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.

$56,835,000
STATE OF MAINE
GENERAL OBLIGATION BONDS

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

Bond Ratings	Aa2/Stable	Moody's Investors Service, Inc. See "RATINGS" herein.
	AA/Negative	Standard & Poor's Ratings Services. See "RATINGS" herein.
NAIC Designation	NAIC "1"	National Association of Insurance Commissioners. See "NAIC DESIGNATION" herein.

Interest Payment Dates June 1 and December 1, commencing December 1, 2010.

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 Edwards Angell Palmer & Dodge LLP, Bond Counsel to the State, interest on the Series C Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Series C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Series A Bonds and Series B Bonds is included in the gross income of the owners of the Series A Bonds and Series B Bonds, respectively, 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 pay at maturity on June 15, 2010 the principal amount of certain bond anticipation notes issued by the State to finance certain capital expenditures of the State and to finance certain additional capital expenditures of the State. See "DESCRIPTION OF THE BONDS" herein.

Initial Denominations Multiples of $5,000

Closing On or about June 3, 2010.

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 Edwards Angell Palmer & Dodge LLP. See "TAX MATTERS" herein.

Financial Advisor Public Financial Management, Inc. See "FINANCIAL ADVISOR" herein.

Issuer Contact David G. Lemoine, Treasurer of State. See "MISCELLANEOUS" herein.

Wells Fargo Securities **Citi**

BofA Merrill Lynch **JP Morgan**

Dated May 25, 2010

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS*
$56,835,000
State of Maine
General Obligation Bonds

General Obligation Bonds, 2010 Series A
(Federally Taxable)

Maturity (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No.
2011	$4,030,000	1.50%	0.85%	56052AVZ6
2012	3,170,000	1.41	1.41	56052AWA0
Total	$7,200,000			

General Obligation Bonds, 2010 Series B
(Federally Taxable - Build America Bonds - Direct Payment)

Maturity (June 1)	Principal Amount	Interest Rate	Price	CUSIP† No.
2017	$5,695,000	3.321%	100.00	56052AWB8
2018	5,690,000	3.742	100.00	56052AWC6
2019	5,690,000	3.842	100.00	56052AWD4
2020	5,690,000	3.942	100.00	56052AWE2
Total	$22,765,000			

General Obligation Bonds, 2010 Series C

Maturity (June 1)	Principal Amount	Interest Rate	Yield	CUSIP† No.
2011	$2,605,000	2.50%	0.38%	56052AWF9
2012	1,500,000	2.50	0.74	56052AWG7
2013	1,520,000	2.50	1.09	56052AWH5
2013	4,175,000	4.00	1.09	56052AWM4
2014	860,000	3.00	1.46	56052AWJ1
2014	4,830,000	4.00	1.46	56052AWN2
2015	5,690,000	3.00	1.82	56052AWK8
2016	5,690,000	3.00	2.20	56052AWL6
Total	$26,870,000			

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

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

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

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

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Governor

John E. Baldacci
State House
Augusta, Maine

Treasurer of State

David G. Lemoine
39 State House Station
Augusta, Maine 04333

Commissioner of Administrative and Financial Services

Ryan Low[1]
State Offices
Augusta, Maine

Department of the Attorney General of the State of Maine

Janet T. Mills, Attorney General of the State of Maine
William H. Laubenstein, III, Assistant Attorney General
State Offices
Augusta, Maine

Bond Counsel

Edwards Angell Palmer & Dodge LLP
Boston, Massachusetts

Financial Advisor

Public Financial Management, Inc.
Boston, Massachusetts

Underwriters' Counsel

Preti Flaherty Beliveau & Pachios, LLP
Augusta, Maine

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[1] Commissioner Low has resigned his office effective July 1, 2010. Ellen Schneiter, the State Budget Officer, has been named the acting commissioner.

$56,835,000
STATE OF MAINE
GENERAL OBLIGATION BONDS

INTRODUCTION

This Official Statement, including the cover page hereof and the Appendices hereto, sets forth certain information in connection with the issuance by the State of Maine (the "State" or "Maine") of its $7,200,000 General Obligation Bonds, 2010 Series A (Federally Taxable) (the "Series A Bonds"), its $22,765,000 General Obligation Bonds, 2010 Series B (Federally Taxable — Build America Bonds — Direct Payment) (the "Series B Bonds"), and its $26,870,000 General Obligation Bonds, 2010 Series C (the "Series C Bonds" and, together with the Series A Bonds and the Series B 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, 2010, 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.

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

The Bonds are being issued (i) to pay at maturity on June 15, 2010 the principal amount of certain bond anticipation notes issued by the State to finance certain capital expenditures of the State and (ii) to finance certain additional capital expenditures of the State. See Appendix D hereto.

