	6,620,849,642	53.70	125.80
2008	11,668,032,511	8,631,557,629	3,036,474,882	74.00	8,311,970,624	71.20	103.80
2007	11,157,770,138	8,245,520,019	2,912,250,119	73.90	8,668,381,195	77.70	95.10
2006	10,547,299,194	7,504,219,546	3,043,079,648	71.10	7,503,201,781	71.10	100.00
2005	9,999,250,038	6,964,597,457	3,034,652,581	69.70	6,997,802,832	70.00	99.50
2004	9,442,389,399	6,452,570,244	2,989,819,155	68.30	6,280,951,942	66.50	102.70
2003	9,442,389,399	6,452,570,244	2,989,819,155	68.30	6,280,951,942	66.50	102.70

Judicial							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2016	$63,721,271	$64,265,782	$-544,511	100.90%	$60,890,109	102.20%	105.60%
2015	58,911,617	57,074,951	1,836,666	96.90	56,340,825	95.60	101.30
2014	54,560,642	55,419,017	-858,375	101.57	57,189,900	104.80	96.90
2013	52,374,785	51,055,251	1,319,534	97.50	50,574,604	96.60	101.00
2012	46,340,678	49,735,004	-3,394,326	107.32	47,344,407	102.20	105.10
2011	47,868,297	49,324,784	-1,456,487	103.00	48,992,049	102.40	100.70
2010	53,149,699	47,677,635	5,472,064	89.70	41,517,520	78.10	114.80
2009	50,543,320	48,478,344	2,064,976	95.90	38,550,289	76.30	125.80
2008	47,634,452	50,418,942	-2,784,490	105.80	48,552,160	101.90	103.80
2007	46,842,351	48,225,053	-1,382,702	103.00	50,698,214	108.20	95.10
2006	43,102,409	44,350,649	-1,248,240	102.90	44,344,633	102.90	100.00
2005	41,804,673	41,842,216	-37,543	100.10	42,041,709	100.60	99.50
2004	36,388,731	39,210,995	-2,822,264	107.80	38,168,105	104.90	102.70
2003	41,931,130	41,842,216	88,914	99.80	42,041,709	100.30	99.50

Legislative							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2016	$7,679,458	$11,405,769	$-3,726,311	148.50%	$10,806,661	140.70%	105.60%
2015	7,558,293	11,219,880	-3,661,587	148.40	11,075,564	146.50	101.30
2014	7,505,193	10,775,701	-3,270,508	143.31	11,120,032	148.20	96.90
2013	6,872,614	9,771,955	-2,899,341	142.20	9,679,959	140.90	101.00
2012	6,243,939	9,322,419	-3,078,780	149.31	8,874,321	142.10	105.10
2011	5,725,193	9,040,180	-3,314,987	157.90	8,979,197	156.80	100.70
2010	6,073,364	8,634,635	-2,561,271	142.20	7,519,010	123.80	114.80
2009	5,499,809	8,717,885	-3,218,076	158.50	6,932,518	126.10	125.80
2008	5,605,005	9,099,133	-3,494,128	162.30	8,762,234	156.30	103.80
2007	5,095,638	8,721,571	-3,625,933	171.20	9,168,846	179.90	95.10
2006	7,944,468	7,944,468	0	100.00	7,943,390	100.00	100.00
2005	7,406,475	7,406,475	0	100.00	7,441,788	100.50	99.50
2004	6,827,478	6,827,478	0	100.00	6,645,888	97.30	102.70
2003	7,406,475	7,406,475	0	100.00	7,441,788	100.50	99.50

ALL STATE PLANS							
Valuation date 6/30/YY	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Liability	Funded Ratio (AVA)	Market Assets	Funded Ratio (MVA)	Actuarial Assets Over Market
2016	$13,141,445,677	$10,588,195,729	$2,553,159,948	80.60%	$10,032,032,160	76.30%	105.60%
2015	12,682,756,964	10,443,847,329	2,238,909,635	82.35	10,309,513,411	81.30	101.30
2014	12,382,224,618	10,083,706,724	2,298,517,894	81.40	10,405,925,859	84.00	96.90
2013	11,889,897,281	9,238,576,833	2,651,320,448	77.70	9,151,602,527	77.00	101.00
2012	11,605,890,598	8,939,787,543	2,666,103,055	77.00	8,510,081,482	73.30	105.10
2011	11,335,258,676	8,795,250,085	2,540,008,591	77.60	8,735,919,120	77.10	100.70
2010	12,676,367,069	8,369,772,080	4,306,594,989	66.00	7,288,368,624	57.50	114.80
2009	12,377,262,461	8,383,147,465	3,994,114,996	67.70	6,666,332,449	53.90	125.80
2008	11,721,271,967	8,691,075,704	3,030,196,263	74.10	8,369,285,018	71.40	103.80
2007	11,209,708,127	8,302,466,643	2,907,241,484	74.10	8,728,248,255	77.90	95.10
2006	10,598,346,071	7,556,514,663	3,041,831,408	71.30	7,555,489,804	71.30	100.00
2005	10,048,461,186	7,013,846,148	3,034,615,038	69.80	7,047,286,328	70.10	99.50
2004	9,485,605,608	6,498,608,717	2,986,996,891	68.50	6,325,765,935	66.70	102.70
2003	9,491,727,004	6,501,818,935	2,989,908,069	68.50	6,330,435,439	66.70	102.70
2002	8,511,834,626	5,920,475,637	2,591,358,989	69.60	5,129,650,969	60.30	115.40

For further information regarding the actuarial method and significant assumptions used to determine the ADC, see Note 6 to the System's Comprehensive Annual Financial Report for the year ended June 30, 2016, which is available at www.mainepers.org/Publications/Publications.htm, and also "Actuarial Assumption Changes" above. The estimated market value of All State Plans as of March 31, 2017 was $10,546,417,120.

Recent and Proposed Legislative Changes. The Legislature has in the past adopted laws that have had the effect of both increasing and decreasing future retirement benefits payable under one or more of the State Plans. Any increases in retirement benefits have the effect of increasing the actuarial accrued liability of the plan, which also has the effect of increasing the ADC with respect to the State Plans. Any decreases in benefits have the effect of limiting the future growth of the actuarial accrued liability of the plan, which also has the effect of limiting the growth of the ADC for the State for the plan in future years.Pursuant to other provisions of 2011 Chapter 380, several changes were made to the State Plans. The changes include: changes to the retiree cost-of-living provisions, including a three-year freeze on cost-of-living adjustments, a reduction in the cost-of-living cap from 4% to 3%, and the establishment of a $20,000 limit on the amount of benefit subject to the cost-of-living adjustment; an increase in the normal retirement age from age 62 to age 65 for non-vested members of the regular plan component of the State Employee and Teacher Retirement Program (the non-special plan tiers); and a change that ties eligibility for subsidized health insurance coverage (health insurance benefits are funded directly by the State) to normal retirement age.

The Legislature is currently considering potential changes to the State Plans, one of which was included in the Governor's proposed biennial budget for fiscal years 2018 and 2019. That proposal would freeze cost-of-living adjustments for two years, with the savings associated with that freeze being applied to the unfunded actuarial liability of the Plan.

The Legislature is also considering a bill, in the form of L.D. 723, that proposes to amend the State Constitution to change the period over which experience losses are amortized from 10 years to 20 years. MainePERS submitted this proposal as a means to reduce the volatility of annual contributions required from the State that results from market performance. Extending the amortization period would result in lower annual contributions when experience losses occur. The total cost of recovering the losses would increase as payment would be made over a longer period of time. In order to become law, LD 723 would need to be approved by at least a 2/3 vote of each house of the Legislature and then approved by a majority of the voters at the next statewide election.

The Legislature is also considering a bill, in the form of L.D. 917, to convene a working group to evaluate and design retirement plan options for state employees and teachers. The working group is required to report its recommendations to the Legislature no later than January 1, 2018.

Group Life Insurance Program. MainePERS also administers a group life insurance program which is available to eligible participants. As of June 30, 2016, the program had an unfunded actuarial accrued liability (UAAL) of $103.1 million. The actuarially determined contribution for fiscal year 2016 was $9.2 million and the annual contribution paid was $8.1 million, representing 88.6% of the actuarially determined contribution. As the result of a group life insurance premium study in 2012, the actuary recommended an increase in premiums to be more consistent with actual and projected program costs. The Board of Trustees adopted increased rates, which were implemented beginning in fiscal year 2014. Differences between the actuarially determined contribution and the actual premium may also be the result of the differences between projected and actual coverage amounts for the year. An updated group life insurance premium study was completed in 2016 and recommended changes to premium levels will apply commencing in the 2018-2019 biennial budget.

Litigation. The System is involved in a small number of administrative appeals brought by members whose requests have been denied by the System. Most often, those cases are appeals from adverse decisions in connection with applications for disability retirement benefits. Less often, there are administrative appeals involving or relating to group life insurance matters or retirement eligibility matters. In each case, the relief requested by appellants is to have the System's determination in their case reversed and the sought-after benefit granted. The System is not currently involved in any other litigation.

Post-Employment Health Care Benefits

GASB has promulgated its Statement 45 ("GASB 45") which requires the State, for fiscal years beginning on and after July 1, 2007, to account for retiree health care benefits and other post-employment benefits in a manner similar to that required for pension benefits. GASB 45 does not require that such benefits be funded in advance. If the State continues to pay such benefits as they come due, however, it is expected that annual cost and liability accruals will increase due to GASB 45.

The State funds post-employment health care benefits for most retired State employees and legislators and a portion of the health insurance premiums for retired teachers. The State pays 100 percent of post-employment health insurance premiums for eligible retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for eligible retirees with less than five years participation to 100 percent for eligible retirees with ten or more years of participation, is paid for eligible retirees first employed after July 1, 1991. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. An eligible retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded companion plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization, supplemental major medical and prescription drugs, and costs for treatment of mental health, alcoholism, and substance abuse. The State contribution to the health insurance premiums for retired teachers is currently 45 percent. County and municipal law enforcement officers and municipal firefighters began coverage in fiscal year 2008 with the State contributing 45 percent of the retiree-only premium of their respective plans.

Title 5 MRSA §286-B authorizes an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants in the State Employee Plan who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or less from July 1, 2007.

Public Law 2007 Chapter 240 amended Title 5 MRSA Chapter 421 by establishing the Irrevocable Trust for Other Post-employment Benefits. The Maine Public Employees Retirement System holds and invests long-term funds in the irrevocable trust fund. Its fiduciary responsibilities include setting investment policy in order to fund the plan in accordance with a projected disbursement schedule that does not begin before the year 2027.

Public Law 2011, Chapter 380, Pt. Y §2 established separate Irrevocable Trust Funds for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants in the Teachers Plan and the First Responders Plan who are the beneficiaries of their irrevocable trust funds. Annually, beginning with the fiscal year starting July 1, 2011 for eligible first responders and July 1, 2015 (as amended by Public Law 2013, Chapter 368 Pt. H §2) for eligible teachers, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability in 30 years or less from July 1, 2007.

Contribution requirements are set forth in State law. The annual other post-employment benefit ("OPEB") cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for fiscal year 2016 and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	Teachers	First Responders
Annual required contribution	$ 88,000	$ 48,000	$ 1,883
Interest on net OPEB obligation	9,000	9,000	268
Adjustment to annual required contribution	(18,000)	(17,000)	(496)
Annual OPEB cost	79,000	40,000	1,655
Contributions made	67,000	27,000	669
Increase (decrease) in net healthcare obligation	12,000	13,000	986
Net healthcare obligation beginning of year	148,000	211,000	6,688
Net healthcare obligation end of year	$ 160,000	$ 224,000	$ 7,674

As of June 30, 2016, there were 10,160 retired eligible State employees, 10,386 retired teachers, and 98 retired first responders. In fiscal year 2016, the State made contributions for other post-employment healthcare benefits of $67 million for retired employees, $27 million for retired teachers and $669 thousand for first responders. The actuarial determined budgeted amounts for fiscal years 2017 and 2018 are $48.4 million and $82.4 million, for the state employee plan and $37 million and $40 million, respectively, for the teacher plan.

The funded status of the plans as of June 30, 2016 was as follows:

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
	June 30, 2015	184	1,275	1,157	14.43%	561	206.24%
State Employees	June 30, 2014	167	1,224	1,057	13.64%	543	194.66%
(in millions)	June 30, 2013	150	1,166	1,016	12.86%	518	196.14%
Teachers	June 30, 2015	-	739	739	0.00%	1,142	64.71%
(in millions)	June 30, 2014	-	684	684	0.00%	1,106	61.84%
	June 30, 2013	-	685	685	0.00%	1,194	57.37%
First	June 30, 2015	-	21,822	21,822	0.00%	54,030	40.39%
Responders	June 30, 2014	-	24,055	24,055	0.00%	54,967	43.76%
(in thousands)	June 30, 2013	-	22,369	22,369	0.00%	53,366	41.92%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedules of funding progress presented as required supplementary information in the State's audited financial statements (see Appendix B herein) present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Employee Relations

As of May 2017, the State had approximately 11,478 Executive Branch employees.

The State Employees Labor Relations Act allows State employees in the Executive Branch to engage in collective bargaining. As of September 30, 2015, approximately 11,211 employees were covered by the law. There are seven bargaining units within the Executive Branch. The Maine State Employees Association (MSEA-SEIU) is the bargaining agent for four bargaining units which include approximately 7,627 employees. The American Federation of State, County, and Municipal Employees (AFSCME) represents the employees in State institutions; the Maine State Law Enforcement Association (MSLEA) represents those in law enforcement activities excluding State Police; and the Maine State Troopers Association (MSTA) represents the State Police. The Commissioner of Administrative and Financial Services, acting through the Office of Employee Relations within the Bureau of Human Resources, is the Governor's designee for collective bargaining and is responsible for the negotiations and all other employee relations functions. In July 2015, AFSCME ratified a two year agreement that includes a 1% general salary increase on September 1, 2015 and July 1, 2016. In addition, this agreement authorizes a wage adjustment of $2.00 to the base salary for employees in the Department of Corrections after the general salary increase as set forth and funded in Part DDDD of the 2016-2017 biennial budget, 2015 Chapter 267. Also in July 2015, MSLEA and the MSTA ratified two year agreements which include both a 3% general salary increases on September 1, 2015 and July 1, 2016, and allow an employee represented by these two bargaining agents to progress up to two merit steps in salary in fiscal year 2016 only. On September 29, 2015, the Administrative Services, Professional and Technical Services, and Supervisory Services bargaining agreements under MSEA-SEIU ratified. They provide for 1% general salary increases on October 1, 2015 and July 1, 2016. The legislature approved funding for all these negotiated salary increases on July 16, 2015. Negotiations with MSEA-SEIU's Operations, Maintenance and Support Services (OMS) bargaining unit continue, as the tentative agreement for this unit did not ratify. The agreements that were ratified by September 30, 2015 were funded in Public Laws of Maine, chapter 376 ("2015 Chapter 376"), enacted by the Legislature on July 17, 2015, which includes language that authorizes similar and equitable treatment for those employees not covered by this agreement, to allow the provisions to across the Executive Branch. The increases are funded through a transfer of balances of salaries from personal services that lapse at the end of each fiscal year to the General Fund salary plan program. On May 3, 2016, the Governor signed Public Laws of Maine, chapter 512 ("2015 Chapter 512") to implement and fund the remaining agreement, that previously was not ratified by the September 30, 2015 deadline provided in 2015 Chapter 376 for MSEA-SEIU's Operations, Maintenance and Support Services (OMS) bargaining unit, expected to be ratified on May 31, 2016.

Collective bargaining has also been extended to employees of the Judicial Department, Legislative Branch, the University of Maine System, the Maine Community College System, the Maine Maritime Academy, and to employees of counties, municipalities and special districts, including public school teachers. The Judicial Department has reached an agreement, that includes a 1% cost of living adjustment in September of calendar year 2015 and July of calendar year 2016. The agreement also allows the addition of a top merit step as a one-time adjustment in fiscal year 2016. This agreement was funded in Public Laws of Maine, chapter 333 ("2015 Chapter 333"), enacted by the Legislature on June 30, 2015, which includes language that authorizes similar and equitable treatment for those employees not covered by this agreement, to allow the provisions to across the Judicial Branch. The increases are funded through a transfer of balances of salaries from personal services that lapse at the end of each fiscal year to the General Fund salary plan program. On April 7, 2016, the Governor signed Public Laws of Maine, chapter 439 ("2015 Chapter 439") that provided funding for the increase in hours form a 37.5-hour workweek to a 40-hour workweek for the administrative bargaining unit, remaining employees in the professional and supervisory bargaining units and confidential non-management employees in the Judicial Branch.

Interfund Transactions

Due to Other Funds are amounts owed by one State fund to another for goods sold or services rendered. Due from Other Funds are amounts to be received from one State fund by another for goods sold or services rendered. The following is a summary of amounts due from other funds and due to other funds as of June 30, 2016:

Interfund Receivables
(Expressed in Thousands)

Due from Other Funds	Due to Other Funds: General	Highway	Federal	Other Special Revenue	Other Governmental
General	$ -	$ -	$ 873	$ -	$ -
Highway	11	14	11,647	1	-
Federal	10	1	156	9	-
Other Special Revenue	6,960	321	1,116	802	23
Other Governmental	-	-	-	-	-
Employment Security	-	-	277	-	-
Non-Major Enterprise	1,349	13	-	-	-
Internal Service	11,178	3,627	3,145	4,526	-
Fiduciary	33,242	-	-	-	-
Total	$ 52,750	$ 3,976	$ 17,214	$ 5,338	$ 23

Due from Other Funds	Employment Security	Non-Major Enterprise	Internal Service	Fiduciary	Total
General	$ -	$ 6,305	$ 4,852	$ 83	$ 12,113
Highway	-	-	6	-	11,679
Federal	-	-	-	-	176
Other Special Revenue	-	4,641	200	-	14,063
Other Governmental	-	-	-	-	-
Employment Security	-	46	-	-	323
Non-Major Enterprise	-	-	-	-	1,362
Internal Service	-	1,049	2,080	14	25,619
Fiduciary	-	-	-	-	33,242
Total	$ -	$ 12,041	$ 7,138	$ 97	$ 98,577

Advances to or from other funds are for long-term loans made by one fund to another. Advances from the General Fund are for inventory of the Postal, Printing and Supply Fund. The following is a summary of interfund advances as of June 30, 2016:

Schedule of Advances to or from Other Funds
June 30, 2016

(Dollars in Thousands)

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

REVENUES OF THE STATE

General

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

The following table for fiscal year 2017 reflects the updated budgeted General Fund undedicated revenue re-projections after the May 2017 Revenue Forecasting Committee meeting and enacted laws of the 128th first regular session through May 1, 2017. The tables for fiscal years 2018 and 2019 reflect applicable baseline forecasts, each as updated with enacted laws of the 128th 1st Regular Session through May 1, 2017 and as updated by the May 2017 Revenue Forecasting Committee meeting. See "State Budgets" above.

CATEGORY	Fiscal year 2017 baseline budget December 2012 RFC	Fiscal year 2017 budget through the 128th 1st Regular Session	Fiscal year 2017 as Revised by the May 2017 RFC
Sales and Use Tax	$1,187,937,856	$1,334,011,722	$1,332,011,722
Service Provider Tax	62,604,690	59,149,448	59,149,448
Individual Income Tax	1,574,810,000	1,530,248,976	1,514,348,976
Corporate Income Tax	201,191,341	161,093,471	164,093,471
Cigarette and Tobacco Tax	129,198,000	139,179,000	139,179,000
Insurance Companies Tax	80,715,000	76,700,000	76,700,000
Estate Tax	27,246,584	16,378,323	16,378,323
Fines, Forfeits and Penalties	24,397,754	22,237,275	19,375,448
Income from Investments	260,770	1,707,976	3,128,076
Transfer from Lottery Commission	55,400,000	54,900,000	54,900,000
Transfer for Tax Relief Programs	(132,256,656)	(64,448,340)	(64,448,340)
Transfer to Municipal Revenue Sharing	(154,515,089)	(65,484,234)	(65,208,251)
Transfers to Education Fund	0	0	0
Other Taxes and Fees	130,223,024	142,973,133	141,032,892
Other Revenues	35,331,496	21,603,304	22,828,191
Total Undedicated Revenues	**$3,222,544,770**	**$3,430,250,054**	**$3,413,468, 956**

CATEGORY	Fiscal year 2018 baseline budget December 2014 RFC	Fiscal year 2018 budget through the 128th 1st Regular Session	Fiscal year 2018 as Revised by the May 2017 RFC
Sales and Use Tax	$1,236,821,231	$1,377,102,328	$1,400,148,328
Service Provider Tax	53,382,769	59,424,469	59,424,469
Individual Income Tax	1,655,777,000	1,702,942,294	1,684,342,294
Corporate Income Tax	211,645,002	165,724,242	165,724,242
Cigarette and Tobacco Tax	130,732,000	136,682,000	136,682,000
Insurance Companies Tax	82,765,000	73,765,000	73,765,000
Estate Tax	34,220,671	12,416,710	12,416,710
Fines, Forfeits and Penalties	22,965,512	22,242,017	19,297,146
Income from Investments	597,719	2,087,513	2,993,949
Transfer from Lottery Commission	57,123,279	54,900,000	54,900,000
Transfer for Tax Relief Programs	(71,768,101)	(64,768,101)	(64,768,101)
Transfer to Municipal Revenue Sharing	(161,236,834)	(69,611,097)	(69,832,945)
Transfers to Education Fund	0	(79,500,000)	(74,400,000)
Other Taxes and Fees	127,626,244	131,900,960	132,343,299
Other Revenues	28,575,291	19,731,088	17,676,664
Total Undedicated Revenues	**$3,409,226,783**	**$3,545,039,423**	**$3,550,713, 055**

CATEGORY	Fiscal year 2019 baseline budget December 2014 RFC	Fiscal year 2019 budget through the 128th 1st Regular Session	Fiscal year 2019 as Revised by the May 2017 RFC
Sales and Use Tax	$1,294,195,576	$1,434,074,099	$1,453,288,099
Service Provider Tax	54,450,424	59,675,124	59,675,124
Individual Income Tax	1,701,311,000	1,785,072,561	1,763,372,561
Corporate Income Tax	230,826,711	170,059,196	170,059,196
Cigarette and Tobacco Tax	129,400,000	134,200,000	134,200,000
Insurance Companies Tax	82,765,000	73,765,000	73,765,000
Estate Tax	37,094,841	12,640,409	12,640,409
Fines, Forfeits and Penalties	22,966,512	22,243,017	19,298,146
Income from Investments	260,770	2,421,028	4,201,046
Transfer from Lottery Commission	57,123,279	54,900,000	54,900,000
Transfer for Tax Relief Programs	(75,888,623)	(66,388,623)	(66,388,623)
Transfer to Municipal Revenue Sharing	(167,417,561)	(69,424,528)	(69,761,900)
Transfers to Education Fund	0	(164,200,000)	(153,800,000)
Other Taxes and Fees	128,473,167	131,274,044	132,208,668
Other Revenues	28,103,853	18,679,049	17,317,846
Total Undedicated Revenues	**$3,524,001,898**	**$3,598,990,376**	**$3,604,975,572**

Certain State Taxes

Individual Income Tax. The State assesses individual income taxes at progressive rates from 5.8% to 7.15% (for tax years beginning on or after January 1, 2016), based on classifications or brackets of taxable income, depending upon filing status and after specified deductions and exemptions. Taxable income of resident individuals is derived from federal adjusted gross income. The dollar amounts of the tax rate tables are indexed for inflation. Beginning in tax year 2017 there is a 3% surtax on taxable income in excess of $200,000, regardless of filing status. The surtax creates an effective marginal tax rate of 10.15% on taxable income above $200,000. For tax year 2017, the maximum rate applies to Maine taxable income of $100,000 or greater for married persons filing joint returns ($50,000 for single individuals and married persons filing separate returns and $75,000 for individuals filing as heads of households). A resident individual is allowed $4,050 (same as federal) for each exemption to which the individual is entitled for the tax year for federal income tax purposes. For resident taxpayers not itemizing deductions, the standard deduction is $11,600 in tax year 2017 (indexed for inflation) for single filers, $23,200 for joint filers and $17,400 for head of household filers. Nonresident Maine taxpayers are taxed in a similar fashion, but they are allowed a credit for their non-Maine sourced income.

Sales and Use Taxes. A sales tax is imposed on the value of all tangible personal property and taxable services sold at retail in the State. The rate of tax is 8% on the value of liquor sold in licensed establishments, 9% on the value of rental of living quarters in any hotel, rooming house, tourist or trailer camp, 10% on the value of rental for a period of less than one year of an automobile, 8% on the value of prepared food, and 5.5% on the value of all other tangible personal property and taxable services. The 9% rate on rental of living quarters was increased from 8% effective January 1, 2016. A use tax is imposed at the rates provided for sales taxes, on the storage, use or other consumption in the State of tangible personal property or a service, the sale of which would be subject to sales tax.

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

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

Certain Motor Fuel Taxes. An excise tax is imposed at the rate of $0.300 per gallon on internal combustion engine fuel (gasoline) sold or used within the State. An excise tax is imposed on all suppliers of special fuel sold and on all users of special fuel used in the State at the rate of $0.312 per gallon of distillate. Low-energy fuel such as liquefied natural gas, propane, methane and butane is taxed at a rate based on the energy content of each fuel as compared to gasoline. Special fuels include all combustible gases and liquids used in an internal combustion engine, except fuel subject to the gasoline tax. Indexing of motor fuel excise tax rates was repealed effective July 1, 2013.

Estate Tax. 2015 Chapter 267 reformed the estate tax with respect to decedents dying after December 31, 2015. The exclusion amount increases from $2,000,000 to $5,450,000 (the federal exemption amount which is indexed for inflation). A progressive rate structure applies: 8% on estate value of more than $5,450,000 but less than or equal to $8,450,000; 10% on estate value of more than $8,450,000 but less than or equal to $11,450,000; 12% on estate value of more than $11,450,000.

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

Tobacco Master Settlement Agreement

The State entered into the tobacco master settlement agreement (the "Settlement Agreement") on November 23, 1998 with certain tobacco manufacturers to settle a suit the State brought against those tobacco manufacturers. The State is one of forty-six states and five U.S. territories (the "Settling States") that executed the Settlement Agreement with the manufacturers. The lawsuit included a variety of claims, including claims to recover smoking related Medicaid costs (the "Claims"). Pursuant to the Settlement Agreement, the manufacturers who have joined the Settlement Agreement ("Participating Manufacturers") have agreed to make certain annual payments that are allocated among all the Settling States.

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

The State expects to expend the annual payments received from the Participating Manufacturers for smoking prevention, cessation and control activities, prenatal and young children's care, child care for children up to 15 years of age, health care for children and adults, prescription drugs for adults who are elderly or disabled, dental and oral health care to low-income persons who lack adequate dental coverage, substance abuse prevention and treatment and comprehensive school health programs, pursuant to 22 MRSA §1511(6).

In addition, certain payments (the "Strategic Contribution Payments") to be made by the Participating Manufacturers and allocated among certain Settling States in recognition of strategic contributions made by specific Settling States, including Maine, to the negotiation of the Settlement Agreement were established pursuant to the Settlement Agreement. The Strategic Contribution Payments began in 2008 and will be made annually ending in 2017.

Since 2000, annual payments received by the State pursuant to the Settlement Agreement have ranged from approximately $45,000,000 to approximately $63,000,000. The State received $51,081,254.22 in fiscal year 2017 pursuant to the Settlement Agreement.

Pursuant to the Settlement Agreement, Participating Manufacturers may dispute annual payment amounts. Participating Manufacturers have disputed certain amounts of each year's payment since 2003. The predominant dispute, though not the only dispute, is that certain Participating Manufacturers have claimed that they are entitled to a downward adjustment in the amount they owe because of loss of market share to non-participating manufacturers. If the Participating Manufacturers prevail on this claim against the State, the amount the State is entitled to for each disputed year would decrease. The State is involved in ongoing arbitration, pursuant to the Settlement Agreement, to obtain a determination that it diligently enforced its "qualifying statute," in keeping with the terms of the Settlement Agreement, and that accordingly Maine is entitled to the full amount of its annual payment without a reduction for the market share loss to non-participating manufacturers. Other Settling States are involved in similar arbitration proceedings seeking a determination of the amount to which they are entitled for previous years' tobacco settlement payments to their states.

Maine prevailed in the arbitration proceeding that determined it had diligently enforced its qualifying statute as the issue related to Maine's 2003 payment and is and will continue to arbitrate for payments received in subsequent years.

State Investment Pool

As described above under the heading "Governmental Organization – Executive Branch – Treasurer of State," when there is money in the State Treasury that is not needed to meet current obligations, the Treasurer of State may, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and with the consent of the Governor, invest those amounts in certain instruments authorized by State law. The Treasurer of State maintains the records of the investments of the State through the State investment pool. The average daily balance of the State investment pool was $883,403,211.97 in fiscal year 2016. The balance of the State investment pool as of March 31, 2017 was approximately $939,000,000.

Collateralized bank accounts, repurchase agreements and certificates of deposit collateralized by U.S. Treasuries and Agencies and direct holdings in U.S. Treasuries make up the cash pool portfolio. On March 31, 2017, the weighted average final maturity of the pool was 325 days.

CERTAIN PUBLIC INSTRUMENTALITIES

Maine Governmental Facilities Authority

The Maine Governmental Facilities Authority ("MGFA") is authorized to assist in financing the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, structures designed for use as court facilities or state offices and the acquisition, construction, improvement, reconstruction or repair of equipment or other personal property, all of which are rented to agencies of the State. MGFA was created in 1987 and was known as the Maine Court Facilities Authority until 1997 when its name was changed and its purposes were broadened. No securities may be issued without the prior approval of the Legislature. Neither the full faith and credit nor the taxing power of the State or of any political subdivision of the State is pledged to the payment of the principal of, redemption premium, if any, or interest on MGFA's bonds. MGFA has no taxing power. As of March 31, 2017, the aggregate principal amount of MGFA's bonds outstanding was $167,435,000. The State has agreed, subject to appropriation, to make rental payments to be applied to payment of MGFA's bonds. Debt service on MGFA's bonds for the State fiscal year ending June 30, 2017 is $26,461,034.

Finance Authority of Maine

The Finance Authority of Maine ("FAME") was created in 1983 to undertake various economic development finance programs and to assume the responsibilities of several smaller state authorities. FAME is currently authorized to insure repayment of commercial loans and to require the State to fund its insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations and bonds of the State issued to fund insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of $90,000,000 plus an additional $4,000,000 with respect to loans for eligible veterans. As of March 31, 2017, amounts outstanding pursuant to these authorizations were $84,182,000 and $2,646,000 respectively. See "Fiscal Management - Constitutional Debt Limit" herein. Since the creation of FAME in 1983, the Treasurer of State has not been asked to issue bonds of the State to pay off defaulted loans insured by FAME pursuant to these authorizations.

In 1990, FAME was authorized to provide certain student financial assistance services, including continuation of a student loan insurance program meeting certain federal requirements in order to secure loans to students attending institutions of higher education under the Federal Family Education Loan

Program ("FFELP"). Pursuant to this authorization, FAME has entered into agreements with the United States Secretary of Education relating to federal programs of low-interest insured loans to students in institutions of higher education. The Constitution allows the Legislature to authorize the issuance of bonds in the amount of up to $4,000,000 to secure funds for loans to Maine students attending institutions of higher education. As of March 31, 2017, the student loan insurance obligations of FAME under the FFELP program were $400,322,000. See "Fiscal Management - Constitutional Debt Limit" herein. Since 1977, the Treasurer of State has not been asked to issue bonds of the State to pay off defaulted loans insured pursuant to the bond issuance authorization set forth in the Constitution.

FAME may also issue bonds and other obligations which shall not be a debt or liability of any municipality, the State or any political subdivision thereof. The statutes governing FAME include Capital Reserve Provisions. As of March 31, 2017, the aggregate principal amount outstanding of FAME's obligations undertaken pursuant to its Capital Reserve Provisions was $9,670,000 for waste motor oil disposal site remediation projects, $4,000,000 for major business expansion projects, and $29,296,000 for other commercial projects.

The Maine Educational Loan Authority ("MELA") was established in 1988 to carry out programs making financial and other assistance available to students and their parents to finance costs of attendance at institutions of higher education. In October 2015, FAME merged with the MELA. FAME assumed all obligations and assets of MELA. Educational loans are made with the proceeds of tax exempt bonds. Bonds issued under this program do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or of any political subdivision of the State, or a loan of the credit of the State or a pledge of the faith and credit of the State or of any political subdivision. As of March 31, 2017, the aggregate principal amount of MELA's bonds outstanding was $105,250,000.

The State has not been asked to restore either FAME's or MELA's Capital Reserve since the inception of their Capital Reserve Provisions. See "Governmental Organization - Independent Authorities and Agencies" herein.

Maine State Housing Authority

The Maine State Housing Authority ("MSHA") was created in 1969 to undertake various programs related to housing. The bonds and other obligations of MSHA shall not be a debt of any municipality, the State or any political subdivision thereof and neither the State nor any municipality nor any political subdivision thereof shall be liable thereon. As of March 31, 2017, MSHA had $1,296,555,000 of housing bonds outstanding which require a capital reserve. The statutes governing MSHA include Capital Reserve Provisions. The State has not been asked to restore MSHA's Capital Reserves since the inception of its Capital Reserve Provisions. See "Governmental Organization -Independent Authorities and Agencies" herein. MSHA also has $35,445,000 of Maine Energy, Housing and Economic Recovery Bonds for a grand total of $1,332,000,000 outstanding.

MHSA is also authorized to insure repayment of mortgage loans on Indian housing and to require the State to fund these insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of $1,000,000. As of March 31, 2017, MSHA's Indian housing mortgage insurance obligations were approximately $88,000. See "Fiscal Management – Constitutional Debt Limit" herein.

Maine Municipal Bond Bank

The Maine Municipal Bond Bank ("MMBB") was created in 1972 to lend money to counties, cities, towns, school administrative districts, community school districts, and quasi-municipal corporations to finance certain capital expenditures (the "Original Program"). Bonds and notes issued by the MMBB shall not be in any way a debt or liability of the State and shall not create any debt or debts, liability or liabilities, on behalf of the State or be or constitute a pledge of the full faith and credit of the State. As of March 31, 2017, the aggregate principal amount of the MMBB's bonds outstanding was $500,716,000 of which (a) $14,240,000 is attributable to loans to certain municipalities to assist in financing certain wastewater and drinking water treatment facilities pursuant to a revolving loan fund program, (b) $131,200,000 is attributable to certain grant anticipation bonds payable solely from annual federal highway grants to the State, (c) $159,960,000 is attributable to certain transportation revenue bonds payable solely from certain State revenues, (d) $32,846,380 is for Qualified School Construction Bonds (e) $81,130,000 is attributable to certain liquor revenue bonds payable solely from certain State revenues and (f) substantially all of the balance is attributable to the Original Program. The MMBB is expected to close its $15,560,000 2017 Series B Bonds on May 25, 2017. Such bonds will be attributable to loans to certain municipalities. The statutes governing the MMBB include Capital Reserve Provisions. The State has not been asked to restore the MMBB's Capital Reserves since the inception of its Capital Reserve Provisions. See "Governmental Organization – Independent Authorities and Agencies" herein.

Maine Health and Higher Educational Facilities Authority

The Maine Health and Higher Educational Facilities Authority ("MHHEFA") was created in 1971 to provide the means to expand, enlarge and establish health care, hospital, nursing home and other related facilities and to assist institutions of higher education in the State to provide facilities and structures. Bonds and notes issued by MHHEFA do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or any political subdivision thereof other than MHHEFA or a loan of credit of the State or a pledge of the faith and credit of the State or of any political subdivision other than MHHEFA. As of March 31, 2017, the aggregate principal amount of MHHEFA's bonds outstanding secured by the Capital Reserve was $698,305,000. The statutes governing MHHEFA include a Capital Reserve Provision. The State has not been asked to restore MHHEFA's Capital Reserve since the inception of its Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein.

Loring Development Authority

Loring Development Authority ("LDA") was established in 1993 to acquire and manage the former Loring Air Force Base in northern Maine. LDA may issue bonds that pledge the full faith and credit of the State, provided that such bonds are authorized by the Legislature and ratified by the electors in accordance with the Constitution of Maine, Article IX, Section 14. Otherwise, bonds of LDA are payable solely from the income, proceeds, revenues and funds of LDA ("Revenue Bonds") and do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. The statutes governing LDA include a Capital Reserve Provision. See "Governmental Organization - Independent Authorities and Agencies" herein. As of June 30, 2017, the aggregate principal amount of outstanding LDA Revenue Bonds will be $578,712.40; these bonds are not a debt of the State and the State is not liable for debt service owed on these bonds.

University of Maine System

The University of Maine System (the "University System") includes the University of Maine, established in 1865, and all other public institutions of higher education in Maine, except the Maine Maritime Academy and the seven colleges of the Maine Community College System. Money borrowed by the University System and evidences of indebtedness issued by the University System do not constitute any debt or liability of the State or of any municipality or political subdivision of the State, but shall be payable solely from the revenues of the University System or any project for which they are issued. As of March 31, 2017, the aggregate principal amount of the University System's bonds outstanding was $139,415,000.

Maine Turnpike Authority

The Maine Turnpike Authority ("MTA") was created in 1941 and has constructed and operates and maintains a turnpike approximately 109 miles long between Kittery and Augusta. Bonds issued by MTA shall not be deemed to be a debt of the State, but such bonds shall be payable exclusively from tolls. The bonds shall not directly or indirectly or contingently obligate the State to levy or pledge any form of taxation whatever therefor or to make any appropriation for the payment thereof. As of March 31, 2017, the aggregate principal amount of MTA's bonds outstanding was $385,455,000.

Maine Public Utility Financing Bank

The Maine Public Utility Financing Bank ("MPUFB") was created in 1981 to lend money to public utilities in the State. Bonds and notes issued by MPUFB do not constitute a debt or liability of the State or of any municipality therein or any political subdivision thereof, or a pledge of the faith and credit of the State or of any such municipality or political subdivision. As of March 31, 2017, there were no outstanding bonds of MPUFB.

Maine Port Authority

The Maine Port Authority ("MPA") was established in 1945 and is authorized to acquire, construct and operate any kind of port terminal facility within the State and to acquire and construct any railroad facility within the State. Bonds of MPA do not constitute a debt of the State, or of any agency or political subdivision thereof, but are payable solely from the revenues of MPA, and neither the faith nor credit nor taxing power of the State, or any political subdivision thereof, is pledged to the payment of MPA's bonds. As of March 31, 2017, there were no outstanding bonds of MPA.

LITIGATION

The State is a party to numerous lawsuits. Such lawsuits include actions to recover monetary damages from the State, disputes over individual or corporate income taxes, disputes over sales or use taxes, and actions to alter the regulations or administrative practices of the State in such manner as to cause additional costs to the State. The State is not aware of any pending or threatened litigation or claim against the State, the outcome of which will have a material adverse effect on the financial condition of the State. The matters set forth under the heading "Primary Government – Litigation" in Note 15 Commitments and Contingencies to the Financial Statements attached as Exhibit B hereto should be noted.

Diligent Enforcement. There is pending arbitration regarding the "diligent enforcement" of the 1998 Tobacco Settlement Agreement, by which 46 states and territories settled their claims against major tobacco companies in return for annual payments of funds in perpetuity. This matter does not contemplate a "liability" of the State, but it may result in substantial loss of revenue. The Agreement required the states to "diligently enforce" certain tobacco laws against tobacco companies that did not enter into the Agreement. If the states or some of the states did not "diligently enforce" those laws, the settling tobacco companies could seek to decrease the amounts they paid through binding arbitration. The settling companies filed such an arbitration for the year 2003, but the case was resolved in favor of the State. The companies and the states are now in the preliminary stages of preparing for an arbitration for the year 2004. If Maine loses the arbitration, the future payments to Maine would be diminished by as much as $47,824,637.78 (the amount Maine received in 2004). It is unlikely that any decision would issue before the summer of 2018. For more details regarding the Settlement Agreement and this dispute, see the section "Tobacco Master Settlement Agreement".