BUILD AMERICA BONDS

The State intends to elect to treat the Series B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009, enacted February 17, 2009 ("ARRA") and to receive a cash subsidy from the United States Treasury ("Interest Subsidy Payments") in connection therewith. As a result of such election, interest on the Series B Bonds will be included in the gross income of holders thereof for federal income tax purposes, and the holders will not be entitled to any federal tax credits as to Build America Bonds in connection with their holding of Series B Bonds. Pursuant to ARRA, the State will be entitled to receive Interest Subsidy Payments equal to 35% of the interest payable on the Series B Bonds, provided the State makes certain required filings in accordance with applicable federal rules pertaining to the Interest Subsidy Payments. Such Interest Subsidy Payments received by the State are not pledged to pay the Series B Bonds, nor is their receipt a condition of payment of any portion of the Series B Bonds. Federal tax law imposes certain requirements for qualification of the Series B Bonds as Build America Bonds, including that interest on such Series B Bonds be, but for the State's election, excludable from gross income for federal income tax purposes. There can be no assurance that the Series B Bonds will qualify as Build America Bonds nor as to the receipt, or timing of receipt, of Interest Subsidy Payments. Interest Subsidy Payments are treated as overpayments of tax, and accordingly are subject to offset against certain amounts that may be owed by the State to an agency of the United States of America. Finally, it is possible that the Interest Subsidy Payments could be reduced or eliminated as a result of a change in federal law. See "Tax Matters" herein. The State is obligated to make payments of the principal of and interest on the Series B Bonds whether or not it receives Interest Subsidy Payments.

INFORMATION CONCERNING THE STATE

Certain information regarding the State is included in Appendix A 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.

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 A Bonds and Series C Bonds

In the opinion of Edwards Angell Palmer & Dodge 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 C 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 C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not 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 C 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 C Bonds. Failure to comply with these requirements may result in interest on the Series C Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series C Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Series C Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

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

Bond Counsel is also of the opinion that, under existing law, interest on the Series A Bonds and the Series C 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 or the Series C Bonds. Bond Counsel has not opined as to the taxability of the Series A Bonds or the Series C Bonds or the income therefrom under the laws of any state other than Maine. Complete copies of the proposed forms of opinions of Bond Counsel with respect to the Series A Bonds and the Series C Bonds are set forth in Appendix G hereto.

To the extent the issue price of any maturity of the Series A Bonds or the Series C Bonds is less than the amount to be paid at maturity of such Series A Bonds or Series C Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series A Bonds or Series C Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series A Bonds and the Series C Bonds which is excluded from gross income for federal income tax purposes (only in the case of the Series C Bonds) and is exempt from Maine personal income taxes. For this purpose, the issue price of a particular maturity of the Series A Bonds or the Series C Bonds is the first price at which a substantial amount of such maturity of the Series

A Bonds or the Series C Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series A Bonds or the Series C Bonds accrues daily over the term to maturity of such Series A Bonds or Series C 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 A Bonds or Series C Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series A Bonds or Series C Bonds. Holders of the Series A Bonds and Series C Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series A Bonds and the Series C Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series A Bonds or Series C Bonds in the original offering to the public at the first price at which a substantial amount of such Series A Bonds or Series C Bonds is sold to the public.

Series A Bonds or Series C 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 A Bonds or Series C Bonds, or, in some cases, at the earlier redemption date of such Series A Bonds or Series C Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Maine personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds that are Series C Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a holder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such holder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

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

Federally Taxable Build America Bonds (Direct Payment) – Series B Bonds

Under existing law, interest on the Series B 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 B Bonds.

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.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to beneficial owners of the Series B Bonds that acquire their Series B Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service ("IRS") with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not address all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to investors who may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, real estate investment trusts, regulated investment companies, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors who hold their Series B Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, the following discussion does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a beneficial owner of Series B Bonds. In addition, this summary generally is limited to investors who become beneficial owners of Series B Bonds pursuant to the initial offering for the issue price that is applicable to such Series B Bonds (i.e., the price at which a substantial amount of such Series B Bonds is first sold to the public) and who will hold their Series B Bonds as "capital assets" within the meaning of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Series B Bond who for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust with respect to which a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Series B Bond (other than a partnership) who is not a U.S. Holder. If an entity classified as a partnership for U.S. federal income tax purposes is a beneficial owner of Series B Bonds, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partners in such partnerships should consult their own tax advisors regarding the tax consequences of an investment in the Series B Bonds (including their status as U.S. Holders or Non-U.S. Holders).

U.S. Holders

Interest. Stated interest on the Series B Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

"Original issue discount" will arise for U.S. federal income tax purposes in respect of any Series B Bond if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). For any Series B Bonds issued with original issue discount, the excess of the stated redemption price at maturity of that Series B Bond over its issue price will constitute original issue discount for U.S. federal income tax purposes. The stated redemption price at maturity of a Series B Bond is the sum of all scheduled amounts payable on such Series B Bond other than qualified stated interest. U.S. Holders of Series B Bonds generally will be required to include any original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders of Series B Bonds issued with original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

"Premium" generally will arise for U.S. federal income tax purposes in respect of any Series B Bond to the extent its issue price exceeds its stated principal amount. A U.S. Holder of a Series B Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Series B Bond.

Disposition of the Series B Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the State), reissuance or other disposition of a Series B Bond will be a taxable event for U.S. federal income tax purposes. In such event, a U.S. Holder of a Series B Bond generally will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series B Bond which will be taxed in the manner described above under "Interest") and (ii) the U.S. Holder's adjusted tax basis in the Series B Bond (generally, the purchase price paid by the U.S. Holder for the Series B Bond, increased by the amount of any original issue discount previously included in income by such U.S. Holder with respect to such Series B Bond and decreased by any payments previously made on such Series B Bond, other than payments of qualified stated interest, or decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. Defeasance or material modification of the terms of any Series B Bond may result in a deemed reissuance thereof, in which event a beneficial owner of the defeased Series B Bonds generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the beneficial owner's adjusted tax basis in the Series B Bond.

In the case of a non-corporate U.S. Holder of the Series B Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain may be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Series B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Non-U.S. Holders

The following discussion applies only to non-U.S. Holders. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to non-U.S. Holders in light of their particular circumstances. For example, special rules may apply to a non-U.S. Holder that is a "controlled foreign corporation" or a "passive foreign investment company," and, accordingly, non-U.S. Holders should consult their own tax advisors to determine the United States federal, state, local and other tax consequences of holding the Series B Bonds that may be relevant to them.

Interest. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," payments of principal of, and interest on, any Series B Bond to a Non-U.S. Holder, other than a bank which acquires such Series B Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, generally will not be subject to any U.S. withholding tax provided that the beneficial owner of the Series B Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Series B Bonds. Subject to the discussion below under the heading "Information Reporting and Backup Withholding," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the State), reissuance or other disposition of a Series B Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the State), reissuance or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series B Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Series B Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding—U.S. Holders and non-U.S. Holders

Interest on, and proceeds received from the sale of, a Series B Bond generally will be reported to U.S. Holders, other than certain exempt recipients, such as corporations, on IRS Form 1099. In addition, a backup withholding tax may apply to payments with respect to the Series B Bonds if the U.S. Holder fails to furnish the payor with a correct taxpayer identification number or other required certification or fails to report interest or dividends required to be shown on the U.S. Holder's federal income tax returns.

In general, a non-U.S. Holder will not be subject to backup withholding with respect to interest payments on the Series B Bonds if such non-U.S. Holder has certified to the payor under penalties of perjury (i) the name and address of such non-U.S. Holder and (ii) that such non-U.S. Holder is not a United States person, or, in the case of an individual, that such non-U.S. Holder is neither a citizen nor a resident of the United States, and the payor does not know or have reason to know that such certifications are false. However, information reporting on IRS Form 1042-S may still apply to interest payments on the Series B Bonds made to non-U.S. Holders not subject to backup withholding. In addition, a non-U.S. Holder will not be subject to backup withholding with respect to the proceeds of the sale of a Series B Bond made within the United States or conducted through certain U.S. financial intermediaries if the payor receives the certifications described above and the payor does not know or have reason to know that such certifications are false, or if the non-U.S. Holder otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding the application of information reporting and backup withholding in their particular circumstances, the availability of exemptions and the procedure for obtaining such exemptions, if available.

Backup withholding is not an additional tax, and amounts withheld as backup withholding are allowed as a refund or credit against a holder's federal income tax liability, provided that the required information as to withholding is furnished to the IRS.

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 B 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 B Bonds, including the application and effect of state, local, foreign and other tax laws.

Circular 230 Disclaimer

The preceding tax matters discussion related to the Series B Bonds is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under federal tax law in connection with the Series B Bonds. Such discussion was written to support the promotion or marketing of the Series B Bonds. Each purchaser of the Series B Bonds should seek advice based on such purchaser's particular circumstances from an independent tax advisor.

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 his knowledge this Official Statement does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements made herein, in light of the circumstances under which they were made, not misleading.

Legal Opinions

The opinions of Edwards Angell Palmer & Dodge LLP (i) approving the authorization and issuance of the Bonds and (ii) with respect to the 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.

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

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. One fully-registered Series C Bond certificate will be issued in the aggregate principal amount of each maturity thereof and will be deposited with DTC

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

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

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

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

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, 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 Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, have assigned their municipal bond ratings of "Aa2" with a "Stable" outlook and "AA" with a "Negative" 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, cirucumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Bonds.

NAIC DESIGNATION

The State Treasurer recently requested that the National Association of Insurance Commissioners (the "NAIC") assess the credit of the Bonds. The NAIC has done so and issued the letter attached as Appendix I to the State. The NAIC has given the Bonds an NAIC "1" Designation. Please see Appendix I for an explanation of this designation. As noted in the attached letter, NAIC designations are intended for regulatory purposes and may apply criteria that is relevant only to state insurance regulators. This NAIC designation is not intended to assist investors in making any investment decision.

UNDERWRITING

The Bonds are being purchased by Wells Fargo Bank, National Association, Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities Inc. (the "Underwriters") for whom Wells Fargo Bank, National Association is acting as representative. The Underwriters have agreed to purchase the Bonds at a price of $58,208,206.35, which purchase price reflects an Underwriters' discount, from the public offering price of the Bonds, in the amount of $278,462.85. The purchase contract relating to the Bonds provides that the Underwriters will purchase all of the Bonds, if any Bonds are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase contract, subject to the approval of certain legal matters by Preti Flaherty Beliveau & Pachios, LLP, counsel for the Underwriters. The initial public offering prices of the Bonds stated on page ii hereof may be changed, from time to time, by the Underwriters. The State has been advised by the Underwriters that (i) they presently intend to make a market in the Bonds, (ii) they are not, however, obligated to do so, (iii) any market making may be discontinued at any time, and (iv) there can be no assurance that an active public market for the Bonds will develop. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into unit investment trusts, certain of which may be sponsored or managed by one or more of the Underwriters) and others at a price lower than the public offering price of the Bonds stated on the inside cover page hereof.