*Adle v. State of Maine, Department of Public Safety, Department of Inland Fisheries and Wildlife and unnamed state officials and employees, (*D. Me.). This lawsuit relates to a standoff involving State Police troopers and a game warden during which Shad Gerken (who had a knife) was shot and killed. A state investigation into the incident found that the officers involved reasonably believed that unlawful deadly force was imminently threatened against them and other officers. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

All-4-U et al. v. Maine Department of Corrections. This notice of claim alleges tortious interference with contracts and breach of contract. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Billings v. Maine Department of Public Safety. This notice of claim alleges a fatal motorcycle accident was caused by an attempt to stop decedent for a traffic violation. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Boland v. Rodney Bouffard and Michael Tausek. This cases arises out of the death of Maine State Prison inmate Michael Boland. Another inmate is being prosecuted in connection with this incident. The defendants, respectively the warden and deputy warden at the Maine State Prison, are being sued in their individual capacity. Plaintiff alleges that the defendants violated the 8th Amendment proscription against cruel and unusual punishment by placing him in a prison unit with the other inmate known to defendants to have a history of violent behavior. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Bowden, David v. District Attorney; and Quin, Meghan v. District Attorney. This notice of claim alleges damages due to Meghan Quinn's physical and emotional injuries resulting from travel in a prisoner transport van. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Carey, Seth v. Honorable Maria Woodman et al. This lawsuit alleges claims against two District Court Judges, Bar Counsel, Assistant Bar Counsel and two Clerks of Court. The claim relates to an attorney disciplinary matter before the Board of Overseers of the Bar. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Conlogue v. Hamilton et al. In this lawsuit the Plaintiff Estate asserts that four police officers violated the Fourth Amendment when one used deadly force against an emotionally disturbed individual who pointed a loaded firearm in the direction of police officers on the scene. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Coombs, Jim v. Maine Seed Potato Board/Department of Agriculture, Forestry and Conservation. This notice of claim alleges contract, warranty and tort theories against the Maine Seed Poatato Board on the basis that potato seeds produced by the Maine Seed Potato Board were diseased with Dickeya disease. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Debois Livestock v. Department of Agriculture, Conservation & Forestry; Rick Debois v. Department of Agriculture, Conservation & Forestry; Marcel Dubois v. Department of Agriculture, Conservation & Forestry; Randy Dubois v Department of Agriculture, Conservation and Forestry; Sol Fedder v. Department of Agriculture, Conservation and Forestry. These notices of claim all relate to alleged efforts to prosecute the claimants in Superior Court and to coerce the claimants into abandoning defenses. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Dobson v. State of Maine, Department of Health and Human Services. This Notice of Claim involves the death on December 26, 2014 of the plaintiff's twin son that was placed in foster care. The plaintiff alleges that a foster parent fell asleep after consuming alcohol and prescription medication resulting in the suffocation of the child who was on the foster parent's chest. For himself, plaintiff seeks damages in the amount of $2 million.

Plaintiff has filed a second notice of claim on behalf the estate of his son for wrongful death and on behalf of his twin daughter who was placed in foster care in the same home. The plaintiff alleges that the Department was negligent in placing his daughter with the foster parents. Plaintiff claims damages of $1 million for the wrongful death of his son and $1 million for his daughter. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Eves v. LePage. The former Speaker of the Maine House has filed a lawsuit in federal court alleging First Amendment retaliation based upon the claim that Governor LePage threatened to withhold funds from a private school unless the school terminated its employment agreement with the Speaker and alleging intentional interference with employment agreement. The U.S. District Court granted the Governor's motion to dismiss and Eves appealed to the First Circuit Court of Appeals, which affirmed the decision of the District Court. Eves has since filed a motion for rehearing. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Filler v. Hancock County et al. In this case Plaintiff alleges that he was wrongfully arrested, prosecuted and convicted of gross sexual assault. He has filed a multi-count civil rights and tort complaint against multiple defendants, including an assistant district attorney and two prior district attorneys. The claimed damages are in excess of $1 million. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Fitch, Janice v. Maine Maritime Academy. This notice of claim relate to alleged injury caused by slippery floor in the galley of a ship on or about July 16, 2016. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Hunt, Kaitlyn v. Maine Department of Health and Human Services. This notice of claim relates to the alleged injuries caused by a caseworker who caused the claimant to place one child in the care of the father and the other in care of the grandmother in Arizona. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Jordan, Shannon v. Department of Public Safety. A Notice of Claim has been filed alleging the wrongful death of Kevin Tozier, who was murdered by Anthony Lord. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Kittredge v. Department of Corrections. A Notice of Claim in which claimant, while an inmate at the Downeast Correctional Facility, sustained injuries when he was assaulted by a corrections officer. Claimant alleges defendant was negligent in the hiring and supervision of corrections officer involved in the assault and in the subsequent treatment of his injuries. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

McGraw, Amanda & Michael Pease. A Notice of Claim alleges that documents provided to the Department of Health and Human Services containing personal financial information and which were to be returned to claimant were mailed to the wrong address. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Parker v. Maine Department of Corrections. Claimant has filed a notice of claim alleging inappropriate sexual contact by a corrections officer while Claimant was an inmate. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Peaslee v. Department of Health and Human Services. The mother of a child that was removed from her home has filed a Notice of Claim alleging that the child was placed in an inappropriate setting, resulting in the child being subjected to physical and emotional abuse. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Philip Morris USA v. State Tax Assessor. This lawsuit relates to a claim for refund of Maine corporate income tax. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Estate of Jeffrey Phillips v. Department of Corrections. In this case, the Estate of Jeffrey Phillips is seeking damages alleging wrongful death and inadequate medical treatment. Jeffrey Phillips was an inmate at the Maine State Prison. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Rockett, Brian and Wass, Eric v. Maine Department of Health and Human Services. This notice of claim alleges that Maine's Prescription Monitoring program disproportionately burdens disabled persons. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Simpson, Michelle v. Department of Health and Human Services. A Notice of Claim has been filed alleging negligence on the part of the Department when an infant in the care of the Department died while in a bathtub. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Slagger v. Maine Department of Public Safety. Claimant, a disabled veteran, has filed a notice of claim alleging that he was assaulted by a law enforcement officer after being stopped in his vehicle, handcuffed and taken to a hospital from which he was shortly thereafter released. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

State Tax Assessor v. GNP West, Inc. This lawsuit relates to a request for reimbursement of property taxes pursuant to the BETR program. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

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STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX B

Selected Financial Information Pertaining to the State of Maine for Fiscal Years 2012 through 2016

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

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Michael D. Thibodeau, President of the Senate, and
The Honorable Sara Gideon, Speaker of the House of Representatives

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, 2016, 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'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, Connect ME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and the University of Maine System. These financial statements represent 100 percent of the assets, revenue and net position of the aggregate discretely presented component units, 94 percent of assets and 97 percent of fund balance/net position of the aggregate remaining fund information (Maine Public Employees Retirement System) and 4% of the liabilities of the governmental activities (Maine Governmental Facilities Authority). Those statements 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 entities, 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. The financial statements of the Maine Educational Loan Authority, the Maine Technology Institute and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards.*

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, 2016, 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.

Emphasis of a Matter

Change in Accounting Principle

The State of Maine's basic financial statements for the year ended June 30, 2016, adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application.* The State of Maine implemented the requirements of GASB Statement No. 72 in accordance with the required effective date. See Note 3 in the accompanying financial statements for the impact of the standards' implementation. Our opinion is not modified with respect to this matter.

Additionally, as described in Notes 3 and 18 to the financial statements, for the year ended June 30, 2016, the State adopted a change in accounting principle related to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The State changed its method for allocating pension costs to the individual funds. Our Opinion is not modified with respect to this matter.

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 5 to 16, and Budgetary Comparison Information, State Retirement Plans, Other Post-employment Benefit Plans, and Information about Infrastructure Assets Reported Using the Modified Approach on pages 114 to 134, 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 financial statements. The introductory section, combining and individual non-major fund statements, and the 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 136 to 189 are the responsibility of management and were derived from and related 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 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 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 to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Buckley

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

December 22, 2016

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, 2016. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net position increased by 19.5 percent from the previous fiscal year. Net position of Governmental Activities increased by $296.1 million, while net position of Business-Type Activities increased by $39.7 million. The State's assets and deferred outflows exceeded its liabilities and deferred inflows by $2.1 billion at the close of fiscal year 2016. Of this amount $2.0 billion was reported as negative "unrestricted" net position. A negative balance means that it would be necessary to convert restricted assets (e.g., captal assets) to unrestricted assets if all ongoing obligations were immediately due and payable. Component units reported net position of $2.9 billion, an increase of $86.1 million (3.0 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 $819.5 million, an increase of $179.5 million from the previous year. The General Fund's total fund balance was a 45.3 million, an improvement of $119.1 million from the previous year. The Highway Fund total fund balance was $50.0 million, an improvement of $9.9 million from the prior year.

- The proprietary funds reported net position at year-end of $595.4 million, an increase of $47.2 million from the previous year. The increase is primarily the result of an increase in the Employment Securities Fund of $31.6 million and an increase in the Maine Military Authority (MMA) fund of $5.9 million. See Footnote 18 for Special Item discussion for MMA.

Long-term Debt:

- The State's liability for general obligation bonds increased by $33.5 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $112.0 million in bonds and made principal payments of $78.5 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 9.

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 19 other component units (7 major and 12 non-majors) 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. 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 by 19.5 percent to $2.1 billion at June 30, 2016, as detailed in Tables A-1 and A-2. The increase is primarily due to 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	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Current and other noncurrent assets	$ 2,109,524	$ 1,965,233	$ 439,516	$ 403,707	$ 2,549,040	$ 2,368,940
Capital assets	4,129,530	4,083,965	38,658	42,658	4,168,188	4,126,623
Total Assets	**6,239,054**	**6,049,198**	**478,174**	**446,365**	**6,717,228**	**6,495,563**
Deferred Outflows of Resources	**312,593**	**369,143**	**3,184**	**3,258**	**315,777**	**372,401**
Current liabilities	1,061,722	1,043,654	36,899	29,862	1,098,621	1,073,516
Long-term liabilities	3,714,327	3,339,673	29,744	40,431	3,744,071	3,380,104
Total Liabilities	**4,776,049**	**4,383,327**	**66,643**	**70,293**	**4,842,692**	**4,453,620**
Deferred Inflows of Resources	**134,369**	**689,903**	**1,534**	**5,848**	**135,903**	**695,751**
Net position (deficit):						
Net investment in capital assets	3,435,465	3,362,340	38,658	42,658	3,474,123	3,404,998
Restricted	132,972	215,520	398,342	366,766	531,314	582,286
Unrestricted (deficit)	(1,927,208)	(2,232,749)	(23,819)	(35,942)	(1,951,027)	(2,268,691)
Total Net Position	**$ 1,641,229**	**$1,345,111**	**$ 413,181**	**$ 373,482**	**$ 2,054,410**	**$1,718,593**

Changes in Net Position

The State's fiscal year 2016 revenues totaled $8.0 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 47.3 percent and 36.2 percent, respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $7.6 billion for the year 2016. (See Table A-2) These expenses are predominantly (68.0 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 6.2 percent of total costs. Total net position increased by $335.8 million, primarily due to an increase in tax revenue and charges for service.

Table A-2 - Changes in Net Position
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for Services	$ 572,734	$ 539,457	$ 601,718	$ 587,545	$ 1,174,452	$ 1,127,002
Operating Grants/Contributions	2,875,849	2,817,929	7,948	7,383	2,883,797	2,825,312
Capital Grants/Contributions	-	-	-	-	-	-
General Revenues:						
Taxes	3,766,871	3,793,488	-	-	3,766,871	3,793,488
Other	145,366	152,463	-	-	145,366	152,463
Total Revenues	7,360,820	7,303,337	609,666	594,928	7,970,486	7,898,265
Expenses						
Governmental Activities:						
Governmental Support	477,351	357,029			477,351	357,029
Education	1,614,477	1,543,947			1,614,477	1,543,947
Health & Human Services	3,587,573	3,595,418			3,587,573	3,595,418
Justice & Protection	412,088	412,718			412,088	412,718
Transportation Safety	590,437	553,321			590,437	553,321
Other	438,833	453,331			438,833	453,331
Interest	44,822	50,639			44,822	50,639
Business-Type Activities:						
Employment Security			110,912	129,697	110,912	129,697
Lottery			217,556	200,457	217,556	200,457
Military Equip. Maint.			11,610	9,342	11,610	9,342
Dirigo Health			12	1,137	12	1,137
Other			140,333	131,299	140,333	131,299
Total Expenses	7,165,581	6,966,403	480,423	471,932	7,646,004	7,438,335
Excess (Deficiency) before Special Items and Transfers	195,239	336,934	129,243	122,996	324,482	459,930
Special Items	-	28,849	11,335	-	11,335	28,849
Transfers	100,879	100,627	(100,879)	(100,627)	-	-
Increase (Decrease) in Net Position	296,118	466,410	39,699	22,369	335,817	488,779
Net Position, beginning of year (As Restated)	1,345,111	878,701	373,482	351,113	1,718,593	1,229,814
Ending Net Position	$ 1,641,229	$ 1,345,111	$ 413,181	$ 373,482	$ 2,054,410	$ 1,718,593

Governmental Activities

Revenues for the State's Governmental Activities totaled $7.4 billion while total expenses equaled $7.2 billion. The increase in net position for Governmental Activities was $296.1 million in 2016, much of which was the result of an increase in charges for services and operating grants and contributions of $91.2 million, and current year transfers from the State's Business-Type Activities of $100.9 million. Additionally, the State's Business-Type Activities transferred $100.9 million (net) to the Governmental Activities, which 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 12.

The users of the State's programs financed $572.7 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $2.9 billion. $3.9 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 2016

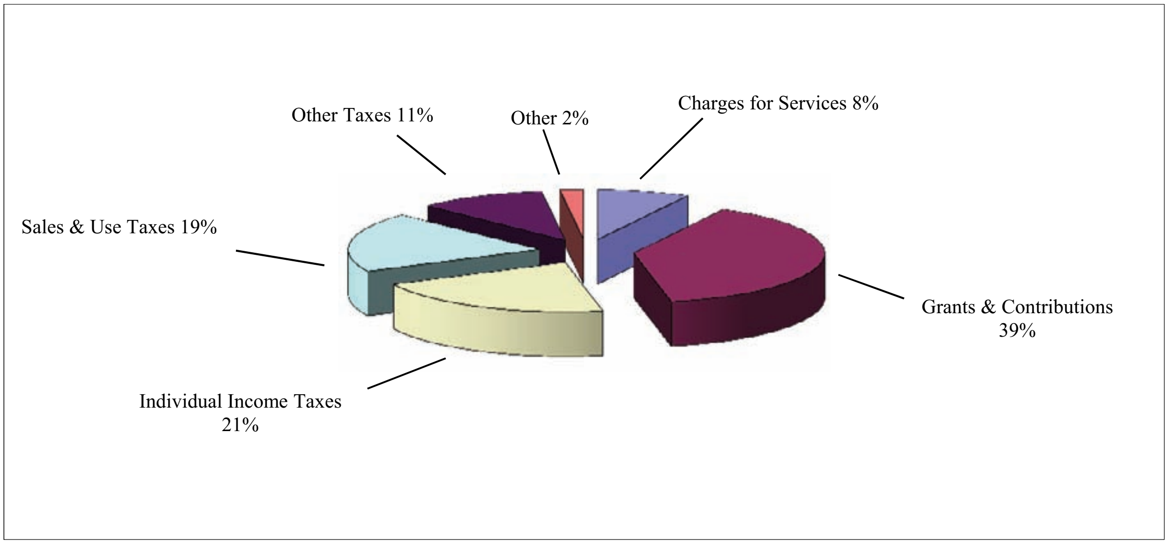
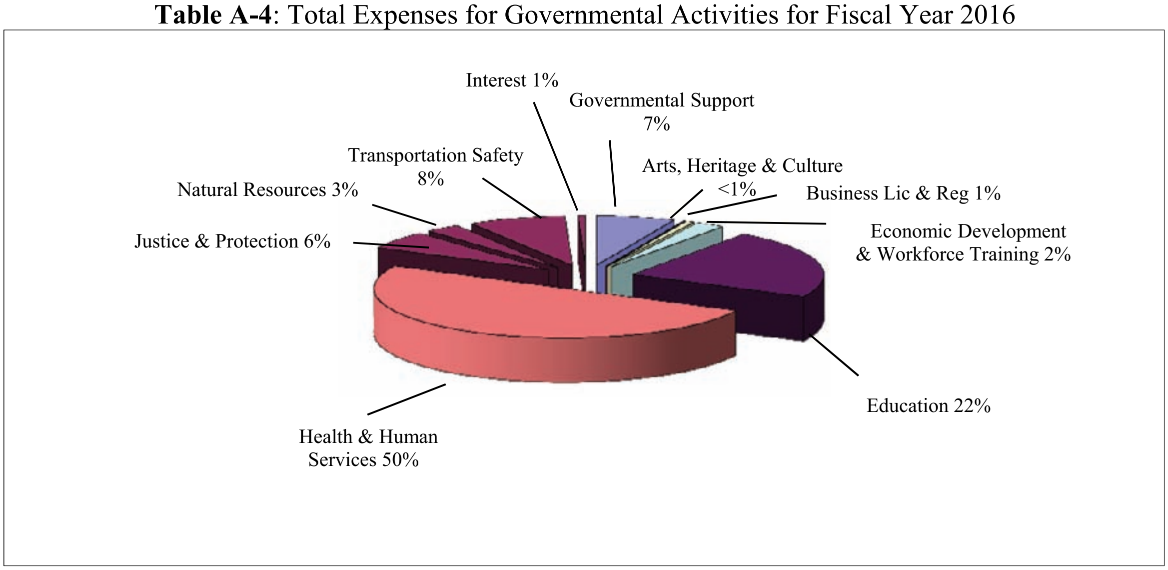


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2016



Business-Type Activities

Revenues for the State's Business-Type Activities totaled $609.7 million while expenses totaled $480.4 million. The increase in net position for Business-Type Activities was $39.7 million in 2016, due primarily to an increase in lottery and alcoholic beverages revenue.

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

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

Category	Total Cost 2016	Total Cost 2015	Net (Cost) Revenue 2016	Net (Cost) Revenue 2015
Employment Security	$ 110,912	$ 129,697	$ 34,627	$ 35,309
Alcoholic Beverages	120,373	111,265	46,379	46,104
Lottery	217,556	200,457	60,898	54,426
Military Equip. Maint.	11,610	9,342	(5,471)	(4,027)
Dirigo Health	12	1,137	479	(1,133)
Other	19,960	20,034	(7,669)	(7,683)
Total	$ 480,423	$ 471,932	$ 129,243	$ 122,996

The cost of all Business-Type Activities this year was $480.4 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-Type Activities was $129.2 million, with Alcoholic Beverages and Lottery making up $46.4 and $60.9 million of the total. The State's Business-Type Activities transferred $100.9 million (net) to the Governmental Activities, which included statutorily required profit transfers and the pledged profit of the Alcoholic Beverages Fund to finance the payment of the Liquor Revenue Bonds. Additionally, the Governmental Activities contributed $37 thousand to purchase capital assets that are recorded in the Business-Type activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Fund	2016	2015	Change
General	$ 45,334	$ (73,799)	$ 119,133
Highway	49,972	40,049	9,923
Federal	37,137	23,254	13,883
Other Special Revenue	507,648	488,803	18,845
Other Governmental	179,425	161,679	17,746
Total	$ 819,516	$ 639,986	$ 179,530

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $819.5 million, an increase of $179.5 million in comparison with the prior year. Of this total amount, $27.8 million (3.4 percent) is classified as non-spendable, either due to its form or legal constraints, and $634.8 million (77.5 percent) is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. Unspent bond proceeds, revenue restricted for transportation, natural resources or other programs are included in restricted fund balance. At the end of the current fiscal year, the unassigned fund balance of the General Fund was a deficit of $35.2 million, an improvement of $45.2 million.

General Fund revenues and other sources surpassed General Fund expenditures and other uses resulting in an increase in the fund balance by $119.1 million. Revenues and other sources of the General Fund decreased by approximately $8.8 million (0.2 percent) which is mainly attributed to a decrease in service charges of $7.5 million. General Fund expenditures and other financing uses increased by $13.7 million (0.4 percent). This is due, primarily, to a decrease in expense for health and human services.

The fund balance of the Highway Fund increased $9.9 million from fiscal year 2015, due mainly to the increase in the Highway Fund's assessments and other revenues of $6.1 million.

Budgetary Highlights

For the 2016 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $3.41 billion, an increase of about $40 million from the original legally adopted budget of approximately $3.37 billion. Actual expenditures on a budgetary basis amounted to approximately $126.8 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2016, including the budgeted starting balance for Fiscal Year 2016, there were funds remaining of $22.1 million to distribute in Fiscal Year 2016. Actual revenues exceeded final budget forecasts by $29.4 million. The year-end cascade transferred $707 thousand to the Budget Stabilization Fund. Interest earnings along with year-end cascade increased the balance in the Fund to $112.4 million as of June 30, 2016. This item is further explained in Note 2 of Notes to the Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2016, the State had roughly $4.1 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2016, the State acquired or constructed more than $116.0 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

Table A-7 - Capital Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Land	$ 611,830	$ 591,764	$ 2,387	$ 2,387	$ 614,217	$ 594,151
Buildings	772,193	692,889	4,655	4,655	776,848	697,544
Equipment	293,396	272,774	32,571	32,572	325,967	305,346
Improvements	96,251	80,725	42,757	41,124	139,008	121,849
Software	73,059	74,621	-	-	73,059	74,621
Infrastructure	2,824,703	2,788,032	-	-	2,824,703	2,788,032
Construction in Progress	38,188	130,856	391	2,838	38,579	133,694
Total Capital Assets	4,709,620	4,631,661	82,761	83,576	4,792,381	4,715,237
Accumulated Depreciation	580,090	547,696	44,103	40,918	624,193	588,614
Capital Assets, net	$ 4,129,530	$ 4,083,965	$ 38,658	$ 42,658	$ 4,168,188	$ 4,126,623

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 8,809 highway miles or 17,911 lane miles within the State. Bridges have a deck area of 12.2 million square feet among 2,967 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2016, the actual average condition was 75.3. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 76.0 at June 30, 2016. Preservation costs for fiscal year 2016 totaled $115.6 million compared to estimated preservation costs of $122.2 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 429, PL 2013, $26 million in General fund bonds were spent during FY2016. Of the amount authorized by Chapter 305, PL 2015, $20 million in General fund bonds were spent during FY2016.

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 $1.7 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	
	2016	2015	2016	2015	2016	2015
General Obligation						
Bonds	$ 442,610	$ 420,800	$ -	$ -	$ 442,610	$ 420,800
Unmatured Premiums	21,834	10,147	-	-	21,834	10,147
Other Long-Term						
Obligations	1,254,558	1,286,841	4,994	5,685	1,259,552	1,292,526
Total	$ 1,719,002	$ 1,717,788	$ 4,994	$ 5,685	$ 1,723,996	$ 1,723,473

During the year, the State reduced outstanding long-term obligations by $78.5 million for outstanding general obligation bonds and $476.4 million for other long-term debt. Also during fiscal year 2016, the State incurred $555.4 million of additional long-term obligations.

Credit Ratings

The State's credit was rated during fiscal year 2016 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

The Maine and U.S. economies have generally improved since the Consensus Economic Forecasting Commission (CEFC) last met in January 2016, although growth in Maine's economy continues to lag national growth in some areas. Maine's real GDP increased 0.6 percent in the first quarter of 2016. This was the fourth consecutive quarter of real GDP growth. Personal income in Maine grew 3.9 percent from the first half of 2015 to the first half of 2016, while wage and salary income, which is the largest component of total personal income, grew 4.9 percent over the same period. The Consumer Price Index was up 1.5 percent in September 2016 from a year ago, held down by the declines in energy prices.

The price of crude oil seems to have leveled out around $47 per barrel as prices in the third quarter of 2016 were unchanged from the second quarter. As a result of the declines in crude oil prices, heating oil prices and gasoline prices have seen substantial declines as well. Heating oil was below $2 per gallon for much of the 2015-2016 heating season and has started the 2016-2017 season around $2 per gallon. Gasoline is currently averaging $2.35 per gallon.

Existing single-family home sales in Maine were up 6.1 percent in September 2016 compared to the same month last year and housing permits for the September 2015 – August 2016 year were 33 percent higher than the previous 12-month period. The median home price in the Portland-South Portland Metropolitan Statistical Area (which encompasses all of York, Cumberland, and Sagadahoc counties) increased 3.8 percent year-over-year in the second quarter of 2016. Mortgage delinquency rates in Maine have been declining but at a slower pace than nationally. The foreclosure rate in Maine was 0.49 percent in the second quarter of 2016 and has been above the national rate for fifteen of the past sixteen quarters.

The Commission remains concerned about the demographic situation in Maine and the resulting impacts on workforce availability. These concerns were again reinforced in comments provided by representatives from a variety of business sectors in the Commission's data gathering session that preceded the forecast deliberations.

The forecast for wage and salary employment was left unchanged, with the forecasts for 2020 and 2021 continuing the 0.0 percent employment growth forecast for 2019. The 2019-2021 employment level is just shy of the 2007 pre-recession peak. CPI was also left unchanged, with 2020 and 2021 forecast at 2.5 percent and 2.4 percent growth, respectively. Total personal income was revised upward by 0.3 percentage points in 2015 with the release of new actual data from the U.S. Bureau of Economic Analysis. The forecasts for 2016-2018 were revised downward by 0.1, 0.4, and 0.1 percentage points, respectively, while 2019 was revised upward by 0.1 percentage points. 2020 was forecast at 3.4 percent and 2021 was forecast at 3.5 percent. Wage and salary income for 2015 was revised upward by 0.7 percentage points with the release of actual data. The forecasts for 2016, 2018, and 2019 were left unchanged, while the forecast for 2017 was revised downward 0.2 percentage points to reflect the risk of some possible high-wage job losses in the manufacturing and finance industries. 2020 and 2021 were both forecast at 3.5 percent growth.

General Fund revenue estimates were revised upward by $34.2 million for FY17 but downward by $1.5 million for FY18 and $30.1 million for FY19 (downward by $31.6 million for the 2018-2019 biennium). The revised forecast reduces the overall rate of growth for General Fund revenue for FY18 from 3.6

percent to 2.5 percent and for FY19 from 4.2 percent to 3.4 percent. The new projections for FY20 assume a much smaller overall growth rate of 0.6 percent, largely the result of Municipal Revenue Sharing returning to the 5 percent level under current law from the 2 percent level in place for FY16 through FY19.

At June 30, 2016, the State of Maine reported an ending fund balance of $45.3 million in the General Fund on a GAAP basis. This is the first time since fiscal year 2005 that the General Fund reflected a positive balance on a GAAP basis.

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 a lack of funds 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 the Governor's commitment to closing the structural gap in the budget, have resulted in significant increases in the equity and cash positions of the General Fund. Consequently, the State 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:

State of Maine
Office of the State Controller
14 State House Station
Augusta, ME 04333-0014
(207)-626-8420
financialreporting@maine.gov

STATE OF MAINE
STATEMENT OF NET POSITION

June 30, 2016
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 541,872	$ 9,720	$ 551,592	$ 44,371
Cash and Cash Equivalents	266	2,207	2,473	78,622
Cash with Fiscal Agent	68,269	-	68,269	-
Investments	95,868	-	95,868	618,201
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	61,014	-	61,014	-
Restricted Deposits and Investments	3,918	370,440	374,358	404,140
Inventories	7,636	4,382	12,018	3,548
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	376,300	-	376,300	-
Loans & Notes Receivable	5,711	-	5,711	82,377
Other Receivables	270,377	58,568	328,945	76,147
Internal Balances	10,694	(10,694)	-	-
Due from Other Governments	273,860	-	273,860	159,359
Due from Primary Government	-	-	-	16,737
Loans receivable from primary government	-	-	-	45,928
Due from Component Units	61,901	-	61,901	-
Other Current Assets	8,250	818	9,068	30,068
Total Current Assets	1,785,936	435,441	2,221,377	1,559,498
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	227,149	4,075	231,224	18,600
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	25,576	-	25,576	-
Restricted Deposits and Investments	-	-	-	344,760
Pension Assets	3,517	-	3,517	-
Investments	-	-	-	505,499
Receivables, Net of Current Portion:				
Taxes Receivable	61,766	-	61,766	-
Loans and Notes Receivable	-	-	-	1,968,929
Other Receivables	1,457	-	1,457	6,229
Due from Other Governments	3,792	-	3,792	1,269,923
Loans receivable from primary government	-	-	-	379,271
Due From Primary Government	-	-	-	921
Post-Employment Benefit Asset	331	-	331	13,096
Other Noncurrent Assets	-	-	-	13,159
Capital Assets:				
Land, Infrastructure and Other Non-Depreciable Assets	3,474,721	2,778	3,477,499	636,059
Buildings, Equipment and Other Depreciable Assets, Net	654,809	35,880	690,689	1,072,723
Total Noncurrent Assets	4,453,118	42,733	4,495,851	6,229,169
Total Assets	6,239,054	478,174	6,717,228	7,788,667
Deferred Outflows of Resources	$ 312,593	$ 3,184	$ 315,777	$ 118,641

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

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Liabilities				
Current Liabilities:				
Accounts Payable	$ 452,746	$ 14,710	$ 467,456	$ 63,943
Accrued Payroll	44,169	822	44,991	4,308
Tax Refunds Payable	209,089	-	209,089	-
Due to Component Units	20,737	-	20,737	-
Due to Primary Government	-	-	-	61,901
Current Portion of Long-Term Obligations:				
Compensated Absences	6,005	132	6,137	3,041
Due to Other Governments	91,030	-	91,030	2,409
Amounts Held under State & Federal Loan Programs	-	-	-	48,959
Claims Payable	30,887	-	30,887	-
Bonds and Notes Payable	82,987	-	82,987	231,896
Revenue Bonds Payable	20,221	-	20,221	35,717
Obligations under Capital Leases	5,490	-	5,490	2,927
Certificates of Participation and Other Financing Arrangements	37,985	-	37,985	-
Loans Payable to Component Unit	45,928	-	45,928	-
Accrued Interest Payable	4,835	-	4,835	31,356
Unearned Revenue	2,551	183	2,734	65,310
Other Current Liabilities	7,062	21,052	28,114	68,822
Total Current Liabilities	1,061,722	36,899	1,098,621	620,589
Long-Term Liabilities:				
Compensated Absences	38,727	958	39,685	-
Due to Component Units	921	-	921	-
Due to Other Governments	-	-	-	4,340
Amounts Held under State & Federal Loan Programs	-	-	-	40,963
Claims Payable	48,532	-	48,532	-
Bonds and Notes Payable	381,457	-	381,457	3,332,261
Revenue Bonds Payable	152,152	-	152,152	703,495
Obligations under Capital Leases	31,189	-	31,189	3,581
Certificates of Participation and Other Financing Arrangements	31,580	-	31,580	-
Loans Payable to Component Unit	379,271	-	379,271	-
Unearned Revenue	12,522	-	12,522	-
Net Pension Liability	2,211,385	24,882	2,236,267	83,513
Other Post-Employment Benefit Obligation	387,770	3,904	391,674	2,625
Pollution Remediation and Landfill Obligations	38,821	-	38,821	-
Other Noncurrent Liabilities	-	-	-	155,089
Total Long-Term Liabilities	3,714,327	29,744	3,744,071	4,325,867
Total Liabilities	4,776,049	66,643	4,842,692	4,946,456
Deferred Inflows of Resources	$ 134,369	$ 1,534	$ 135,903	$ 30,659
Net Position				
Net Investment in Capital Assets	3,435,465	38,658	3,474,123	1,134,737
Restricted:				
Business Licensing & Regulation	36,969	-	36,969	-
Employment Security	-	398,342	398,342	-
Other Purposes	-	-	-	1,179,305
Funds Held as Permanent Investments:				
Expendable	71,601	-	71,601	-
Nonexpendable	24,402	-	24,402	243,726
Unrestricted	(1,927,208)	(23,819)	(1,951,027)	372,425
Total Net Position	$ 1,641,229	$ 413,181	$ 2,054,410	$ 2,930,193

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 477,351	$ 91,136	$ 2,007	$ -
Arts, Heritage & Cultural Enrichment	10,815	890	2,970	-
Business Licensing & Regulation	51,207	74,634	113	-
Economic Development & Workforce Training	169,201	10,934	79,666	-
Education	1,614,477	38,691	207,235	-
Health & Human Services	3,587,573	17,553	2,250,956	-
Justice & Protection	412,088	87,183	53,018	-
Natural Resources Development & Protection	207,610	92,054	55,111	-
Transportation Safety & Development	590,437	159,659	224,773	-
Interest Expense	44,822	-	-	-
Total Governmental Activities	7,165,581	572,734	2,875,849	-
Business-Type Activities:				
Employment Security	110,912	137,593	7,946	-
Alcoholic Beverages	120,373	166,752	-	-
Lottery	217,556	278,454	-	-
Ferry Services	12,782	4,138	2	-
Military Equipment Maintenance	11,610	6,139	-	-
Dirigo Health	12	491	-	-
Other	7,178	8,151	-	-
Total Business-Type Activities	480,423	601,718	7,948	-
Total Primary Government	$ 7,646,004	$ 1,174,452	$ 2,883,797	$ -
Component Units:				
Finance Authority of Maine	48,293	26,226	22,247	-
Maine Community College System	136,378	15,917	58,812	6,375
Maine Health & Higher Educational Facilities Authority	35,602	32,610	5,393	-
Maine Municipal Bond Bank	64,579	52,192	12,319	23,502
Maine State Housing Authority	209,587	68,909	147,196	-
Maine Turnpike Authority	96,340	128,198	-	-
University of Maine System	677,695	289,270	158,574	2,881
All Other Non-Major Component Units	196,463	48,451	111,721	20,801
Total Component Units	$ 1,464,937	$ 661,773	$ 516,262	$ 53,559

General Revenues:
Taxes:
Corporate
Individual Income
Fuel
Property
Sales & Use
Other
Unrestricted Investment Earnings
Non-Program Specific Grants, Contributions & Appropriations
Miscellaneous Income
Gain (Loss) on Sale of Assets
Tobacco Settlement
Special Items
Transfers - Internal Activities
Total General Revenues and Transfers
Change in Net Position
Net Position - Beginning (as restated)
Net Position - Ending

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

Net (Expenses) Revenues and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (384,208)	$ -	$ (384,208)	$ -
(6,955)	-	(6,955)	-
23,540	-	23,540	-
(78,601)	-	(78,601)	-
(1,368,551)	-	(1,368,551)	-
(1,319,064)	-	(1,319,064)	-
(271,887)	-	(271,887)	-
(60,445)	-	(60,445)	-
(206,005)	-	(206,005)	-
(44,822)	-	(44,822)	-
(3,716,998)	-	(3,716,998)	-
-	34,627	34,627	-
-	46,379	46,379	-
-	60,898	60,898	-
-	(8,642)	(8,642)	-
-	(5,471)	(5,471)	-
-	479	479	-
-	973	973	-
-	129,243	129,243	-
$ (3,716,998)	$ 129,243	$ (3,587,755)	$ -
-	-	-	180
-	-	-	(55,274)
-	-	-	2,401
-	-	-	23,434
-	-	-	6,518
-	-	-	31,858
-	-	-	(226,970)
-	-	-	(15,490)
$ -	$ -	$ -	$ (233,343)
108,395	-	108,395	-
1,534,620	-	1,534,620	-
245,299	-	245,299	-
58,450	-	58,450	-
1,437,916	-	1,437,916	-
382,191	-	382,191	-
7,335	-	7,335	4,774
-	-	-	303,406
85,948	-	85,948	11,050
-	-	-	194
52,083	-	52,083	-
-	11,335	11,335	-
100,879	(100,879)	-	-
4,013,116	(89,544)	3,923,572	319,424
296,118	39,699	335,817	86,081
1,345,111	373,482	1,718,593	2,844,112
$ 1,641,229	$ 413,181	$ 2,054,410	$ 2,930,193

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2016
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ 149,841	$ 54,019	$ 13,876	$ 362,577	$ 135	$ 580,448
Cash and Short-Term Investments	106	117	-	41	-	264
Cash with Fiscal Agent	8,874	734	-	53,583	-	63,191
Investments	-	-	-	-	95,868	95,868
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	-	-	-	-	86,590	86,590
Inventories	2,484	-	439	-	-	2,923
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	402,950	23,052	-	12,064	-	438,066
Loans Receivable	1	-	-	5,710	-	5,711
Other Receivable	98,005	2,701	92,119	75,728	-	268,553
Due from Other Funds	12,113	11,679	176	14,063	-	38,031
Due from Other Governments	-	-	273,287	-	-	273,287
Due from Component Units	25	-	-	61,871	-	61,896
Other Assets	493	3	117	232	-	845
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 675,003	$ 92,305	$ 380,014	$ 585,869	$ 182,593	$ 1,915,784
Liabilities						
Accounts Payable	$ 137,885	$ 23,768	$ 221,495	$ 21,355	$ 1,812	$ 406,315
Accrued Payroll	20,521	8,138	4,457	8,270	-	41,386
Tax Refunds Payable	209,089	-	-	-	-	209,089
Due to Other Governments	-	-	90,981	-	-	90,981
Due to Other Funds	52,750	3,976	17,214	5,338	23	79,301
Due to Component Units	2,007	917	6,725	2,147	1,330	13,126
Unearned Revenue	-	4,792	439	9,218	3	14,452
Pollution Remediation and Landfill Obligations	-	-	-	1,243	-	1,243
Other Accrued Liabilities	4,267	-	1,517	2,496	-	8,280
Total Liabilities	426,519	41,591	342,828	50,067	3,168	864,173
Deferred Inflows of Resources	203,150	742	49	28,154	-	232,095
Fund Balances						
Nonspendable:						
Permanent Fund Principal	-	-	-	-	24,402	24,402
Inventories and Prepaid Items	2,665	-	492	206	-	3,363
Restricted	12,865	49,972	36,645	380,341	155,023	634,846
Committed	64,959	-	-	65,957	-	130,916
Assigned	-	-	-	61,144	-	61,144
Unassigned	(35,155)	-	-	-	-	(35,155)
Total Fund Balances	45,334	49,972	37,137	507,648	179,425	819,516
Total Liabilities, Deferred Inflows and Fund Balances	$ 675,003	$ 92,305	$ 380,014	$ 585,869	$ 182,593	$ 1,915,784

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

STATE OF MAINE
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2016
Expressed in Thousands

Total fund balances for governmental funds		$ 819,516
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	4,300,904	
Less: Accumulated depreciation	374,765	
		3,926,139
Pension assets		3,517
Pension related deferred outflows		298,707
Other post-employment benefit assets are not financial resources		331
Refunded bond deferred outflows		1,523
Pollution remediation receivable		1,597
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Position. This is the net effect of these balances on the statement:		
Bonds payable	(636,817)	
Interest payable related to long-term financing	(3,157)	
Certificates of participation and other financing arrangements	(39,001)	
Capital leases	(2,647)	
Loans payable to component unit	(425,199)	
Compensated absences	(40,948)	
Pension liability	(2,138,366)	
Pension related deferred inflows	(129,876)	
Other post-employment benefit obligation	(374,953)	
Pollution remediation and landfill obligations	(37,578)	
		(3,828,542)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		236,271
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		182,170
Net position of governmental activities		$ 1,641,229

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

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

Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	$ 3,305,720	$ 221,348	$ -	$ 286,714	$ -	$ 3,813,782
Assessments and Other Revenue	105,216	96,846	-	161,121	-	363,183
Federal Grants and Reimbursements	1,952	-	2,862,170	11,922	-	2,876,044
Service Charges	38,984	4,442	406	152,953	-	196,785
Investment Income	2,439	255	15	2,879	870	6,458
Miscellaneous Revenue	14,360	245	-	118,595	-	133,200
Total Revenues	3,468,671	323,136	2,862,591	734,184	870	7,389,452
Expenditures						
Current:						
Governmental Support & Operations	230,692	1,509	3,003	104,604	239	340,047
Economic Development & Workforce Training	39,885	-	80,795	44,672	10,175	175,527
Education	1,422,871	-	205,450	41,510	18,210	1,688,041
Health and Human Services	1,107,675	-	2,225,919	314,176	-	3,647,770
Business Licensing & Regulation	-	-	69	56,706	-	56,775
Natural Resources Development & Protection	73,225	28	56,571	103,396	614	233,834
Justice and Protection	320,810	25,931	56,137	47,187	1,727	451,792
Arts, Heritage & Cultural Enrichment	7,623	-	3,049	1,075	-	11,747
Transportation Safety & Development	-	283,211	187,217	128,478	3,817	602,723
Debt Service:						
Principal Payments	80,405	15,300	15,680	31,780	-	143,165
Interest Payments	20,309	2,993	4,259	14,604	-	42,165
Capital Outlay	-	-	-	-	58,185	58,185
Total Expenditures	3,303,495	328,972	2,838,149	888,188	92,967	7,451,771
Revenue over (under) Expenditures	165,176	(5,836)	24,442	(154,004)	(92,097)	(62,319)
Other Financing Sources (Uses)						
Transfer from Other Funds	91,809	25,846	13,191	189,081	1,436	321,363
Transfer to Other Funds	(146,996)	(10,822)	(23,750)	(40,802)	(3,557)	(225,927)
COP's and Other	9,144	735	-	3,380	-	13,259
Bonds Issued	-	-	-	21,190	97,705	118,895
Refunding Bonds Issued	-	-	-	41,115	-	41,115
Premiums on Bond Issuance	-	-	-	2,404	14,259	16,663
Payments to Refunded Bond Escrow Agent	-	-	-	(43,519)	-	(43,519)
Net Other Finance Sources (Uses)	(46,043)	15,759	(10,559)	172,849	109,843	241,849
Net Change in Fund Balances	119,133	9,923	13,883	18,845	17,746	179,530
Fund Balances at Beginning of Year	(73,799)	40,049	23,254	488,803	161,679	639,986
Fund Balances at End of Year	$ 45,334	$ 49,972	$ 37,137	$ 507,648	$ 179,425	$ 819,516