Wells Fargo Bank, National Association is a subsidiary of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc., which is one of the Underwriters, and Morgan Stanley & Co. Incorporated, have entered into a retail brokerage joint venture. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of an independent broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with its allocations of the Bonds.

J.P.Morgan Securities Inc. ("JPMSI"), one of the Underwriters, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase Bonds from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

FINANCIAL ADVISOR

Public Financial Management, Inc. (“PFM”) has served as financial advisor to the State for the issuance of the Bonds. PFM is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in the Official Statement. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing securities or other public securities.

MISCELLANEOUS

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

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

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

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

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

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

STATE OF MAINE

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

Dated: May 25, 2010

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX A

State of Maine Information Statement

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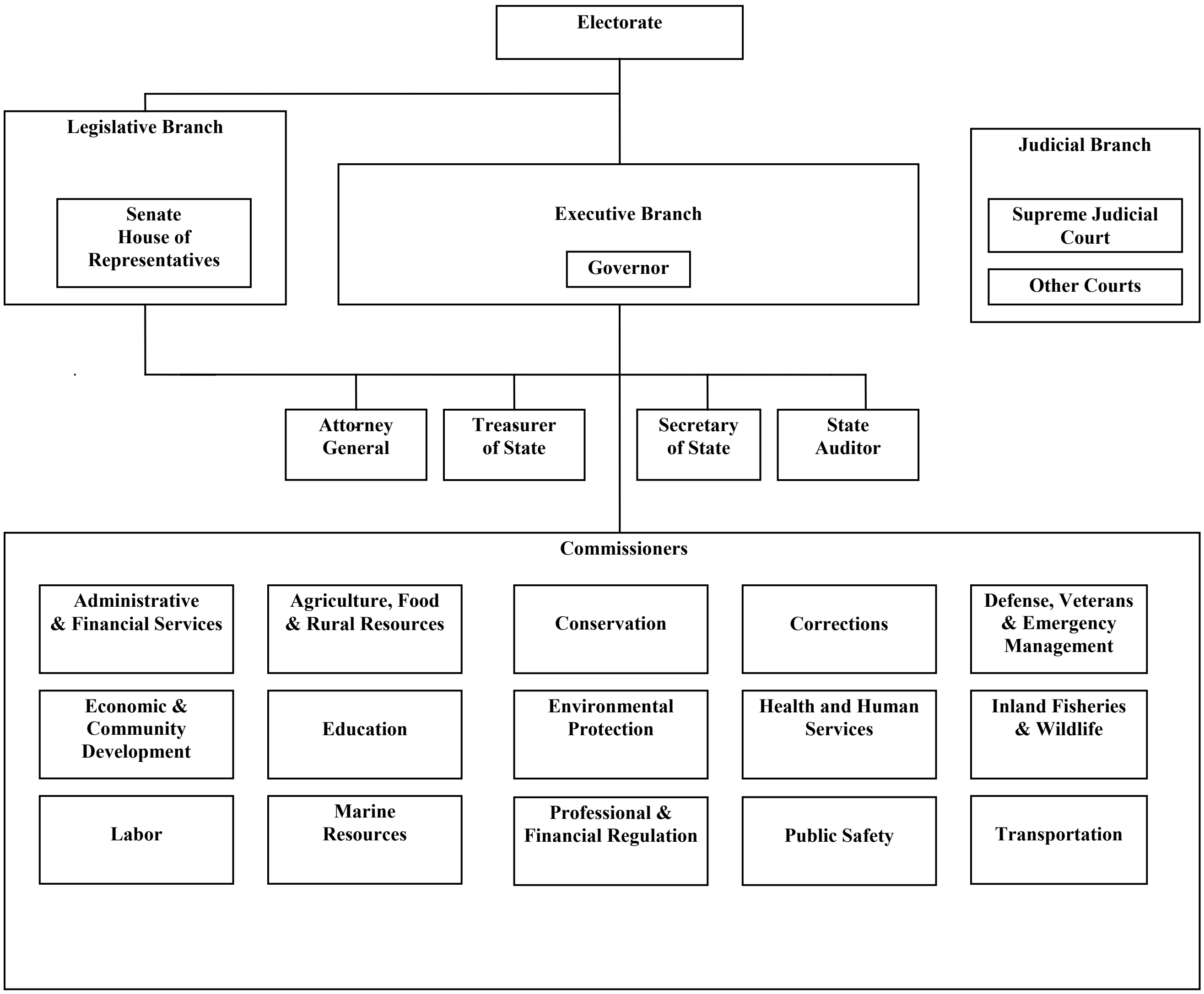
GOVERNMENTAL ORGANIZATION

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



Executive Branch

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

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

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

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

Treasurer of State. The Treasurer of State, a constitutional officer, is authorized to receive and keep records of all items of income accruing to the State; to deposit such items in banks, reconciling said balances and temporarily investing idle funds; to sell bonds 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 several authorities and bodies established by the State, including the Maine Municipal Bond Bank, the Maine Public Employees Retirement System, the Maine Health and Higher Educational Facilities Authority, the Maine Governmental Facilities Authority, the Maine State Housing Authority, the Finance Authority of Maine, the Maine Public Utility Financing Bank, the Adaptive Equipment Loan Board, the Northern Maine Transmission Corporation, the Dirigo Health Agency Board of Trustees, Maine Vaccine Board and the Maine Educational Loan Authority, and is Chair of the NextGen Investment Advisory Board.

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

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

When there is excess money in the State Treasury that is not needed to meet current obligations, the Treasurer of State may invest, with the concurrence of the State controller or the Commissioner of Administrative and Financial Services and with the consent of the Governor, those amounts in bonds, notes, certificates of indebtedness or other obligations of the United States and its agencies and instrumentalities that mature not more than 36 months from the date of investment, or in repurchase agreements that mature within the succeeding 12 months that are secured by obligations of the United States and its agencies and instrumentalities, prime commercial paper, tax-exempt obligations and corporate bonds rated "AAA" that mature not more than 36 months from the date of investment, 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.

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

The Legislature

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

The Legislature is organized into 17 Joint Standing Committees, each comprised of 3 Senators and 10 Representatives. Current Joint Standing Committees are: Agriculture, Conservation and Forestry; Appropriations and Financial Affairs; Business, Research and Economic Development; Criminal Justice and Public Safety; Education and Cultural Affairs; Health and Human Services; Inland Fisheries and Wildlife; Insurance and Financial Services; Judiciary; Labor; Legal and Veterans Affairs; Marine Resources; Natural Resources; State and Local Government; Taxation; Transportation; and Utilities and Energy. From time to time, the Legislature has established joint select committees on such matters as property tax reform, 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 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 places located within the county. A law which took effect in 2008 modified the responsibility of county governments to operate county jails. That law was intended to produce savings in State General Fund expenditures for county jail operations in future fiscal years and also established a State board of corrections, the purpose of which is to develop and implement a unified State and county correctional system.

The State is further divided into 22 cities, 434 towns, and 36 plantations which exercise the functions of municipal government, including the provision of elementary and secondary education. There are also 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.

Constitutional Debt Limit

Article IX, Section 14, of the Constitution of the State provides that the Legislature shall not at any time create any debt or debts, liability or liabilities, on behalf of the State, which shall singly, or in the aggregate, with previous debts and liabilities incurred, exceed $2,000,000, (i) except to suppress insurrection, to repel invasion, or for purposes of war; (ii) except for temporary loans to be paid out of money raised by taxation during the fiscal year in which they are made; and (iii) excepting also that whenever two-thirds of both the Senate and the House of Representatives shall deem it necessary, by proper enactment ratified by a majority of the electors voting thereon at a general or special election, the Legislature may authorize the issuance of bonds on behalf of the State at such times and in such amounts and for such purposes as may be approved by such action. The issuance of the Bonds described in this Official Statement is authorized pursuant to certain enactments which have been ratified by a majority of the voters at various elections. See Appendix D, "Selected Information Regarding Authorized and Outstanding Debt of the State - Authorized Expenditures," herein. Temporary loans to be paid out of moneys raised by taxation during any fiscal year shall not exceed in the aggregate during the fiscal year in question an amount greater than ten percent of all the moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, exclusive of proceeds or expenditures from the sale of bonds, or greater than one percent of the total valuation of the State, whichever is the lesser.

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

Overview of the Budget Process

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

The State budget consists of a budget message by the Governor (or the Governor-elect) that outlines the financial policy of the State government for the ensuing period of four fiscal years, describing in connection therewith the important features of the financial plan. The 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 upcoming biennium and the two succeeding biennia.

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

Pursuant to Public Laws of Maine 2005, chapter 2 ("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 and is subject to modification or repeal at any time by the Legislature.

On or before September 1 of even-numbered years, all departments and other agencies of the State government and corporations and associations receiving or desiring to receive State funds must prepare and submit to the State budget officer estimates of their expenditure and appropriation requirements for each fiscal year of the ensuing two-year fiscal period contrasted with the corresponding figures of the last completed fiscal year and the estimated figures for the fiscal year in progress. The growth in the State's General Fund appropriations is limited by law to the ten-year average annual growth in real personal income (not to exceed 2.75%) plus the ten-year average in population growth. 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" 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 in the form required by law. The Governor must transmit the budget to the Legislature not later than the Friday following the first Monday in January of odd-numbered years. A Governor-elect to his first term of office must transmit the State budget to the Legislature not later than the Friday following the first Monday in February in odd-numbered years.

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

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

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

Revenue Forecasting

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

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

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

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

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

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

Fiscal Year 2010 Reports. The Consensus Economic Forecasting Commission issued its report dated February 1, 2010 which refined the forecast it released in November 2009 and made a number of adjustments to that forecast. The February 2010 forecast reflects modest revisions, indicative of a continued stabilization of the decline in both national and state economic activity that began in the late fall of 2008. The updated forecast anticipates employment losses to bottom out in the second quarter of calendar year 2010, with a modest recovery beginning in mid-2010. Quarterly personal income forecasts were revised downward for the third quarter of 2009, followed by increases from the fourth quarter of calendar year 2009 through all four quarters of 2010. The annual income forecast was revised upwards for 2009 (from -0.6% to -0.4%) and 2010 (from 1.2% to 1.5%).