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

STATE OF MAINE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2016
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 179,530
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period the amounts are:		
Capital outlay	81,501	
Depreciation expense	(36,158)	45,343
The net effect of various transactions involving capital assets (i.e. sales, trade-ins and contributions) is to increase net position.		(922)
Pension assets		(2,727)
Pension related deferred outflows		(58,261)
Refunded bond deferred outflows		1,523
Post-employment benefit asset funding, net		(325)
Pollution Remediation Receivable		111
The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Position. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Position. This is the amount that proceeds exceed repayments:		
Bond proceeds	(160,010)	
Premium on bonds issued	(16,663)	
Proceeds from other financing arrangements	(13,238)	
Payment to Refund Bond Escrow Agent	43,519	
Repayment of bond principal	95,705	
Repayment of other financing debt	25,132	
Repayment of pledged revenue principal	51,989	
Repayment of capitalized lease principal	529	
Accrued interest (Manual Entry)	(205)	
Amortization of bond premiums	2,572	29,330
Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Position and have been eliminated from the Statement of Position as follows:		
Compensated absences	(662)	
Pension liability	(379,894)	
Pension related deferred inflows	541,535	
Other post-employment benefit obligation	(13,896)	
Pollution remediation and landfill obligations	(7,063)	140,020
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		(44,983)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities.		7,479
Changes in net position of governmental activities		$ 296,118

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

STATE OF MAINE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2016
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds Major Employment Security	Business-Type Activities Enterprise Funds Non-Major Other Enterprise	Business-Type Activities Enterprise Funds Total	Governmental Activities Internal Service Funds
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ -	$ 9,720	$ 9,720	$ 132,873
Cash and Short-Term Investments	1,451	756	2,207	2
Cash with Fiscal Agent	-	-	-	5,078
Restricted Assets:				
Restricted Deposits and Investments	370,440	-	370,440	3,918
Inventories	-	4,382	4,382	4,713
Receivables, Net of Allowance for Uncollectibles:				
Other Receivable	29,774	28,794	58,568	1,727
Due from Other Funds	323	1,362	1,685	25,619
Due from Component Units	-	-	-	5
Other Current Assets	-	818	818	7,405
Total Current Assets	401,988	45,832	447,820	181,340
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	4,075	4,075	55,700
Capital Assets - Net of Depreciation	-	38,658	38,658	203,391
Total Noncurrent Assets	-	42,733	42,733	259,091
Total Assets	401,988	88,565	490,553	440,431
Deferred Outflows of Resources	$ -	$ 3,184	$ 3,184	$ 12,363
Liabilities				
Current Liabilities:				
Accounts Payable	$ 2,951	$ 11,759	$ 14,710	$ 13,189
Accrued Payroll	-	822	822	2,783
Due to Other Funds	-	12,041	12,041	7,138
Due to Component Units	-	-	-	8,532
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	11,659
Obligations Under Capital Leases	-	-	-	4,961
Claims Payable	-	-	-	30,887
Compensated Absences	-	132	132	454
Unearned Revenue	-	183	183	300
Accrued Interest Payable	-	-	-	165
Other Accrued Liabilities	695	20,357	21,052	295
Total Current Liabilities	3,646	45,294	48,940	80,363
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Unearned Revenue	-	-	-	321
Certificates of Participation and Other Financing Arrangements	-	-	-	18,905
Obligations Under Capital Leases	-	-	-	29,071
Claims Payable	-	-	-	48,532
Compensated Absences	-	958	958	3,330
Net Pension Liability	-	24,882	24,882	73,019
Other Post-Employment Benefit Obligation	-	3,904	3,904	12,817
Total Long-Term Liabilities	-	29,744	29,744	186,106
Total Liabilities	3,646	75,038	78,684	266,469
Deferred Inflows of Resources	$ -	$ 1,534	$ 1,534	$ 4,493
Net Position				
Net Investment in Capital Assets	-	38,658	38,658	144,397
Restricted for:				
Unemployment Compensation	398,342	-	398,342	-
Other Purposes	-	-	-	1,788
Unrestricted	-	(23,481)	(23,481)	35,647
Total Net Position	$ 398,342	$ 15,177	$ 413,519	$ 181,832
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-type activities			(338)	
			$ 413,181	

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

STATE OF MAINE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Total	Internal Service Funds
Operating Revenues				
Charges for Services	$ -	$ 464,535	$ 464,535	$ 431,039
Assessments	137,488	-	137,488	-
Miscellaneous Revenues	105	447	552	267
Total Operating Revenues	137,593	464,982	602,575	431,306
Operating Expenses				
General Operations	-	365,635	365,635	385,678
Depreciation	-	3,210	3,210	25,566
Claims/Fees Expense	110,912	-	110,912	14,808
Other Operating Expenses	-	-	-	764
Total Operating Expenses	110,912	368,845	479,757	426,816
Operating Income (Loss)	26,681	96,137	122,818	4,490
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	7,946	-	7,946	877
Interest Expense	-	-	-	(9,637)
Other Nonoperating Revenues (Expenses) - net	-	(855)	(855)	(1,000)
Total Nonoperating Revenues (Expenses)	7,946	(855)	7,091	(9,760)
Income (Loss) Before Capital Contributions, Transfers and Special Items	34,627	95,282	129,909	(5,270)
Capital Contributions, Transfers and Special Items				
Capital Contributions from (to) Other Funds	-	37	37	1,892
Transfers from Other Funds	495	5,112	5,607	24,668
Transfers to Other Funds	(3,546)	(102,977)	(106,523)	(14,477)
Special Items	-	11,335	11,335	-
Total Capital Contributions, Transfers and Special Items	(3,051)	(86,493)	(89,544)	12,083
Change in Net Position	31,576	8,789	40,365	6,813
Net Position - Beginning of Year	366,766	6,388	373,154	175,019
Net Position - End of Year	$ 398,342	$ 15,177		$ 181,832
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-type activities			(666)	
Changes in Business-Type Net Assets			$ 39,699	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2016
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 141,531	$ 457,311	$ 598,842	$ 38,425
Other Operating Cash Receipts (Payments)				
Cash Received from Interfund Services	1,789	7,778	9,567	395,715
Payments of Benefits	(109,643)	-	(109,643)	-
Payments to Prize Winners	-	(179,768)	(179,768)	-
Payments to Suppliers	-	(155,048)	(155,048)	(283,638)
Payments to Employees	-	(20,830)	(20,830)	(61,604)
Payments for Interfund Goods and Services	-	(17,682)	(17,682)	(42,593)
Net Cash Provided (Used) by Operating Activities	33,677	91,761	125,438	46,305
Cash Flows from Noncapital Financing Activities				
Transfers from Other Funds	495	5,112	5,607	10,326
Transfers to Other Funds	(3,546)	(102,977)	(106,523)	(135)
Negative Cash Balance Implicitly Financed	-	3,005	3,005	(211)
Net Cash Provided (Used) by Noncapital Financing Activities	(3,051)	(94,860)	(97,911)	9,980
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(40)	(40)	(26,276)
Proceeds from Financing Arrangements	-	-	-	5,813
Principal and Interest Paid on Financing Arrangements	-	-	-	(26,012)
Proceeds from Sale of Capital Assets	-	-	-	458
Net Cash Provided (Used) by Capital Financing Activities	-	(40)	(40)	(46,017)
Cash Flows from Investing Activities				
Interest Revenue	7,946	12	7,958	877
Net Cash Provided (Used) by Investing Activities	7,946	12	7,958	877
Net Increase (Decrease) in Cash/Cash Equivalents	38,572	(3,127)	35,445	11,145
Cash/Cash Equivalents - Beginning of Year	333,319	17,678	350,997	186,426
Cash/Cash Equivalents - End of Year	$ 371,891	$ 14,551	$ 386,442	$ 197,571
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	$ 26,681	$ 96,137	$ 122,818	$ 4,490
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	3,210	3,210	25,566
Decrease (Increase) in Assets				
Accounts Receivable	5,944	(14)	5,930	787
Interfund Balances	(217)	(8,624)	(8,841)	7,677
Due From Component Units	-	-	-	(5)
Inventories	-	(623)	(623)	(1,078)
Other Assets	-	(501)	(501)	(4,754)
Deferred Outflows	-	74	74	(188)
Increase (Decrease) in Liabilities				
Accounts Payable	574	4,394	4,968	5,343
Accrued Payroll Expenses	-	(248)	(248)	(1,795)
Due to Other Governments	-	-	-	4,217
Compensated Absences	-	36	36	54
Deferred Inflows	-	(4,314)	(4,314)	(13,999)
Net Pension Liability	-	1,345	1,345	1,555
Other Accruals	695	889	1,584	18,435
Total Adjustments	6,996	(4,376)	2,620	41,815
Net Cash Provided (Used) by Operating Activities	$ 33,677	$ 91,761	$ 125,438	$ 46,305
Non Cash Investing, Capital and Financing Activities				
Property Leased, Accrued or Acquired	-	-	-	791
Contributed Capital Assets	-	37	37	1,892
Special Item	-	11,335	11,335	-

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


DIRIGO
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STATE OF MAINE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2016
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 559	$ 17,285
Cash and Short-Term Investments	31,215	-	28
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	4,000	-	-
Interest and Dividends	3,018	-	-
Due from Brokers for Securities Sold	209	-	-
Other	27,328	-	-
Investments at Fair Value:			
Equity Securities	2,579,694	-	-
Common/Collective Trusts	10,136,710	-	-
Other	-	16,855	-
Restricted Deposits and Investments	-	-	323
Securities Lending Collateral	108,480	-	-
Due from Other Funds	-	33,242	-
Investments Held on Behalf of Others	-	-	54,422
Capital Assets - Net of Depreciation	7,370	-	-
Other Assets	-	3,899	2,101
Total Assets	12,898,024	54,555	74,159
Liabilities			
Accounts Payable	$ 6,787	$ 56	$ 1,202
Due to Other Funds	-	3	94
Agency Liabilities	-	-	72,816
Obligations Under Securities Lending	108,480	-	-
Other Accrued Liabilities	18,331	-	47
Total Liabilities	133,598	59	74,159
Net Position			
Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	12,764,426	54,496	-
Total Net Position	$ 12,764,426	$ 54,496	$ -

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

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

Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 182,320	$ -
State and Local Agencies	325,629	-
Other Contributing Entity	112,478	-
Investment Income (Loss):		
Net Increase (Decrease) in the Fair Value of Investments	67,136	73
Interest and Dividends	61,960	194
Securities Lending Income	771	-
Less Investment Expense:		
Investment Activity Expense	76,169	-
Securities Lending Expense	(928)	-
Net Investment Income (Loss)	54,626	267
Miscellaneous Revenues	-	7,890
Transfers In	-	616
Total Additions	675,053	8,773
Deductions:		
Benefits Paid to Participants or Beneficiaries	949,632	103
Refunds and Withdrawals	23,834	-
Administrative Expenses	11,619	175
Claims Processing Expense	1,076	-
Transfers Out	-	5,327
Total Deductions	986,161	5,605
Net Increase (Decrease)	(311,108)	3,168
Net Position:		
Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	13,075,534	51,328
End of Year	$ 12,764,426	$ 54,496

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

STATE OF MAINE
STATEMENT OF NET POSITION
COMPONENT UNITS

June 30, 2016
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority	Maine Municipal Bond Bank
Current Assets:				
Equity in Treasurer's Cash Pool	$ 20,349	$ 6,459	$ 3,599	$ -
Cash and Cash Equivalents	3,856	12,393	3,458	111
Investments	54,041	46,075	12,154	22,888
Restricted Assets:				
Restricted Deposits and Investments	-	-	24,872	266,483
Inventories	-	1,083	-	-
Receivables, Net of Allowance for Uncollectibles:				
Loans and Notes Receivable	15,439	-	35,509	-
Other Receivables	2,202	5,875	1,168	918
Due from Other Governments	241	-	-	135,756
Due from Primary Government	-	1,041	-	-
Loans Receivable from Primary Government	-	-	-	45,928
Other Current Assets	1,026	1,907	745	17,460
Total Current Assets	97,154	74,833	81,505	489,544
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	8,530	2,707	1,509	-
Restricted Assets:				
Restricted Deposits and Investments	18,553	659	87,313	176,310
Investments	-	13,154	25,239	-
Receivables, Net of Current Portion:				
Loans and Notes Receivable	99,179	-	621,167	-
Other Receivables	-	-	-	-
Due from Other Governments	-	-	-	1,269,923
Due from Primary Government	-	-	-	-
Loans Receivable from Primary Government	-	-	-	379,271
Post-Employment Benefit Asset	-	13,096	-	-
Capital Assets - Net of Depreciation	1,491	180,949	-	436
Other Noncurrent Assets	-	-	-	-
Total Noncurrent Assets	127,753	210,565	735,228	1,825,940
Total Assets	224,907	285,398	816,733	2,315,484
Deferred Outflows of Resources	$ 829	$ 19,816	$ -	$ 41,551
Liabilities				
Current Liabilities:				
Accounts Payable	$ 3,816	$ 3,096	$ 63	$ 235
Accrued Payroll	-	-	-	-
Compensated Absences	-	2,253	-	-
Due to Other Governments	-	-	352	423
Due to Primary Government	-	-	-	60,661
Amounts Held Under State & Federal Loan Programs	-	-	-	48,959
Bonds and Notes Payable	6,945	131	35,680	151,249
Obligations Under Capital Leases	-	2,209	-	-
Accrued Interest Payable	462	-	14,687	11,557
Unearned Revenue	1,171	2,264	3,112	3,934
Other Current Liabilities	25,259	6,260	-	-
Total Current Liabilities	37,653	16,213	53,894	277,018
Long-Term Liabilities:				
Due to Other Governments	1,983	-	62	585
Amounts Held Under State & Federal Loan Programs	40,963	-	-	-
Bonds and Notes Payable	100,843	21,153	703,390	1,384,234
Obligations Under Capital Leases	-	27	-	-
Net Pension Liability	-	68,007	-	1,059
Other Post-Employment Benefits Obligation	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-
Total Long-Term Liabilities	143,789	89,187	703,452	1,385,878
Total Liabilities	181,442	105,400	757,346	1,662,896
Deferred Inflows of Resources	$ -	$ 14,193	$ -	$ 341
Net Position				
Net Investment in Capital Assets	1,491	158,087	-	436
Restricted	17,933	38,165	-	616,690
Unrestricted	24,870	(10,631)	59,387	76,672
Total Net Position	$ 44,294	$ 185,621	$ 59,387	$ 693,798

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

Maine State Housing Authority	Maine Turnpike Authority	University of Maine System	Non-Major Component Units	Total
$ -	$ -	$ 12,656	$ 1,308	$ 44,371
959	6,499	1,907	49,439	78,622
258,634	-	215,799	8,610	618,201
-	85,730	-	27,055	404,140
-	1,604	-	861	3,548
29,841	-	63	1,525	82,377
15,324	4,639	40,359	5,662	76,147
5,893	-	10,727	6,742	159,359
1,103	-	4,959	9,634	16,737
-	-	-	-	45,928
-	1,008	5,352	2,570	30,068
311,754	99,480	291,822	113,406	1,559,498
-	-	5,305	549	18,600
-	40,238	1,411	20,276	344,760
96,348	13,050	338,424	19,284	505,499
1,187,050	-	41,177	20,356	1,968,929
1,490	70	3,015	1,654	6,229
-	-	-	-	1,269,923
-	-	715	206	921
-	-	-	-	379,271
-	-	-	-	13,096
686	569,355	706,833	249,032	1,708,782
4,882	7,329	-	948	13,159
1,290,456	630,042	1,096,880	312,305	6,229,169
1,602,210	729,522	1,388,702	425,711	7,788,667
$ 21,706	$ 20,725	$ 9,370	$ 4,644	$ 118,641
$ 13,468	$ 8,968	$ 14,777	$ 19,520	$ 63,943
-	2,773	-	1,535	4,308
-	-	-	788	3,041
305	-	-	1,329	2,409
-	-	-	1,240	61,901
-	-	-	-	48,959
42,540	18,700	10,897	1,471	267,613
-	-	690	28	2,927
4,650	-	-	-	31,356
3,247	9,072	10,692	31,818	65,310
-	9,677	26,727	899	68,822
64,210	49,190	63,783	58,628	620,589
-	-	-	1,710	4,340
-	-	-	-	40,963
1,232,615	425,439	151,705	16,377	4,035,756
-	-	3,516	38	3,581
3,768	-	-	10,679	83,513
-	-	-	2,625	2,625
13,977	32,615	108,284	213	155,089
1,250,360	458,054	263,505	31,642	4,325,867
1,314,570	507,244	327,288	90,270	4,946,456
$ 2,566	$ 6,565	$ 1,388	$ 5,606	$ 30,659
686	199,595	544,721	229,721	1,134,737
279,789	37,010	359,979	73,465	1,423,031
26,305	(167)	164,696	31,293	372,425
$ 306,780	$ 236,438	$1,069,396	$ 334,479	$ 2,930,193

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority	Maine Municipal Bond Bank
Expenses	$ 48,293	$ 136,378	$ 35,602	$ 64,579
Program Revenues				
Charges for Services	26,226	15,917	32,610	52,192
Program Investment Income	252	106	5,393	11,849
Operating Grants and Contributions	21,995	58,706	-	470
Capital Grants and Contributions	-	6,375	-	23,502
Net Revenue (Expense)	180	(55,274)	2,401	23,434
General Revenues				
Unrestricted Investment Earnings	765	49	156	162
Non-program Specific Grants, Contributions and Appropriations	-	58,820	-	-
Miscellaneous Income	-	1,147	141	1,831
Gain (Loss) on Assets Held for Sale	-	-	-	-
Total General Revenues	765	60,016	297	1,993
Change in Net Position	945	4,742	2,698	25,427
Net Position, Beginning of the Year (as restated)	43,349	180,879	56,689	668,371
Net Position, End of Year	$ 44,294	$ 185,621	$ 59,387	$ 693,798

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

Maine State Housing Authority	Maine Turnpike Authority	University of Maine System	Non-Major Component Units	Total
$ 209,587	$ 96,340	$ 677,695	$ 196,463	$1,464,937
68,909	128,198	289,270	48,451	661,773
3,944	-	(13,717)	105	7,932
143,252	-	172,291	111,616	508,330
-	-	2,881	20,801	53,559
6,518	31,858	(226,970)	(15,490)	(233,343)
14	260	2,561	807	4,774
-	-	225,077	19,509	303,406
-	5,780	-	2,151	11,050
-	(104)	(1,813)	2,111	194
14	5,936	225,825	24,578	319,424
6,532	37,794	(1,145)	9,088	86,081
300,248	198,644	1,070,541	325,391	2,844,112
$ 306,780	$ 236,438	$1,069,396	$ 334,479	$2,930,193

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine (the State) have been prepared under guidelines established by generally accepted accounting principles (GAAP) as mandated by the Governmental Accounting Standards Board (GASB).

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

A. Reporting Entity

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

Financial accountability is defined in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The State is financially accountable for those entities for which it appoints a voting majority of the governing board and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government and there exists a financial benefit or burden relationship with the State. Entities that do not meet the specific criteria for inclusion may still be included if the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

Blended Component Units
Blended component units are entities that are legally separate from the State, but provide services entirely, or almost entirely to the State or otherwise exclusively, or almost exclusively, benefits the primary government even though they do not provide services directly to it. The State reports one blended component unit.

The Maine Governmental Facilities Authority (MGFA) is a legally separate organization that has its board appointed by the primary government and provides services entirely, or almost entirely, to the State. Its purpose includes assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. In their separately issued financial statements, MGFA records a lease receivable from the State and a liability for bonds issued. However, in accordance with GASB, capital leases that exist between the State and MGFA are not recorded as leases in this report. The assets associated with these leases are reported in the government-wide statements along with the related debt. The corresponding debt service activity is recorded in the Governmental Funds. MGFA financial activity associated with servicing the debt is reported in an internal service fund. Therefore, the State reports MGFA's balances and transactions as though they were part of the primary government, using the blending method.

Discrete Component Units
Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. Component units that are not material to the State's financial statements have been excluded. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government.

The State is able to impose its will upon these discretely presented component units whose boards of directors or boards of trustees are appointed by the Governor:

The Maine Community College System is Maine's comprehensive two-year college system and offers certificate, diploma and associate degree programs. The combined financial statements of the System include the activity of seven colleges, the central administrative office and the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

The Maine Turnpike Authority (MTA) constructs, maintains and operates a turnpike at such a location approved by the State Highway Commission. It issues turnpike revenue bonds payable solely from revenues of the Authority. The Authority's fiscal year ends December 31.

The University of Maine System is the State University governed by a single Board of Trustees. The combined financial statements of the System include the activity of seven universities, eight centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

There is a financial burden/benefit relationship between these entities and the State:

The Finance Authority of Maine provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the NextGen College Investing Plan, Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, and the Occupational Safety Program Fund Board. The Governor appoints the fifteen voting members of the Authority.

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

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

Maine State Housing Authority issues bonds to purchase notes and mortgages on residential units, both single and multi-family, for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as an agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collecting and disbursing federal rent subsidies for low income housing. The Governor appoints five of the Authority's seven commissioners. The remaining two commissioners are the Treasurer of State and the Director of the Maine State Housing Authority, both of whom serve *ex officio*. The Authority's fiscal year ends on December 31.

The State's financial statements also include a fiduciary component unit:

Maine Public Employees Retirement System administers a public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 300 local municipalities and other public entities in Maine. The State has a financial benefit/burden relationship with the retirement system since the legislature has substantive approval over their budget.

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

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

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

Maine Public Employees
Retirement System
PO Box 349
Augusta, ME 04332-0349

Maine Turnpike Authority
2360 Congress Street
Portland, ME 04102

Maine Community College
System
323 State Street
Augusta, ME 04330

Maine Municipal Bond
Bank
PO Box 2268
Augusta, ME 04338

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

University of Maine System
16 Central Street
Bangor, ME 04401

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing board of the Maine Veteran's Home. The primary government has no material accountability for this organization beyond making board appointments.

B. Government-Wide and Fund Financial Statements

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

The *Statement of Net Position* presents the reporting entity's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three components:

Net investment in capital assets component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Constraints placed on restricted components of net position are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net position reports $531.3 million of restricted net position, of which $435 million is restricted by enabling legislation.

Unrestricted component of net position consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of the two preceding categories. The unrestricted component of net position often is designated, to indicate that management does not consider it to be available for general operations and often have constraints on resources that are imposed by management, but can be removed or modified.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

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

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

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

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

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

Significant revenues susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

The State Tax Assessor levies taxes on properties located in the unorganized territory of Maine by August 1 of each year, and on telecommunications personal properties statewide by March 30 of each year. Unorganized territory property taxes are due on October 1 and telecommunications personal property taxes are due on August 15. Formal collection procedures begin on November 1, and unpaid property taxes become a lien no later than March 15 of the fiscal year for which they are levied.

Expenditures are generally recorded when a liability is incurred. However, expenditures related to claims and judgments, debt service and compensated absences are recorded only when payment is due and payable.

Financial Statement Presentation
The State reports the following major governmental funds:

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

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

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

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally required to be expended for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal Funds. Examples of the most significant types of revenue sources include: Fund for a Healthy Maine (tobacco settlement revenue), State municipal revenue sharing, hospital and service provider taxes, and oil transfer fees.

The State reports the following major enterprise fund:

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

Additionally, the State reports the following fund types:

Governmental Fund Types:
Special Revenue Funds include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. An example is funds for acquisition of public reserved lands.

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

Permanent Trust Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. An example is the Baxter State Park Fund.

Proprietary Fund Types:
Enterprise Funds report the activities for which fees are charged to external users for goods or services, such as the unemployment compensation program, lottery operations and transportation services.

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

Fiduciary Fund Types:
Pension (and Other Employee Benefit) Trust Funds report resources that are required to be held in trust for members and beneficiaries of the State's pension, death and disability benefit plans. These resources are managed by the Maine Public Employees Retirement System (MPERS). The fund also reports resources that are required to be held in trust for members and beneficiaries of the State and for MPERS' retiree healthcare benefits. The investment trusts, managed by the Maine Public Employees Retirement System,

hold the long-term investments. The trustees of the Healthcare Other Employee Benefit Trust Fund are the State Controller and State Treasurer.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include Abandoned Property, Public Reserved Lands and the Permanent School funds.

Agency Funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples include amounts held for payroll withholdings, inmate and student guardianship accounts.

D. FISCAL YEAR-ENDS

All funds and discretely presented major component units are reported using fiscal years which end on June 30, except for the Maine Educational Loan Authority, Maine State Housing Authority and Maine Turnpike Authority, which utilize December 31 year-ends.

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE

Equity in Treasurer's Cash Pool
The State pools cash and cash equivalents for a variety of State agencies and public sector entities. The pooled balances are reported at fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. The Treasurer's Cash Pool has the general characteristics of a demand deposit account and is comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations, certificates of deposit, and corporate bonds.

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

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

Cash with Fiscal Agent
Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds and unspent proceeds of bonds and Certificates of Participation.

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

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

Investments Held on Behalf of Others
These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. Generally, these investments are reported at fair value or at amortized cost which approximates fair value. The State also holds $102 million of Workers' Compensation, $51.9 million of Bureau of Insurance, and $33.8 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

Restricted Deposits and Investments
Restricted deposits and investments include: unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Governmental Facilities Authority, a blended component unit that has been independently audited; unspent bond proceeds, and funds invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine.

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

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

Receivables
Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units' column arise in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

Interfund Transactions and Balances
Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that transactions between funds were not completed as of June 30, interfund receivables and payables have been recorded in the fund financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Position.

Long-term loans made by one fund to another are classified as "Working Capital Advances Receivable" and "Working Capital Advances Payable." In the fund financial statements, advances receivable are offset by nonspendable fund balance designations indicating that the long-term loans do not constitute expendable financial resources.

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

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

Capital Assets
Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $100 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and proprietary fund equipment is capitalized $5 thousand or more. Governmental and proprietary fund software is capitalized at $1 million or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

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

Capital assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for non-road structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them. The Maine Turnpike Authority (MTA) uses the modified approach for reporting its significant infrastructure assets. As long as MTA maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported.

Deferred Outflows of Resources
Deferred outflows of resources are defined as a consumption of net assets by the government applicable to a future period; they increase net position, similar to assets. Note 15 provides further detail on the components of deferred outflows of resources.

Accounts Payable
Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate recorded at June 30, 2016 is $184.5 million.

Tax Refunds Payable
The amount of collected or accrued tax revenues that will be refunded is estimated and accrued as a General Fund liability.

Claims Payable
Claims payable represent workers' compensation, retiree health, employee health, and other claims payable, including actual claims submitted and actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

Compensated Employee Absences
In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as a long-term liability as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2016 but paid after the fiscal year end is also reported in the funds. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

Net Pension Liability
For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Maine Public Employees Retirement System (MPERS) and additions/deductions from MPERS' fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The primary government's proportionate share of pension amounts were further allocated to proprietary funds based on the salaries paid by each proprietary fund. Pension investments are reported at fair value. Note 9 provides further detail on the net pension liability.

Deferred Inflows of Resources
Deferred inflows of resources are defined as an acquisition of net assets by the government applicable to a future period; they decrease net position, similar to liabilities. Note 15 provides further detail on the components of deferred inflows.

Loans Payable to Component Unit
In the Statement of Net Position, the amount of bond proceeds received by a component unit for unmatured GARVEE, TransCap and Liquor Revenue bond proceeds is called "Loans Payable to Component Unit." The offsetting receivables are classified as "Loans Receivable from Primary Government."

Long-Term Obligations
In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term obligations are recorded as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Net Position/Fund Balances
The difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources is "Net Position" on the government-wide, proprietary and fiduciary fund statements and "Fund Balances" on governmental fund statements.

Fund Balance Restrictions
Fund balances for governmental funds have been classified in accordance with GASB Statement No. 54.

The State reported the following fund balance restrictions:

Nonspendable Fund Balance - indicates items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless those proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted Fund Balances – include balances that are legally restricted for specific purposes due to constraints that are either externally imposed by creditors, grantors, contributors, or imposed by law through a constitutional provision or enabling legislation.

Committed Fund Balances – indicates assets can be used only for specific purposes pursuant to constraints imposed by a formal action of the Maine Legislature through Legislation passed into law.

Assigned Fund Balances – include amounts constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. The State has two types of intent authorized by statute. Management decisions are made in accordance with statutory powers and duties, including encumbrances. Legislative assignments include formal actions passed into law that lapse with the passage of time and do not require additional legislation. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

Unassigned Fund Balance – is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

F. REVENUES AND EXPENDITURES/EXPENSES

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

The State's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, the State's policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. general operations and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating, capital contributions, transfers or special items.

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Appropriation Limits

The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in Title 5 Maine Revised Statutes Annotated (MRSA) § 1665, subsection 1, plus the average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee.

This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits.

The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of, this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Budget Stabilization Fund

The Maine Budget Stabilization Fund, a fund designation established under Title 5 MRSA C. 142, is included in the negative $35.2 million unassigned General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. As the sixth priority before any other transfer, the State Controller is required to transfer 80 percent of the unappropriated surplus of the General Fund when the fund is not at its statutory cap. In accordance with the statute, the State Controller made the required transfer for fiscal year 2016.

The statutory cap for the fund is 18 percent of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2016 actual General Fund revenue, the statutory cap at the close of fiscal year 2016 and during fiscal year 2016 was $605.9 million. At the close of fiscal year 2016, the balance of the Maine Budget Stabilization Fund was $112.4 million. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

Budget Stabilization Fund Activity
(Expressed in Thousands)

Balance, beginning of year	$ 111,083
Increase in fund balance	1,269
Balance, end of year	$ 112,352

Budget and Budgetary Expenditures

The gross unified budget bills and budget document encompass resources from the General Fund, Highway Fund, Federal Expenditures Fund, Federal Block Grant Fund, Other Special Revenue Fund, internal service funds and enterprise funds. Separate gross unified budget bills must be submitted for the General Fund and the Highway Fund. All funds except trust and agency funds, bond funds and costs of goods sold expenditures in internal service funds and enterprise funds are subject to legislative allocation. The biennial budget sets forth proposed expenditures for the administration, operation and maintenance of the departments and agencies of the State Government; all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year. Within this structure, budgetary control by agency is maintained at the program and line category level. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers.

Except in specific instances, only the Legislature may transfer appropriations between departments. Changes in appropriation, allocation, or funding for new programs are presented to the Legislature as supplemental budgets or separate pieces of legislation. For the year ended June 30, 2016, the Legislature decreased appropriations to the General Fund by $3.4 million.

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

Governmental Fund Balances – Restricted, Committed and Assigned

The State's fund balances represent: (1) restricted purposes, which include balances legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature; (3) assigned purposes, which includes balances that are constrained by government's intent to be used for specific purposes, but are neither restricted nor committed. A summary of the nature and purpose of these fund balance types at June 30, 2016 are detailed on the following page.

Governmental Fund Balances
(Expressed in Thousands)

	NSIF	Restricted	Committed	Assigned
General Fund:				
Education	$ -	$ -	$ 21,081	$ -
Governmental Support & Operations	-	7,509	40,451	-
Public Safety		1,365	-	-
Justice & Protection		-	1,149	-
Inland Fisheries & Wildlife	-	3,991	-	-
Agriculture & Conservation	-	-	2,278	-
All Other	2,665	-	-	-
Total	$ 2,665	$ 12,865	$ 64,959	$ -
Highway Fund:				
Transportation Safety & Development	$ -	$ 11,943	$ -	$ -
Light Highway & Bridge Capital	-	21,664	-	-
Transportation - Highway & Bridge Construction	-	15,663	-	-
All Other	-	702	-	-
Total	$ -	$ 49,972	$ -	$ -
Federal Fund:				
HHS Centers for Disease Control	$ -	$ 2,342	$ -	$ -
HHS Office of Family Independence	-	18,822	-	-
HHS Substance Abuse & Mental Health	-	2,562	-	-
HHS Office of Child & Family Services	-	5,120	-	-
Justice & Protection	-	1,107	-	-
Transportation - Highway & Bridge Construction	-	3,667	-	-
All Other	492	3,025	-	-
Total	$ 492	$ 36,645	$ -	$ -
Other Special Revenue Fund:				
Professional & Financial Regulation	$ -	$ 64,103	$ -	$ -
Education	-	5,212	-	-
Economic Development & Workforce Training	-	6,063	3,073	-
Governmental Support & Operations	-	51,512	12,296	22,094
Public Utilities Commission	-	9,804	-	14,002
Workers Compensation Board	-	12,308	-	-
Liquor Bond	-	7,864	-	-
Fund for Healthy Maine	-	-	15,800	-
HHS Licensing & Regulatory Services	-	3,743	-	-
Office of Family Independence	-	2,664	36	-
Substance Abuse & Mental Health	-	-	9,261	-
Centers for Disease Control & Prevention	-	904	7,260	-
MaineCare	-	21,891	-	-
Defense, Veterans & Emergency Management	-	-	2,446	-
Justice & Protection	-	4,059	118	5,012
Public Safety	-	15,332	-	-
Agriculture & Conservation	-	8,660	1,482	15,216
Environmental Protection	-	22,757	1,116	-
Inland Fisheries & Wildlife	-	11,319	-	-
Marine Resources	-	5,475	-	2,294
Highway & Bridge Capital	-	23,362	-	-
Motor Vehicles	-	5,625	-	-
Multimodal Transportation	-	829	13,069	11
Bonds for Highway & Bridge Construction	-	94,978	-	-
All Other	206	1,876	-	2,516
Total	206	380,341	65,957	61,144

Other Governmental Funds:	NSIF	Restricted	Permanent	
Capital Projects - Agriculture & Conservation	$ -	$ 4,080	$ -	$ -
Capital Projects - Higher Education	-	6,343	-	-
Capital Projects - Highway & Bridge Construction	-	29,721	-	-
Capital Projects - Justice & Protection	-	10,124	-	-
Capital Projects - Multimodal Transportation	-	18,548	-	-
Capital Projects - Economic & Community Development	-	9,734	-	-
Capital Projects - Environmental Protection	-	4,725	-	-
Capital Projects - Other	-	147	-	-
Permanent Funds - Baxter Park	-	-	6,905	-
Permanent Funds - All Others	-	-	17,497	-
Special Revenue Funds - Baxter Park	-	71,453	-	-
Special Revenue Funds - All Other	-	148	-	-
Total	$ -	$ 155,023	$ 24,402	$ -

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
During fiscal year ended June 30, 2016, the State implemented the following accounting standard:

GASB Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the uses of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* addresses accounting and financial reporting for certain external investment pools and pool participants. There was no impact on the State's financial statements as a result of implementing GASB 79.

Change in Accounting Estimate
GASB Statements No. 68 and 71 were implemented in fiscal year 2015. These Statements established standards for recognizing pension related costs to each employer and non-contributing entity of the plan. The Statements did not establish specific requirements for an employers to use as a basis for allocating the costs to individual funds. For fiscal year 2015, the State allocated pension costs to individual funds using an average of seven years worth of salary costs. After reconsideration, management changed its allocation basis to reflect a five year rolling average allocation of employer contributions made by each fund. Management believes the new measure more accurately aligns the pension costs, which are directly related to and expected to be paid from, each fund. The impact was a $9.1 million increase (2015 year-end pension costs) being recognized in the Governmental Funds and a matching $9.1 million decrease in the Business Activities Funds.

See Note 18 – Special Items for additional discussion.

Restatements - Component Units
GASB Statements No. 68 and No. 71 were implemented for component units with December 31 year ends. The cumulative effect of implementing GASB Statements No. 68 and No. 71 reduced beginning net position of Maine State Housing Authority and Maine Turnpike Authority by $4.7 million and $10.2 million, respectively. Maine Educational Center for the Deaf and Hard of Hearing, a non-major component unit, restated its opening pension deferred outflows and inflows balances, decreasing its beginning net position by $.3 million.

The Legislature enacted S.P. 544-LD 1443, entitled "An Act to Merge the Maine Educational Loan Authority with the Finance Authority of Maine". As a result, the Maine Educational Loan Authority (MELA), a non-major component unit with a December 31 year end, ceased to exist and its operations were merged into the Finance Authority of Maine (FAME), a component unit with a June 30 year end. The combination was treated as a government merger as if it occurred at the beginning of FAME's fiscal year end. The merger increased FAME's beginning net position by $3.1 million and reduced MELA's by the same amount. The six months of MELA's operations showed an $8 thousand beginning net position that was reduced to zero as a result of the merger.

Three non-major discretely presented component units reduced their beginning net position as a result of correcting their capital asset balances. Northern New England Passenger Rail Authority increased its beginning net position $.9 million, Maine Port Authority increased its net position by $.2 million, and Midcoast Regional Redevelopment Authority increased its net position by $84 thousand.

NOTE 4 - DEFICIT FUND BALANCES/NET POSITION

Five internal service funds showed deficits for the fiscal year ended June 30, 2016. The Workers' Compensation Fund reported a deficit of $28.2 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a deficit of $3.8 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $4.3 million because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. All of the deficits mentioned above are expected to be funded by future service charges. The remaining two internal service funds, Financial and Personnel Services and Information Services, reported deficits of $19.7 million and $14.1 million, respectively. The deficit for those funds is the result of the implementation of GASB Statement No. 68 in Fiscal Year 2015, which requires the recognition of the entire net pension liability.

Three enterprise funds showed deficits for the fiscal year ended June 30, 2016. Maine Military Authority, Dirigo Health and Consolidated Emergency Communication Fund reported deficits of $17.7 million, $858 thousand and $4 million, respectively. The deficit for Maine Military Authority is due primarily to the implementation of GASB Statement No. 68 in fiscal year 2015 which requires the recognition of the entire net pension liability. The remainder of the deficit, $3.9 million, is anticipated to be funded through future service charges. The deficit for Dirigo Health and Consolidated Emergency Communication Fund is the result of the implementation of GASB Statement No. 68 in fiscal year 2015 which requires the recognition of the entire net pension liability.

NOTE 5 - DEPOSITS AND INVESTMENTS

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

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. The Treasurer may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and the consent of the Governor.

Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 36 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 months; prime commercial paper; tax-exempt obligations that mature not more than 36 months from the date of investment and have a long-term rating of no less that "AA" or the equivalent; corporate bonds rated "AAA" that mature within 36 months from the date of investment; banker's acceptances with an original maturity not exceeding 180 days and rated in the highest short-term category by at least one nationally recognized securities rating organization (NRSRO); and "no-load" shares of an investment company registered under the Federal Investment Company Act of 1940, which are rated "AAAm" or "AAAm-G" by Standard & Poor's, or the equivalent by another NRSRO. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by Title 5 MRSA § 138. The Treasurer, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial

Institutions and the Attorney General, shall invest the funds in securities that are legal investments in accordance with Title 9-B MRSA. The investments need not be segregated to the separate trusts, but the identity of each trust must be maintained. The Treasurer may enter into custodial care and servicing contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

No amounts exceeding 25 percent of the capital, surplus, and undivided profits of any trust company or national bank or 25 percent of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

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

The Primary Government's Deposits and Investments, excluding component units that are fiduciary in nature, at June 30, 2016 are as follows:

Primary Government Deposits and Investments
(Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Private Purpose Trusts	Agency Funds	Total
Equity in Treasurer's Cash Pool	$ 769,021	$ 13,795	$ 559	$ 17,285	$ 800,660
Cash and Cash Equivalents	266	2,207	-	28	2,501
Cash with Fiscal Agent	68,269	-	-	-	68,269
Investments	95,868	-	16,855	-	112,723
Restricted Equity in Treasurer's Cash Pool	86,590	-	-	-	86,590
Restricted Deposits and Investments	3,918	370,440	-	323	374,681
Investments Held on Behalf of Others	-	-	-	54,422	54,422
Total Primary Government	$ 1,023,932	$ 386,442	$ 17,414	$ 72,058	$ 1,499,846

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

The following table provides the segmented time distribution of the Primary Government's investments at June 30, 2016:

Maturities in Years
(Expressed in Thousands)

	Less than 1	1 - 5	6 - 10	11 - 20	More than 20	No Maturity	Fair Value
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	$ 9,335	$119,683	$ -	$ -	$ -	$ -	$ 129,018
US Treasury Notes	-	117,044	-	-	-	-	117,044
Corporate Notes and Bonds	-	18,009	-	-	-	-	18,009
Commercial Paper	105,750	-	-	-	-	-	105,750
Certificates of Deposit	53,601	18,096	-	-	-	-	71,697
Cash and Cash Equivalents	749	-	-	-	-	433,531	434,280
Unemployment Fund	-	-	-	-	-	370,440	370,440
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	192	2,391	301	20	966	-	3,870
US Treasury Notes	3,881	9,760	2,022	3,137	96	1,197	20,092
Corporate Notes and Bonds	96	1,639	736	8,776	562	38,877	50,686
Other Fixed Income Securities	10,970	-	8,471	-	-	17,032	36,473
Commercial Paper	2,170	-	-	-	-	-	2,170
Certificates of Deposit	10,414	431	-	-	-	4,199	15,044
Money Market	-	-	-	-	-	2,656	2,656
Cash and Cash Equivalents	-	-	-	-	-	18,413	18,413
Equities	-	-	-	-	-	31,776	31,776
Other	-	-	-	-	-	4,159	4,159
	$197,158	$287,053	$11,530	$11,933	$ 1,623	$ 922,279	$1,431,577
Other Assets							
Cash with Fiscal Agent							68,269
Total Primary Government							$1,499,846

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. The State's investment policy limits its investments to those with high credit quality made by or with the advice and upon the due diligence of the State's independent investment advisor. The State limits credit risk in its trusts by ensuring that the fixed income credit quality at the time of purchase is a minimum bond rating of "A" by either Standard & Poor's or Moody's rating service. Fixed income holdings thereafter shall maintain a minimum bond rating of "BBB".

The Primary Government's total investments by credit quality rating as of June 30, 2016 are presented below:

Standard & Poor's Credit Rating
(Expressed in Thousands)

	A1	A	AA	AAA	BB	BBB	Not Rated	Total
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds								
US Instrumentalities	$ -	$ -	$ 125,849	$ -	$ -	$ -	$ 3,169	$ 129,018
US Treasury Notes	-	-	117,044	-	-	-	-	117,044
Corporate Notes and Bonds	-	-	-	18,009	-	-	-	18,009
Commercial Paper	105,750	-	-	-	-	-	-	105,750
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds								
US Instrumentalities	-	-	2,583	-	-	-	1,287	3,870
US Treasury Notes	-	-	3,296	-	-	-	16,796	20,092
Corporate Notes and Bonds	-	753	433	405	-	994	48,101	50,686
Commercial Paper	2,170	-	-	-	-	-	-	2,170
Money Market	-	-	-	-	-	-	2,656	2,656
Other Fixed Income Securities	-	-	-	-	-	-	4,159	4,159
Total Primary Government	$ 107,921	$ 753	$ 249,205	$ 18,414	$ -	$ 994	$ 76,168	$ 453,454

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than seven percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2016, there were no investments that exceeded five percent of the Treasurer's Cash Pool.

Custodial Credit Risk - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's $80.3 million invested in non-negotiable certificates of deposit, certain CD's exceeded the FDIC insured amounts for the institutions at which they were held. However, certificates of deposits, money market accounts and regular cash deposits are all collateralized at a minimum of 100% with pledged securities or a Federal Home Loan Bank letter of credit. The State does not have a policy regarding custodial credit risk for its trusts. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name.

The fair value of the trust's investments as of June 30, 2016 was $71.4 million and was comprised of the following (expressed in thousands):

U.S. Instrumentalities	$ 1,287
US Treasury Notes	894
Corporate Notes and Bonds	2,324
Other Fixed Income Securities	10,970
Equities	52,187
Cash and Equivalents	1,118
Other	2,604
Total	$ 71,384

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2016 these disbursements, on average, exceeded $168 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

Fair Value Measurements - The State of Maine categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the State of Maine has the ability to access.

Level 2 – Inputs to the valuation method include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques. The three valuation techniques are as follows:

- *Market Approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost Approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income Approach* – Techniques to convert future amount to a single present amount based on market exceptions (including present value techniques).

Following is a description of the valuation methodologies used for assets at fair value.

Investments classified as level 1: Investments classified as level 1 are primarily exchange traded equity securities and other fixed income securities valued at market prices using interactive exchange data.

Investments classified as level 2: Investments classified as level 2 including fixed income corporate bond, fixed income government bonds and treasury notes are priced using a published mid-price. Price sources and hierarchies are set out in Global Pricing Matrices. Market recognized sources for each fixed income asset class, typically provided through main pricing vendors. Market recognized sources include office sources such as GEMMA and evaluated sources for US Government Bonds. In addition, Bloomberg generic (BGN) may be used as a secondary source where required and for validation. Alternate providers such as Markit and index-providers such as Barclays may also be used to supplement pricing on particular asset groups. Bonds and Fixed Income instruments as standard will follow market practice on a clean basis, i.e., without the inclusion of accrued income or similar payments.

Investments classified as level 2 are also priced using selected vendors that price assets on a mark-to-market basis where a market valuation is required. Examples include Commercial Paper, Certificates of Deposit, Discount Notes, Treasury Bills, Floating & Variable Rate Notes, all of which have maturities of less than 1 year. Standard methodology for pricing of short term paper with less than 91 days, held by Money Market Funds (MMF) is to use the "amortized cost" basis (by calculating the value based on a straight line amortization of premium/discount to the original cost). Amortized cost valuation is applied on the LoB's accounting platform as required. Where funds are required to use market value (instead of amortized cost price) or prices required for daily, weekly or monthly "marked to market" (US 2a-7 validation) funds are priced using the following hierarchy:

- Evaluated price from IDC or Reuters
- Amortized cost price, if available
- Original cost price
- Fund manager provides security price

Investments classified as level 3: Investments classified as level 3 include private equities securities that exist in illiquid markets. These securities are broker priced.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the State of Maine believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table set forth by level, within the fair value hierarchy, the State of Maine's assets carried at fair value on a recurring basis as of June 30, 2016:

Fair Value Measurement
(Expressed in Thousands)

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash and Cash Equivalents	$ -	$ 1,118	$ -
Commercial Paper	-	107,920	-
Corporate Bonds and Notes	-	20,702	-
U.S. Instrumentalities	-	129,719	-
U.S. Treasury Notes	894	119,446	-
Other Fixed Income Securities	10,970	8,471	-
Equities	52,187	31,776	-
Other	-	-	2,604
Total	$ 64,051	$ 419,153	$ 2,604

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Maine Public Employees Retirement System (the System) makes investments in a combination of equities, fixed income securities, infrastructure, private equity, real estate, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy.

Derivative Securities – Derivative financial instruments are financial contracts whose value depends on the value of one or more underlying assets, reference rates or financial indices. They include futures, forwards, options, and swap contracts. The System's investments in derivative securities only have nominal exposure to custodial credit risk. Credit risk is managed, in the case of exchange-traded derivatives, by the execution of trades through a clearinghouse and, in the case of over-the-counter transactions, by managers' due diligence assessment and approval of counterparties. Market risk is managed by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and are monitored by the Chief Investment Officer.

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. The System's fixed income managers invest in Collateralized Mortgage Obligations (CMOs) and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. At June 30, 2016, the System did not have any derivative positions in CMOs or Asset-Backed Securities. The System also invests in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities.

Securities Lending - The System has also entered into agreements for securities lending transactions, which are collateralized in an amount generally valued at 102 percent (105 percent for international securities) of the market value of the securities loaned. All securities and loans can be terminated on demand by either the lender or the borrower.

Cash open collateral is invested in a short-term investment pool, the Core Limited Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2016 all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB

Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2016 was $173.2 million and $168.7 million, respectively.

The system did not have any derivative investments as of June 30, 2016 or during the year then ended.

COMPONENT UNITS

Generally, component unit investment policies authorize investments in obligations of U.S. Treasury and Agency Securities, repurchase agreements, corporate bonds, certificates of deposit and money market funds. Some component units may invest in stocks, bonds, fixed income securities, mutual funds, commingled mutual funds and index funds, guaranteed investment contracts, real estate and other investment securities.

Certain component units also invest in the Treasurer's Cash Pool and comprise approximately 9 percent of pool assets. The component units reported their participation as either Cash and Cash Equivalents or Investments on their financial statements. The State reclassified $63 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes $12.4 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements as invested in the Treasurer's Cash Pool.

NOTE 6 - RECEIVABLES

Receivable balances are segregated by type, and presented in the fund financial statements net of allowance for uncollectibles. The following tables disaggregate amounts considered to be uncollectible by fund and type of receivable as of the close of the fiscal year:

Primary Government – Receivables
(Expressed in Thousands)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$ 518,106	$ 160,026	$ 1	$ (177,177)	$ 500,956
Highway	23,099	2,722	-	(68)	25,753
Federal	-	126,872	-	(34,753)	92,119
Other Special Revenue	12,451	92,340	5,761	(17,050)	93,502
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	553,656	381,960	5,762	(229,048)	712,330
Allowance for Uncollectibles	(115,590)	(113,407)	(51)		
Net Receivables	$ 438,066	$ 268,553	$ 5,711		$ 712,330
Proprietary Funds:					
Employment Security	$ -	$ 54,122	$ -	$ (24,348)	$ 29,774
Nonmajor Enterprise	-	28,995	-	(201)	28,794
Internal Service	-	1,727	-	-	1,727
Total Proprietary Funds	-	84,844	-	(24,549)	60,295
Allowance for Uncollectibles	-	(24,549)	-		
Net Receivables	$ -	$ 60,295	$ -		$ 60,295

Component Units – Receivables
(Expressed in Thousands)

	Accounts	Loans and Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$ 2,202	$ 118,902	$ (4,284)	$ 116,820
Maine Community College System	6,981	-	(1,106)	5,875
Maine Health and Educational Facilities Authority	1,284	656,676	(116)	657,844
Maine Municipal Bond Bank	918	-	-	918
Maine State Housing Authority	16,814	1,227,019	(10,128)	1,233,705
Maine Turnpike Authority	4,709	-	-	4,709
University of Maine System	49,289	42,751	(7,426)	84,614

NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivables and payables represent amounts owed to one State fund by another, for goods sold or services received, or for borrowings to eliminate negative balances in the Treasurer's Cash Pool.

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2016 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	General	Highway	Federal	Other Special Revenue	Other Governmental
General	$ -	$ -	$ 873	$ -	$ -
Highway	11	14	11,647	1	-
Federal	10	1	156	9	-
Other Special Revenue	6,960	321	1,116	802	23
Other Governmental	-	-	-	-	-
Employment Security	-	-	277	-	-
Non-Major Enterprise	1,349	13	-	-	-
Internal Service	11,178	3,627	3,145	4,526	-
Fiduciary	33,242	-	-	-	-
Total	$ 52,750	$ 3,976	$ 17,214	$ 5,338	$ 23

Due from Other Funds	Employment Security	Non-Major Enterprise	Internal Service	Fiduciary	Total
General	$ -	$ 6,305	$ 4,852	$ 83	$ 12,113
Highway	-	-	6	-	11,679
Federal	-	-	-	-	176
Other Special Revenue	-	4,641	200	-	14,063
Other Governmental	-	-	-	-	-
Employment Security	-	46	-	-	323
Non-Major Enterprise	-	-	-	-	1,362
Internal Service	-	1,049	2,080	14	25,619
Fiduciary	-	-	-	-	33,242
Total	$ -	$ 12,041	$ 7,138	$ 97	$ 98,577

Not included in the table above are interfund loans/advances, which are not expected to be repaid within one year. Postal, Printing & Supply (an internal service fund) owes $111 thousand to the General Fund for operating capital.

Transfers are made in accordance with statutory authority. Significant transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the funds required to pay debt service as principal and interest payments come due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Lottery Fund, 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute and 6) move profits from the Alcoholic Beverages Fund.

During fiscal year 2016, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers.

The Other Special Revenue Fund and the Dirigo Health Non-Major Enterprise Fund transferred $1.8 and $1.0 million, respectively, to the unappropriated surplus of the General Fund. The General Fund transferred $13.4 million to the Other Special Revenue Cost Recovery Fund within the Public Utilities Commission.

Interfund transfers for the year ended June 30, 2016, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 4,451	$ 14,962	$ -
Highway	1,555	-	17,665	6,626	-
Federal	75	-	-	9,570	-
Other Special Revenue	135,080	5,710	1,139	9,639	1,505
Other Governmental Funds	-	-	-	-	1,436
Employment Security		-	495	-	-
Non-Major Enterprise	-	5,112	-	-	-
Internal Service	10,286	-	-	5	-
Fiduciary	-	-	-	-	616
Total	$ 146,996	$ 10,822	$ 23,750	$ 40,802	$ 3,557

	Transferred From				
Transferred To	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 67,612	$ 100	$ 4,684	$ 91,809
Highway	-	-	-	-	25,846
Federal	3,546	-	-	-	13,191
Other Special Revenue	-	35,365	-	643	189,081
Other Governmental Funds	-	-	-	-	1,436
Employment Security	-	-	-	-	495
Non-Major Enterprise	-	-	-	-	5,112
Internal Service	-	-	14,377	-	24,668
Fiduciary	-	-	-	-	616
Total	$ 3,546	$ 102,977	$ 14,477	$ 5,327	$ 352,254

NOTE 8 - CAPITAL ASSETS

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2016:

Primary Government – Capital Assets
(Expressed in Thousands)

	Beginning Balance	Increases and Other Additions	Decreases and Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 591,764	$ 20,521	$ 455	$ 611,830
Construction in progress	130,856	20,682	113,350	38,188
Infrastructure	2,788,032	36,671	-	2,824,703
Total capital assets not being depreciated	3,510,652	77,874	113,805	3,474,721
Capital assets being depreciated:				
Buildings	692,889	82,043	2,739	772,193
Equipment	272,774	51,040	30,418	293,396
Improvements other than buildings	80,725	15,558	32	96,251
Software	74,621	1,171	2,733	73,059
Total capital assets being depreciated	1,121,009	149,812	35,922	1,234,899
Less accumulated depreciation for:				
Buildings	290,042	23,214	2,602	310,654
Equipment	181,613	26,310	26,696	181,227
Improvements other than buildings	46,337	3,855	32	50,160
Software	29,704	8,345	-	38,049
Total accumulated depreciation	547,696	61,724	29,330	580,090
Total capital assets being depreciated, net	573,313	88,088	6,592	654,809
Governmental Activities Capital Assets, net	$ 4,083,965	$ 165,962	$ 120,397	$ 4,129,530

	Beginning Balance	Net Additions	Net Deletions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 2,387	$ -	$ -	$ 2,387
Construction in progress	2,838	37	2,484	391
Total capital assets not being depreciated	5,225	37	2,484	2,778
Capital assets being depreciated:				
Buildings	4,655	-	-	4,655
Equipment	32,572	39	40	32,571
Improvements other than buildings	41,124	1,633	-	42,757
Total capital assets being depreciated	78,351	1,672	40	79,983
Less accumulated depreciation for:				
Buildings	2,501	134	-	2,635
Equipment	11,535	1,529	24	13,040
Improvements other than buildings	26,882	1,546	-	28,428
Total accumulated depreciation	40,918	3,209	24	44,103
Total capital assets being depreciated, net	37,433	(1,537)	16	35,880
Business-Type Activities Capital Assets, net	$ 42,658	$ (1,500)	$ 2,500	$ 38,658

During the fiscal year, depreciation expense was charged to the following functions in the governmental activities column of the Statement of Activities for the primary government:

Governmental Activities – Depreciation Expense
(Expressed in Thousands)

	Amount
Governmental Activities:	
Arts, Heritage and Cultural Enrichment	$ 75
Business Licensing and Regulation	415
Economic Development and Workforce Training	1,598
Education	336
Governmental Support and Operations	16,143
Health and Human Services	8,998
Justice and Protection	17,628
Natural Resources Development and Protection	4,120
Transportation Safety and Development	12,411
Total Depreciation Expense – Governmental Activities	$ 61,724

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

OVERVIEW OF THE SYSTEM

The Maine Public Employees Retirement System, formerly named the Maine State Retirement System (the System) is a component unit of the State of Maine. Title 5 MRSA C. 421, 423, and 425 authorized the establishment and administration of the defined benefit plans. The System administers two cost sharing multiple employer defined benefit plans, two single employer defined benefit plans and one closed agent multiple-employer defined benefit plan. All of these plans provide pension, disability, and death benefits to their members.

The State Employees and Teachers Plan (SETP) is a multiple-employer cost sharing plan with a special funding situation. The plan covers employees of the State and public school employees (defined by Maine law as teachers). The State of Maine is also a nonemployer contributing entity in that the State pays the unfunded actuarial liability on behalf of non-grant funded teachers. School districts contribute the normal cost, calculated actuarially, for their teacher members and directly pay the unfunded actuarial liability on behalf of grant funded teachers. The Participating Local Districts Plan (Consolidated PLD) covers employees of approximately 300 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes.

The System also provides single employer defined benefit plans to cover State legislators and State Judicial employees and administers a closed agent, multiple-employer defined benefit plan (Agent PLD) which covers those employers for whom the System administered single employer plans at the time the PLD Consolidated Plan was implemented who opted not to join the Consolidated Plan.

In addition to administrating pension plans, the System invests funds accumulated for two OPEB Trusts. The Retiree Health Insurance Trust Fund accumulates assets to provide funding for the State's unfunded obligations for retiree health benefits. Trustees of the System were named Trustees of the Investment Trust Fund. The System also invests funds for the MainePERS OPEB Trust. The trust accumulates assets to provide funding for retiree health benefits and life insurance in retirement for qualified individuals who retire from the System. The Trustees of the System were named Trustees of the MainePERS OPEB Trust.

The System administers three defined contribution plans for employees of PLD's that elect to participate. At June 30, 2016, there were 74 employers participating in these plans. The 1,034 participants individually direct the $29.1 million covered by the plans.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2016 report may be obtained from the Maine Public Employees Retirement System, PO Box 349, Augusta, ME 04332-0349 or on-line at www.mainepers.org.

Total pension funds managed by the System are constitutionally restricted and held in trust for the payment of pension and related benefits to its members. OPEB funds are statutorily restricted for the payment of retiree healthcare. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. With respect to the SETP, the actuary prepares valuations for the State's portion of the SETP, including the segregation of teachers from employees.

The System also provides group life insurance under a plan administered by a third party insurance company and invests long-term assets for two Retiree Health Insurance Post-Employment Benefits Investment Trust Funds. Note 10 provides for further disclosure.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The System's financial statements are prepared on the accrual basis of accounting. Pension contributions are recognized as additions in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized when earned. Contributions to defined contribution plans are recognized in the period they are contributed. Pension benefits and contributions and premium refunds are recognized as deductions when due and payable in accordance with Statutes. Benefits payable incurred but not reported are reflected as other liabilities. Distributions from defined contribution plans are recognized in the period the disbursement is made.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the defined benefit retirement plans and additions to or deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the System. The measurement period used is June 30, 2015. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

EMPLOYER ALLOCATIONS FOR COST-SHARING DEFINED BENEFIT RETIREMENT PROGRAMS

Schedules of Employer Allocations for the SETP are displayed separately for the two groups within the Plan, state employees being one group and teachers the second. This is to reflect the unique funding arrangement that currently exists within the Plan for teachers. Total employer contributions for the state employees group, adjusted for employer-specific liability contributions, were used as the basis for allocation. For the teacher group, total employer and non-employer contributions were the basis for the allocation, adjusted to remove the normal cost contributions paid by local school districts on behalf of their employees. This leaves contributions toward the unfunded liability of the Plan as the basis of allocation. This method of allocation properly distributes the collective net pension liability between the State of Maine as the non-employer contributing entity and those districts contributing towards the unfunded liability of the plan using grant funding.

The Schedules of Employer Allocations for the PLD Consolidated Plan reflect current year employer contributions, adjusted to remove contributions related to employer specific liabilities to the Plans. For the PLD Plan, certain employers have individual un-pooled pension assets resulting from the closure of individual single employer plans upon joining the PLD Consolidated Plan. For these employers, current year contributions are adjusted to reflect the gross contributions due for service prior to applying an offset from these assets, if applicable. An offset occurs when an employer with un-pooled pension assets held by the System chooses to use a portion of these assets to cover the cost of current contributions due.

MEMBERSHIP

State employees and teachers are covered under the Maine Public Employees Retirement System's State Employee and Teacher Retirement Program (SETP). State employees and public school teachers are required by law to become members of SETP when hired. Membership is optional for elected, appointed officials and substitute teachers. SETP also covers eligible employees of three non-major discretely presented State component units: Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, and the Northern New England Passenger Rail Authority. At June 30, 2016 there were 236 employers, including the State of Maine, participating in the plan.

PLD employees become members of the Consolidated PLD plan when they are hired if their employer participates as a PLD in MainePERS at that time and if they meet the membership eligibility requirements in effect when they are hired. For some PLD employees, membership is optional. These employees include those employed by their PLD before the PLD joined MainePERS, those whose employers provide Social Security under a federal law, elected and appointed officials, and chief administrative officers. The Consolidated PLD plan includes employees of three component units of the State that have defined benefit plans: Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine Public Employees Retirement System.

The System also administers two single employer retirement programs for specific State employees. The Legislative Retirement Program was established to provide a retirement program for those serving in the Maine Legislature. Except as provided otherwise by statute, membership in the Maine Legislative Retirement Program is mandatory for legislators entering service on or after December 3, 1986. The Judicial Retirement Program was established to provide a retirement program for Maine's judges. Membership in the Judicial Retirement Program is a condition of employment for all judges serving on or after December 1, 1984.

Membership in each single employer defined benefit plan consisted of the following at the measurement date of June 30, 2015:

Employees of single employer covered by benefit terms

	Judicial	Legislative
Inactive employees or beneficiaries currently receiving benefits	71	170
Terminated participants:		
Vested	3	127
Inactive employees due refunds	1	115
Active employees	56	180
Total participants	131	592

STATE EMPLOYEES AND TEACHERS PENSION PLAN BENEFITS

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit of members who retire before normal retirement age by virtue of having at least 25 years of service credit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

PARTICIPATING LOCAL DISTRICTS PLAN BENEFITS

In the event that a member of the Consolidated PLD Plan withdraws from the System, its individual employee-members remain contributing members. The PLD remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members; and for those active employees, whether or not vested, who remain contributing System members.

CONTRIBUTION INFORMATION

Contributions from members, employers and non-employer contributors and earnings from investments fund the retirement benefits. Disability and death benefits are funded by employer normal cost contributions and investment earnings. Member and employer normal cost contributions are each a percentage of applicable member compensation. Member contribution rates are defined by law or Board rule and depend on the terms of the plan under which a member is covered. Employers' contribution rates are determined by actuarial valuations.

The Maine Constitution, Maine statutes and the System's funding policy provide for periodic employer contributions in addition to the normal cost contributions for the SETP. These are actuarially determined amounts that, based on certain actuarial assumptions are sufficient to fully fund, on an actuarial basis, the SETP by the year 2028 (Unfunded Actuarial Accrued Liability (UAAL) payments). Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State employee and Teacher Retirement Program. For participating employers in the PLD Agent Plan, the level percentage of payroll method is also used.

The UAAL rate as applied to State employee members' compensation is first established through the annual valuation process as an amount that will meet the required unfunded actuarial accrued liability payment amount; it is then adjusted in the State's budget process to take into account differences in salary growth projections of the State Budget Office. This adjusted rate, expressed as a percentage of payroll, is the actual rate paid by the State as payment of the required UAAL payment amount for State employees. For teachers, the actuarially determined UAAL amount is paid in 12 equal monthly installments. PLD employer contribution rates are actuarially determined rates.

On occasion, the State may agree to pay employee pension contributions as a part of the compensation and benefits that are negotiated with employees. The employer-paid contributions are treated as part of their pension compensation. In accordance with statute, the actuary treats these payments as employer contributions and accumulates them in the Retirement Allowance Fund. Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently five percent.

CONTRIBUTION RATES – DEFINED BENEFIT PENSION PLANS

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

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

Contribution rates[1] in effect for the fiscal years ended June 30, 2016 and June 30, 2015 are as follows:

	June 30, 2016	Measurement Date June 30, 2015
SETP - State Employees		
Employees [2]	7.65 - 8.65%	7.65 - 8.65%
Employer [1]	21.64 - 41.59%	18.43 - 41.05%
SETP - Teachers		
Employees [2]	7.65%	7.65%
Employer [1]	2.65%	2.65%
Non-employer entity [1]	10.02%	13.03%
Judicial Plan		
Employees [2]	7.65%	7.65%
Employer [1]	14.99%	13.24%
Legislative Plan		
Employees [2]	7.65%	7.65%
Employer [1]	0.00%	0.00%
Consolidated Participating Local Entities		
Employees [2]	4.0 - 9.0%	3.5 - 8.5%
Employer [1]	4.4 - 14.0%	4.0 - 13.4%

[1] Employer and non-employer contribution rates include normal cost and the UAAL required payment, expressed as a percentage of payroll.

[2] Employer and employee contribution rates vary depending on specific terms of plan benefits for certain classes of employees.

For the year ended June 30, 2016, the contributions recognized as part of pension expense (grant expense for Teacher Members) for each plan were as follows:

(Expressed in Thousands)

State Employee and Teacher Pension Plan:	
State & Component Unit Members	
State Employees	$ 121,035
3 Discrete Non-major Component Units	8,251
Subtotal State & Component Unit Members	129,286
Teacher Members (Non-employer contribution)	$ 152,928

NET PENSION LIABILITY – SINGLE EMPLOYER

The State is the sole employer for two defined benefit pension plans. The State's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by a March 2016 actuarial valuation as of that date. The changes in net pension liabilities for these plans are as follows:

(Expressed in Thousands)

	Judicial Pension Plan			Legislative Pension Plan		
	Increase (Decrease)			Increase (Decrease)		
	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)	(a)	(b)	(a) - (b)
Balances at June 30, 2015	$ 54,561	$ 57,190	$ (2,629)	$ 7,505	$ 11,120	$ (3,615)
Changes for the year:						
Service Cost	1,606		1,606	451		451
Interest	3,863		3,863	545		545
Changes in Benefit Terms	28		28	4		4
Differences Between Expected and Actual Experience	2,238		2,238	(508)		(508)
Benefit Payments, Including Refunds	(3,384)	(3,384)	-	(439)	(439)	-
Employer Contributions		979	(979)		4	(4)
Member Contributions		550	(550)		193	(193)
Net Investment Income		1,055	(1,055)		206	(206)
Administrative Expense		(49)	49		(9)	9
Net Changes	4,351	(849)	5,200	53	(45)	98
Balances at June 30, 2016	$ 58,912	$ 56,341	$ 2,571	$ 7,558	$ 11,075	$ (3,517)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability			95.6%			146.5%
Covered Employee Payroll			$ 7,186			$ 2,528
Net Pension Liability as a Percentage of Covered Employee Payroll			35.8%			-139.2%

COLLECTIVE NET PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS – COST SHARING PLANS

The State's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by a March 2016 actuarial valuation as of that date. The State's net pension liability is measured as the proportionate share of the net pension liability. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers and non-employer contributors, actuarially determined. The State's proportionate share of the collective net pension liability for each plan at June 30, 2016 and June 30, 2015 is as follows:

(Expressed in Thousands)

Pension Plan		Proportionate Share June 30, 2015	Proportionate Share June 30, 2016	Net Pension Asset June 30, 2016	Net Pension Liability June 30, 2016
SETP - State Employees	1	92.853946%	92.825250%	$ -	$ 950,597
SETP - Teachers	2	95.069591%	95.036038%	-	1,283,099
Total Primary Government				$ -	$ 2,233,696
SETP - 3 Non-major Discrete Component Units	1	7.146054%	7.174750%	$ -	$ 73,475

1 Percentage of State Employees in the SETP

2 Percentage of employer and non-employer contributors to the SETP - Teachers

The State's SETP – State Employee Plan is allocated to governmental and proprietary funds based on employer contributions as follows:

Proportion	June 30, 2015	June 30, 2016	Change Increase (Decrease)
Governmental Funds	89.31%	89.70%	0.39%
Internal Service Funds	8.12%	7.68%	-0.44%
Enterprise Funds	2.57%	2.62%	0.05%

Detailed information about the pension plan's fiduciary net position is available in the separately issued Maine Public Employees Retirement System financial report.

For the cost-sharing defined benefit pension plans it shows:

(Expressed in Thousands)

Schedule of Changes in Net Pension Liability	**SETP State of Maine**	**Combined Totals for 3 Non-major Discrete Component Units**	**Total State of Maine Employees SETP**	**SETP Teachers**
Total Pension Liability				
Service Cost	$ 68,570	$ 5,300	$ 73,870	$ 117,658
Interest	281,653	21,770	303,423	558,259
Changes in Benefit Terms	3,898	-	3,898	5,880
Differences Between Expected and Actual Experience	(31,819)	(2,459)	(34,278)	(10,009)
Benefit Payments, Including Refunds of Member Contributions	(259,181)	(20,033)	(279,214)	(443,359)
Net Change in Total Pension Liability	63,121	4,578	67,699	228,429
Beginning Total Pension Liability	4,047,976	291,875	4,339,851	7,980,308
Ending Total Pension Liability	4,111,097	296,453	4,407,550	8,208,737
Plan Fiduciary Net Position				
Employer Contributions	120,290	8,996	129,286	38,405
Non-employer Contributions	-	-	-	152,928
Member Contributions	32,754	2,531	35,285	88,243
Net Investment Income	58,902	4,552	63,454	128,369
Benefit Payments, Including Refunds of Member Contributions	(259,181)	(20,033)	(279,214)	(443,359)
Administrative Expense	(2,758)	(213)	(2,971)	(5,945)
Net Change in Plan Fiduciary Net Position	(49,993)	4,167	(54,160)	(41,359)
Beginning Plan Fiduciary Net Position	3,205,240	232,398	3,437,638	6,899,978
Ending Plan Fiduciary Net Position	3,155,247	236,565	3,383,478	6,858,619
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	(5,253)	5,253	-	-
Ending Net Pension Liability	$ 950,597	$ 65,141	$ 1,024,072	$ 1,350,118
Proportion				
June 30, 2016	92.825250%	7.110363%	100%	95.036038%
June 30, 2015	92.853946%	7.146054%	100%	95.069591%
Change - Increase (Decrease)	0.028696%	0.035691%	0%	0.033553%

Actuarial assumptions used by the System's plans are as follows:

All Plans

Valuation dates	June 30, 2015

Actuarially determined contribution rates are calculated based on a 2012 actuarial valuation developed as a roll-forward of the 2011 actuarial valuation, adjusted for expected experience and any assumption or methodology changes during fiscal year end 2012 using actual assets as of June 30, 2012.

Actuarial cost method	Entry age normal
Asset valuation method	3 - Year smoothed market
Cost-of-Living	Benefit changes. By law, the COLA is based on the Consumer Price Index for Urban Consumers (CPI-U) as of June 30th applied to the statutory COLA base. If the percentage is negative, then no adjustment is made in that year. In subsequent years the adjustment that would have been made will be adjusted downward to the extent necessary to recoup the full actuarial value of not having made the previous year's negative adjustment. This process of adjustment may occur over a multi-year period if needed to recoup the full actuarial value of the negative CPI-U. The MainePERS Board of Trustees set the 2014 COLA at 2.1% (the CPI-U at June 30, 2014) at their August meeting. Cost-of-living adjustments are effective September 1. Retirees are eligible to receive a cost-of-living adjustment after being retired for at least 12 months, except that retirees with less than 10 years of service on July 1, 1993 who retire prior to normal retirement age are not eligible to receive a cost-of-living adjustment until 12 months after reaching normal retirement age. The maximum annual limit is 3% of up to the first $20,000 of annual benefit, indexed. This is a permanent increase in retiree's benefit. The $20,000 COLA base is indexed each year going forward by the same percentage as the COLA that is paid.
Investment rate of return used for contributions in 2012	7.25%
Investment rate of return	7.125%
Salary increases	3.5% plus merit component based on employee's years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA. For teachers, the same table uses a 2-year set back.
Most recent review of plan experience:	2011

Plan specific	**SETP**	**PLD** (The State is not an employer in this plan)	**Judicial**	**Legislative**
Amortization method	Level percent of payroll, closed 16-year amortization of the 2012 UAL	Corridor method, amortize liability outside of 90% corrider over an open 15 year period with level percent of payroll. Moving towards full actuarial funding.	Level percent of payroll, open 10-year amortization of the 2012 UAL	Level percent of payroll, open 10-year amortization of the 2012 UAL
Cost of living increases in benefits	2.55%	3.12%	2.55%	2.55%
Retirement age	Normal retirement age for State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute.	Normal retirement age for PLD members is age 60 or 65.	100% retirement assumed to occur at age 60 for members with at least 10 years of creditable service on July 1, 1993. For members with less than 5 years of creditable service on July 1, 2001, 50% are assumed to retire each year after reaching age 65.	100% retirement assumed to occur at age 60 for members with at least 10 years of creditable service on July 1, 1993. For members with less than 5 years of creditable service on July 1, 2001, 50% are assumed to retire each year after reaching age 65.
Changes since the last valuation				
Revised 2015 Investment rate of return	N/A	7.125%	N/A	N/A

ANNUAL PENSION COST AND NET PENSION LIABILITY

For the year ended June 30, 2016, the State recognized pension expense of $140,053 which includes $58,341 of teacher pensions recorded in grant expense. At June 30, 2016, the State reported $314,254 of deferred outflows of resources and $135,903 of deferred inflows of resources related to its pension plans. Deferred outflows of resources of $258,407 relate to the State contributions that were made subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense over the next four years. Information by pension plan is as follows:

(Expressed in Thousands)

	SETP State of Maine		Combined Totals for 3 Non-Major Discrete Component Units		Total State of Maine Employees SETP		SETP Teachers		Legislative		Judicial	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience demographic and economic	$ -	$ 25,577	$ -	$ 1,977	$ -	$ 27,554	$ -	$ 8,909	$ -	$ 254	$ 1,119	$ -
Changes of assumptions	17,342	-	1,341		18,683	-	35,354	-	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	30,090		2,326	-	32,416	-	58,019	-	94	-	527
Changes in proportion and differences between State contributions and proportionate share of contributions	1,186	2,808	1,883	261	3,069	3,069	846	9,625	-	-	-	-
State and component unit contributions subsequent to the measurement date	145,174	-	8,303	-	153,477	-	112,155	-	9	-	1,069	-
Total	$163,702	$ 58,475	$11,527	$ 4,564	$175,229	$ 63,039	$148,355	$ 76,553	$ 9	$ 348	$ 2,188	$ 527

For the Year Ended	SETP State of Maine	Combined Totals for 3 Non-Major Discrete Component Units	Total State of Maine Employees SETP	SETP Teachers	Legislative	Judicial
2017	(20,235)	169	(20,066)	(21,060)	(324)	746
2018	(31,616)	(2,430)	(34,046)	(45,204)	(70)	(372)
2019	(20,997)	(1,623)	(22,620)	(41,965)	(70)	(372)
2020	32,901	2,544	35,445	67,876	116	590
2021	-	-	-	-	-	-

The long-term expected rate of return on pension plan assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equities	20%	5.2%
Non-U.S. Equities	20%	5.5%
Private Equity	10%	7.6%
Real Assets:		
Real Estate	10%	3.7%
Infrastructure	10%	4.0%
Hard Assets	5%	4.8%
Fixed Income	25%	0.7%

The discount rate used to measure the collective total pension liability was 7.125 percent for the 2015 and 2014 actuarial valuations for the State Employee and Teacher Plan. The PLD Plan used 7.125 percent for the 2015 actuarial valuation and 7.25 percent for the 2014 actuarial valuation. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and non-employer entity contributions will be made at actuarially determined, contractually required rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table shows how the collective net pension liability would change if the discount rate used was one percentage point lower or one percentage point higher than the current rate. The current rate used for all plans is 7.125 percent.

(Expressed in Thousands)

Defined Benefit Plans Administered through MPERS	1% Decrease (6.125%)	Current Discount Rate (7.125%)	1% Increase (8.125%)
State Employee and Teacher Pension Plan:			
State & Component Unit Members			
State Employees	$ 1,410,329	$ 950,597	$ 562,507
Maine Community College System	100,897	68,007	40,242
Maine Educational Center for the Deaf and Hard of Hearing	7,025	4,735	2,802
Northern New England Passenger Rail Authority	1,087	733	434
Subtotal State & Component Unit Members	1,519,338	1,024,072	605,985
Teacher Members	2,363,737	1,350,118	505,891
Total State Employee and Teacher Pension Plan	$ 3,883,075	$ 2,374,190	$ 1,111,876
Judicial Pension Plan	7,745	2,571	(1,946)
Legislative Pension Plan	(2,736)	(3,517)	(4,174)
Consolidated Participating Local Districts Plan	635,636	319,047	18,901

Changes in net pension liability are recognized in pension expense with the following exceptions:

Differences Between Expected and Actual Experience The difference between actual and expected experience with regard to economic or demographic factors were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. For 2015, this was two years for the Legislative and Judicial Plans, three years for the State Employee and Teacher Plan and four years for the PLD Consolidated Plan.

Differences Between Projected and Actual Investment Earnings Differences between projected and actual investment earnings were recognized in pension expense using a straight-line amortization method over a closed 5 year period.

Changes in Assumptions Differences due to changes in assumptions about future economic or demographic factors or other inputs were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. There were no changes in assumptions for the Legislative, Judicial Plans and State Employee and Teacher Plans. For the PLD Plan, the discount rate was decreased from 7.25 percent to 7.125 percent and the cost of living benefit increase assumption was changed from 3.12% to 2.55.

Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions Differences resulting from a change in proportionate share of contributions and differences between total employer contributions and the employer's proportionate share of contributions were recognized in pension expense using a straight-line amortization method over a closed period equal to the average expected remaining service lives of active and inactive members in each plan. Differences between total employer contributions and the employer's proportionate share of contributions may arise when an employer has a contribution requirement for an employer specific liability.

See Note 17 regarding plan assumptions changed for the June 30, 2016 actuarial valuations.

COMPONENT UNIT PARTICIPANTS
The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine Public Employees Retirement System have defined benefit pension plans. All are participating local entity participants in plans administered by the Maine Public Employees Retirement System.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

POST-RETIREMENT HEALTHCARE PLANS
The State sponsors and contributes to two defined benefit healthcare plans: a sole employer plan for its employees, and county and municipal law enforcement officers and firefighters (First Responders). Each plan provides medical benefits to eligible retired employees and beneficiaries. Statute prescribes what portion of health insurance costs are funded by the State.

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

The State pays 100 percent of postretirement health insurance premiums for state employee retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Per Title 5 MRSA § 285 paragraphs 2 and 3, coverage depends upon terms and conditions contained in collective bargaining agreements with the State Health Commission. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. Retirees must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees ineligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse.

Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent of the retiree-only premium. The rate is based on a single rate for single and employee plus children coverage, or 50 percent of the two party rate for two party and family coverage.

For State employees and teachers, other options exist. Part-time employees are eligible for prorated benefits. Retirees who worked 50 percent or more of full-time hours receive 100 percent of the benefit. Surviving spouses and dependents may continue in the plan and pay 100 percent of the premium. Retirees ineligible for a State contribution are allowed to participate and pay the retiree premium.

County and municipal law enforcement officers and municipal firefighters began coverage in Fiscal Year 2008 with the State contributing 45 percent of the retiree-only premium of their respective plans. The State's premium subsidy is based on the Title 5 MRSA § 285 paragraph 11-A C cost of the retiree's share of the individual premium for the standard plan identified and offered under the group health insurance plan in which the retiree enrolls. The State subsidy ends after the retiree is eligible for Medicare. First Responders are eligible if they retire after age 50 with 25 or more years of service and receive a retirement benefit from either the MPERS or a defined contribution plan. If retirees have fewer than 25 years of service, the normal retirement benefit must be at least 50 percent of final average compensation. Retirees must also participate in their employer's health insurance plan or other fully insured health plan for at least five years. Retirees can elect to participate in the plan at their retirement date. If participation is waived at that time, the retiree is ineligible to participate at a later date.

The State also administers a fourth defined benefit healthcare plan, Ancillary Group Plan, which covers two non-major discretely presented component units. Under the Ancillary Group Plan, the State acts as the plan administrator only.

Beginning in the fiscal year ending June 30, 2008, each participating employer was required by GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

PLAN MEMBERSHIP
Membership in the four healthcare plans is as follows:

	State Employees	Teachers	First Responders	Ancillary Groups
Actives	12,299	27,039	913	77
Retirees	10,160	10,386	98	42
Total	22,459	37,425	1,011	119
Number of employers	1	229	58	2
Contributing entities	1	1	1	2

STATE EMPLOYEES PLAN FUNDING POLICY
Title 5 MRSA § 286-B authorized an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or less from July 1, 2007.

Public Law 2007, Chapter 240, amended Title 5 Chapter 421 by establishing the Irrevocable Trust for Other Post-employment Benefits. MPERS holds and invests long-term funds in the irrevocable trust fund. Its fiduciary responsibilities include setting investment policy in order to fund the plan in accordance with a projected disbursement schedule that does not begin before the year 2027.

TEACHERS PLAN AND FIRST RESPONDERS PLAN FUNDING

A special funding situation exists for these plans. The State is statutorily responsible for contributions to the Teachers Plan and the First Responders Plan that cover the retirees of other governmental entities. The State is the sole contributing entity for Teachers and the primary contributing entity for the First Responders, therefore, making the contribution on behalf of the employing jurisdictions at a 45 percent level for the current portion of the health plan costs and are not included in the Trust.

Public Law 2011, Chapter 380 Pt. Y § 2 established separate Irrevocable Trust Funds for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust funds. Annually, beginning with the fiscal year starting July 1, 2011, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability for eligible first responders in 30 years or less from July 1, 2007. Public Law 2013, Chapter 368 Pt. H §2 amended the starting date for funding teachers. As amended annually beginning with the fiscal year starting July 1, 2015, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability at June 30, 2006 for eligible teachers in 30 years or less from July 1, 2007.

No implied subsidy is calculated for either plan. The State does not pay for any of the costs of active employees. The State limited its contribution to 45 percent of the retiree-only premium.

ANCILLARY GROUP PLAN

The following plan, administered by the State, is financially independent and is not included in the State Retiree Health Internal Service Fund. This multiple-employer agent postemployment benefit plan covers 42 retirees of two non-major component units: Maine Educational Center for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. All active employees participate in the State Employee Group Health Insurance Plan. All eligible retired employees who elect coverage are included in this plan. The State Employee Health Commission establishes premiums annually.