The Commission left the forecast for wage and salary growth relatively unchanged, with 2009 revised upwards from -4.7% to -4.1%. Wage and salary growth is forecasted to decrease by -.04% in 2010 and then to rise to 2.5% in 2011. The forecast for other labor income was also increased from 0.5% in 2010 to 1.0% in 2011. Similarly, forecasts for non-farm proprietors' income, dividends, interest and rent were revised upwards in the February 2010 report. The Commission did not make any substantive revisions to its prior forecast of inflation. In prior recessions, income growth has been held up by inflation, but in the current recession, this has not been the case.

The Revenue Forecasting Committee met in late February 2010 to review its December 2009 report. In the December 2009 report, the Committee projected a decrease in General Fund revenues of $209.4 million in fiscal year 2010 and $174.3 million for fiscal year 2011. The March 2010 revenue forecasting update represents a turning point in the succession of substantial downward revisions that reflected the economic deterioration observed nationally and globally. The Revenue Forecasting Committee's latest forecast adjusts General Fund revenue estimates upwards by $29.8 million in fiscal year 2010 and by $21.1 million in fiscal year 2011. The upward revisions to the following biennium (2012-2013), however, are more modest, totaling $9.4 million.

The March 2010 forecast is driven by changes in projections of corporate income tax revenue. Significant reductions in cost structures appear to have contributed to a return of business profitability and, as a consequence, corporate tax receipts. The latest forecast projects an increase of more than $66 million in corporate tax receipts in the current biennium, as compared to the December revenue forecast. Individual income tax receipts are projected to be $15.4 million higher over the course of the current biennium, although most of the upward revision occurs in fiscal year 2010. Longer term projections for personal income were revised downward, reflecting a change in underlying forecasting assumptions reflecting an expectation that lower income tax payers will experience a greater proportion of the changes in income than will those on the higher end of the income scale.

Sales and use tax revenues have been revised downward in the March report. Forecasting models remain deficient in their predictive capabilities for this revenue line, likely as a result of marked changes in underlying consumer behaviors.

For a description of the laws amending the budgets for fiscal years 2010 and 2011 and for information regarding fiscal year 2010 revenues, see "State Budgets" below.

General Fund Appropriation Limit

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

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

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

The General Fund appropriation limit applies to all General Fund appropriations, except certain education costs described in the following paragraph. The General Fund appropriation limit is approximately $3.4 billion for fiscal year 2010 and approximately $3.5 billion for fiscal year 2011.

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 2012 and that the General Fund appropriation limit will include the State share of the cost of K-12 Education beginning with fiscal year 2013. See "Education Funding" herein.

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

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

Public 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 Reserve for General Fund Operating Capital; 20% to the Retirement Allowance Fund; 15% to the Retiree Health Insurance Internal Service Fund; and the final 10% to the Capital Construction and Improvements Reserve Fund.

Public Laws of Maine 2007, chapter 1 ("2007 Chapter 1"), as modified by Public Laws of Maine 2007, chapter 240 ("2007 Chapter 240"), modified the distribution of the unappropriated surplus of the General Fund for fiscal year 2007. 2007 Chapter 1 required the transfer of up to $82,000,000 of the General Fund unappropriated surplus remaining at the close of fiscal year 2007 to the State Department of Health and Human Services Medical Care Payments Account prior to any of the transfers required by 2005 Chapter 519. The funds were to be used specifically for the payment of outstanding settlements to hospitals participating in the State's Medicaid program (the "MaineCare Program" or "MaineCare") and to increase interim payment rates for those facilities. Public Laws of Maine 2007, chapter 700 ("2007 Chapter 700") provided a transfer of up to $10,000,000 to the Stabilization Fund prior to the transfers authorized by 2007 Chapter 240. As a result of these legislative modifications, no transfers were made to the State's Reserve for General Fund Operating Capital or the Stabilization Fund in fiscal years 2007, 2008, and 2009, with the exception of the $10,000,000 transfer to the Stabilization Fund at the close of fiscal year 2008, as specified in 2007 Chapter 700.

The State expects to make transfers to the Stabilization Fund at the close of the current fiscal year. The Legislature appropriated approximately $15,200,000 for the Stabilization Fund in the supplemental budget for fiscal years 2010 and 2011, Public Laws of Maine 2009, Chapter 571 ("2009 Chapter 571"). Another $7,000,000 is expected to be transferred to the Stabilization Fund as a first priority transfer from the unappropriated surplus of the General Fund. The State anticipates the remaining balance of any unappropriated surplus (currently the State is running $33,000,000 ahead of budget with two months left in the fiscal year) to be distributed according to the statutorily prescribed allocation of deposits described above, which would result in a transfer of approximately $11,600,000 to the Stabilization Fund and approximately $6,600,000 in the Reserve for General Fund Operating Capital. The State cannot predict the actual amount of the unappropriated surplus that will be available at the end of the current fiscal year, and such amount and the actual transfers to the Stabilization Fund are subject to change.

As of April 30, 2010, the approximate balances in the Stabilization Fund and the Reserve for General Fund Operating Capital were $161,075 and $0, respectively. The Retirement Allowance Fund is used to make supplemental payments, if any, to reduce the State's unfunded pension liability and, therefore, does not carry a balance forward from year to year. As of April 30, 2010, the balances in the Retiree Health Insurance Internal Service Fund and the Capital Construction and Improvements Reserve Fund were, respectively, $98,024,289 and $522,156.