ANNUAL OPEB COST

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	Teachers	First Responders
Annual required contribution	$ 88,000	$ 48,000	$ 1,883
Interest on net OPEB obligation	9,000	9,000	268
Adjustment to annual required contribution	(18,000)	(17,000)	(496)
Annual OPEB cost	79,000	40,000	1,655
Contributions made	67,000	27,000	669
Increase (decrease) in net healthcare obligation	12,000	13,000	986
Net healthcare obligation beginning of year	148,000	211,000	6,688
Net healthcare obligation end of year	$ 160,000	$ 224,000	$ 7,674

The annual OPEB cost for the current year, the percentage of annual OPEB cost contributed to the plan, and the net OPEB (asset) obligation for each plan are as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
State Employees	6/30/2016	79,000	84.81%	160,000
	6/30/2015	75,000	89.33%	148,000
	6/30/2014	92,000	68.73%	140,000
Teachers	6/30/2016	40,000	67.50%	224,000
	6/30/2015	38,000	68.42%	211,000
	6/30/2014	38,000	65.67%	199,000
First Responders	6/30/2016	1,655	40.42%	7,674
	6/30/2015	1,782	42.42%	6,688
	6/30/2014	1,611	36.81%	5,662

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plans as of June 30 was as follows:

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
	June 30, 2015	184	1,275	1,157	14.43%	561	206.24%
State Employees	June 30, 2014	167	1,224	1,057	13.64%	543	194.66%
(in millions)	June 30, 2013	150	1,166	1,016	12.86%	518	196.14%
Teachers	June 30, 2015	0	739	739	0.00%	1,142	64.71%
(in millions)	June 30, 2014	0	684	684	0.00%	1,106	61.84%
	June 30, 2013	0	685	685	0.00%	1,194	57.37%
	June 30, 2015	0	21,822	21,822	0.00%	54,030	40.39%
First Responders	June 30, 2014	0	24,055	24,055	0.00%	54,967	43.76%
(in thousands)	June 30, 2013	0	22,369	22,369	0.00%	53,366	41.92%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	State Employees	Teachers	First Responders
Valuation date	June 30, 2016	June 30, 2016	June 30, 2015
Date the valuation was issued	December 2016	December 2016	November 2016
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period - UAAL	21	21	22
Plan changes	30-year fixed	30-year fixed	rolling 15-year period
Actuarial (gains) /losses	10-year fixed	15-year fixed	rolling 15-year period
Asset valuation method	investment gains and losses spread over a 5 - year period no less than 80% nor more than 120% of market value	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.00% 7.25% ultimate	4.00% 7.25% ultimate	4.00%
Projected salary increases	3.25%	3.25%	3.5% - 9.5%
Inflation rate	3.00%	3.00%	3.00%
Healthcare inflation rate	initial - actual premiums ultimate 5.00% [1]	initial - actual premiums ultimate 5.00% [1]	7.5% at 2016 for Portland; ultimate CPI plus 3% 7.5% for non-Portland; ultimate 5.00% at 2026
Most recent review of plan experience	2016	2016	
Mortality Table	RP-2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used.	RP-2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used.	RP2000 Tables projected forward to 2015 using Scale AA
Former actuarial assumptions:			
Healthcare inflation rate			7.25% at 2015 reducing to an ultimate rate of 5% at 2024
Most recent review of plan experience	2011	2011	
Mortality Table	RP2000 Tables projected forward to 2015 using Scale AA	RP2000 Tables projected forward to 2015 using Scale AA set back two years	

[1] The total premium increase for fiscal years ending after 6/30/15 is limited to CPI plus 3%.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State's fiduciary financial statements are prepared on the accrual basis of accounting. Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense. Investment income is recognized when earned.

CONTRIBUTIONS AND RESERVES

The State Employees Health Insurance Committee establishes contributions to the plan by member employers and employees annually. Both active and retired members pay the same premium rate. Claims liabilities of the plan are periodically computed using statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants.

INVESTMENTS

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

POST RETIREMENT GROUP LIFE INSURANCE BENEFIT PLAN

The Maine Public Employees Retirement System (the System) is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit Group Life Insurance Plan (GLIP) administered by a third party insurance company in accordance with Title 5 MRSA C. 423 and 425. Members include employees of the State, public school employees (defined by Maine law as teachers), members of the Judiciary and the Legislature, which are eligible for membership in the System. Group life insurance benefits are also provided to employees of approximately 400 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine that elect to participate under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2016 report may be obtained from the Maine Public Employees Retirement System, PO Box 349, Augusta, ME 04332-0349.

The Plan provides Basic group life insurance benefits during retirement to employees who participated in the group life insurance plan prior to retirement for a minimum of 10 years. The 10 year participation requirement does not apply to recipients of disability retirement benefits. The level of coverage in retirement is initially set to an amount equal to the retiree's average final compensation. The initial amount of Basic group life insurance benefit is then subsequently reduced at the rate of 15 percent per year to the greater of 40 percent of the initial amount or $2,500.

Group life insurance funds managed by the System are constitutionally restricted and held in trust for the payment of benefits to participants or their beneficiaries. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs a single actuarial valuation that provides separate data for each participating entity.

BASIS OF ACCOUNTING

The System's financial statements are prepared on the accrual basis of accounting. Premiums paid, by or on behalf of those covered, are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company for premiums collected plus additional payments representing administrative fees.

Group life insurance premiums are recognized as additions in the period when they become due. Investment income is recognized when earned. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Group life insurance benefits and premium refunds are recognized as deductions when due and payable in accordance with Statutes. In addition, an estimate is made for group life insurance death benefits incurred before year end but not reported to the System until after year end. Group life insurance death benefits incurred but not reported are reflected as other liabilities.

INVESTMENTS

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

FUNDING POLICY

Premium rates are those determined by the System's Board of Trustees to be actuarially sufficient to pay anticipated claims and cover administrative costs. For State employee, legislative and judicial classes, the premiums for retiree life insurance coverage are factored into the premiums paid for Basic coverage while participants are active members. The State remits premiums at a single rate that supports basic coverage for active and retired State employees. This rate is 63 cents per month for every $1,000 of coverage. Premiums for retiree life insurance coverage for retired teachers are paid by the State based on a rate of 33 cents per $1,000 of coverage per month during the post-employment retirement period.

ANNUAL OPEB COST

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	Teachers
Annual required contribution	$ 4,995	$ 3,160
Interest on net OPEB obligation	(47)	-
Adjustment to annual required contribution	47	-
Annual OPEB cost	4,995	3,160
Contributions made	4,670	3,160
Increase (decrease) in net healthcare obligation	325	-
Net (asset) obligation beginning of year	(656)	-
Net (asset) obligation end of year	$ (331)	$ -

The State's OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB (Asset)
State Employees	6/30/2016	4,995	93.48%	(331)
	6/30/2015	4,931	86.73%	(656)
	6/30/2014	4,760	88.21%	(1,310)
Teachers	6/30/2016	3,160	100.00%	-
	6/30/2015	3,660	100.00%	-
	6/30/2014	3,440	100.00%	-

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plan as of June 30, 2016 was as follows:

(Expressed in Thousands)

		(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
State Employees	June 30, 2016	32,300	89,900	57,600	35.93%	578,279	9.96%
	June 30, 2015	32,300 *	89,500 *	57,200	36.09%	556,900 *	10.27%
	June 30, 2014	31,800	87,300	55,500	36.43%	556,900 *	9.97%
	* restated						
Teachers	June 30, 2016	49,800	85,700	35,900	58.11%	698,700	5.14%
	June 30, 2015	48,000	79,000	31,000	60.76%	666,200	4.65%
	June 30, 2014	45,100	75,600	30,500	59.66%	666,200	4.58%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS
The projection of benefits is based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date, October 2016, and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Asset valuation method	market
Actuarial assumptions:	
Investment rate of return	6.875%
Projected salary increases - State employees	2.75% - 8.75%
Projected salary increases - Teachers	2.75% - 14.5%
Inflation rate	3.50%
Cost of living increases in life benefits	N/A
Participation percent for future retirees	100.00%
Form of benefit payment	lump sum
Former actuarial assumptions:	
Investment rate of return	7.125%

NOTE 11 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT

The State records its liability for general obligation bonds in the Governmental Activities column on the Statement of Net Position. Other long-term obligations recognized by the State include: revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit; obligations under Certificates of Participation and other financing arrangements; loans payable to component unit for repayment of bonds issued by the Maine Municipal Bond Bank on behalf of the Maine Department of Transportation and the Healthcare Liability Retirement Fund; compensated employee absences; and the State's net pension liability; other post-employment benefits; and obligations for pollution remediation and landfill closure and post-closure care costs.

GENERAL OBLIGATION BONDS

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

Changes in general obligation bonds of the primary government during fiscal year 2016 were:

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

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
General Obligation Debt:					
General Fund	$ 343,880	$ 97,705	$ 60,595	$ 380,990	$ 59,415
Special Revenue Fund	76,920	-	15,300	61,620	21,015
Unamortized Premiums:					
General Fund	10,147	14,259	2,572	21,834	2,557
Total	$ 430,947	$ 111,964	$ 78,467	$ 464,444	$ 82,987

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2016 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2017	$ 80,430	$ 18,221	$ 98,651
2018	74,315	15,620	89,935
2019	63,910	12,749	76,659
2020	50,580	10,153	60,733
2021	44,890	8,259	53,149
2022-2026	128,485	14,644	143,129
Total	$ 442,610	$ 79,645	$ 522,255
Unamortized Premiums	21,834		
Total Principal	$ 464,444		

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2016 are as follows:

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

					Fiscal Year Maturities		
		Amounts Issued		Outstanding June 30, 2016	First Year	Last Year	Interest Rates
General Fund:							
Series 2006	$	52,390	$	-	2007	2016	4.00% - 5.51%
Series 2007		33,975		3,395	2008	2017	4.00% - 5.50%
Series 2008		46,525		9,300	2009	2018	3.00% - 5.13%
Series 2009		96,035		26,110	2011	2019	2.50% - 5.00%
Series 2010		31,755		290	2011	2020	1.41% - 4.00%
Series 2011		86,010		33,125	2012	2021	1.625% - 5.00%
Series 2012		49,265		28,415	2013	2022	1.00% - 5.00%
Series 2014		112,945		90,355	2015	2024	0.20% - 5.00%
Series 2015		102,555		92,295	2016	2025	0.85% - 5.00%
Series 2016		97,705		97,705	2017	2026	1.00% - 5.00%
				380,990			
Plus Unamortized Bond Premium				21,834			
Tota General Fund			$	402,824			
Special Revenue Fund:							
Series 2007	$	27,000	$	2,700	2008	2017	4.00% - 5.50%
Series 2008		57,550		11,510	2009	2018	3.00% - 5.13%
Series 2009		37,310		13,885	2011	2019	2.50% - 5.00%
Series 2010		25,080		22,475	2011	2020	1.41% - 4.00%
Series 2011		22,125		11,050	2012	2021	1.625% - 5.00%
Total Special Revenue			$	61,620			

AUTHORIZED UNISSUED BONDS

Any bonds not issued within five years of the date of ratification may not be issued after that date. Within two years after expiration of the five-year period, the Legislature may extend, by a majority vote, the five-year period for an additional five years or may deauthorize the bonds. If the Legislature fails to take action within those two years, the bond issue shall be considered to be deauthorized and no further bonds may be issued. At June 30, 2016, general obligation bonds authorized and unissued totaled $49.9 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included $172.4 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of $616.1 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2016, MGFA issued $41.1 million in 2015A bonds with an average coupon rate of 4.89 percent to defease a total of $42.5 million of 2004A and 2005A series bonds. The net proceeds of approximately $43.5 million, after payment of underwriting fees and other issuance costs, were used to purchase U.S. Governmental securities which provided for all debt service payments on defeased bonds through their respective call dates, all of which were in fiscal 2016. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $2.4 million in the year ended June 30, 2016, the State in effect reduced aggregate debt service approximately $2.5 million over the next eight years and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately $2.4 million.

Also during the fiscal year ended June 30, 2016, MGFA issued $21.2 million in 2015B bonds with interest rates between 2.00 percent and 5.00 percent.

At June 30, 2016, there were no MGFA in-substance defeased bonds outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance construction of certain State buildings, to purchase or generate software, and to purchase equipment and vehicles, including school buses. COP's are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State and school districts maintain custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid.

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

SHORT-TERM OBLIGATIONS

The State of Maine did not issue or retire Bond Anticipation Notes during fiscal year 2016. Short-term obligations are used to meet temporary operating cash flow needs. At June 30, 2016 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

OTHER LONG-TERM OBLIGATIONS

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Position, the State has recorded long-term obligations for its compensated employee absences, net pension liability, other post-employment benefit obligations, pollution remediation landfill closure and post-closure care costs.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2016, are summarized as follows:

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

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 170,870	$ 64,709	$ 63,206	$ 172,373	$ 20,221
COP's and Other Financing	88,696	19,050	38,181	69,565	37,985
Compensated Absences	44,016	6,625	5,909	44,732	6,005
Claims Payable	73,966	205,333	199,880	79,419	30,887
Capital Leases	40,533	795	4,649	36,679	5,490
Loans Payable to Component Unit	477,188	-	51,989	425,199	45,928
Other Post-Employment Benefit Obligation	361,057	119,707	92,994	387,770	-
Pollution Remediation and Landfill	30,515	11,126	2,820	38,821	-
Total Governmental Activities	$ 1,286,841	$ 427,345	$ 459,628	$ 1,254,558	$ 146,516
Business-Type Activities:					
Compensated Absences	$ 1,054	$ 162	$ 126	$ 1,090	$ 132
Other Post-Employment Benefit Obligation	4,631	948	1,675	3,904	-
Total Business-Type Activities	$ 5,685	$ 1,110	$ 1,801	$ 4,994	$ 132

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2016 until maturity, are summarized as follows:

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

	Governmental Funds			Internal Service Funds		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2017	$ 26,326	$ 135	$ 26,461	$ 31,878	$ 7,039	$ 38,917
2018	6,839	95	6,934	27,963	6,084	34,047
2019	2,791	54	2,845	25,979	5,179	31,158
2020	1,514	33	1,547	21,331	4,290	25,621
2021	1,532	14	1,546	12,603	3,636	16,239
2022 - 2026	-	-	-	47,001	12,290	59,291
2027 - 2031	-	-	-	27,515	4,556	32,071
2032 - 2034	-	-	-	8,665	483	9,148
Total	$ 39,002	$ 331	$ 39,333	$ 202,935	$ 43,557	$ 246,492

LOANS PAYABLE TO COMPONENT UNIT

The State of Maine has pledged various revenue streams, as security for Grant Anticipation Bonds (GARVEE) and Transportation Infrastructure Revenue Bonds (TransCap) issued by the Maine Municipal Bond Bank (MMBB) on behalf of the Maine Department of Transportation to provide financing for qualified transportation projects.

In addition, the State of Maine has also pledged the profit from the Alcoholic Beverages Enterprise Fund as security for $220.6 million ($193.8 million net of the debt service reserve) of Liquor Operations Revenue Bonds issued by MMBB. The bonds are special, limited obligations of the MMBB.

Changes in GARVEE, TransCap and Liquor Operations revenue bonds during fiscal year 2016 were:

Primary Government - Changes in GARVEE, TransCap and Liquor Revenue Bonds Payable
(Expressed in Thousands)

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Loans Payable to Components Unit:					
Federal Funds	$ 119,656	$ -	$ 16,603	$ 103,053	$ 12,310
Special Revenue Fund	357,532	-	35,386	322,146	33,618
Total	$ 477,188	$ -	$ 51,989	$ 425,199	$ 45,928

Payment of principal and interest on the GARVEE bonds shall be subject to appropriation each year by the Legislature in an amount sufficient to cover the principal and interest requirements of MMBB's debt for these bonds. The State's receipt of these funds is subject to continuing federal appropriations. MMBB insured payments of principal and interest with a financial guaranty insurance policy. The bonds do not constitute a legal debt or obligation of the State.

Principal and interest on TransCap bonds are payable solely from pledged revenues, pledged rights, and pledged TransCap funds and accounts. Pledged revenues include certain motor vehicle registration and other fees, a portion of excise tax on gasoline and other special fuel, and certain amounts required to be transferred from the Highway Fund. All pledged revenues are required to be transferred to the TransCap Fund. The bonds do not constitute a legal debt or liability of the State.

Payment of principal and interest on the Liquor Operations Revenue bonds shall be made solely from the profit of the Alcoholic Beverages Enterprise Fund. The bonds do not constitute a legal debt or obligation of the State.

GARVEE, TransCap and Liquor Operations Revenue bonds issued and outstanding at June 30, 2016 are as follows:

GARVEE, TransCap and Liquor Revenue Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2016	Fiscal Year Maturities First Year	Last Year	Interest Rates
Federal Funds:					
Series 2008	$ 50,000	$ 23,460	2009	2020	3.25% - 4.00%
Series 2010A	25,915	8,425	2011	2017	2.00% - 5.00%
Series 2010B	24,085	24,085	2018	2022	4.52% - 5.32%
Series 2014A	44,810	42,590	2015	2026	2.00% - 5.00%
Total Federal Funds		$ 98,560			
Special Revenue Fund:					
Series 2008	$ 50,000	$ 10,265	2009	2023	3.00% - 5.50%
Series 2009A	105,000	50,335	2010	2023	2.50% - 5.00%
Series 2009B	30,000	5,990	2010	2024	2.00% - 5.00%
Series 2011A	55,000	51,100	2012	2026	2.00% - 5.00%
Series 2013	220,660	181,130	2015	2024	1.07% - 4.35%
Series 2015A	54,680	54,680	2019	2024	4.00% - 5.00%
Total Special Revenue Funds		$ 353,500			

Total principal and interest requirements over the life of the 2008 GARVEE bonds are $63.1 million, with annual requirements of up to $5.2 million; for 2010 GARVEE bonds total principal and interest requirements are $66.3 million, with annual requirements of up to $5.6 million; for 2014 GARVEE bonds total principal and interest requirements are $59.0 million, with annual requirements of up to $5.0 million. Total federal highway transportation funds received in federal fiscal year 2016 were $217 million. Current year payments to MMBB for GARVEE bonds were $20.1 million (9.3 percent of federal highway transportation funds received).

Total principal and interest requirements over the life of the 2008 TransCap Revenue bonds are $71.9 million, with annual requirements up to $4.8 million. Total principal and interest requirements over the life of the 2009A TransCap Revenue bond are $144.3 million, with annual requirements up to $10.2 million; for the 2009B TransCap Revenue bonds total principal and interest requirements are $46.2 million, with annual requirements up to $15.9 million. Total principal and interest requirements over the life of the 2011A TransCap Revenue bond are $84.2 million, with annual requirements up to $20.3 million. Total principal and interest requirements over the life of the 2015A TransCap Revenue bond are $74.4 million, with annual requirements up to $16.2 million. Total revenue received for revenue sources used as pledged revenues were $39.7 million in fiscal year 2016.

Total principal and interest requirements over the life of the 2013 Liquor Operation Revenue bond are $273.8 million, with annual requirements up to $26.8 million. Current year payments to MMBB for the Liquor Operation bonds were $26.8 million (which is net of $7.0 million of capitalized interest). Total revenue received for revenue sources used as pledged revenue were $39.7 million in fiscal year 2016.

OBLIGATIONS UNDER CAPITAL LEASES

The State leases various assets under non-cancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below.

At June 30, 2016 capital assets include capitalized buildings of $78.9 million in Governmental Activities, net of related accumulated depreciation of $44.8 million.

OBLIGATIONS UNDER OPERATING LEASES

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements. Rental expense incurred under operating leases totaled $2.6 million during the year.

A summary of the operating and non-cancelable capital lease commitments to maturity follows:

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

Fiscal Year	Capital Leases	Operating Leases
2017	$ 5,490	$ 2,464
2018	5,296	2,149
2019	4,411	1,933
2020	3,908	1,758
2021	3,305	1,568
2022 - 2026	9,077	4,054
2027 - 2031	4,686	857
2032 - 2036	2,222	540
2037 - 2041	1,636	601
2042 - 2046	1,368	687
2047- 2051	-	651
2052 - 2056	-	240
Total Minimum Payments	41,399	$ 17,502
Less: Amount Representing Interest	4,720	
Present Value of Future Minimum Payments	$ 36,679	

MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS

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

CLAIMS PAYABLE

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

COMPENSATED ABSENCES

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as long-term liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments made to terminated employees as of June 30, 2016 but paid after the fiscal year end is also reported in the funds.

COMPONENT UNITS

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State. The following table summarizes bonds outstanding for selected material balances of discretely presented component units, as reported in their separately issued financial statements, utilizing their respective fiscal year-ends:

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	1.0 - 5.875%	106,903	2016 – 2039
Maine Community College System	2.5 - 5.0%	21,284	2016 - 2035
Maine Health and Higher Educational Facilities Authority	2.0 - 6.0%	739,070	2016 - 2040
Maine Municipal Bond Bank	.5 - 6.12%	1,535,483	2016 - 2045
Maine State Housing Authority	0.02 - 5.55%	1,275,155	2016 – 2045
Maine Turnpike Authority	2.0 - 6.0%	444,139	2016 – 2042
University of Maine System	1.5 - 5.0%	162,602	2016 – 2037

As part of the merger of MELA into FAME, the Authority issued student loan revenue bonds to finance the purchase and origination of educational loans to Maine residents for the purpose of higher education. As of June 30, 2016, the Authority had $106.9 million in net bonds payable outstanding. The Authority retired $8.2 million of the Series 2009, 2010, and 2012 bonds upon schedule maturity and mandatory redemptions during fiscal 2016.

At June 30, 2016, the University of Maine System had $24.2 million principal outstanding related to debt refunded through in-substance defeasance.

On July 14, 2015, Maine Health and Higher Educational Facilities Authority (MHHEFA) issued $27.4 million in series 2015A reserve resolution bonds with an average interest rate of 4.5 percent, all of which was used to defease $31.2 million of outstanding reserve fund maturities within the 2004B and 2006A bond series. On June 28, 2016, MHHEFA issued $64.8 million in series 2016A reserve resolution bonds with an average interest rate of 4.17 percent, all of which was used to defease $75.8 million of outstanding reserve fund maturities within the 2006B and 2006F bond series. The net proceeds of approximately $31.3 and $77.7 million, respectively, including other sources of funds and after payment of underwriting fees, insurance and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on defeased bonds. The economic benefits associated with the refunding inure to the respective institutions. At June 30, 2016 there were approximately $188.4 million of defeased bonds remaining outstanding with respect to all advance-refunding issues within the reserve fund resolution.

In periods of declining interest rates, MMBB has refunded certain of its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. The U.S. Treasury obligations are deposited with the trustees of the in-substance defeased bonds.

On November 3, 2015, the Maine Municipal Bond Bank (MMBB) issued $53.6 million in General Tax-Exempt Series 2015 D bonds with an average interest rate of 4.65 percent to in-substance defease $57.9 million of various outstanding maturities of the 2005 A bonds. The net proceeds of approximately $58.1 million, including a bond premium of approximately $4.8 million and after payment of approximately $.3 million in underwriting fees and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $.9 million in the year ending June 30, 2016, MMBB in effect reduced its aggregate debt service payments by approximately $4.7 million over the next six years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $4.4 million. As a result of the in-substance defeasance, MMBB will reduce future debt service requirements of borrowers by approximately $3.4 million over a period of six years.

On May 26, 2016, MMBB issued $62.8 million in General Tax-Exempt Series 2016 B bonds with an average interest rate of 4.16 percent to in-substance defease $66.0 million of various outstanding maturities of the 2009 B, 2009 D, 2009 G, and 2009 H bonds. The net proceeds of approximately $74.3 million, including a bond premium of approximately $11.9 million and after payment of approximately $.4 million in underwriting fees and other issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $5.9 million in the year ending June 30, 2016, MMBB in effect reduced its aggregate debt service payments by approximately $8.1 million over the next twenty-four years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $7.2 million. As a result of the in-substance defeasance, MMBB will reduce future debt service requirements of borrowers by approximately $7.7 million over a period of twenty-four years.

On October 22, 2015, MMBB issued $54.7 million in Transportation Infrastructure 2015A series bonds with an average interest rate of 4.96 percent to in-substance defease $56.8 million of various outstanding maturities of the 2008A, 2009A and 2009B bonds. The net proceeds of approximately $65.0 million including a bond premium of approximately $10.8 million and after payment of approximately $.5 million in underwriting fees and other issuance costs, were to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $10.3 million in the year ended June 30, 2016, MMBB in effect reduced the Transportation Infrastructure Fund Group's aggregate debt service approximately $3.8 million over the next eight years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $3.4 million. The gain and economic benefit of this transaction inure to the State of Maine and not MMBB.

At June 30, 2016 the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately $209.7 million. At June 30, 2016, the remaining balances of the Transportation Infrastructure Fund Group in-substance defeased bonds total approximately $56.8 million.

In June of 2016, Maine Community College System (MCCS) issued $19.0 million of revenue bonds through MHHEFA with an average annual interest rate of 4.0 percent and a final maturity in July 2035. MHHEFA requires that $1.5 million of the bond proceeds be transferred to a debt reserve fund. The amount transferred to the debt reserve fund is retained by MHHEFA in an interest bearing account and will be used to make the final payment of principal and interest in 2035. Accordingly, funds transferred to MHHEFA are not included as assets and are deducted from the amounts owed. The bonds were issued at a premium of $2.5 million. This revenue bond was used to refund the MHHEFA Bond 2006F originally issued in September 2006.

For the period ended December 31, 2015, the Maine State Housing Authority redeemed prior to maturity $297.0 million of its Mortgage Purchase Fund Group bonds from surplus revenues and the proceeds of refunding bonds. Mortgage Purchase Fund losses of $0.4 million were attributed to recognition of the bond discount and debt issuance expenses associated with the redeemed bonds.

For the year ended December 31, 2015, the Maine Turnpike Authority issued $144.9 million of Series 2015 Revenue Refunding Bonds. The proceeds from the bonds were used to advance refund $43.8 million of principal amounts of the Series 2005, Series 2007, and Series 2009 bonds outstanding which mature between 2016 and 2035. The advance refunding took advantage of a general reduction in interest rates to achieve an overall reduction in future debt service costs. The reacquisition price exceeded the carrying amount of the old debt by $7.5 million. This amount is reported as a deferred outflow of resources and amortized over the life of the old debt. The transaction resulted in a reduction in future debt service payments of $33.4 million and an economic gain of $24.6 million.

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

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	FAME	MMBB	MCCS	MSHA	MTA	UMS	MHHEFA
2017	$ 6,973	$ 116,449	$ 131	$ 42,540	$ 18,700	$ 8,793	$ 35,680
2018	6,879	134,824	827	62,450	19,830	9,798	39,660
2019	6,679	134,460	870	54,080	20,640	9,339	40,040
2020	6,805	127,195	833	51,755	14,945	10,104	40,925
2021	11,456	127,160	880	51,005	16,015	8,975	40,670
2021 - 2026	25,630	514,875	5,006	238,480	96,880	42,688	192,175
2027 - 2031	14,793	219,561	5,969	263,930	121,520	40,360	179,205
2032 - 2036	24,600	57,730	4,219	252,855	56,355	20,060	113,535
2037 - 2041	4,885	9,630	-	202,630	30,905	445	57,180
2042 - 2046	-	3,400	-	53,950	8,365	-	-
2047 - 2051	-	-	-	-	-	-	-
Net Unamortized Premium or (Deferred Amount)	(1,797)	90,199	2,549	1,480	39,984	12,040	-
Total Principal Payments	$ 106,903	$1,535,483	$ 21,284	$1,275,155	$ 444,139	$ 162,602	$ 739,070

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

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

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professionals, and a variety of other insurance products. These plans have limits of liability of as much as $2 million per occurrence.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $400 million per occurrence. The State retains $2 million of this risk per occurrence. A private insurance carrier covers the remaining risk (excess insurance). Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

Type of Insurance	Coverage Per Occurrence	Risk Retention Per Occurrence	Excess Insurance Per Occurrence
Property *	$400 million	$ 2 million	$400 million
Ocean Marine Boat Liability *[1]	10 million	10 thousand	10 million
Boiler and Machinery*	150 million	2 million	150 million
General Liability Including Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none
Vehicular Liability [2]	400 thousand	400 thousand	600 thousand
Bonding	500 thousand	500 thousand	none
Foster Parents	300 thousand	300 thousand	none
Inland Marine (various policies)	500 thousand	500 thousand	none
Aircraft Liability*[3]	3 million	none	3 million
Data Breach*	3 million	400 thousand	3 million

* These lines of insurance have commercial excess insurance covering losses above the risk retention amount up to the per occurrence amount listed. All other insurance programs are wholly self-insured.
[1] $10 million is the maximum limit for per occurrence coverage. Some agencies have chosen $400 thousand.
[2] Excess insurance is only for out of state travel.
[3] $3 million is the maximum limit for per occurrence coverage. Some agencies have chosen $500 thousand.

The plan funds the cost of providing claims servicing and claims payment by charging a premium to each agency based on a review of past losses and estimated losses for the current period.

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of March 31, 2016. This cost of claims includes case reserves, the development of known claims, and the direct administrative expenses for settling specific claims.

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

At March 31, 2016 and 2015, the present value of the claims payable for the State's self-insurance plan was estimated at $8.0 million and $4.2 million, respectively. The actuary calculated this based on the State's rate on investments.

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

	2016	2015
Liability at Beginning of Year	$ 4,228	$ 4,294
Current Year Claims and		
Changes in Estimates	8,829	2,007
Claims Payments	5,041	2,073
Liability at End of Year	$ 8,016	$ 4,228

As of June 30, 2016, fund assets of $26.2 million exceeded fund liabilities of $8.8 million by $17.4 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

B. UNEMPLOYMENT INSURANCE

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $696 thousand for the fiscal year ended June 30, 2016.

C. WORKERS' COMPENSATION

Workers' Compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation.

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The balance of claims liabilities as of June 30, 2016:

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

	2016	2015
Liability at Beginning of Year	$ 47,045	$ 44,749
Current Year Claims and		
Changes in Estimates	9,766	12,091
Claims Payments	8,618	9,795
Liability at End of Year	$ 48,193	$ 47,045

Based on the actuarial calculation as of June 30, 2016, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $58.6 million. The discounted amount is $48.2 million and was calculated based on a 3.0 percent interest rate on investments.

D. EMPLOYEE HEALTH INSURANCE

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self-insured for employee and retiree health care coverage on July 1, 2003. A stop loss agreement with Aetna provides catastrophic coverage for individual claims exceeding $500 thousand.

The State retained third-party administration (TPA) services for claims administration, utilization review, and case management services. Premium equivalents are paid to the TPA based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. A Point-of-Service plan is available to all active employees and retirees not eligible for Medicare. A Medicare Advantage plan is available to Medicare eligible retirees. Total enrollment averaged approximately 37,300 covered individuals. This total includes 29,350 active employees and dependents and 7,950 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2016 the State recorded a receivable of $1.3 million for an overpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $23.2 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2016 follows:

(Expressed in Thousands)

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 17,020	$ 5,673
Current Year Claims and Changes in Estimates	153,317	33,421
Claims Payments	152,930	33,291
Liability at End of Year	$ 17,407	$ 5,803

The table above reflects actual activity of the employee health and retiree health insurance programs. In accordance with GASB Statement No. 45, certain costs reported above were reclassified for financial statement purposes. Retiree healthcare costs of $48.1 million were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $15.0 million of active employee healthcare costs were reclassified from the internal service fund to the OPEB Trust Fund to reflect age-adjusted claims.

NOTE 13 – JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The State of Maine participates in two separate joint venture arrangements: the Tri-State Lotto Commission (Commission) and the Multi-State Lottery Association (MUSL).

Tri-State Lotto Commission
The Commission was established in 1985 pursuant to passage into law of the Tri-State Lotto Compact by the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including ticket prices, prizes, and the licensing of agents under Title 8 MRSA C. 16.

The Commission is composed of one member from each of the participating states. Each member State's commission appoints one of its members to serve on the Commission and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members. The Commission designated that 50 percent of its sales revenue be reserved for prize awards and agent bonuses.

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

A proportional share of revenues and expenses are allocated to each State based on ticket sales made by each State. Exceptions are the facility's management fee, which is based on a contracted percentage of operating revenue that varies from State to State, per diem charges, advertising, and certain printing, travel, and miscellaneous costs, which are allocated based on actual charges generated by each state.

The Tri-State Lotto Commission financial report for fiscal year 2016, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

Tri-State Lotto Commission
(Expressed in Thousands)

Current Assets	$ 12,297
Noncurrent Assets	30,471
Total Assets	$ 42,768
Current Liabilities	$ 10,395
Long-term Liabilities	23,541
Total Liabilities	33,936
Designated Prize Reserves	4,346
Reserve for Unrealized Gains	4,486
Total Net Position	8,832
Total Liabilities and Net Position	$ 42,768
Total Revenue	$ 58,557
Total Expenses	39,124
Allocation to Member States	19,433
Change in Unrealized Gain on Investments Held for Resale	447
Change in Net Position	$ 447

Multi-State Lottery Association
The Maine State Lottery became a member of the Multi-State Lottery Association (MUSL) in July 2004. The MUSL currently has 37 member State lotteries, including the District of Columbia and the United States Virgin Islands. The MUSL is managed by a board of directors, which is comprised of the lottery directors or their designee from each of the party States, and authorized to initiate, promulgate, administer and carry out one or more lottery product offerings that will enhance the participating parties' lottery revenue.

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

The Multi-State Lottery Association's financial report for fiscal year 2016 which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected information:

Multi-State Lottery Association
(Expressed in Thousands)

Cash and Cash Equivalents	$ 373,330
Investments in US Government Securities	66,335
US Government Securities Held for Prize Annuities	83,445
Due from Party Lotteries	36,249
Patent, net of accumulated amortization	6,583
Other Assets	894
Total Assets	$ 566,836
Amount Held for Future Prizes	$ 472,578
Grand Prize Annuities Payable	83,596
Other Liabilities	3,719
	559,893
Net Position, Unrestricted	6,943
Total Liabilities and Net Position	$ 566,836
Total Revenue	$ 4,618
Total Expenses	6,135
Excess of revenue over expenses	(1,517)
Net Position, beginning	8,460
Net Position, ending	$ 6,943

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

The State of Maine entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Parks and Lands. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated 2013 to 2018.

COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $243.7 million; Maine Community College System, $71.7 million; Maine Municipal Bond Bank, $39.9 million; Finance Authority of Maine, $16.0 million; and Maine State Housing Authority, $15.9 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $29.4 million at June 30, 2016, as a liability in Amounts Held Under State Revolving Loan Programs in their fiduciary financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2016, the State expended $3.3 million to FAME for State revolving loan funds. The State also transferred $1 million from its Loan Insurance Reserves to FAME.

Title 20-A MRSA Chapter 419-A established the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. FAME paid approximately $9.2 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

The Maine Turnpike Authority (MTA) pays the State for services rendered by the Maine State Police (MSP). MSP has a separate troop responsible for patrolling the Maine Turnpike. MTA pays all costs associated with that troop. For fiscal year 2016, the amount billed totaled $5.9 million.

NOTE 15 – DEFERRED OUTFLOWS AND DEFERRED INFLOWS

The following table provides additional detail regarding deferred outflows of resources and deferred inflows of resources reported on the government-wide Statement of Net Position.

(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Deferred Outflows of Resources:				
Accumulated Decrease in Fair Value of Hedging Derivatives	$ -	$ -	$ -	$ 13,977
Refunding of Debt	1,523	-	1,523	66,776
Pension Related	311,070	3,184	314,254	37,888
Total Deferred Outflows of Resouces	$ 312,593	$ 3,184	$ 315,777	$ 118,641
Deferred Inflows of Resources:				
Grant Income	$ -	$ -	$ -	$ 1,833
Loan Origination Fees	-	-	-	611
Pension Related	134,369	1,534	135,903	28,215
Total Deferred Inflows of Resources	$ 134,369	$ 1,534	$ 135,903	$ 30,659

The following table provides additional detail regarding deferred inflows of resources reported on the Governmental Funds Balance Sheet:

Governmental Funds
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Deferred Inflows of Resources:						
Tax Revenue or Assessments	$ 203,150	$ 742	$ 49	$ 28,154	$ -	$ 232,095
Total Deferred Inflows of Resources	$ 203,150	$ 742	$ 49	$ 28,154	$ -	$ 232,095

NOTE 16 - COMMITMENTS AND CONTINGENCIES

PRIMARY GOVERNMENT

LITIGATION

The State of Maine, its units, and its employees are parties to numerous legal proceedings, many of which are the result of normal governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. Certain cases have the potential for liability in excess of $1 million. Even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, the State could incur a large judgment.

Adle v. State of Maine, Department of Public Safety, Department of Inland Fisheries and Wildlife and unnamed state officials and employees.(D. Me).This lawsuit relates to a standoff involving State Police troopers during which Shad Gerken (who had the knife) was shot and killed. A state investigation into the incident found that the officers involved reasonably believed that unlawful deadly force was imminently threatened against them and other officers. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Boland v. Bouffard et al.,. This lawsuit relates to Micah Boland's death while an inmate at the Maine State Prison. A fellow prisoner was prosecuted in connection with this incident. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Edson v. Maine Department of Health and Human Services, Maine Department of Corrections and a number of state officials and employees. (Me. Superior Ct.). This lawsuit relates to an incident which occurred on December 2, 2013 in which she alleges that she was assaulted and pepper-sprayed with claimed damages in excess of one million dollars. The defendants are the Department of Health and Human Services, the Department of Corrections and a number of state officials and employees. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Eves v. Lepage. (D. Me.). The Speaker of the House has filed a lawsuit in federal court alleging First Amendment retaliation based upon the claim that the Governor threatened to withhold funds from a private school unless the school terminated its employment agreement with the Speaker. The lawsuit was recently amended to include a state law claim of intentional interference with contract . Outside counsel has been authorized to represent the Governor. The lower court has ruled in favor of the Governor. The case is currently on appeal to the First Circuit Court of Appeals. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

Filler v. Hancock County et al. (D. Me) Plaintiff alleges that he was wrongfully arrested, prosecuted and convicted of gross sexual assault. He has filed a multi-count civil rights and tort complaint against multiple defendants, including an assistant district attorney and two prior district attorneys. The claimed damages are in excess of $1 million dollars. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

John F Murphy Homes v. State of Maine (Law Court). This lawsuit is in the amount of $7+ million for payments allegedly due for educational services over the last dozen years. The Superior Court ruled in favor of the State. The case is currently on appeal to the Maine Supreme Judicial Court. The probability that this case will result in future losses to the State in excess of $1 million is undetermined at this time.

There are various lawsuits in which Plaintiffs seek damages in excess of $1 million against the State or against State officials, and there are various notices of claim which also specify damages in excess of $1 million where no lawsuit has been filed. In none of these instances, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed $1 million. Therefore, these suits have not been individually identified.

Numerous workers' compensation claims are now pending against various State agencies. Since most claims involve the possibility for significant long-term damages, and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

ENCUMBRANCES

Encumbrances are reported in the restricted, committed, and assigned fund balances of the governmental funds. General fund, highway fund, federal fund, other special revenue fund and other governmental funds balances are $47.3 million, $1.5 million, $144.2 million, $23.9 million and $1.9 million, respectively.

FEDERAL GRANTS

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

POLLUTION REMEDIATION

The Department of Environmental Protection (DEP) and Department of Transportation (DOT) have pollution remediation obligations as defined by Governmental Accounting Standards Board (GASB) Statement No. 49. The State's total amount of pollution remediation obligation as of June 30, 2016 is $22.3 million. Superfund sites account for approximately $8.3 million. Superfund is the federal government program to clean up hazardous waste sites.

The following are Superfund sites for which the State has recorded a liability for pollution remediation activities:

Eastland Woolen Mill – The State recorded a liability for pollution remediation activities of approximately $549 thousand. Currently the State shares the costs with Environmental Protection Agency (EPA) in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in September of 2018, the State will assume 100 percent of the operation and maintenance and long-term monitoring costs.

Eastern Surplus – The State recorded a liability for pollution remediation activities of approximately $1.4 million. Beginning in August of 2012, the State assumed 100 percent of the operation and maintenance and monitoring costs. As of June 30, 2016 the State has received $2.1 million in recoveries from the Department of Defense. The State expects to recover additional costs of $140 thousand.

Callahan Mine – The State recorded a liability for pollution remediation activities of approximately $6.4 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. The State will assume 100 percent of the cost for the operation and maintenance of the site.

The State recorded a liability for pollution remediation activities of approximately $14 million (net of unrealized recoveries of $827 thousand) related to five uncontrolled hazardous substance sites. The State expects to recover $1.5 million in costs. The Uncontrolled Hazardous Substance Sites Program was created in response to the threats and potential threats to human health and the environment posed primarily by abandoned hazardous waste sites. The Uncontrolled Hazardous Substance Sites program is the State's equivalent to the Federal Superfund Program.

The State has the knowledge and expertise to estimate the remediation obligation based on prior experience in identifying and funding similar remediation activities. The standard requires the liability to be measured using the expected cash flow technique. The remediation obligation estimates are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statues or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

MUNICIPAL SOLID WASTE LANDFILLS

Dolby Landfills – On September 16, 2011 the State entered into an agreement with Katahdin Paper Company (KPC) to acquire the Dolby Landfill, a solid waste disposal facility, located in the Town of East Millinocket. The State, as a holder of the permits, is responsible for closure and post closure monitoring and maintenance activities and costs.

The Dolby Landfill no longer accepts solid waste. In calendar year 2016 the first of phase of a multi-year plan to cap approximately 100 acres at the facility was completed. The State allocated $6 million of current bond funds and anticipates another $6 million in bonds funds to complete the closure of the facility. In addition to the closure of the facility, the State anticipates additional post-closure maintenance and monitoring costs of approximately $6 million over the next 30 years. Actual costs may be higher due to inflation, changes in technology or changes in applicable laws or regulations.

Cost-Sharing Program – Title 38 M.R.S.A., §1310-F establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose a potential hazard and that meet other qualifying criteria. The law provides for reimbursement of 75 percent of a municipality's closure expenses. If the initial closure fails to protect public health and the environment, DEP is obligated to reimburse up to 90 percent of a municipality's subsequent remediation expenses. However, these obligations are subject to the availability of funds approved for that purpose. In 2012, DEP through bonds, had paid all of the outstanding match requirements for closure, but had $2.6 million in outstanding match obligation for remediation. Additionally, several municipalities needed to close their failing landfills early, but could not afford to do so without the state match for closure, which had expired. Therefore, the legislature reopened the program to match closure costs and enacted a fee on disposal of certain Construction and Demolition Debris (CDD) effective in 2013, to pay for the ongoing program. In FY2016 the DEP received $994 thousand from the CDD fee. All of this money was used to reimburse municipalities for eligible expenses.

In addition to the backlog of reimbursements that DEP owes to municipalities, DEP continues to incur match obligations as additional qualifying landfills close and others undertake necessary remediation. The Legislature has extended the eligibility date for reimbursement of closure costs from 2015 to 2025; and there is no eligibility end date for reimbursement of remediation costs. At the beginning of FY16, DEP's total outstanding reimbursement obligation to municipalities was $7.5 million. At the end of FY16 the outstanding match obligation was $6.9 million. Although, the overall outstanding debt during the year decreased, additional debt was incurred due primarily to landfill remediation expenses which were submitted over the course of the year. DEP incurred the oldest outstanding match obligations in 2008.

SAND AND SALT STORAGE PROGRAM

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the Sand and Salt Storage program to be $5.1 million. This consists of approximately $2.1 million for State-owned facilities and approximately $3 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 MRSA §411, §411-A, and §412 establish within DEP cost-sharing programs for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the planning of municipal pollution abatement facilities; the design, engineering, and construction of private, commercial, and municipal pollution abatement facilities; and make payments to the Maine Municipal Bond Bank to supply the State's share of the revolving loan fund established by Title 30-A §6006-A. During the 2016 fiscal year, $465 thousand of general obligation bond funds and $2.1 million of Liquor Operation Revenue Funds were expended for pollution abatement projects. As of June 30, 2016 amounts encumbered for pollution abatement projects totaled $137 thousand, and general obligation bonds authorized for these projects, but not yet encumbered, totaled $2.4 million. As of June 30, 2016, DEP estimates the total cost (federal, State, and local) of future projects to be $1 billion.

GROUND WATER OIL CLEAN-UP FUND

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

A report to the legislature dated February 15, 2007, submitted by the Maine Department of Environmental Protection (DEP), identified 359 long-term remediation sites as of January 2007 that are covered by the insurance program. As of August 28, 2007 there were 377 sites on the long-term remediation priority list. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

CONSTRUCTION COMMITMENTS
A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes 48.1 percent of the annual payments. As of June 30, 2016 outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $775.9 million.

At June 30, 2016, the Department of Transportation had contractual commitments of approximately $262.3 million for construction of various highway projects. The State's share of that amount is expected to be approximately $40.7 million. Of these amounts, $6.3 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

TOBACCO SETTLEMENTS
On November 23, 1998, Maine along with 45 other states and six civil jurisdictions, collectively known under the Master Settlement Agreement (MSA) as the "Settling States", entered into the MSA with certain Participating Tobacco Manufacturers (PM's). The MSA is a settlement of lawsuits brought by many States against the four largest tobacco companies alleging multiple counts of misconduct and claiming punitive and compensatory damages, including a claim for all the State's Medicaid costs caused by or related to tobacco use. The MSA includes provisions to annually compensate the State for smoking-related Medicaid costs and to impose marketing and advertising restrictions on PM's to protect public health. In this settlement, the PM's agreed, among other things, to make annual payments to the states and jurisdictions based on their allocable share of the market. In return, the states agreed to relinquish claims to further damages resulting from, among other things, Medicaid costs. Annual payments fluctuate subject to various adjustments and are partially contingent on the passage and enforcement of a State statute imposing economic conditions related to the State's public health claims on the Nonparticipating manufacturers (NPM's) in the form of an annual escrow payment due from each NPM with in-state sales. The NPM Adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's claim an NPM Adjustment for a given year and prove that they lost market share to the NPM's and it is determined that the MSA was a significant factor contributing to that lost market share then an NPM Adjustment 'shall apply' unless a Settling State passed a qualifying statute and 'diligently enforced' that statute. In effect this means that the Allocated Payment to a Settling State that diligently enforced will not be reduced, but a Settling State that did not diligently enforce its qualifying statute will be subject to a reduction in its payment due to the NPM Adjustment. NPM Adjustment Due to the provisions of the MSA, a State that is found not to have diligently enforced its qualifying statute may lose up to its entire annual payment amount due to the NPM Adjustment for a given year.

The NPM Adjustment may be claimed each year and has been claimed for each completed calendar year since 2003. Frequently PM's claim entitlement to the NPM Adjustment and either withhold the amount from their annual payments, or place the amount in what is known as a 'disputed payment account'. Each year beginning in 2003 Maine's annual payments have been lower than calculated because many of the PMs have claimed entitlement to the NPM Adjustment and either withheld money or routed it to the disputed payments account. For the year 2003, the Adjustment claimed by the PM's, and calculated as set forth in the MSA, was approximately 18 percent of the total amount paid by the PM's and distributed among the Settling States. However, the total amount related to the NPM Adjustment to which the PMs are entitled is dependent on the number of non-diligent states.

In addition, in the MSA, the PM's agreed to pay $8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine's share of this total amount is approximately $114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2016, Maine received a total of $51.8 million including both the annual payment amount and the strategic contribution amount.

ESCHEAT PROPERTY

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds $500 thousand at fiscal year-end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2016, the Fund included $3.9 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2016 of approximately $225.1 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2016, the amount reported in the Fund for claimant liability is $37.6 million. The General Fund shows a $33.2 million payable to the Escheat Fund.

CONSTITUTIONAL OBLIGATIONS

The State of Maine's constitutional obligations represent nonexchange financial guarantees, as defined by GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The State acts as the guarantor for these ongoing insurance and loan programs operated by 2 discrete component units. The Finance Authority of Maine's mission covers commercial financing and loan insurance to Maine businesses and assistance to Maine students and their parents to finance costs of attendance at institutions of higher education. Maine State Housing Authority's mission encompasses loans to Maine veterans and members of Indian tribes or reservations. Details of the nonexchange financial guarantees are provided below.

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2016, loans outstanding pursuant to these authorizations are $79.1 million, less than $1 million, and $3.4 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2016.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. At June 30, 2016, no bonds were outstanding. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2016.

MORAL OBLIGATIONS

The State of Maine, through statute, enables certain Authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the Authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the Authority to issue debt that is not secured by these funds.

On or before December first of each year, the Authorities are required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The Governor shall certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then-current State fiscal year.

These moral obligations are not considered to be "full faith and credit" obligations of the State, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.

The following summarizes information regarding outstanding moral obligations:

Moral Obligation Bonds
(Expressed in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Maine Health and Higher Educational				
Facilities Authority	$ 739,070	$ 65,954	no limit	22 MRSA § 2075
Finance Authority of Maine	45,291	-	$ 642,000	10 MRSA §1032, 1053
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
	107,815	11,962	225,000	20-A MRSA §11424
Loring Development Authority *	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,141,508	143,714	no limit	30-A MRSA §6006
Maine State Housing Authority	1,235,250	101,438	2,150,000	30-A MRSA §4906
Total	$ 3,268,934	$ 323,068		

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

COMPONENT UNITS

CONSTRUCTION CONTRACTS

At June 30, 2016, UMS had outstanding commitments on uncompleted construction contracts that totaled $10.8 million.

At June 30, 2016, MCCS had $7.1 million remaining in construction and renovation contracts.

At December 31, 2015, the Maine Turnpike Authority had $35.0 million remaining in commitments on outstanding construction projects for improvements and maintenance.

MORTGAGE COMMITMENTS

Mortgage commitments are agreements to lend provided there is no violation of any term or condition of the agreement. Generally, once exercised, the loans made under the terms of such commitments are secured by a lien on the related property and other collateral as deemed necessary. At December 31, 2015 Maine State Housing Authority (MSHA) had outstanding commitments to originate multi-family loans of approximately $45.7 million.

MSHA, under its single-family program, enters into purchase agreements to lenders to purchase mortgage loans. At December 31, 2015, single-family loans being processed by lenders totaled $23.6 million.

INSURED LOAN COMMITMENTS

The Finance Authority of Maine (FAME) insures loans made by financial institutions to qualifying businesses under various insurance programs. FAME is contingently liable for the insured portion of payments due on these loans. At June 30, 2016, FAME had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately $112.0 million. At June 30, 2016, FAME was insuring loans with an aggregate outstanding principle balance approximating $1.9 million which were 90 or more days delinquent. The aggregate insured balance of these loans was approximately $1.2 million at June 30, 2016. In addition, FAME has entered into commitments to insure loans at some future date. At June 30, 2016, these commitments under the Loan Insurance Program were approximately $5.4 million.

FEDERAL STUDENT LOAN RESERVE FUND

FAME holds and administers the Federal Student Loan Reserve Fund for the US Department of Education. Total outstanding guarantees issued under the FFELP approximated $440.9 million at June 30, 2016. A portion of the defaults on FFELP loan guarantees are paid by the US Department of Education. At June 30, 2016, the reserve level was approximately $2.6 million.

NOTE 17 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On October 6, 2016, the Maine Governmental Facilities Authority issued $25.0 million of Series 2016A Lease Revenue Refunding Bonds. The bonds bear interest rates from 3.0 percent to 5.0 percent and maturities from 2018 to 2029, all of which will be used to in-substance defease $26.8 million of outstanding maturities within the 2007A, 2008A and 2009A bond series. The Authority will reduce its aggregate debt service payments and the State's aggregate lease payments by approximately $3.0 million over the next thirteen years, resulting in and economic gain (difference between present value of the old debt and new debt service payments) to the State of approximately $2.6 million. The bonds do not constitute a legal debt or obligation of the State.

On October 6, 2016, the Maine Governmental Facilities Authority issued $18.0 million of Series 2016B Lease Revenue Bonds to fund various State projects. The bonds bear interest rates from 3.0 percent to 5.0 percent and maturities from 2017 to 2036. The bonds do not constitute a legal debt or obligation of the State.

On November 16, 2016, the Maine Municipal Bond Bank (MMBB) issued $44.1 million of Series 2016A Grant Anticipation Bonds on behalf of the Maine Department of Transportation. The bonds bear interest rates from 2.6 percent to 5.0 percent and maturities from 2017 to 2028. The bonds do not constitute a legal debt or obligation of the State.

Maine Public Employees Retirement System (MPERS) updated their experience study from 2012 to 2015. MPERS' board of directors approved changes to the actuarial pension calculations and assumptions for June 30, 2016. The most significant ones include:

	State Employees, including judges and legislators	Teachers	PLD Employees
Investment Rate of Return	6.875% per annum, compounded annually; 7.125% was used for the year ended June 30, 2015		
Inflation Rate	2.75%; 3.50% was used for the year ended June 30, 2015		
Annual Salary Increases, including inflation	For the year ended June 30, 2016		
	2.75% - 8.75%	2.75% - 14.50%	2.75% - 9.00%
	For the year ended June 30, 2015		
	3.50% - 10.50%	3.50% - 13.50%	3.50% - 9.50%
Mortality Rates	For the year ended June 30, 2016		
	For active members and non-disabled retirees fo the State employees, legislative, judicial, and PLD plans, the RP2014 Total Dataset Healthy Annuitant Mortality Table, for males and females, is used.		
	For the year ended June 30, 2015		
	For active members and non-disabled retirees fo the State employees, legislative, judicial, and PLD plans, the RP2000 Tables projected forward to 2015 using Scale AA are used; the ages are set back two years for employess of the teacher plan. For all recipients of disability benefits, the Revenue Ruling 96-7 Disabled Mortality Table for Males and Females is used.		

COMPONENT UNITS

Through March 29, 2016, Maine State Housing Authority (MSHA) issued at par $65.0 million of bonds in the General Mortgage Purchase Bond Resolution. Through March 29, 2016, MSHA redeemed, at par $19.6 million of bonds in the General Mortgage Purchase Bond Resolution. Between March 30, 2016 and December 22, 2016, MSHA issued, at par $150.0 million of bonds in the General Mortgage Purchase Bond Resolution. Between March 30, 2016 and December 22, 2016, MSHA redeemed at par $131.4 million of bonds in the General Mortgage Purchase Bond Resolution. On December 28, 2016, MSHA will issue at par, $28.0 million of bonds in the General Mortgage Purchase Bond Resolution.

On November 3, 2016, MMBB issued $29.9 million of Series 2016C General Resolution Tax Exempt bonds for making loans to several municipal governments. MMBB is currently working on a $100.5 million General Resolution stand-alone issue for Sanford School Department. The bond issue is expected to close in late January or early February 2017.

On July 13, 2016, MHHEFA issued $170.8 million of bonds for Eastern Maine Health Systems under the General Bond resolution with an average interest rate of 4.57% and a final maturity date of July 1, 2046. The borrower also contributed $6.3 million of equity for the project.

NOTE 18 – SPECIAL ITEMS

Change in Accounting Estimate

As stated in Note 3 – Accounting Changes and Restatements, the State changed the allocation methodology for allocating pension costs to funds. For fiscal year 2015, the State allocated pension costs to individual funds using an average of seven years worth of salary costs. After reconsideration, management changed its allocation basis to reflect a five year rolling average allocation of employer contributions made by each fund. Management believes the new measure more accurately aligns the pension costs, which are directly related to and expected to be paid from, each fund. The result on the Maine Military Authority, a non-major enterprise fund, was a decrease of $11.3 million of pension liability. Given the significant impact on that fund a special item has been recorded to reflect that adjustment.

Required Supplementary Information - Budgetary Reporting

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues								
Taxes	$ 3,174,020	$ 3,227,484	$ 3,244,441	$ 16,957	$ 220,812	220,812	$ 221,173	$ 361
Assessments and Other	100,343	102,019	104,803	2,784	89,130	91,710	96,465	4,755
Federal Grants	1,895	2,030	1,952	(78)	-	-	-	-
Service Charges	39,322	39,962	38,984	(978)	6,380	6,497	5,997	(500)
Income from Investments	439	1,076	2,045	969	337	245	255	10
Miscellaneous Revenue	4,122	4,444	14,200	9,756	2,813	3,474	3,617	143
Total Revenues	3,320,141	3,377,015	3,406,425	29,410	319,472	322,738	327,507	4,769
Expenditures								
Governmental Support and Operations	276,519	276,590	258,258	18,332	1,437	2,418	2,205	213
Economic Development & Workforce Training	42,465	42,513	39,865	2,648	-	-	-	-
Education	1,434,900	1,446,429	1,420,893	25,536	-	-	-	-
Health and Human Services	1,190,371	1,204,588	1,154,944	49,644	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	76,944	77,824	74,296	3,528	33	33	27	6
Justice and Protection	342,732	356,647	330,344	26,303	28,721	28,435	26,410	2,025
Arts, Heritage & Cultural Enrichment	8,606	8,388	7,614	774	-	-	-	-
Transportation Safety & Development	-	-	-	-	286,402	342,013	304,840	37,173
Total Expenditures	3,372,537	3,412,979	3,286,214	126,765	316,593	372,899	333,482	39,417
Revenues Over (Under) Expenditures	(52,396)	(35,964)	120,211	156,175	2,879	(50,161)	(5,975)	44,186
Other Financing Sources (Uses)								
Operating Transfers Net	(23,932)	(35,847)	(47,219)	(11,372)	-	-	15,209	15,209
Other Budgeted Resources								
Proceeds from Pledged Future Revenues								
Net Other Financing Sources (Uses)	(23,932)	(35,847)	(47,219)	(11,372)	-	-	15,209	15,209
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (76,328)	$ (71,811)	$ 72,992	$ 144,803	$ 2,879	$ (50,161)	$ 9,234	$ 59,395
Fund Balances at Beginning of Year			314,857				63,199	
Fund Balances at End of Year			$ 387,849				$ 72,433	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 289,439	$ 285,782	$ 284,412	$ (1,370)
-	-	-	-	184,159	186,736	162,343	(24,393)
2,990,420	3,113,026	2,578,411	(534,615)	12,982	13,068	11,922	(1,146)
483	483	406	(77)	185,133	195,172	257,729	62,557
-	-	15	15	967	961	513	(448)
13,110	12,937	7,341	(5,596)	252,022	282,008	290,064	8,056
3,004,013	3,126,446	2,586,173	(540,273)	924,702	963,727	1,006,983	43,256
5,424	5,892	2,437	3,455	141,232	154,792	144,738	10,054
117,508	130,859	81,888	48,971	49,667	56,495	44,915	11,580
296,333	297,909	201,839	96,070	48,170	46,795	38,589	8,206
2,315,282	2,355,343	1,981,252	374,091	489,819	501,953	451,820	50,133
117	117	75	42	67,091	70,094	58,565	11,529
61,137	76,297	51,276	25,021	126,887	156,695	105,734	50,961
156,964	143,034	54,741	88,293	47,588	57,383	44,435	12,948
3,472	4,351	3,094	1,257	2,086	2,210	1,119	1,091
194,238	233,220	204,469	28,751	77,892	153,512	126,455	27,057
3,150,475	3,247,022	2,581,071	665,951	1,050,432	1,199,929	1,016,370	183,559
(146,462)	(120,576)	5,102	125,678	(125,730)	(236,202)	(9,387)	226,815
75	75	(17,665)	(17,740)	94,552	111,663	(16,033)	(127,696)
				42,510	63,510	46,455	(17,055)
75	75	(17,665)	(17,740)	137,062	175,173	30,422	(144,751)
$ (146,387)	$ (120,501)	$ (12,563)	$ 107,938	$ 11,332	$ (61,029)	$ 21,035	$ 82,064
		29,233				330,319	
		$ 16,670				$ 351,354	


DIRIGO
MAINE

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2016
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 387,849	$ 72,433	$ 16,670	$ 351,354
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	211,369	1,802	-	12,204
Intergovernmental Receivables	-	-	271,819	-
Other Receivables	56,836	2,644	91,030	64,432
Inventories	2,475	-	439	-
Due from Component Units	25		-	63,859
Due from Other Funds	16,291	15,590	-	77,107
Other Assets	183	-	67	206
Unearned Revenues	-	(4,792)	(439)	21,536
Deferred Inflows - Taxes and Assessment Revenues	(203,150)	(742)	(49)	(28,154)
Total Revenue Accruals/Adjustments	84,029	14,502	362,867	211,190
Expenditure Accruals/Adjustments:				
Accounts Payable	(138,183)	(24,824)	(222,719)	(20,772)
Due to Component Units	(1,744)	(25)	(5,516)	(3,972)
Accrued Liabilities	(20,521)	(8,138)	(5,970)	(8,270)
Taxes Payable	(209,089)	-	-	-
Intergovernmental Payables	-	-	(90,981)	-
Pollution Remediation and Landfill Obligation	-	-	-	(1,243)
Due to Other Funds	(57,007)	(3,976)	(17,214)	(20,639)
Total Expenditure Accruals/Adjustments	(426,544)	(36,963)	(342,400)	(54,896)
Fund Balances - GAAP Basis	$ 45,334	$ 49,972	$ 37,137	$ 507,648

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING

Statutory/Budgetary Presentation

In accordance with statute, the Governor presents a biennial budget for the General Fund and special revenue funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

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

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

Detailed budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget or separate pieces of legislation. For the year ended June 30, 2016, the legislature decreased appropriations to the General Fund by $3.4 million.

Governmental funds use encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. 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).

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

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

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most "operating" funds.

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2016-2017, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 30, 2015, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the "final budget" column. Therefore updated revenue estimates available for appropriations as of June 30, 2016 rather than the amounts shown in the original budget, are reported.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, approved transfers, and executive order reductions. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by policy area rather than being reported by character and function as shown in the GAAP statements. This policy area classification is used to better reflect organizational responsibility and to be more consistent with the budget process.

Compliance at the Legal Level of Budgetary Control

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

STATE OF MAINE
SCHEDULE OF CHANGES IN
THE NET PENSION LIABILITY (ASSET)
JUDICIAL PENSION PLAN

June 30, 2016

(Expressed in Thousands)

	2016	2015
Service Cost	$ 1,606	$ 1,518
Interest	3,863	3,736
Changes in Benefit Terms	28	17
Differences Between Expected and Actual Experience	2,238	(292)
Changes of Assumptions	-	426
Benefit Payments, Including Refunds of Member Contributions	(3,384)	(3,219)
Net Change in Total Pension Liability	4,351	2,186
Beginning Total Pension Liability	54,561	52,375
Ending Total Pension Liability	58,912	54,561
Plan Fiduciary Net Position		
Employer Contributions	979	932
Member Contributions	550	528
Net Investment Income	1,055	8,416
Benefit Payments, Including Refunds of Member Contributions	(3,384)	(3,219)
Administrative Expense	(49)	(42)
Net Change in Plan Fiduciary Net Position	(849)	6,615
Beginning Plan Fiduciary Net Position	57,190	50,575
Ending Plan Fiduciary Net Position	56,341	57,190
Ending Net Pension Liability	$ 2,571	$ (2,629)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.6%	104.8%
Covered-employee Payroll	$ 7,186	$ 6,742
Net Pension Liability (Asset) as a Percentage of Covered-employee Payroll	35.8%	-39.0%

STATE OF MAINE
SCHEDULE OF CHANGES IN
THE NET PENSION LIABILITY (ASSET)
LEGISLATIVE PENSION PLAN

June 30, 2016

(Expressed in Thousands)

	2016	2015
Service Cost	$ 451	$ 450
Interest	545	503
Changes in Benefit Terms	4	4
Differences Between Expected and Actual Experience	(508)	(93)
Changes of Assumptions	-	86
Benefit Payments, Including Refunds of Member Contributions	(439)	(318)
Net Change in Total Pension Liability	53	632
Beginning Total Pension Liability	7,505	6,873
Ending Total Pension Liability	7,558	7,505
Plan Fiduciary Net Position		
Employer Contributions	4	4
Member Contributions	193	140
Net Investment Income	206	1,622
Benefit Payments, Including Refunds of Member Contributions	(439)	(318)
Administrative Expense	(9)	(8)
Net Change in Plan Fiduciary Net Position	(45)	1,440
Beginning Plan Fiduciary Net Position	11,120	9,680
Ending Plan Fiduciary Net Position	11,075	11,120
Ending Net Pension Liability	$ (3,517)	$ (3,615)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	146.5%	148.2%
Covered-employee Payroll	$ 2,528	$ 2,590
Net Pension Liability (Asset) as a Percentage of Covered-employee Payroll	-139.2%	-139.6%

STATE OF MAINE
SCHEDULE OF STATE CONTRIBUTIONS
SINGLE EMPLOYER DEFINED BENEFIT PENSION PLANS - EMPLOYER CONTRIBUTIONS

Last Three Fiscal Years
(Expressed in Thousands)

	2016	2015	2014
Judicial Pension Plan			
Actuarially Determined Contribution	$ 1,078	$ 951	$ 932
Contributions in Relation to the Actuarially Determined Employer Contribution	(1,078)	(951)	(932)
	-	-	-
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered-employee payroll	$ 7,188	$ 7,186	$ 6,742
Contributions as a percentage of covered-employee payroll	14.99%	13.24%	13.83%
Legislative Pension Plan			
Actuarially Determined Contribution	$ -	$ -	$ -
Contributions in Relation to the Actuarially Determined Employer Contribution	-	-	(4)
	-	-	-
Contribution Deficiency (Excess)	$ -	$ -	$ (4)
Covered-employee payroll	$ 2,590	$ 2,528	$ 2,535
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.15%

Notes to Schedule:

Valuation date	June 30, 2012

June 30, 2015 actuarially determined contribution rates are calculated based on a 2012 actuarial valuation developed as a roll-forward of the 2011 actuarial valuation, adjusted for expected experience and any assumption or methodology changes during fiscal year end 2012 using actual assets as of June 30, 2012.

Actuarial cost method	Entry age normal
Asset valuation method	3 - Year smoothed market
Amortization method	Level percent of payroll, open 10-year amortization of the 2012 UAL
Investment rate of return	7.25%
Amortization growth rate	3.50%
Price inflation	3.50%
Salary increases	3.5% plus merit component based on employee's years of service
Retirement age	100% retirement assumed to occur at age 60 for members with at least 10 years of creditable service on July 1, 1993. For members with less than 5 years of creditable service on July 1, 2001, 50% are assumed to retire each year after reaching age 65.
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA
Most recent review of plan experience:	2011

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2015 can be found in the June 30, 2012 actuarial valuation report.

Revised actuarial assumption:

Investment rate of return	7.125%

Benefit changes. By law, the COLA is based on the Consumer Price Index for Urban Consumers (CPI-U) as of June 30th applied to the statutory COLA base. If the percentage is negative, then no adjustment is made in that year. In subsequent years the adjustment that would have been made will be adjusted downward to the extent necessary to recoup the full actuarial value of not having made the previous year's negative adjustment. This process of adjustment may occur over a multi-year period if needed to recoup the full actuarial value of the negative CPI-U. The MainePERS Board of Trustees set the 2014 COLA at 2.1% (the CPI-U at June 30, 2014) at their August meeting. Cost-of-living adjustments are effective September 1. Retirees are eligible to receive a cost-of-living adjustment after being retired for at least 12 months, except that retirees with less than 10 years of service on July 1, 1993 who retire prior to normal retirement age are not eligible to receive a cost-of-living adjustment until 12 months after reaching normal retirement age. The maximum annual limit is 3% of up to the first $20,000 of annual benefit, indexed. This is a permanent increase in retiree's benefit. The $20,000 COLA base is indexed each year going forward by the same percentage as the COLA that is paid.

Per GASB Statement No. 68, governments should present information for those years for which information is available. If information is not available, the government may implement them prospectively.

STATE OF MAINE
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE EMPLOYEES AND TEACHERS PLAN - STATE EMPLOYEES ONLY

Last Two Fiscal Years
(Expressed in Thousands)

	2016	2015
State Employees		
Proportion of the Collective Net Pension Liability	92.825250%	92.853946%
Proportionate Share (Amount) of the Collective Net Pension Liability	$ 950,597	$ 837,743
Covered-employee Payroll	$ 520,115	$ 525,765
Proportionate Share of the Net Pension Liability As a Percentage of Its Covered-Employee Payroll	182.77%	159.34%
Plan Fiduciary Net Position As a Percentage of the Total Pension Liability	76.80%	79.21%
Maine Community College System		
Proportion of the Collective Net Pension Liability	6.640831%	6.618303%
Proportionate Share (Amount) of the Collective Net Pension Liability	$ 68,007	$ 59,710
Covered-employee Payroll	$ 32,008	$ 31,679
Proportionate Share of the Net Pension Liability As a Percentage of Its Covered-Employee Payroll	212.47%	188.48%
Plan Fiduciary Net Position As a Percentage of the Total Pension Liability	76.80%	79.21%
Maine Educational Center for the Deaf and Hard of Hearing		
Proportion of the Collective Net Pension Liability	0.462378%	0.455434%
Proportionate Share (Amount) of the Collective Net Pension Liability	$ 4,735	$ 4,108
Covered-employee Payroll	$ 3,492	$ 3,359
Proportionate Share of the Net Pension Liability As a Percentage of Its Covered-Employee Payroll	135.60%	122.30%
Plan Fiduciary Net Position As a Percentage of the Total Pension Liability	76.80%	79.21%
Northern New England Passenger Rail Authority		
Proportion of the Collective Net Pension Liability	0.071541%	0.072317%
Proportionate Share (Amount) of the Collective Net Pension Liability	$ 733	$ 652
Covered-employee Payroll	$ 435	$ 417
Proportionate Share of the Net Pension Liability As a Percentage of Its Covered-Employee Payroll	168.51%	156.35%
Plan Fiduciary Net Position As a Percentage of the Total Pension Liability	76.80%	79.21%
Total SETP - State of Maine Employees		
Proportion of the Collective Net Pension Liability	100.000000%	100.000000%
Proportionate Share (Amount) of the Collective Net Pension Liability	$ 1,024,072	$ 902,213
Covered-employee Payroll	$ 556,050	$ 561,220
Proportionate Share of the Net Pension Liability As a Percentage of Its Covered-Employee Payroll	184.17%	160.76%
Plan Fiduciary Net Position As a Percentage of the Total Pension Liability	76.80%	79.21%

Notes to Schedule:

The SETP includes the State and 3 of its non-major discretely presented component units in its definition of state employees.

Per GASB Statement No. 68, governments should present information for those years for which information is available. If information is not available, the government may implement them prospectively.

STATE OF MAINE
SCHEDULE OF STATE CONTRIBUTIONS
COST-SHARING MULTIPLE EMPLOYER DEFINED BENEFIT PENSION PLANS - EMPLOYER CONTRIBUTIONS
STATE EMPLOYEES AND TEACHERS PLAN - STATE EMPLOYEES ONLY

Last Three Fiscal Years
(Expressed in Thousands)

	2016	2015	2014
State Employees			
Actuarially Determined Contribution	$ 136,139	$ 107,807	$ 117,380
Contributions in Relation to the Actuarially Determined Employer Contribution	(136,139)	(107,807)	(117,380)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered-Employee Payroll	$ 588,415	$ 521,846	$ 525,765
Contributions Recognized by the Pension Plan in Relation to the Actuarially Determined Employer Contribution as a Percentage of Employer's Covered-Employee Payroll	23.14%	20.66%	22.33%
Maine Community College System			
Actuarially Determined Contribution	$ 7,159	$ 8,135	$ 3,133
Contributions in Relation to the Actuarially Determined Employer Contribution	(7,159)	(8,135)	(3,133)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered-Employee Payroll	$ 32,627	$ 30,257	$ 31,679
Contributions Recognized by the Pension Plan in Relation to the Actuarially Determined Employer Contribution as a Percentage of Employer's Covered-Employee Payroll	21.94%	26.89%	9.89%
Maine Educational Center for the Deaf and Hard of Hearing			
Actuarially Determined Contribution	$ 667	$ 554	$ 451
Contributions in Relation to the Actuarially Determined Employer Contribution	(667)	(554)	(451)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered-Employee Payroll	$ 2,985	$ 3,517	$ 3,359
Contributions Recognized by the Pension Plan in Relation to the Actuarially Determined Employer Contribution as a Percentage of Employer's Covered-Employee Payroll	22.35%	15.75%	13.43%
Northern New England Passenger Rail Authority			
Actuarially Determined Contribution	$ 99	$ 81	$ 71
Contributions in Relation to the Actuarially Determined Employer Contribution	(99)	(81)	(71)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered-Employee Payroll	$ 439	$ 430	$ 417
Contributions Recognized by the Pension Plan in Relation to the Actuarially Determined Employer Contribution as a Percentage of Employer's Covered-Employee Payroll	22.55%	18.84%	17.03%
Total SETP - State of Maine Employees			
Actuarially Determined Contribution	$ 144,064	$ 116,577	$ 121,035
Contributions in Relation to the Actuarially Determined Employer Contribution	(144,064)	(116,577)	(121,035)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered-Employee Payroll	$ 624,466	$ 556,050	$ 561,220
Contributions Recognized by the Pension Plan in Relation to the Actuarially Determined Employer Contribution as a Percentage of Employer's Covered-Employee Payroll	23.07%	20.97%	21.57%

Required Supplementary Information - State Retirement Plans

Notes to Schedule:

The SETP includes the State and 3 of its non-major discretely presented component units in its definition of state employees.

Valuation date	June 30, 2012

June 30, 2015 actuarially determined contribution rates are calculated based on a 2012 actuarial valuation developed as a roll-forward of the 2011 actuarial valuation, adjusted for expected experience and any assumption or methodology changes during fiscal year end 2012 using actual assets as of June 30, 2012.

Actuarial cost method	Entry age normal
Asset valuation method	3 - Year smoothed market
Amortization method	Level percent of payroll, closed 16-year amortization of the 2012 UAL
Investment rate of return	7.25%
Amortization growth rate	3.50%
Price inflation	3.50%
Salary increases	3.5% plus merit component based on employee's years of service
Retirement age	100% retirement assumed to occur at age 60 for members with at least 10 years of creditable service on July 1, 1993. For members with less than 5 years of creditable service on July 1, 2001, 50% are assumed to retire each year after reaching age 65.
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA
Most recent review of plan experience:	2011

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2015 can be found in the June 30, 2012 actuarial valuation report.

Revised actuarial assumption:	
Investment rate of return	7.125%

Benefit changes. By law, the COLA is based on the Consumer Price Index for Urban Consumers (CPI-U) as of June 30th applied to the statutory COLA base. If the percentage is negative, then no adjustment is made in that year. In subsequent years the adjustment that would have been made will be adjusted downward to the extent necessary to recoup the full actuarial value of not having made the previous year's negative adjustment. This process of adjustment may occur over a multi-year period if needed to recoup the full actuarial value of the negative CPI-U. The MainePERS Board of Trustees set the 2014 COLA at 2.1% (the CPI-U at June 30, 2014) at their August meeting. Cost-of-living adjustments are effective September 1. Retirees are eligible to receive a cost-of-living adjustment after being retired for at least 12 months, except that retirees with less than 10 years of service on July 1, 1993 who retire prior to normal retirement age are not eligible to receive a cost-of-living adjustment until 12 months after reaching normal retirement age. The maximum annual limit is 3% of up to the first $20,000 of annual benefit, indexed. This is a permanent increase in retiree's benefit. The $20,000 COLA base is indexed each year going forward by the same percentage as the COLA that is paid.

STATE OF MAINE
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE EMPLOYEES AND TEACHERS PLAN - TEACHERS

Last Two Fiscal Years
(Expressed in Thousands)

	2016	2015
Non-employer Contributing Entity's Proportion of:		
Percentage of the Collective Net Pension Liability	95.036038%	95.069591%
Amount of the Collective Net Pension Liability	$ 1,350,118	$ 1,027,065
Plan's Fiduciary Net Position As a Percentage of the Total Pension Liability	83.60%	86.46%

Per GASB Statement No. 68, governments should present information for those years for which information is available. If information is not available, the government may implement them prospectively.

STATE OF MAINE
SCHEDULE OF STATE CONTRIBUTIONS
COST-SHARING MULTIPLE EMPLOYER DEFINED BENEFIT PENSION PLANS - NON-EMPLOYER CONTRIBUTIONS
STATE EMPLOYEES AND TEACHERS PLAN - TEACHERS

Last Three Fiscal Years
(Expressed in Thousands)

	2016	2015	2014
Teachers - Non-Employer Contributor			
Actuarially Determined Contribution	$ 112,478	$ 147,048	$ 146,362
Contributions in Relation to the Actuarially Determined Non-employer Contribution	(112,478)	(147,048)	(146,362)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Employer Contributors			
Actuarially Determined Contribution	$ 45,349	$ 38,404	$ 36,931
Contributions in Relation to the Actuarially Determined Employer Contribution	(45,349)	(38,404)	(36,931)
Contribution Deficiency (Excess)	$ -	$ -	$ -
Total SETP - Teachers			
Actuarially Determined Contribution	$ 157,827	$ 185,452	$ 183,293
Contributions in Relation to the Actuarially Determined Employer Contribution	(157,827)	(185,452)	(183,293)
Contribution Deficiency (Excess)	$ -	$ -	$ -

Notes to Schedule:

Valuation date — June 30, 2012

June 30, 2015 actuarially determined contribution rates are calculated based on a 2012 actuarial valuation developed as a roll-forward of the 2011 actuarial valuation, adjusted for expected experience and any assumption or methodology changes during fiscal year end 2012 using actual assets as of June 30, 2012.

Actuarial cost method	Entry age normal
Asset valuation method	3 - Year smoothed market
Amortization method	Level percent of payroll, closed 16-year amortization of the 2012 UAL
Investment rate of return	7.25%
Amortization growth rate	3.50%
Price inflation	3.50%
Salary increases	3.5% plus merit component based on employee's years of service
Retirement age	100% retirement assumed to occur at age 60 for members with at least 10 years of creditable service on July 1, 1993. For members with less than 5 years of creditable service on July 1, 2001, 50% are assumed to retire each year after reaching age 65.
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA
Most recent review of plan experience:	2011

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2015 can be found in the June 30, 2012 actuarial valuation report.

Revised actuarial assumption:

Investment rate of return — 7.125%

Benefit changes. By law, the COLA is based on the Consumer Price Index for Urban Consumers (CPI-U) as of June 30th applied to the statutory COLA base. If the percentage is negative, then no adjustment is made in that year. In subsequent years the adjustment that would have been made will be adjusted downward to the extent necessary to recoup the full actuarial value of not having made the previous year's negative adjustment. This process of adjustment may occur over a multi-year period if needed to recoup the full actuarial value of the negative CPI-U. The MainePERS Board of Trustees set the 2014 COLA at 2.1% (the CPI-U at June 30, 2014) at their August meeting. Cost-of-living adjustments are effective September 1. Retirees are eligible to receive a cost-of-living adjustment after being retired for at least 12 months, except that retirees with less than 10 years of service on July 1, 1993 who retire prior to normal retirement age are not eligible to receive a cost-of-living adjustment until 12 months after reaching normal retirement age. The maximum annual limit is 3% of up to the first $20,000 of annual benefit, indexed. This is a permanent increase in retiree’s benefit. The $20,000 COLA base is indexed each year going forward by the same percentage as the COLA that is paid.

Required Supplementary Information – Other Post-employment Benefit Plans

Schedules of Funding Progress

Healthcare Plans

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees (in millions)	June 30, 2015	184	1,275	1,157	14.43%	561	206.24%
	June 30, 2014	167	1,224	1,057	13.64%	543	194.66%
	June 30, 2013	150	1,166	1,016	12.86%	518	196.14%
Teachers (in millions)	June 30, 2015	0	739	739	0.00%	1,142	64.71%
	June 30, 2014	0	684	684	0.00%	1,106	61.84%
	June 30, 2013	0	685	685	0.00%	1,194	57.37%
First Responders (in thousands)	June 30, 2015	0	21,822	21,822	0.00%	54,030	40.39%
	June 30, 2014	0	24,055	24,055	0.00%	54,967	43.76%
	June 30, 2013	0	22,369	22,369	0.00%	53,366	41.92%

Group Life Insurance Plans

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees	June 30, 2016	32,300	89,900	57,600	35.93%	578,279	9.96%
	June 30, 2015	32,300 *	89,500 *	57,200	36.09%	556,900 *	10.27%
	June 30, 2014	31,800	87,300	55,500	36.43%	556,900 *	9.97%
	* restated						
Teachers	June 30, 2016	49,800	85,700	35,900	58.11%	698,700	5.14%
	June 30, 2015	48,000	79,000	31,000	60.76%	666,200	4.65%
	June 30, 2014	45,100	75,600	30,500	59.66%	666,200	4.58%

Required Supplementary Information – Other Post-employment Benefit Plans (continued)

Schedule of Employer Contributions

(Expressed in Thousands)

	State Employees		Teachers		First Responders	
Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
Healthcare - 2016	$88,000	76.14%	$48,000	56.25%	$1,883	35.53%
Healthcare - 2015	84,000	79.76%	46,000	56.52%	1,976	38.26%
Healthcare - 2014	99,000	63.87%	45,000	55.46%	1,769	33.52%
Healthcare - 2013	94,000	72.34%	44,000	56.82%	1,689	34.16%
Healthcare - 2012	126,000	57.94%	55,000	40.00%	1,350	32.15%
Group Life - 2016	4,670	93.49%	3,160	100.00%	-	-
Group Life - 2015	4,935	86.67%	3,660	100.00%	-	-
Group Life - 2014	4,768	88.07%	3,440	100.00%	-	-
Group Life - 2013	4,591	101.79%	3,099	100.00%	-	-
Group Life - 2012	3,250	144.13%	2,959	100.00%	-	-

Required Supplementary Information –
Information about Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include 8,809 highway miles or 17,911 lane miles of roads and 2,967 bridges having a total deck area of 12.2 million square feet that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved at, or above, the established condition level.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Highways

Measurement Scale for Highways
The Maine Department of Transportation (MDOT) uses six indicators to determine the condition of highway adequacy. The six indicators and their relative point weighting are listed in the table below.

Data Element	Point Rating (%)	Description
Pavement Condition Rating (PCR)	45	PCR is defined as the composite condition of the pavement on a roadway only, and is compiled from the severity and extent of pavement distresses such as cracking, rutting and patching. It is the key indicator used to determine the optimum time to treat a particular section of road. Points decrease as PCR decreases.
Safety	20	Statewide crash rates are used to allocate points. Locations with high rates get fewer points.
Backlog (Built vs. Unbuilt roadway)	15	A "Built" road is one that has been constructed to a modern standard, usually post 1950. This includes adequate drainage, base, and pavement to carry the traffic load, and adequate sight distance and width to meet current safety standards. "Unbuilt" (backlog) is defined as a roadway section that has not been built to modern standards. Yes or No (15 or 0).
Annual Average Daily Traffic divided by the hourly highway capacity (AADT/C)	10	This ratio measures how intensely a highway is utilized. As a highway facility's AADT/C ratio increases, the average speed of vehicles on that facility tends to decrease. This decrease in average speed is evidence of reduced mobility. As congestion increases, points decrease (0-10).
Posted Speed	5	Lower speeds equal fewer points.
Paved Shoulder	5	In general, roadways with paved shoulders perform at a higher level and last longer than those without shoulders or with only gravel shoulders. Yes or No (5 or 0).
	100	

Bridges

MDOT uses four separate factors to obtain a numerical value used to indicate the ability of bridges to remain in service at the current level of usage. The numeric value is a percentage ranging from 0% to represent an entirely insufficient or deficient bridge, and 100% to represent an entirely sufficient bridge. The four indicators and their relative point weighting are listed in the table below. The composite numeric value is based on the sufficiency rating formula in the Recording and Coding Guide for Structure Inventory and Appraisal of the Nation's Bridges.