Citizen Initiative Petitions

Pursuant to the Constitution of the State an initiative petition of citizens of the State was presented to the Legislature in 2010. Since the Legislature did not pass this initiative, it will be placed before the voters of the State at the statewide election on November 2, 2010 for a decision on whether to enact the initiated legislation. The proposed question to go to the voters is, "Do you want to allow casino gambling in Maine at a single site in Oxford County, subject to local approval, with part of the profits going to specific state, local and tribal programs?"

The Accounting System

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Reports and Practices

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

The State controller's annual financial report for the fiscal year ended June 30, 2009 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, 2009 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, 2009 which are set forth in Section I of Appendix B have been prepared by the State controller and have been audited by the Department of Audit in accordance with auditing standards generally accepted in the United States of America. The Department of Audit has issued an unqualified opinion on the Basic Financial Statements.

Because of the variety of activities and programs run by the State, the State controller has established several specialized accounting conventions, which are consistently applied within the fund accounting system. For more information on the basis of accounting used by the State, see Appendix B, Section I, "Notes to the Financial Statements, June 30, 2009."

Annual financial reports prepared by the State controller for the fiscal year ending June 30, 2009 and for prior fiscal years are available upon request directed to Barbara Raths, Deputy State Treasurer, 39 State House Station, Augusta, Maine 04333, telephone: 207-624-7477; facsimile: 207-287-2367. The comprehensive annual financial reports for the fiscal year ended June 30, 2009 and for prior fiscal years are also available at http://www.maine.gov/osc/finanrept/cafr.htm.

Department of Audit

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

Audit Reports

The State Auditor 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 23, 2009 with respect to the fiscal year ending June 30, 2009 is set forth in Appendix B hereto. Single audit reports prepared by the Department of Audit for the fiscal year ending June 30, 2009 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, 2009 is unaudited and therefore is subject to change.

STATE BUDGETS

Laws authorizing expenditures for fiscal years 2006, 2007, 2008, and 2009 were enacted and provided for General Fund expenditures and Highway Fund expenditures in the amounts set forth in the table below. Laws authorizing General Fund and Highway Fund expenditures for fiscal years 2010 and 2011 have been enacted and provide for such expenditures in the amounts set forth in the table below.

Fiscal Year Ending June 30	General Fund Expenditures Authorized	Highway Fund Expenditures Authorized
2006	$ 2,871,878,613	$ 349,584,284
2007	2,978,358,710	346,221,340
2008	3,129,325,355	336,160,213
2009	3,017,952,419	327,534,161
2010*	2,849,227,923	316,706,397
2011*	2,696,366,734	301,098,655

For information regarding fiscal year 2010 expenditures, see "Certain Expenditures and Obligations – General Fund Expenditures" below.

Continuing adverse economic and fiscal circumstances have necessitated adjustments to the 2010-2011 biennial budget, which is currently governed by Public Laws of Maine 2009, Chapter 213 ("2009 Chapter 213") and 2009 Chapter 571. The first challenge occurred at the close of fiscal year 2009 when revenues were approximately $24 million below projections. Public Laws of Maine 2009, Chapter 371, effective June 11, 2009, provided, however, that up to approximately $52 million of General Fund unappropriated surplus would be available to fund fiscal year 2009 appropriations in excess of revenues. Such $24 million, however, represented a shortfall in budgeted resources for fiscal year 2010 which was addressed by 2009 Chapter 571.

In order to begin to address the decline in revenues for fiscal year 2010, the Governor issued an Executive Order on November 20, 2009, curtailing spending by State agencies in fiscal year 2010 by approximately $63 million. This Executive Order was issued in anticipation of the release of the Revenue Forecasting Committee's December 2009 report, which adjusted General Fund revenues downward by almost $384 million for the 2010-2011 biennium. Curtailment is a temporary measure, serving to reduce the rate of spending until a supplemental budget is enacted to address the projected revenue decline. A curtailment maximizes the time available in the current fiscal year to achieve the required spending reductions, thus softening the impact of spending reductions to the greatest extent possible. For additional information regarding curtailment of allotments, see "Fiscal Management – Overview of the Budget Process."

The Governor prepared supplemental budget recommendations to close the shortfall of approximately $408 million, along with certain vital requests for spending increases. The supplemental budget recommendations were submitted to the Legislature for consideration on December 18, 2009 and legislative hearings on the proposal began in early January 2010.

On March 30, 2010, the Legislature enacted a supplemental budget based on the Governor's recommendations; the Governor signed that budget into law the same day. The law – 2009 Chapter 571 – amends the 2010-2011 biennial budget enacted in the spring of 2009, 2009 Chapter 213. The impact of this supplemental budget is described in the following section.

On March 1, 2010, the Revenue Forecasting Committee issued a regularly scheduled updated forecast. As noted in "Revenue Forecasting - Fiscal Year 2010 Reports" above, the March report reflected an upward adjustment to General Fund revenue of approximately $29.8 million in fiscal year 2010 and $21.1 million in fiscal year 2011.