Data Element	Point Rating (%)	Description
Structural Adequacy and Safety	55	This category considers inventory rating, superstructure, substructure and culverts.
Serviceability and Functional Obsolescence	30	Serviceability and functional obsolescence that addresses the number of lanes, average daily traffic, roadway width, bridge width, deck condition, under clearances, waterway adequacy, alignment, and defense highway designation.
Essentiality for Public Use	15	This considers detour length, average daily traffic, and defense highway designation.
Special Reductions	(13)	The sufficiency rating also includes consideration of special reductions for detour length, safety features, and type of structure.

Assessed Conditions
The following table shows adequacy ratings for maintenance levels from Excellent to Poor.

Adequacy Rating	Total
Excellent	80-100
Good	70-80
Fair	60-70
Poor	0-60

MDOT intends to maintain highways and bridges at an adequacy rating of 60 or higher. The following table shows adequacy ratings achieved by MDOT.

Fiscal Year	Highways	Bridges
2016	75.3	76.0
2015	75.5	78.0
2014	75.5	78.0

Comparison of Estimated-to-Actual Preservation Costs

The following table presents the State's preservation costs for the past five fiscal years. It also shows the estimate of spending necessary to preserve and maintain the roads and bridges at, or above, a sufficiency rating of 60 for both highways and bridges (in millions).

Actual Preservation Costs
(Expressed in millions)

	2016	2015	2014	2013	2012
Highways	$ 110.7	$ 110.2	$ 163.0 [1]	$ 90.5	$ 91.5
Bridges	4.9	5.5	71.0 [1]	14.7	13.2
Total	$ 115.6	$ 115.7	$ 234.0	$ 105.2	$ 104.7

Estimated Preservation Costs
(Expressed in millions)

	2016	2015	2014	2013	2012
Highways	$ 113.4	$ 71.9	$ 24.7	$ 84.1	$ 155.0
Bridges	8.8	3.9	3.1	13.7	30.0
Total	$ 122.2	$ 75.8	$ 27.8	$ 97.8	$ 185.0

[1] As restated

In 2014 it was determined that preservation costs were understated due to an incorrect process for determining the associated cost. The actual costs have been restated. The 2014 Estimated Preservation Costs are understated due to that incorrect process.

Transportation Bonds

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 429, PL 2013, $26 million in General fund bonds were spent during FY2016. Of the amount authorized by Chapter 305, PL 2015, $20 million in General fund bonds were spent during FY

GOVERNMENTAL FUND

COMBINED STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY

For the Years Ended June 30

(thousands $000's)

	2012	2013	2014	2015	2016
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 1,154,480	$ 1,164,216	$ 1,227,734	$ 1,317,281	$ 1,398,303
Individual Income Tax	1,513,710	1,607,831	1,414,110	1,533,130	1,551,637
Corporate Income Tax	271,943	217,338	211,854	206,198	213,606
Cigarette and Tobacco Tax	139,729	137,952	136,160	136,913	141,464
Inheritance and Estate Tax	44,866	79,083	23,962	31,196	27,198
Gasoline, Use Fuel and Motor Carrier Tax	242,123	236,763	239,988	243,001	244,102
Insurance Tax	112,291	103,549	110,909	102,031	106,570
Public Utilities Tax	39,418	40,301	39,888	41,590	28,077
Other Industry or Occupation Taxes	217,902	247,246	256,199	259,048	220,445
Real Estate Transfer Tax	18,644	22,449	24,777	26,678	28,324
Unorganized Territories Property Tax	26,309	26,692	27,031	27,528	27,538
Other Taxes	11,027	13,949	14,015	15,112	15,188
Total Taxes	3,792,442	3,897,369	3,726,627	3,939,706	4,002,451
From Federal Government	2,705,040	2,616,027	2,763,077	2,492,007	2,580,692
From Cities, Towns and Counties	8,409	9,624	31,213	38,289	63,283
From Private Sources	231,132	230,134	235,794	227,512	230,411
Service Charge for Current Services	132,505	129,563	134,208	165,482	144,026
Fines, Forfeitures & Penalties	37,477	37,291	37,284	35,973	34,365
Vehicle Registration and Drivers Licenses	103,635	108,811	102,128	105,317	108,652
Hunting, Fishing and Related Licenses	18,235	18,464	18,380	18,998	19,092
Transferred from Bureau of Alcoholic Beverages	-	-	-	-	-
Transferred from Lottery Commission	53,786	52,909	51,845	54,002	56,973
Transferred from Other Funds	22,130	34,078	37,182	48,922	54,909
Transferred for Revenue Sharing	(137,228)	(140,241)	(139,369)	(149,550)	(67,356)
Transferred for Tax Relief	(115,336)	(111,674)	(65,358)	(59,499)	(64,475)
Income from Investments	1,650	674	961	1,464	2,661
Other Revenues	21,611	412	5,539	14,406	24,257
	3,083,046	2,986,072	3,212,885	2,993,323	3,187,490
Other Financial Resources					
Proceeds of General Obligation Bonds	55,775	-	8	4	5
Other	94,433	103,447	514,882	312,849	229,082
Total Revenues and Resources	7,025,696	6,986,888	7,454,402	7,245,882	7,419,028
Expenditures					
Governmental Support & Operations	410,477	448,340	431,538	435,511	407,652
Arts, Heritage & Cultural Enrichment	11,620	10,306	11,025	11,790	11,827
Business Licensing & Regulation	63,967	64,295	71,232	69,509	58,640
Economic Development & Workforce Training	339,837	241,055	170,785	172,271	176,843
Education	1,609,206	1,560,404	1,648,218	1,641,201	1,685,624
Health & Human Services	3,419,603	3,390,838	3,887,234	3,453,500	3,588,016
Justice & Protection	373,338	379,876	397,543	421,571	458,600
Natural Resources Development & Protection	203,326	207,717	194,333	202,445	235,369
Transportation Safety & Development	630,384	618,551	597,442	605,239	695,796
Total Expenditures	7,061,758	6,921,382	7,409,350	7,013,037	7,318,367
Excess Resources Over (Under) Expenditures	(36,062)	65,506	45,052	232,845	100,661
Fund Equity July 1 of preceding calendar year	509,315	473,253	538,760	583,812	816,657
Fund Equity June 30	$ 473,253	$ 538,759	$ 583,812	$ 816,657	$ 917,318

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

	2012	2013	2014	2015	2016
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 1,029,513	$ 1,036,888	$ 1,156,332	$ 1,243,586	$ 1,319,062
Individual Income Tax	1,434,217	1,521,863	1,406,118	1,521,778	1,542,688
Corporate Income Tax	260,452	208,452	211,854	206,198	213,606
Cigarette and Tobacco Tax	139,729	137,952	136,160	136,913	141,464
Inheritance and Estate Tax	44,866	79,083	23,962	31,196	27,198
Insurance Tax	82,986	79,609	83,204	81,460	81,251
Public Utilities Tax	10,870	10,076	6,843	7,591	6,404
Other Industry or Occupation Taxes	50,783	60,661	50,055	46,408	10,768
Real Estate Transfer Tax	8,935	11,667	10,695	13,837	15,395
Unorganized Territories Property Tax	10,727	13,333	12,448	12,452	12,779
Other Taxes	6,419	5,514	5,186	5,426	5,531
Total Taxes	3,079,497	3,165,098	3,102,856	3,306,845	3,376,144
From Federal Government	1,904	414	416	428	352
From Cities, Towns and Counties	282	248	274	323	311
From Private Sources	9,650	10,175	11,688	5,551	1,712
Service Charge for Current Services	35,957	28,728	26,629	26,160	26,449
Fines, Forfeitures & Penalties	25,121	23,749	23,474	22,609	20,611
Vehicle Registration and Drivers Licenses	-	-	-	-	1
Hunting, Fishing and Related Licenses	15,875	16,079	15,988	16,491	16,433
Transferred from Bureau of Alcoholic Beverages	-	-	-	-	-
Transferred from Lottery Commission	53,786	52,909	51,845	54,002	56,973
Transferred from Other Funds	45,725	48,635	84,613	105,274	(2,334)
Transferred for Revenue Sharing	(137,228)	(140,241)	(139,369)	(149,550)	(67,356)
Transferred for Tax Relief	(115,336)	(111,674)	(65,358)	(59,533)	(64,744)
Income from Investments	156	148	301	603	1,484
Other Revenue	(4,932)	(6,196)	(10,866)	(2,511)	(8,779)
	(69,040)	(77,026)	(366)	19,847	(18,888)
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	110,144	(61,588)	118,168	(68,871)	1,950
Total Revenues and Resources	3,120,601	3,026,484	3,220,658	3,257,821	3,359,206
Expenditures					
Governmental Support & Operations	259,280	266,830	253,172	258,872	258,258
Arts, Heritage & Cultural Enrichment	7,068	6,932	7,405	7,300	7,614
Business Licensing & Regulation	-	578	4,200	10	-
Economic Development & Workforce Training	33,529	31,728	31,656	32,646	39,865
Education	1,365,933	1,341,083	1,409,592	1,398,321	1,420,893
Health & Human Services	1,103,849	1,079,612	1,103,755	1,115,609	1,154,944
Justice & Protection	261,702	264,824	288,890	307,640	330,344
Natural Resources Development & Protection	65,763	63,852	66,450	68,765	74,296
Transportation Safety & Development	-	-	-	-	-
Total Expenditures	3,097,124	3,055,439	3,165,120	3,189,163	3,286,214
Excess Resources Over (Under) Expenditures	23,477	(28,955)	55,538	68,658	72,992
Fund Equity July 1 of preceding calendar year	196,139	219,616	190,661	246,199	314,857
Fund Equity June 30	$ 219,616	$ 190,661	$ 246,199	$ 314,857	$ 387,849

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

	2012	2013	2014	2015	2016
Revenues					
Taxes					
Gasoline, Use Fuel and Motor Carrier Tax	$ 219,728	$ 214,800	$ 217,757	220,482	221,441
Other Industry or Occupation Taxes	957	935	895	907	1,216
Other Taxes	73	3,394	3,459	3,589	3,679
Total Taxes	220,758	219,129	222,111	224,978	226,337
From Federal Government	-	-	-	-	-
Service Charges for Current Services	4,270	4,455	4,205	4,391	4,463
Fines, Forfeitures & Penalties	1,044	1,030	976	855	791
Vehicle Registration and Drivers Licenses	86,628	89,550	84,616	87,553	90,510
Transferred from Other Funds	-	4,402	4,880	5,380	4,927
Income from Investments	141	105	80	159	255
Other Revenue	4,120	1,509	272	165	(1,328)
	96,203	101,051	95,029	98,503	99,620
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	17,804	5,215	18,510	13,581	16,760
Total Revenues and Resources	334,765	325,395	335,650	337,062	342,716
Expenditures					
Governmental Support & Operations (2)	3,639	2,614	34,760	35,395	2,205
Economic Development & Workforce Training	-	-	-	-	-
Justice & Protection	28,634	28,584	24,103	24,311	26,410
Natural Resources Development & Protection	33	33	33	33	27
Transportation Safety & Development (1)(2)	304,735	296,491	287,295	262,357	304,840
Total Expenditures	337,041	327,722	346,191	322,096	333,482
Excess Resources Over (Under) Expenditures	(2,276)	(2,327)	(10,541)	14,966	9,234
Fund Equity July 1 of preceding calendar year	63,377	61,101	58,774	48,233	63,199
Fund Equity June 30	$ 61,101	$ 58,774	$ 48,233	$ 63,199	$ 72,433

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

	2012	2013	2014	2015	2016
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 124,967	$ 127,328	$ 71,402	$ 73,695	$ 79,241
Individual Income Tax	79,493	85,968	7,992	11,352	8,949
Corporate Income Tax	11,491	8,885	-	-	-
Gasoline, Use Fuel and Motor Carrier Tax	22,395	21,963	22,231	22,519	22,660
Insurance Tax	29,305	23,939	27,705	20,571	25,319
Public Utilities Tax	28,548	30,225	33,046	33,999	21,674
Other Industry or Occupation Taxes	166,162	185,650	205,249	211,733	208,461
Real Estate Transfer Tax	9,709	10,782	14,081	12,841	12,930
Unorganized Territories Property Tax	15,582	13,359	14,583	15,075	14,759
Other Taxes	4,535	5,042	5,370	6,097	5,978
Total Taxes	492,187	513,141	401,659	407,882	399,970
From Federal Government	2,703,136	2,615,613	2,762,661	2,491,579	2,580,340
From Cities, Towns and Counties	8,127	9,376	30,937	37,967	62,971
From Private Sources	221,482	219,960	224,086	221,951	228,699
Service Charge for Current Services	92,278	96,380	103,374	134,932	113,113
Fines, Forfeitures & Penalties	11,312	12,512	12,834	12,510	12,963
Vehicle Registration and Drivers Licenses	17,007	19,261	17,512	17,764	18,141
Hunting, Fishing and Related Licenses	2,360	2,386	2,392	2,508	2,659
Transferred from Other Funds	(23,595)	(18,959)	(52,310)	(61,698)	52,586
Income from Investments	343	341	333	389	528
Other Revenues	22,334	5,036	16,137	20,059	34,351
	3,054,784	2,961,906	3,117,956	2,877,959	3,106,351
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	(33,515)	159,820	251,084	253,948	99,592
Total Revenues and Resources	3,513,456	3,634,867	3,770,698	3,539,789	3,605,913
Expenditures					
Governmental Support & Operations	145,563	178,877	143,606	141,244	147,175
Arts, Heritage & Cultural Enrichment	4,466	3,275	3,564	4,471	4,213
Business Licensing & Regulation	63,967	63,717	67,032	69,499	58,640
Economic Development & Workforce Training	288,545	208,407	135,487	122,213	126,803
Education	233,603	215,969	231,970	228,828	240,428
Health & Human Services	2,315,489	2,311,226	2,775,794	2,336,159	2,433,072
Justice & Protection	83,002	86,168	84,479	88,864	99,176
Natural Resources Development & Protection	131,028	137,662	120,672	132,433	157,010
Transportation Safety & Development	300,593	317,090	272,190	262,946	330,924
Total Expenditures	3,566,256	3,522,391	3,834,794	3,386,657	3,597,441
Excess Resources Over (Under) Expenditures	(52,800)	112,476	(64,096)	153,132	8,472
Fund Equity July 1 of preceding calendar year	210,840	158,040	270,516	206,420	359,552
Fund Equity June 30	$ 158,040	$ 270,516	$ 206,420	$ 359,552	$ 368,024

GOVERNMENTAL FUNDS

COMBINED BALANCE SHEETS

JUNE 30, 2016

(thousands $000's)

	Total (Memorandum) (only)	General Fund	Highway Fund	Other Special Revenues	Capital Projects	Debt Service
ASSETS						
Equity in Treasurer's Cash Pool	$ 672,815	$ 153,055	$ 50,795	$ 378,654	$ 86,590	$ 3,721
Cash - Other	583	106	117	360	-	-
Accounts, Notes and Grants Receivable						
Net of Reserves for Uncollectible Accounts	273,427	232,751	21,307	19,369	-	-
Due from Other Funds	9,336	5,739	47	3,550	-	-
Working Capital Advances to Other Funds	111	111	-	-	-	-
Prepaid Expenses and Other Assets	398	319	3	76	-	-
TOTAL ASSETS	956,670	392,081	72,269	402,009	86,590	3,721
LIABILITIES AND EQUITY						
LIABILITIES:						
Accounts Payable	532	(35)	(164)	731	-	-
Other Liabilities	38,821	4,267	-	33,254	1,300	
TOTAL LIABILITIES	39,353	4,232	(164)	33,985	1,300	-
EQUITY:						
Reserved for Encumbrances	218,787	47,286	1,456	168,121	1,924	-
Reserved for Authorized Expenditures	466,925	145,790	54,085	177,815	89,235	-
Reserved for Utility Loans	-	-	-	-	-	-
Working Capital Advances to Other Funds	111	111	-	-	-	-
Designated for Other Purposes	11,462	11,462	-	-	-	-
Budget Stabilization Fund	112,352	112,352	-	-	-	-
Unappropriated Surplus	107,680	70,848	16,892	22,088	(5,869)	3,721
TOTAL EQUITY	917,317	387,849	72,433	368,024	85,290	3,721
TOTAL LIABILITIES AND EQUITY	$ 956,670	$ 392,081	$ 72,269	$ 402,009	$ 86,590	$ 3,721

GENERAL FUND UNAPPROPRIATED SURPLUS

For the Years Ended June 30

	General Fund Unappropriated Surplus (Million)	General Fund Revenues (Million)	Surplus as Percentage of Revenues
2016	$70.8	$3,359.2	2.11%
2015	31.2	3,257.8	0.96%
2014	12.5	3,220.7	0.39%
2013	7.7	3,026.5	0.25%
2012	54.0	3,120.6	1.73%
2011	19.2	2,919.4	0.66%
2010	(13.0)	2,855.7	-0.46%
2009	12.9	2,819.0	0.46%
2008	26.5	3,109.4	0.85%
2007	17.6	3,022.6	0.58%
2006	14.5	2,931.8	0.50%
2005	33.7	2,790.8	1.21%
2004	14.9	2,683.5	0.55%
2003	28.9	2,394.7	1.21%
2002	0.0	2,331.7	0%
2001	38.8	2,390.6	1.62%
2000	300.9	2,500.9	12.03%
1999	229.2	2,336.1	9.81%
1998	98.3	2,111.9	4.65%
1997	21.1	1,863.1	1.13%
1996	25.8	1,766.4	1.46%
1995	4.4	1,671.7	0.26%
1994	3.8	1,623.8	0.23%

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX C

Certain Revenues of the State (Unaudited)

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STATE OF MAINE

UNDEDICATED REVENUES

GENERAL FUND

FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2014

	2013				2014			
	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)
Sales and Use Tax	$ 986,747,637	$ 984,910,746	$ 1,836,891	0.2%	$ 1,106,158,236	$ 1,107,378,483	$ (1,220,247)	(0.1%)
Service Provider Tax	50,139,878	48,739,710	1,400,168	2.9%	50,173,388	49,317,427	855,961	1.7%
Individual Income Tax	1,521,862,756	1,495,000,000	26,862,756	1.8%	1,406,117,705	1,380,685,000	25,432,705	1.8%
Corporate Income Tax	171,987,073	171,021,732	965,341	0.6%	182,928,181	169,706,958	13,221,223	7.8%
Cigarette and Tobacco Tax	137,951,824	138,180,000	(228,176)	(0.2%)	136,159,833	135,900,000	259,833	0.2%
Public Utilities Tax	-	-	-	-	-	-	-	-
Insurance Companies Tax	79,609,419	80,715,000	(1,105,581)	(1.4%)	83,203,879	80,715,000	2,488,879	3.1%
Inheritance & Estate Tax	79,083,058	70,230,328	8,852,730	12.6%	23,961,911	27,553,982	(3,592,071)	(13.0%)
Property Tax - Unorganized Territory	-	-	-	-	-	-	-	-
Fines, Forfeits and Penalties	23,748,503	24,552,639	(804,136)	(3.3%)	23,473,506	23,468,666	4,840	0.0%
Income from Investments	148,434	83,883	64,551	77.0%	301,144	132,523	168,621	127.2%
Transfer for Tax Relief Programs	(111,674,333)	(112,086,562)	412,229	(0.4%)	(65,357,986)	(62,258,370)	(3,099,616)	5.0%
Transfer to Municipal Revenue Sharing	(95,974,153)	(95,086,810)	(887,343)	0.9%	(66,063,110)	(64,839,710)	(1,223,400)	1.9%
Transfer from Lottery Commission	52,908,602	52,550,000	358,602	0.7%	51,845,477	53,500,000	(1,654,523)	(3.1%)
Other Taxes and Fees	153,796,137	150,894,327	2,901,810	1.9%	130,140,462	128,659,912	1,480,550	1.2%
Other Revenues	44,049,007	38,637,097	5,411,910	14.0%	50,454,306	44,447,248	6,007,058	13.5%
Total Undedicated Revenue	**$3,094,383,842**	**$3,048,342,090**	**$46,041,752**	**1.5%**	**3,113,496,933**	**$3,074,367,119**	**$39,129,814**	**1.3%**

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2016

	2015				2016			
	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)
					need to validate			
Sales and Use Tax	$ 1,195,031,298	$ 1,193,994,893	$ 1,036,405	0.1%	$ 1,274,144,956.7	$ 1,260,137,966.0	$ 14,006,991	1.1%
Service Provider Tax	48,554,451	50,303,776	(1,749,325)	(3.5%)	44,916,959	55,073,214	(10,156,255)	(18.4%)
Individual Income Tax	1,521,778,409	1,500,252,088	21,526,321	1.4%	1,542,687,615	1,546,329,595	(3,641,980)	(0.2%)
Corporate Income Tax	168,965,820	167,655,640	1,310,180	0.8%	137,492,442	138,354,603	(862,161)	(0.6%)
Cigarette and Tobacco Tax	136,913,357	134,890,000	2,023,357	1.5%	141,464,095	136,641,000	4,823,095	3.5%
Public Utilities Tax	-	-	-	-	-	-	-	-
Insurance Companies Tax	81,459,794	82,250,000	(790,206)	(1.0%)	81,250,784	82,700,000	(1,449,216)	(1.8%)
Inheritance & Estate Tax	31,196,286	35,377,288	(4,181,002)	(11.8%)	27,198,153	26,598,740	599,413	2.3%
Property Tax – Unorganized Territory	-	-	-	-	-	-	-	-
Fines, Forfeits and Penalties	22,608,527	22,665,758	(57,231)	(0.3%)	20,610,571	22,411,725	(1,801,154)	(8.0%)
Income from Investments	602,838	519,546	83,292	16.0%	1,483,723	1,076,328	407,395	37.9%
Transfer for Tax Relief Programs	54,002,444	53,800,000	202,444	0.4%	56,972,851	54,900,000	2,072,851	3.8%
Transfer to Municipal Revenue Sharing	(59,532,694)	(59,183,362)	(349,332)	0.6%	(64,744,050)	(64,771,938)	27,888	(0.0%)
Transfer from Lottery Commission	(63,600,996)	(63,806,311)	205,315	(0.3%)	(67,355,586)	(67,259,423)	(96,163)	0.1%
Other Taxes and Fees	139,437,659	134,347,436	5,090,223	3.8%	143,422,794	140,329,152	3,093,642	2.2%
Other Revenues	51,909,354	45,846,694	6,062,660	13.2%	26,645,824	23,840,435	2,805,389	11.8%
Total Undedicated Revenue	**$ 3,329,326,547**	**$ 3,298,913,446**	**$ 30,413,101**	**0.9%**	**$ 3,366,191,131**	**$ 3,356,361,397**	**$ 9,829,734**	**0.3%**

STATE OF MAINE
PRELIMINARY UNDEDICATED REVENUES
GENERAL FUND
FISCAL YEAR ENDED JUNE 30, 2017

Thru April 30, 2017

	Month				Year to Date				Total Budgeted
	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Fiscal Year Ending 6/30/17
Sales and Use Tax	$ 100,264,647	$ 100,543,986	$ (279,339)	(0.3%)	$ 1,123,211,226	$ 1,121,796,792	$ 1,414,434	0.1%	$ 1,334,011,722
Service Provider Tax	4,958,344	4,700,000	258,343.74	5.5%	49,845,678	49,469,493	376,184.85	0.8%	59,149,448
Individual Income Tax	221,336,063	219,698,963	1,637,099.64	0.7%	1,250,063,472	1,242,485,723	7,577,749.42	0.6%	1,530,248,976
Corporate Income Tax	30,667,158	22,500,000	8,167,158.16	36.3%	129,531,681	126,503,192	3,028,488.78	2.4%	161,093,471
Cigarette and Tobacco Tax	7,911,353	10,636,791	(2,725,437.83)	(25.6%)	113,651,306	114,786,839	(1,135,532.93)	(1.0%)	139,179,000
Insurance Companies Tax	7,716,455	7,941,202	(224,747.05)	(2.8%)	39,069,520	37,264,559	1,804,961.20	4.8%	76,700,000
Inheritance & Estate Tax	44,683	944,000	(899,317.18)	(95.3%)	11,884,566	14,491,262	(2,606,695.78)	(18.0%)	16,378,323
Fines, Forfeits & Penalties	1,645,120	1,549,959	95,160.52	6.1%	15,972,769	17,085,893	(1,113,123.71)	(6.5%)	22,237,275
Income from Investments	259,341	78,298	181,043.02	231.2%	2,481,695	1,337,814	1,143,881.41	85.5%	1,707,976
Transfer from Lottery Commission	4,583,185	5,278,855	(695,670.45)	(13.2%)	46,348,880	46,453,858	(104,978.25)	(0.2%)	54,900,000
Transfers for Tax Relief Programs	(1,816,586)	(110,000)	(1,706,586.28)	1551.4%	(63,862,177)	(64,270,000)	407,822.60	(0.6%)	(64,448,340)
Transfer to Municipal Revenue Sharing	(2,879,104)	(3,247,097)	367,993.29	(11.3%)	(49,765,238)	(49,757,553)	(7,685.35)	0.0%	(65,484,234)
Other Taxes and Fees	8,523,435	10,276,138	(1,752,703.04)	(17.1%)	119,006,030	118,120,362	885,668.17	0.7%	142,973,133
Other Revenues	3,324,205	2,559,885	764,319.80	29.9%	3,169,214	(1,100,406)	4,269,619.93	(388.0%)	21,603,304
Total Undedicated Revenue	**$ 386,538,297**	**$ 383,350,980**	**$ 3,187,317**	**0.8%**	**$2,790,608,622**	**$2,774,667,828**	**$15,940,794**	**0.6%**	**$3,430,250,054**

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

STATE OF MAINE
HIGHWAY FUND
REVENUES
FISCAL YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2014

	2013				2014			
	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)
Fuel Taxes	$ 214,539,829	$ 213,301,215	$ 1,238,614	0.6%	$217,494,739	$211,814,977	$ 5,679,762	2.7%
Motor Vehicle Registration & Fees	89,333,202	87,785,489	1,547,713	1.8%	84,815,991	84,095,120	720,871	0.9%
Inspection Fees	3,495,704	2,982,500	513,204	17.2%	3,109,258	2,982,500	126,758	4.3%
Miscellaneous Taxes and Fees	1,309,810	1,276,365	33,445	2.6%	1,307,949	1,298,729	9,220	0.7%
Fines, Forfeits & Penalties	1,030,267	1,039,868	(9,601)	(0.9%)	976,084	1,007,998	(31,914)	(3.2%)
Earnings on Investments	105,414	99,513	5,901	5.9%	80,299	52,553	27,746	52.8%
All Other Revenues	9,011,474	8,920,662	90,812	1.0%	9,292,645	9,015,334	277,311	3.1%
Total	**$ 318,825,700**	**$ 315,405,612**	**$ 3,420,088**	**1.1%**	**$ 317,076,965**	**$ 310,267,211**	**$ 6,809,754**	**2.2%**

STATE OF MAINE
HIGHWAY FUND
REVENUES
FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2016

	2015				2016			
	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)
Fuel Taxes	$ 220,217,205	$ 217,413,634	$ 2,803,571	1.3%	$ 221,173,367	$ 220,811,525	$ 361,842	0.2%
Motor Vehicle Registration & Fees	87,704,502	84,167,472	3,537,030	4.2%	90,497,732	86,695,042	3,802,690	4.4%
Inspection Fees	3,294,996	2,982,500	312,496	10.5%	3,515,288	2,982,500	532,788	17.9%
Miscellaneous Taxes & Fees	1,314,515	1,270,229	44,286	3.5%	1,660,604	1,293,729	366,875	28.4%
Fines, Forfeits & Penalties	854,813	905,910	(51,097)	(5.6%)	791,496	739,039	52,457	7.1%
Earnings on Investments	159,116	154,546	4,570	3.0%	255,421	244,945	10,476	4.3%
All Other Revenues	9,949,439	9,726,971	222,468	2.3%	9,553,791	9,971,600	(417,809)	(4.2%)
Total	**$ 323,494,586**	**$ 316,621,262**	**$ 6,873,324**	**2.2%**	**$ 327,447,700**	**$ 322,738,380**	**$ 4,709,320**	**1.5%**

STATE OF MAINE
PRELIMINARY HIGHWAY FUND
REVENUES
FISCAL YEAR ENDED JUNE 30, 2017

Thru April 30, 2017

	Month				**Year to Date**				
	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Actual	Budget	Variance Over/ (Under)	Percent Over/ (Under)	Total Budgeted Fiscal Year Ending 6/30/2017
Fuel Taxes	$ 17,353,571	$ 17,152,589	$ 200,982	1.2%	$ 189,426,390	$ 188,386,493	$ 1,039,897	0.6%	$ 224,110,357
Motor Vehicle Registration & Fees	8,980,558	8,673,311	307,247	3.5%	74,362,082	70,486,693	3,875,389	5.5%	85,984,415
Motor Vehicle Inspection Fees	216,854	75,208	141,646	188.3%	2,721,749	2,832,083	(110,335)	(3.9%)	2,982,500
Miscellaneous Taxes & Fees	118,759	111,954	6,805	6.1%	1,107,169	1,020,641	86,528	8.5%	1,280,229
Fines, Forfeits & Penalties	47,939	75,710	(27,771)	(36.7%)	614,426	659,481	(45,055)	(6.8%)	739,039
Earnings on Investments	27,308	42,355	(15,047)	(35.5%)	249,719	509,035	(259,316)	(50.9%)	585,484
All Other	631,376	552,057	79,319	14.4%	8,037,792	8,717,187	(679,395)	(7.8%)	9,959,100
Total	**$ 27,376,365**	**$ 26,683,184**	**$ 693,181**	**2.6%**	**$ 276,519,327**	**$ 272,611,613**	**$ 3,907,714**	**1.4%**	**$ 325,641,124**

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

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STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX D

Selected Information Regarding Authorized
And Outstanding Debt of the State

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Fiscal Year Ended June 30, 2016.. D-3

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AUTHORIZED EXPENDITURES

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

	Agency	Law	Description	Amount Auth/Uniss
1	DEP	2013 PL Ch 589	Stream crossing, culvert upgrades, or other public improvement projects	$ 1,200,000
2	DEP	2013 PL Ch 589	Wastewater treatment facilities	2,208,697
3	DHHS	2013 PL Ch 589	Drinking water systems	500,000
4	DOC/LMF	2011 PL Ch 696	Land for Maine's Future Board	3,000,000
5	DOC/LMF	2009 PL Ch 414 as amd by Ch 645	Land acquisitions for conservation, water access, outdoor recreation, wildlife, etc.	3,250,000
6	DOT	2011 PL Ch 697	Port investment/development at Searsport, Mack Point, and Sears Island	2,500,000
7	DOT	2011 PL Ch 697	Aviation facilities	100,000
8	DOT	2015 PL Ch 305	Highway & Bridge	18,000,000
9	DOT	2015 PL Ch 478	Highway & Bridge	80,000,000
10	DOT	2015 PL Ch 478	Ports, harbors, marine transport, aviation, freight, and passenger rail, transit, pedestrian and bicycle trails.	20,000,000
11	DVEM	2013 PL Ch 432	Armory Upgrades	125,000
12	MCCS	2013 PL Ch 431	Facility upgrades at MCCS campuses	1,500,000
13	MSHA	2015 PL Ch 337	Senior housing and weatherization	15,000,000
14	UMS	2013 PL Ch 572	Animal/plant disease & insect control facility at UME Co-op Ext	2,500,000
			TOTAL	$149,883,697

GENERAL FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2016

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2017	59,415,000.00	15,620,080.78	75,035,080.78
2018	56,030,000.00	13,928,525.86	69,958,525.86
2019	51,410,000.00	11,843,373.06	63,253,373.06
2020	42,970,000.00	9,763,425.56	52,733,425.56
2021	42,680,000.00	8,148,050.00	50,828,050.00
2022	36,055,000.00	6,014,050.00	42,069,050.00
2023	31,320,000.00	4,211,300.00	35,531,300.00
2024	31,315,000.00	2,645,300.00	33,960,300.00
2025	20,025,000.00	1,284,650.00	21,309,650.00
2026	9,770,000.00	488,500.00	10,258,500.00
	380,990,000.00	**73,947,255.26**	**454,937,255.26**

HIGHWAY FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2016

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2017	21,015,000.00	2,600,578.56	23,615,578.56
2018	18,285,000.00	1,691,210.10	19,976,210.10
2019	12,500,000.00	905,540.30	13,405,540.30
2020	7,610,000.00	389,668.00	7,999,668.00
2021	2,210,000.00	110,500.00	2,320,500.00
	61,620,000.00	**5,697,496.96**	**67,317,496.96**

GF + HF	**442,610,000.00**	**79,644,752.22**	**522,254,752.22**

INFORMATION REGARDING LEASE FINANCING AGREEMENTS

As of April 30, 2017

Issuance	Agency	Date of Agreement	Original Principal Amount	Principal Amount Outstanding 4/30/2017	5/1 - 6/30/17 Prin & Inter
BGS 13	Administrative & Financial Services	March, 2013	$ 4,250,000	$ 869,575	
BGS 14	Administrative & Financial Services	December, 2013	900,000	131,149	
CFM 14	Administrative & Financial Services	April, 2014	4,800,000	1,209,801	
CFM 15	Administrative & Financial Services	March, 2015	4,800,000	1,950,943	
CFM 16	Administrative & Financial Services	April, 2016	5,400,000	4,062,944	693,569
DAFS 16	Administrative & Financial Services	May, 2016	7,500,000	6,016,716	
Laptop 14-1	Department of Education	August, 2013	71,560,416	4,472,525	4,472,525
Laptop 14-2	Department of Education	September. 2013	891,324	55,707	55,707
Laptop 14-3	Department of Education	September. 2013	1,682,978	35,925	
Laptop 14-4	Department of Education	September. 2013	67,646	1,444	
Laptop 14-5	Department of Education	October, 2013	550,176	34,386	34,386
Laptop 15-1	Department of Education	February, 2015	146,642	39,573	
Laptop 15-2	Department of Education	March, 2015	91,840	24,382	
Laptop 15-3	Department of Education	April, 2015	22,850	6,164	
Laptop 15-4	Department of Education	August, 2015	8,736,160	2,730,050	546,010
Laptop 15-5	Department of Education	October, 2015	109,600	36,533	7,307
Laptop 16-1	Department of Education	July, 2015	3,608,000	2,029,500	225,500
Laptop 16-2	Department of Education	September. 2015	29,668	15,108	
Laptop 17-1	Department of Education	August, 2017	44,602,533	37,010,734	2,530,600
Laptop 17-2	Department of Education	September, 2017	311,640	256,695	18,315
OIT 11A	Administrative & Financial Services	October, 2010	5,000,000	382,722	387,655
OIT 13	Administrative & Financial Services	January, 2013	15,000,000	5,474,503	1,117,172
OIT 14	Administrative & Financial Services	December, 2013	11,500,000	5,858,374	
OIT 15	Administrative & Financial Services	April, 2015	2,700,000	1,807,614	
Postal 16	Administrative & Financial Services	November, 2015	412,705	286,980	
PS 15 GF & HF	Public Safety	March, 2015	2,100,000	379,681	
PS 16 GF & HF	Public Safety	March, 2016	2,100,000	1,512,799	384,189
Totals			**$198,874,178**	**$76,692,526**	**$10,472,934**

Debt Ratios

The following table sets forth the certain ratios relating to the State's general obligation debt as of June 30, 2016.

	Amount of Debt (P&I)	Per Capita [1]	Debt to Estimated Full Valuation [2]	Debt to Personal Income [3]
General Fund	$ 454,937,255	$ 341.68	0.27%	0.77%
Highways & Bridges	67,317,497	50.56	0.04%	0.11%
Total	**$ 522,254,752**	**$ 392.24**	**0.32%**	**0.89%**

(1) Based on population estimate of 1,331,479 for 2016 by the U.S. Department of Commerce, Bureau of the Census.

(2) Based on assessed property valuation at full value by the Maine Revenue Services as of January 2017 of $165,485,750,000.

(3) Based on State of Maine total personal income reported by the U.S. Department of Commerce for 2016 of $59,005,346,000.

Debt Ratio Statistics

June 30, 2016

Debt to Full Value

2014	0.29%
2015	0.30%
2016	0.32%

Debt to Personal Income

2014	0.83%
2015	0.88%
2016	0.89%

Per Capita Debt

2014	$349.83
2015	$372.10
2016	$392.24

DEBT SERVICE PAID OVER THE PAST FISCAL YEARS ENDING JUNE 30

FY	GF Principal	GF Interest	HF Principal	HF Interest	Total Principal	Total Interest
2002	64,225,000	15,444,189	23,300,000	5,299,529	87,525,000	20,743,718
2003	63,880,000	12,941,300	21,215,000	4,003,828	85,095,000	16,945,128
2004	56,240,000	12,567,264	16,015,000	3,022,015	72,255,000	15,589,279
2005	53,440,000	12,525,813	13,280,000	2,477,535	66,720,000	15,003,348
2006	57,915,000	15,253,937	13,950,000	2,007,306	71,865,000	17,261,243
2007	69,280,000	17,364,513	10,415,000	1,387,084	79,695,000	18,751,597
2008	66,230,000	16,057,428	10,750,000	2,050,995	76,980,000	18,108,423
2009	65,685,000	15,179,120	13,505,000	3,848,227	79,190,000	19,027,347
2010	74,905,000	15,451,420	11,820,000	4,803,042	86,725,000	20,254,462
2011	72,905,000	13,609,228	15,100,000	5,312,205	88,005,000	18,921,433
2012	81,055,000	14,015,648	16,385,000	5,698,368	97,440,000	19,714,016
2013	85,595,000	12,924,559	16,735,000	5,151,841	102,330,000	18,076,400
2014	67,445,000	10,159,578	16,035,000	4,544,279	83,480,000	14,703,857
2015	65,670,000	11,674,238	15,275,000	3,914,654	80,945,000	15,588,891
2016	60,595,000	13,970,158	15,300,000	3,265,079	75,895,000	17,235,237

BONDS OUTSTANDING AT JUNE 30 COMPARED TO TOTAL GOVERNMENTAL FUNDS REVENUE

Year Ended	General Fund	Highway Fund	Self-Liquidating	Total	Total Governmental Funds Revenue	Percent of State Revenues
1991	277,710,000	102,870,000	14,840,000	395,420,000	2,533,777,000	15.6%
1992	308,890,000	107,395,000	13,395,000	429,680,000	2,995,325,000	14.3%
1993	405,823,000	136,320,000	2,562,000	544,705,000	3,178,491,000	17.1%
1994	383,618,000	143,355,000	2,312,000	529,285,000	3,311,809,213	16.0%
1995	377,055,000	136,950,000	2,055,000	516,060,000	3,381,332,000	15.3%
1996	369,457,945	144,440,000	1,792,055	515,690,000	3,598,717,000	14.3%
1997	339,620,600	129,060,000	1,529,400	470,210,000	3,756,557,734	12.5%
1998	337,575,000	139,180,000	1,290,000	478,045,000	4,168,141,000	11.5%
1999	334,725,000	133,700,000	1,115,000	469,540,000	4,257,340,458	11.0%
2000	341,205,000	111,230,000	940,000	453,375,000	4,604,954,195	9.8%
2001	297,405,000	108,635,000	765,000	406,805,000	4,608,742,000	8.8%
2002	260,790,000	85,335,000	600,000	346,725,000	4,808,788,859	7.2%
2003	293,990,000	64,120,000	445,000	358,555,000	5,114,542,674	7.0%
2004	355,025,000	61,105,000	290,000	416,420,000	5,902,866,220	7.1%
2005	439,110,000	47,825,000	160,000	487,095,000	6,114,225,943	8.0%
2006	433,585,000	33,875,000	90,000	467,550,000	6,336,819,316	7.4%
2007	398,280,000	50,460,000	20,000	448,760,000	6,230,265,000	7.2%
2008	378,575,000	97,260,000	-	475,835,000	6,406,301,524	7.4%
2009	408,925,000	121,065,000	-	529,990,000	6,827,986,832	7.8%
2010	365,775,000	134,325,000	-	500,100,000	7,083,733,435	7.1%
2011	378,880,000	141,350,000	-	520,230,000	7,190,530,232	7.2%
2012	347,090,000	124,965,000	-	472,055,000	6,947,865,367	6.8%
2013	261,495,000	108,230,000	-	369,725,000	6,959,425,993	5.3%
2014	306,995,000	92,195,000	-	399,190,000	7,315,154,917	5.5%
2015	343,880,000	76,920,000	-	420,800,000	7,103,637,361	5.9%
2016	380,990,000	61,620,000	-	442,610,000	7,287,605,663	6.1%

APPENDIX E

The information contained in this Appendix E is derived from information contained in the actuarial valuation reports for the year ended June 30, 2016 for the State Employee and Teacher Retirement Program, the Legislative Retirement Program, the Judicial Retirement Program, and the Group Life Insurance Program. These actuarial valuation reports are available at www.mainepers.org/bonds.htm.

Maine Public Employees Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet, June 30, 2016

ASSETS **(Present Value of expected income)**	**State Employees**	**MTRA Teachers**	**All Employees**
(1) Invested Assets			
(a) Members Contribution Fund	$ 807,979,854	$1,551,838,811	$ 2,359,818,665
(b) Retirement Allowance Fund	2,669,302,333	5,483,403,180	8,152,705,513
(c) Total Invested Assets (a + b)*	$3,477,282,187	$7,035,241,991	$10,512,524,178
(2) Future Contributions			
(a) Member Contributions	$ 329,387,480	$ 709,174,797	$ 1,038,562,277
(b) Actuarial Costs	1,321,871,823	1,716,293,533	3,038,165,356
(c) Total Contribution Income (a + b)	$1,651,259,303	$2,425,468,330	$ 4,076,727,633
(3) Present Value of Total Income (1 + 2)	$ 5,128,541,490	$ 9,460,710,321	$14,589,251,811
LIABILITIES **(Present Value of expected benefit payments)**			
(1) Active Employees			
(a) Current Accrued Benefits	$1,197,909,008	$2,368,390,969	$3,566,299,977
(b) Future Benefit Accruals	814,466,779	1,809,363,473	2,623,830,252
(c) Total Active Benefits (a + b)	$2,012,375,787	$4,177,754,442	$6,190,130,229
(2) Inactive Employees			
(a) Total Inactive Benefits	$3,116,165,703	$5,282,955,879	$8,399,121,582
(3) Present Value of Total Benefits (1 + 2)	$5,128,541,490	$9,460,710,321	$14,589,251,811

*Actuarial Value

Maine Public Employees Retirement System

Judicial Plan

Actuarial Balance Sheet, June 30, 2016

Assets
(Present Value of expected income)

(1) Invested Assets	
(a) Members Contribution Fund	$10,592,002
(b) Retirement Allowance Fund	53,673,780
(c) Total Invested Assets (a+b)*	$64,265,782
(2) Future Contributions	
(a) Member Contributions	$ 2,311,065
(b) Actuarial Costs	2,902,395
(c) Total Contribution Income (a+b)	$ 5,213,460
(3) Present Value of Total Income (1+2)	$69,479,242

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees	
(a) Current Accrued Benefits	$26,183,959
(b) Future Benefit Accruals	9,876,995
(c) Total Active Benefits (a+b)	$36,060,954
(2) Inactive Employees	
(a) Total Inactive Benefits	$33,418,288
(3) Present Value of Total Benefits (1+2)	$69,479,242

*Actuarial Value

Maine Public Employees Retirement System

Legislative Plan

Actuarial Balance Sheet, June 30, 2016

Assets
(Present Value of expected income)

(1) Invested Assets

(a) Members Contribution Fund	$ 2,505,647
(b) Retirement Allowance Fund	8,900,122
(c) Total Invested Assets (a+b)*	$11,405,769

(2) Future Contributions

(a) Member Contributions	$ 649,964
(b) Actuarial Costs	(3,548,772)
(c) Total Contribution Income (a+b)	($2,898,808)

(3) Present Value of Total Income (1+2)	$ 8,506,961

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees

(a) Current Accrued Benefits	$ 1,734,039
(b) Future Benefit Accruals	977,005
(c) Total Active Benefits (a+b)	$ 2,711,044

(2) Inactive Employees

(a) Total Inactive Benefits	$ 5,795,917

(3) Present Value of Total Benefits (1+2)	$ 8,506,961

*Actuarial Value

Maine Public Employees Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet for Group Life Insurance, June 30, 2016

ASSETS (Present Value of expected income)	State Employees	MTRA Teachers	All Employees
(1) Invested Assets			
(a) Members Contribution Fund	$ 0	$ 0	$ 0
(b) Retirement Allowance Fund	31,490,551	49,780,350	81,270,901
(c) Total Invested Assets (a + b)*	$ 31,490,551	$ 49,780,350	$ 81,270,901
(2) Future Contributions			
(a) Member Contributions	$ 0	$ 0	$ 0
(b) Actuarial Costs	62,366,558	44,267,943	106,634,501
(c) Total Contribution Income (a + b)	$ 62,366,558	$ 44,267,943	$ 106,634,501
(3) Present Value of Total Income (1 + 2)	$ 93,857,109	$ 94,048,293	$187,905,402
LIABILITIES **(Present Value of expected benefit payments)**			
(1) Active Employees			
(a) Current Accrued Benefits	$ 18,967,783	$ 20,521,658	$ 39,489,441
(b) Future Benefit Accruals	12,809,490	15,613,987	28,423,477
(c) Total Active Benefits (a + b)	$ 31,777,273	$ 36,135,645	$ 67,912,918
(2) Inactive Employees			
(a) Total Inactive Benefits	$ 62,079,837	$ 57,912,647	$119,992,484
(3) Present Value of Total Benefits (1 + 2)	$ 93,857,110	$ 94,048,292	$187,905,402

*Actuarial Value

Maine Public Employees Retirement System

Judicial Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2016

Assets
(Present Value of expected income)

(1) Invested Assets		
(a) Members Contribution Fund	$	0
(b) Retirement Allowance Fund		536,510
(c) Total Invested Assets (a+b)*	$	536,510
(2) Future Contributions		
(a) Member Contributions	$	0
(b) Actuarial Costs		1,102,778
(c) Total Contribution Income (a+b)	$	1,102,778
(3) Present Value of Total Income (1+2)	$	1,639,288

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees		
(a) Current Accrued Benefits	$	645,493
(b) Future Benefit Accruals		166,387
(c) Total Active Benefits (a+b)	$	811,880
(2) Inactive Employees		
(a) Total Inactive Benefits	$	827,408
(3) Present Value of Total Benefits (1+2)	$	1,639,288

*Actuarial Value

Maine Public Employees Retirement System

Legislative Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2016

Assets
(Present Value of expected income)

(1) Invested Assets		
(a) Members Contribution Fund	$	0
(b) Retirement Allowance Fund		10,222
(c) Total Invested Assets (a+b)*	$	10,222
(2) Future Contributions		
(a) Member Contributions	$	0
(b) Actuarial Costs		18,479
(c) Total Contribution Income (a+b)	$	18,479
(3) Present Value of Total Income (1+2)	$	28,701

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees		
(a) Current Accrued Benefits	$	0
(b) Future Benefit Accruals		0
(c) Total Active Benefits (a+b)	$	0
(2) Inactive Employees		
(a) Total Inactive Benefits	$	28,701
(3) Present Value of Total Benefits (1+2)	$	28,701

*Actuarial Value

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX F

Selected Economic Information with Respect to the State

Maine Population

Year	Population	Rank U.S.	Percent Change	Per Square Mile
2001	1,285,692	40	0.84%	41.7
2002	1,295,960	40	0.80%	42.0
2003	1,306,513	40	0.81%	42.3
2004	1,313,688	40	0.55%	42.6
2005	1,318,787	40	0.39%	42.7
2006	1,323,619	40	0.37%	42.9
2007	1,327,040	40	0.26%	43.0
2008	1,330,509	41	0.26%	43.1
2009	1,329,590	41	-0.07%	43.1
2010	1,327,730	41	-0.14%	43.0
2011	1,328,231	41	0.04%	43.0
2012	1,328,895	41	0.05%	43.1
2013	1,329,076	41	0.01%	43.1
2014	1,330,719	41	0.12%	43.1
2015	1,329,453	42	-0.10%	43.1
2016	1,331,479	42	0.15%	43.1

Source: U.S. Census Bureau

Personal Income and Earnings by Industry in Maine, 2012-2016

	2012	2013	2014	2015	2016
Personal Income (thousands of dollars)	52,877,607	52,724,616	54,860,192	56,893,803	59,005,346
Earnings by place of work	34,647,119	35,014,891	36,155,334	37,550,934	39,228,019
Farm earnings	191,449	188,491	180,348	129,165	131,617
Nonfarm earnings	34,455,670	34,826,400	35,974,986	37,421,769	39,096,402
Forestry, fishing, and related activities	confidential	484834	550,207	631,125	679,873
Mining, quarrying, and oil and gas extraction	confidential	14377	15,804	16,322	18,593
Utilities	193,072	221,020	201,291	185,032	193,771
Construction	2,519,065	2,392,043	2,537,701	2,660,022	2,794,498
Manufacturing	3,436,088	3,448,886	3,486,032	3,584,663	3,643,357
Wholesale trade	1,416,529	1,430,260	1,479,028	1,546,407	1,572,648
Retail trade	2,735,752	2,777,198	2,827,566	2,920,628	3,007,298
Transportation and warehousing	883,855	910,245	945,722	982,222	1,021,151
Information	484,402	475,130	469,314	484,218	521,863
Finance and insurance	1,972,565	2,009,058	1,964,833	2,053,215	2,123,028
Real estate and rental and leasing	609,678	573,143	504,674	492,769	522,639
Professional, scientific, and technical services	2,251,386	2,297,053	2,417,203	2,557,706	2,674,698
Management of companies and enterprises	688,142	681,610	808,597	835,286	986,481
Administrative and support and waste managemer	1,236,516	1,317,499	1,385,977	1,466,261	1,528,186
Educational services	673,345	687,103	728,368	754,757	792,248
Health care and social assistance	5,680,164	5,761,828	5,834,362	6,090,189	6,431,283
Arts, entertainment, and recreation	335,379	358,217	364,856	378,433	402,861
Accommodation and food services	1,283,329	1,370,775	1,458,969	1,540,294	1,641,756
Other services (except public administration)	1,217,775	1,235,970	1,311,941	1,374,100	1,437,756
Government and government enterprises	6,323,061	6,380,151	6,682,541	6,868,120	7,102,414

Source: U.S. Bureau of Economic Analysis

Per Capita Personal Income
Maine, New England, and U.S.

	Per Capita Income			Maine as a percent of		Annual Percent Increase		
	U.S.	N.E.	Maine	U.S.	N.E.	U.S.	N.E.	Maine
2001	31,540	38,900	28,661	90.9%	73.7%			
2002	31,815	39,000	29,442	92.5%	75.5%	0.9%	0.3%	2.7%
2003	32,692	39,859	30,668	93.8%	76.9%	2.8%	2.2%	4.2%
2004	34,316	41,838	32,072	93.5%	76.7%	5.0%	5.0%	4.6%
2005	35,904	43,644	32,669	91.0%	74.9%	4.6%	4.3%	1.9%
2006	38,144	46,858	34,302	89.9%	73.2%	6.2%	7.4%	5.0%
2007	39,821	49,201	35,558	89.3%	72.3%	4.4%	5.0%	3.7%
2008	41,082	51,278	36,998	90.1%	72.2%	3.2%	4.2%	4.0%
2009	39,376	50,537	36,952	93.8%	73.1%	-4.2%	-1.4%	-0.1%
2010	40,277	52,060	37,528	93.2%	72.1%	2.3%	3.0%	1.6%
2011	42,461	54,056	38,935	91.7%	72.0%	5.4%	3.8%	3.7%
2012	44,282	55,728	39,791	89.9%	71.4%	4.3%	3.1%	2.2%
2013	44,493	55,517	39,670	89.2%	71.5%	0.5%	-0.4%	-0.3%
2014	46,464	57,806	41,226	88.7%	71.3%	4.4%	4.1%	3.9%
2015	48,190	60,271	42,795	88.8%	71.0%	3.7%	4.3%	3.8%
2016	49,571	62,469	44,316	89.4%	70.9%	2.9%	3.6%	3.6%

Source: U.S. Bureau of Economic Analysis

State Valuation of Taxable Real and Personal Property

January 1992	$ 68,471,100,000
January 1993	67,751,400,000
January 1994	66,565,550,000
January 1995	66,425,500,000
January 1996	67,102,925.900
January 1997	68,286,600,000
January 1998	69,691,900,000
January 1999	71,779,350,000
January 2000	74,260,000,000
January 2001	78,389,400,000
January 2002	84,874,550,000
January 2003	94,034,050,000
January 2004	104,219,950,000
January 2005	118,038,020,000
January 2006	133,628,600,000
January 2007	148,946,200,000
January 2008	162,744,550,000
January 2009	168,006,150,000
January 2010	170,336,350,000
January 2011	166,990,700,000
January 2012	163,424,200,000
January 2013	160,011,900,000
January 2014	158,661,600,000
January 2015	159,770,050,000
January 2016	162,950,100,000
January 2017	165,485,750,000

Source: State Revenue Services.
The State valuation of taxable property is equal to 100% of value.
The State valuation filed in January of each year is based on the value of property as of April 1, 21 months prior to the filing date.

Selected Labor Market Information for Maine

Annual Average Not Seasonally Adjusted

	2011	2012	2013	2014	2015	2016
Nonfarm Wage and Salary Employment	594,700	598,100	601,700	605,100	610,600	617,300
Manufacturing Employment	50,700	50,800	50,400	50,200	50,700	50,700
Nonmanufacturing Employment	544,000	547,300	551,300	554,900	559,900	566,600
Average Weekly Hours of Manufacturing Production Worker	40.8	41.3	41.7	41.9	41.9	41.3
Average Hourly Earnings of Manufacturing Production Work	$20.21	$20.50	$20.86	$20.55	$20.89	$21.28
Unemployment Rate	7.9%	7.5%	6.6%	5.6%	4.4%	3.9%
Number Unempolyed	55,200	52,500	46,900	39,200	29,900	26,600

Source: Maine Department of Labor, Center for Workforce Research & Information

Civilian Labor Force
Employed and Unemployed by Labor Market Area, Not Seasonally Adjusted
March, 2017

Maine Labor Force Estmates for Labor Market Areas

LABOR MARKET AREA	Civilian Labor Force			Employment			Unemployment			Unemployment Rate		
	Mar-17	Feb-17	Mar-16	Mar-17	Feb-17	Mar-16	Mar-17	Feb-17	Mar-16	Mar-17	Feb-17	Mar-16
Acton	4,406	4,400	4,372	4,261	4,237	4,168	145	163	204	3.3%	3.7%	4.7%
Augusta	40,921	41,046	40,419	39,610	39,626	38,836	1,311	1,420	1,583	3.2	3.5	3.9
Bangor	71,253	70,878	70,257	68,808	68,280	67,193	2,445	2,598	3,064	3.4	3.7	4.4
Belfast	14,140	14,213	13,982	13,544	13,575	13,237	596	638	745	4.2	4.5	5.3
Boothbay	2,885	2,884	2,941	2,719	2,721	2,737	166	163	204	5.8	5.7	6.9
Bridgton-Paris	14,261	14,396	14,137	13,723	13,796	13,392	538	600	745	3.8	4.2	5.3
Brunswick	34,540	34,182	33,653	33,557	33,106	32,487	983	1,076	1,166	2.8	3.1	3.5
Calais	5,172	5,215	5,305	4,806	4,846	4,877	366	369	428	7.1	7.1	8.1
Conway	3,744	3,789	3,686	3,628	3,670	3,542	116	119	144	3.1	3.1	3.9
Dover-Durham	12,084	12,015	11,590	11,732	11,637	11,160	352	378	430	2.9	3.1	3.7
Dover-Foxcroft	9,090	9,165	9,105	8,637	8,709	8,563	453	456	542	5.0	5.0	6.0
Ellsworth	27,079	27,054	26,924	25,571	25,407	25,054	1,508	1,647	1,870	5.6	6.1	6.9
Farmington	18,816	18,377	18,174	18,048	17,571	17,283	768	806	891	4.1	4.4	4.9
Houlton	7,457	7,542	7,449	7,037	7,116	6,936	420	426	513	5.6	5.6	6.9
Lewiston-Auburn	57,170	56,774	55,616	55,359	54,818	53,297	1,811	1,956	2,319	3.2	3.4	4.2
Lincoln	2,950	2,999	3,074	2,729	2,761	2,752	221	238	322	7.5	7.9	10.5
Machias	7,837	7,792	7,704	7,328	7,271	7,076	509	521	628	6.5	6.7	8.2
Madawaska	2,755	2,784	2,832	2,622	2,645	2,690	133	139	142	4.8	5.0	5.0
Millinocket	3,340	3,376	3,372	3,059	3,097	3,015	281	279	357	8.4	8.3	10.6
Pittsfield	7,153	7,202	7,238	6,707	6,740	6,691	446	462	547	6.2	6.4	7.6
Portland-South Portland	205,227	202,948	197,483	199,822	197,097	190,965	5,405	5,851	6,518	2.6	2.9	3.3
Portsmouth	17,046	16,983	16,522	16,644	16,540	16,028	402	443	494	2.4	2.6	3.0
Presque Isle	22,006	21,985	21,800	20,826	20,732	20,444	1,180	1,253	1,356	5.4	5.7	6.2
Rockland-Camden	20,411	20,659	20,576	19,586	19,762	19,606	825	897	970	4.0	4.3	4.7
Rumford	8,889	9,105	8,868	8,482	8,674	8,344	407	431	524	4.6	4.7	5.9
Sanford	11,608	11,620	11,515	11,087	11,052	10,878	521	568	637	4.5	4.9	5.5
Skowhegan	14,070	14,203	14,151	13,236	13,328	13,153	834	875	998	5.9	6.2	7.1
Waldoboro	8,922	8,963	8,883	8,565	8,590	8,477	357	373	406	4.0	4.2	4.6
Waterville	23,282	23,085	22,633	22,426	22,172	21,586	856	913	1,047	3.7	4.0	4.6
Wells	8,398	8,403	8,286	8,048	8,010	7,829	350	393	457	4.2	4.7	5.5
MAINE	692,193	689,277	677,706	667,346	662,653	647,237	24,847	26,624	30,469	3.6	3.9	4.5
UNITED STATES (000)	159,912	159,482	158,854	152,628	151,594	150,738	7,284	7,887	8,116	4.6	4.9	5.1

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX G

PROPOSED FORMS OF APPROVING OPINIONS OF BOND COUNSEL

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Locke Lord LLP

111 Huntington Avenue
Boston, MA 02199
Telephone: 617-239-0100
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[Date of Delivery]

The Honorable Teresea Hayes
Treasurer of State
The State of Maine
39 State House Station
Augusta, Maine 04333

$15,020,000
State of Maine
General Obligation Bonds, 2017 Series A
(Federally Taxable)
Dated Date of Delivery

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

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

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

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

2. Interest on the Bonds is included in the gross income of the owners of the Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

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

This opinion is not intended or written by Locke Lord LLP to be used and cannot be used by you for the purpose of avoiding penalties that may be imposed under federal tax law in connection with the Bonds.

Atlanta | Austin | Boston | Chicago | Cincinnati | Dallas | Hartford | Hong Kong | Houston | London | Los Angeles | Miami
Morristown | New Orleans | New York | Providence | Sacramento | San Francisco | Stamford | Washington DC | West Palm Beach

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

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

LOCKE LORD LLP

Locke Lord LLP

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[Date of Delivery]

The Honorable Teresea Hayes
Treasurer of State
The State of Maine
39 State House Station
Augusta, Maine 04333

$83,040,000
State of Maine
General Obligation Bonds, 2017 Series B
Dated Date of Delivery

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

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

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

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

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

Atlanta | Austin | Boston | Chicago | Cincinnati | Dallas | Hartford | Hong Kong | Houston | London | Los Angeles | Miami
Morristown | New Orleans | New York | Providence | Sacramento | San Francisco | Stamford | Washington DC | West Palm Beach

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

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

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

LOCKE LORD LLP

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX H

Secondary Market Disclosure

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

A. Within one year after the end of each fiscal year of the State, the State will provide to the Municipal Securities Rulemaking Board (the "MSRB") financial information and operating data, for the prior fiscal year, of the type set forth in Appendices A through F of this Official Statement;

B. If not submitted as part of the annual financial information described in paragraph A above, then when and if available, the State will provide to the MSRB audited financial statements for the State prepared in accordance with generally accepted accounting principles in effect from time to time;

C. The State will provide in a timely manner, not in excess of ten (10) business days after the occurrence of the event, to the MSRB notice of any of the following events with respect to the Bonds:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on the debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on the credit enhancements reflecting financial difficulties;

(v) substitution of the credit or liquidity providers or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to rights of bondholders, if material;

(viii) Bond calls, if material, and tender offers;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or similar event of the State*;

(xiii) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material; and

D. The State will provide, in a timely manner, to the MSRB, notice of any failure of the State to comply with paragraph A above.

The State expects to provide the information described in paragraph A above by providing an official statement or a preliminary official statement for its bonds, notes or other obligations that includes such information for the preceding fiscal year or, if no such official statement is available within one year after the end of such preceding fiscal year, by providing its controller's annual financial report within such one year.

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

The covenants described in this Appendix H (the "Covenants") are for the benefit of the Beneficial Owners and shall be enforceable by any Beneficial Owner. No Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the Covenants, unless such Beneficial Owner shall have filed with the Treasurer of State and the Attorney General a written request to cure such breach, and the State shall have refused or failed

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the State in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the State, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State.

to comply within a reasonable time. Any assertion of beneficial ownership must be included in such written request and must be supported by independent evidence or documents. All Proceedings shall be instituted only in a State court located in the City of Augusta, Maine for the equal benefit of all Beneficial Owners of the outstanding Bonds. If a court of competent jurisdiction finds that the State has breached any of the Covenants, then the sole remedy for any such breach shall be an order of specific performance of the Covenants and there shall be no right of acceleration of the Bonds. Moreover, Proceedings filed by Beneficial Owners against the State may be subject to the defense of sovereign immunity which may substantially limit the scope and nature of any legal action against the State or of any order of specific performance that may be granted against the State.

The Covenants may only be amended if:

(i) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the State, or type of business conducted; the Covenants, as amended, would have complied with the Rule as of the date of issuance of the Bonds, after taking into account any amendments or changes in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by parties unaffiliated with the State; or

(ii) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of such Rule, ceases to be in effect for any reason, and the State elects that the Covenants shall be deemed amended accordingly.

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APPENDIX I

NOTICE OF SALE

of the

STATE OF MAINE

relating to

$15,125,000*
General Obligation Bonds, 2017 Series A
(Federally Taxable)

and

$89,360,000*
General Obligation Bonds, 2017 Series B

Notice is hereby given that bids will be received until:

10:30 a.m., Eastern Daylight Savings Time, with respect to the Series A Bonds and Series B Bonds,

on Wednesday, June 7, 2017

via Parity®, subject to the terms and conditions hereof, for the purchase of $15,125,000* State of Maine General Obligation Bonds, 2017 Series A (Federally Taxable) (the "Series A Bonds") and $89,360,000* State of Maine General Obligation Bonds, 2017 Series B (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds").

Description of the Bonds

The Bonds will bear interest from the date of their delivery payable semiannually on June 1 and December 1 of each year, commencing December 1, 2017, until payment of the principal of the Bonds. Interest on the Bonds will be paid on the interest payment dates, and principal of the Bonds will be paid at maturity, to The Depository Trust Company, New York, New York ("DTC") or its nominee as registered owner of the Bonds. Interest on the Bonds will be computed on the basis of a 30-day month and a 360-day year.

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

The Bonds are being issued to finance certain capital expenditures of the State.

* Preliminary, subject to change as described herein.

Details of the Bonds

The Series A Bonds will be dated their date of delivery and will mature on June 1 in each of the years 2018 to 2019, inclusive, in the principal amounts described in the table below, subject to any adjustments described in "Adjustment of Maturity Schedule" below:

Year	Principal Amount*
2018	$10,450,000
2019	4,675,000

The Series B Bonds will be dated their date of delivery and will mature on June 1 in each of the years 2019 to 2027, inclusive, in the principal amounts described in the table below, subject to any adjustments described in "Adjustment of Maturity Schedule" below:

Year	Principal Amount*
2019	$ 5,775,000
2020	10,450,000
2021	10,450,000
2022	10,450,000
2023	10,450,000
2024	10,450,000
2025	10,445,000
2026	10,445,000
2027	10,445,000

Authorization and Security

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged for the punctual payment of the principal and interest on the Bonds.

Redemption

The Bonds are not subject to redemption prior to maturity.

Adjustment of Maturity Schedule

The State reserves the right to change the aggregate principal amount of either or both series of the Bonds and the maturity schedule for either series after the determination of the winning bid by increasing or decreasing the principal amount of each maturity by such amount as may be necessary to (i) produce sufficient funds for the purposes for which the Bonds are being issued after taking into account any premiums to be received by the State, and (ii) to produce substantially level annual payments of principal on the Bonds in the aggregate. In such event, the final aggregate principal amount of each series of the Bonds will be increased or decreased by the net amount of such change or changes in principal amount of one or more maturities, which net change will not exceed fifteen percent (15%) of the original aggregate

*Preliminary, subject to change as described herein.

principal amount of each series of the Bonds. The State anticipates that the final maturity schedule will be communicated to the successful bidders by 3:00 p.m. Eastern Daylight Savings Time on the date of award provided the State has received the reoffering prices and yields for the Bonds from the successful bidders within one hour after being notified of the awards of the Bonds. The adjusted bid prices will reflect changes in the dollar amount of the underwriter's discounts and original issue premiums, but will not change the per-bond underwriter's discount as calculated from the bid and reoffering prices required to be delivered to the State as stated herein. The successful bidder for each series may not withdraw its bid or change the interest rates bid or initial reoffering prices as a result of any changes made to the principal amounts within these limits.

Book-Entry Only

The Bonds will be issued by means of a book-entry system with no physical distribution of Bonds made to the public. One Bond certificate for each maturity of each series will be issued to The Depository Trust Company, New York, New York ("DTC"), and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Bonds in principal amounts of $5,000 or integral multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The successful bidder of each series, as a condition to delivery of the Bonds, shall be required to deposit the Bond certificates with DTC, registered in the name of Cede & Co.

Interest on the Bonds will be payable semiannually on June 1 and December 1, beginning December 1, 2017. Principal of the Bonds will be paid annually on June 1, as set forth in the foregoing maturity schedules subject to adjustment as described above under "Adjustment of Maturity Schedule," to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The record date for principal and interest payments will be the fifteenth day of the month next preceding the date on which interest is to be paid. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the Treasurer determines that continuation of the book-entry system of evidence and transfer of ownership of the Bonds would adversely affect the interests of the beneficial owners of the Bonds, the State will discontinue the book-entry system with DTC. If the State fails to identify another qualified securities depository to replace DTC, the State will authenticate and deliver replacement Bonds in the form of fully registered certificates.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds in accordance with the terms of its bid. No CUSIP identification numbers shall be deemed to be part of any Bond or a part of the contract evidenced thereby and no liability shall hereafter attach to the State or any of its officers or agents because of or on account of such numbers. The State shall pay all expenses in connection with the initial assignment and printing of CUSIP numbers. The underwriter for each series will be responsible for applying for and obtaining CUSIP identification numbers for the Bonds.

Bid Specifications

Bidders may bid on the Series A Bonds only, the Series B Bonds only or both series. Bidders should state the rate or rates of interest that the Series A Bonds and the Series B Bonds are to bear, in multiples of 1/8 or 1/20 of one percent, but shall not state (a) more than one interest rate for any Bonds of a series having a like maturity or (b) any interest rate greater than 5%. No bids for other than all of the Series A Bonds or the Series B Bonds will be accepted. No bid for less than 100% of the principal amount of the Series A Bonds or the Series B Bonds will be accepted (subject to adjustments as provided above.) Each bid for the Series A Bonds must be for the entire issue at a price not less than 100% plus a premium of at least $100,000. Each bid for the Series B Bonds must be for the entire issue at a price not less than 100% plus a premium of at least $10.5 million. All bids must be unconditional and submitted electronically via Parity® in accordance with this Notice of Sale.

Receipt of Bids

Sealed bids for the Series A Bonds and the Series B Bonds will be received electronically via Parity until 10:30 a.m., Eastern Daylight Savings Time, on Wednesday June 7, 2017 (or on such later date as may be established by the State and communicated through Thomson Municipal Market Monitor not less than twenty-four (24) hours prior to the time the bids are to be received). To the extent any instructions or directions set forth on Parity conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about Parity, potential bidders may contact I-Deal LLC at 1359 Broadway, 2nd Floor, New York, NY 10018, or telephone (212) 849-5021. The use of Parity shall be at the bidder's risk and expense, and the State shall have no liability with respect thereto. Only bids submitted through Parity will be considered. No telephone, facsimile, mail, courier delivery or personal delivery bids will be accepted. To participate, bidders must be a contracted customer of the BiDCOMP Competitive Bidding System (the "System"). If the prospective bidder(s) do not have a contract with the System, call (212) 849-5021 to become a customer and to obtain a list of the bidding rules and procedures.

Basis of Award

The Bonds will be awarded to the bidder(s) offering to purchase the Bonds, as applicable, at the lowest interest cost to the State. Separate awards will be made with respect to the Series A Bonds and the Series B Bonds. **Such award shall be determined on a true interest cost (TIC) basis. True interest cost (expressed as an annual interest rate) shall be determined for each bid by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payments from the payment dates to the date of delivery and to the price bid.** In the event there is more than one bid specifying the lowest such rate, each series of Bonds will be awarded to the bidder whose bid is selected by the Treasurer by lot from among all such bids. It is requested that each bid be accompanied by a statement of such interest cost, computed at the interest rate or rates stated in the bid in accordance with the above method of computation (computed to six decimal places), but such statement will not be considered as part of the bid.

Bids will be accepted or rejected promptly after receipt on the date of the sale.

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

Establishment of Issue Price

The successful bidder shall assist the State in establishing the issue price of the Series B Bonds and shall execute and deliver to the State on the Closing Date an "issue price" or similar certificate, in the applicable form set forth in Exhibit 1 to this Notice of Sale, setting forth the reasonably expected initial offering prices to the public or the sales price of the Series B Bonds together with the supporting pricing wires or equivalent communications, or, if applicable, the amount bid, with such modifications as may be appropriate or necessary, in the reasonable judgment of the successful bidder, the State and Bond Counsel. All actions to be taken by the State under this Notice of Sale to establish the issue price of the Series B Bonds may be taken on behalf of the State by FirstSouthwest, a Division of Hilltop Securities Inc. ("Financial Advisor") and any notice or report to be provided to the State may be provided to the Financial Advisor.

Competitive Sale Requirements. If the competitive sale requirements ("competitive sale requirements") set forth in Treasury Regulation § 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Series B Bonds) have been satisfied, the State will furnish to the successful bidder on the Closing Date a certificate of the Financial Advisor, which will certify each of the following conditions to be true:

1. the State has disseminated this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;

2. all bidders had an equal opportunity to bid;

3. the State received bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

4. the State awarded the sale of the Series B Bonds to the bidder who submitted a firm offer to purchase the Series B Bonds at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Series B Bonds, as specified in the bid. By submitting it bid, each bidder shall be deemed to confirm that it has an established industry reputation for underwriting new issuances of municipal bonds. Unless the bidder notifies the State either prior to submitting its bid by notice to the Financial Advisor at (401) 334-4963 or adam.krea@hilltopsecurities.com or in its bid submitted via Parity that it will not be an "underwriter" (as defined below) of the Series B Bonds, in submitting a bid, each bidder is deemed to acknowledge that it is an "underwriter" that intends to reoffer the Series B Bonds to the public.

In the event that the competitive sale requirements are not satisfied, the State shall so advise the successful bidder.

Failure to Meet the Competitive Sale Requirements – Option A – The Successful Bidder Intends to Reoffer the Series B Bonds to the Public. If the competitive sale requirements are not satisfied and the successful bidder intends to reoffer the Series B Bonds to the public, the State will use the first price at which 10% of a maturity of the Series B Bonds (the "10% test") is sold to the public as the issue price of that maturity, applied on a maturity-by-maturity basis, of the Series B Bonds. The successful bidder shall advise the Financial Advisor if any maturity of the Series B Bonds satisfies the 10% test as of the date and time of the award of the Series B Bonds. The State will not require bidders to comply with the "hold-the-offering-price rule" set forth in the applicable Treasury Regulations and therefore does not intend to use the initial offering price to the public as of the Sale Date of any maturity of the Series B Bonds as the issue price of that maturity. In this event, the successful bidder shall execute and deliver to the State on the Closing Date the "issue price" certificate in the form set forth in Exhibit 2 of this Notice of Sale.

If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the Series B Bonds or all of the Series B Bonds are sold to the public, the successful bidder agrees to promptly report to the Financial Advisor the prices at which the unsold Series B Bonds of each maturity have been sold to the public, which reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied for each maturity of the Series B Bonds or until all the Series B Bonds of a maturity have been sold. The successful bidder shall be obligated to report each sale of Series B Bonds to the Financial Advisor until notified in writing by the State or the Financial Advisor that it no longer needs to do so.

By submitting a bid and if the competitive sale requirements are <u>not</u> met, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Series B Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the public the unsold Series B Bonds of each maturity allotted to it until it is notified by the successful bidder that either the 10% test has been satisfied as to the Series B Bonds of that maturity or all Series B Bonds of that maturity have been sold to the public, if and for so long as directed by the successful bidder and as set forth in the related pricing wires and (ii) any agreement among underwriters relating to the initial sale of the Series B Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Series B Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the public the unsold Series B Bonds of each maturity allotted to it until it is notified by the successful bidder or such underwriter that either the 10% test has been satisfied as to the Series B Bonds of that maturity or all Series B Bonds of that maturity have been sold to the public if and for so long as directed by the successful bidder or such underwriter and as set forth in the related pricing wires.

Sales of any Series B Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Notice of Sale. Further, for purposes of this Notice of Sale:

1. "public" means any person other than an underwriter or a related party,

2. "underwriter" means (A) any person that agrees pursuant to a written contract with the State (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Series B Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Series B Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Series B Bonds to the public), and

3. a purchaser of any of the Series B Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital

interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

Failure to Meet the Competitive Sale Requirements – Option B – The Successful Bidder Does Not Intend to Reoffer the Series B Bonds to the Public. If the competitive sale requirements are not met and the successful bidder does not intend to reoffer the Series B Bonds to the public, the State shall treat the amount bid as the issue price.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the State. However, the CUSIP Service Bureau charge for the assignment of such numbers shall be the responsibility of and be paid by the successful bidder.

Expenses

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

Undertakings of the Successful Bidder(s)

In addition to the obligations of the successful bidder set forth above under "Establishment of Issue Price," the successful bidder(s) shall make a bona fide public offering of the Bonds. The successful bidder(s) must, by facsimile transmission or delivery received by the Deputy Treasurer within 24 hours after notification of the award, furnish the following information to Bond Counsel to complete the Official Statement in final form, as described below:

A. Selling compensation (aggregate total anticipated compensation to the underwriters expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields at which the successful bidder(s) advised the Treasurer that the Bonds were initially offered to the public).

B. The identity of the underwriters if the successful bidder(s) is part of a group or syndicate.

C. Any other material information the Treasurer determines is necessary to complete the Official Statement in final form.

On or prior to the date of delivery of the Series B Bonds, the successful bidder for the Series B Bonds shall furnish to the State the certificate attached hereto as Exhibit 1, with only such changes as are acceptable to the State and Bond Counsel to the State. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Series B Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Series B Bonds resulting from payment of insurance premiums or other credit enhancement fees.

Delivery of the Bonds

The Bonds will be delivered on or about June 21, 2017 in New York, New York at DTC against payment of the purchase price therefor in Federal Funds.

Documents to be Delivered at Closing

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

In connection with the issuance of the Bonds, the State will undertake in the Bonds to provide annual financial information and notices of certain events pursuant to Municipal Securities Disclosure Rule, 17 CFR §240.15c2-12 (the “Rule”), promulgated by the Securities and Exchange Commission.

Official Statement

The Preliminary Official Statement dated May 30, 2017 and the information contained therein have been deemed final by the State as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement").

The State, at its expense, will make available to the successful bidder(s) up to 75 copies of the Final Official Statement, for delivery to each potential investor requesting a copy of the Final Official Statement and to each person to whom the bidder(s) and members of its bidding group initially sell the Bonds, within seven business days of the award of the Bonds, provided that the successful bidder(s) cooperate in providing the information required to complete the Final Official Statement.

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

Continuing Disclosure

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

Right to Change the Notice of Sale and to Postpone Offering

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

Good Faith Deposit

The State is not requiring the submission of a good faith deposit prior to the date of award of the Bonds to the successful bidder. Rather, the successful bidder, as determined by the State in accordance with this Notice of Sale, must submit a good faith deposit in the amount of $151,125 for a bid on the Series A Bonds, and in the amount of $893,600 for a bid on the Series B Bonds. The good faith deposit will secure the State from any loss resulting from the failure of the successful bidder to comply with the terms of its bid. The successful bidder shall transfer the good faith deposit by wire transfer directly to the State upon notification, but in any case, no later than 3:00 p.m., Eastern Daylight Savings Time, on the date of award of the Bonds. The good faith deposit will be held by the State and applied toward a portion of the total purchase price of the Bonds. No interest on the good faith deposit will accrue to the successful bidder. Wire instructions will be provided to the successful bidder upon notification of the Preliminary Award.

Additional Information

For further information relating to the Bonds, reference is made to the Preliminary Official Statement dated May 30, 2017 prepared for and authorized by the Treasurer. The Preliminary Official Statement may be obtained by accessing the following website: http://www.imagemaster.com/. For further information, please contact Kristi Carlow, Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333 (telephone: 207-624-7477; facsimile 207-287-2367).

THE STATE OF MAINE

By: Terry Hayes
Treasurer of State

Date: May 30, 2017

Attachment A

INSTRUCTIONS TO SUBMIT A BID VIA Parity

- You must be a contracted customer of Parity's Competitive Bidding System. If you do not have a contract with Parity, call (212) 849-5021 to become a customer.
- In Parity select the State of Maine sale among the list of current sales.
- Go to the bid form page. Keep notice of the time clock and be sure to read all bid specifications on bottom.
- Once you have created and saved a bid in Parity, click the final bid button in Parity to submit the bid to Parity.
- Upon clicking the Final Bid button, the bidder will see a message box in Parity that states: "Do you want to submit this bid to Parity? By submitting the bid electronically via PARITY, you represent and warrant that this bid for the purchase of the Bonds is submitted by the representative who is duly authorized to bind the bidder to a legal, valid, enforceable contract for the purchase of the Bonds. The Official Notice of Sale is incorporated herein by this reference."
- If during bid calculation Parity warns you that your current bid violates the bid parameters, please change your bid to meet bid specifications. The Parity system will submit bids, which violate the bid parameters, but the State does not intend to consider any bids that do not meet its parameters.
- You may choose to proceed with submission of the bid or choose to cancel the submission.
- Contact Parity at (212) 849-5021 or with questions or problems.

EXHIBIT 1

*****NOTE: FOR USE IN SALES WHERE AT LEAST THREE BIDS ARE RECEIVED*****

$89,360,000[†]
STATE OF MAINE
General Obligation Bonds, 2017 Series B

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of [NAME OF UNDERWRITER] (the "Underwriter"), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the "Bonds") of the State of Maine (the "Issuer").

1. **Reasonably Expected Initial Offering Prices.**

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by the Underwriter are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Bonds used by the Underwriter in formulating its bid to purchase the Bonds. Attached as Schedule B is a true and correct copy of the bid provided by the Underwriter to purchase the Bonds.

(b) the Underwriter was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by the Underwriter constituted a firm offer to purchase the Bonds.

2. **Defined Terms.**

(a) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.[‡]

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is [DATE].

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in

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[†] Preliminary, subject to change as described in Notice of Sale.
[‡] Treas. Reg. §1.148-1(f)(3)(i)(B) requires that all bidders have an equal opportunity to bid to purchase bonds. If the bidding process affords an equal opportunity for bidders to review other bids prior to submitting their bids, then this representation should be modified to describe the bidding process.

the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Underwriter' s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Dated: June __, 2017

[UNDERWRITER]

By:__________________________________
Name:
Title:

SCHEDULE A

EXPECTED OFFERING PRICES

(Attached)

SCHEDULE B

COPY OF UNDERWRITER'S BID

(Attached)

EXHIBIT 2

[*Use If the Competitive Sale Requirements Are Not Met and the Hold the Price Rule Is Not Imposed***]**

$___,___,000
State of Maine
General Obligation Bonds
Series 2017B

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of ______________________ (the ("[Underwriter][Representative]")[, on behalf of itself and [NAMES OF OTHER UNDERWRITERS]] hereby certifies as set forth below with respect to the sale and issuance of the above-captioned obligations (the "Bonds").

1. **Sale of the Bonds**. As of the date of this certificate, [except as set forth in paragraph 2 below,] for each Maturity of the Bonds, the first price at which at least 10% of such Maturity of the Bonds was sold to the Public is the respective price listed in Schedule A.

[Only use the next paragraph if the 10% test has not been met or all of the Bonds have not been sold for one or more Maturities of Bonds as of the Closing Date.]

2. For each Maturity of the Bonds as to which no price is listed in Schedule A, as set forth in the Notice of Sale for the Bonds, until the 10% test has been satisfied as to each Maturity of the Bonds or all of the Bonds are sold to the Public, the [Underwriter][Representative] agrees to promptly report to the State of Maine's financial advisor, FirstSouthwest, a Division of Hilltop Securities Inc. (the "Financial Advisor") the prices at which the unsold Bonds of each Maturity have been sold to the Public, which reporting obligation shall continue after the date hereof until the 10% test has been satisfied for each Maturity of the Bonds or until all the Bonds of a Maturity have been sold. The [Underwriter][Representative] shall continue to report each sale of Bonds to the Financial Advisor until notified by email or in writing by the State or the Financial Advisor that it no longer needs to do so.

3. **Defined Terms**.

(a) *Issuer* means the State of Maine.

(b) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(c) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an

Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the [Underwriter’s][Representative’s] interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Locke Lord LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Dated: June 21, 2017

[UNDERWRITER] [REPRESENTATIVE]

By:__________________________________
Name:
Title:

SCHEDULE A

SALE PRICES

[(Attached)]
or
complete schedule below]

Maturity	Price
2019	%
2020	
2021	
2022	
2023	
2024	
2025	
2026	
2027	

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