As of April 30, 2010, revenues were slightly outperforming the March forecast and exceeded budgeted revenue by approximately $33,000,000. This better-than-projected performance is primarily due to continuing improvements in corporate income tax revenues, as well as lower than anticipated individual income tax returns. Revenue from the sales tax reported in April (reflecting March sales) document the first improvements in this category in more than a year. It is anticipated that the State will close fiscal year 2010 with an unappropriated surplus of between $30,000,000 and $35,000,000.

In addition, discussions at the federal level regarding the extension of the enhanced Federal Medical Assistance Percentages provided to states in the American Recovery and Reinvestment Act of 2009, enacted February 17, 2009 ("ARRA"), led to the inclusion of a six-month extension provision in the US Senate version of the so-called second "jobs bill." Such an extension would make substantial additional federal funding available to the State and allow General Fund resources that would otherwise be required to maintain the status quo in the Medicaid program to be used for other purposes. The supplemental budget, 2009 Chapter 571, assumes the receipt of approximately $85 million in additional federal Medicaid matching dollars associated with such extension of the ARRA enhanced Medicaid match for states, but also provides that if such extension is not enacted by July 1, 2010 the Governor must begin to implement the authority to curtail an equal amount of General Fund allotments to take effect no later than October 1, 2010.

Finally, pursuant to 2009 Chapter 213, the Legislature's Joint Standing Committee on Appropriations and Financial Affairs (the "Appropriations Committee"), during the first several months of fiscal year 2010, developed recommendations for strategies to improve organizational structures and improve alignment of functions and assess the ongoing need for each program of State government. On December 18, 2009, the Appropriations Committee voted out its recommendations for more than $30 million in General Fund savings. These recommendations represent additional spending reductions, over and above those included in the Governor's supplemental budget recommendations, and were incorporated in Public Laws of Maine 2009, Chapter 462 which took effect on January 21, 2010 ("2009 Chapter 462").

As a result of funds made available through the ARRA, the State has received a significant increase in federal aid for certain programs in fiscal years 2009 and 2010 and anticipates additional aid in fiscal year 2011. The State expects to receive an aggregate amount of approximately $2 billion of such funds flowing through State government over the course of the period in which such funds will be available. Of the funds received and currently expected to be received by the State, $193.5 million is designated as State fiscal stabilization funds and approximately $334 million is being allocated to the State's Medicaid program.

As described in this Official Statement, the recent and continuing adverse economic and fiscal circumstances and corresponding decreases in revenues have led to adjustments to the budgets for fiscal years 2009, 2010 and 2011 in order to maintain balanced budgets for those years. The budget adjustments have included a number of one-time measures, such as the use of reserves, which will not be available to address future budget needs. In addition, it is foreseeable that additional adjustments to the budget for fiscal year 2011 may be necessary.

Furthermore, in light of the recent adverse economic and fiscal circumstances and the expected end of ARRA funding in fiscal year 2011, significant budget deficits are expected for the years following fiscal year 2011 and additional significant adjustments to both revenues and expenditures will likely be necessary for the adoption of balanced budgets for the years following fiscal year 2011. The State cannot now predict what adjustments, if any, will be made to the fiscal year 2011 budget or the outcome of the budget process for the years following fiscal year 2011.

CERTAIN EXPENDITURES AND OBLIGATIONS

General Fund Expenditures

2009 Chapter 213, as amended by 2009 Chapter 571, authorizes total General Fund expenditures for fiscal years 2010 and 2011 that will be approximately 9.8% lower, on a budgetary basis, than those for fiscal years 2008 and 2009.

The following table sets forth, by certain major categories, General Fund expenditures set forth in 2009 Chapter 213, the budget for fiscal years 2010 and 2011, as amended by the supplemental General Fund budget, 2009 Chapter 571.

	2010	**2011**
Governmental Support and Operations	$ 247,383,995	$ 229,442,578
Economic Development & Workforce Training	35,771,181	35,379,600
Education	1,412,354,335	1,395,758,072
Arts, Heritage & Cultural Enrichment	7,509,135	7,440,837
Natural Resources Development & Protection	68,783,521	68,459,658
Health & Human Services	798,368,764	686,255,725
Justice & Protection	279,056,992	273,630,264
Total	$2,849,227,923	$2,696,366,734

The supplemental budget lowers General Fund expenditures for fiscal years 2010 and 2011 to approximately $5.5 billion. Of the $5.5 billion total, 50.6% is attributable to education, 26.8% is attributable to health and human services inclusive of Medicaid and 22.6% is attributable to other purposes of State government.

For additional information regarding General Fund expenditures during fiscal years 2005 through 2009, and for information regarding Highway Fund expenditures during fiscal years 2005 through 2009, see Appendices 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.

The Governor's Executive Order issued in November 2009 included curtailment of State spending for K-12 Education in the amount of approximately $38.1 million. The supplemental General Fund budget, 2009 Chapter 571, includes a reduction in baseline funding for GPA in fiscal year 2010 in an amount equal to this curtailment and it also includes a reduction in GPA funding for fiscal year 2011 of approximately $9 million. These reductions do not violate the "maintenance of effort" requirements of ARRA.

With the enactment of the supplemental budget, 2009 Chapter 571, GPA is approximately 46.2% of the total State and local cost of K-12 education in fiscal years 2010 and 2011. The State General Fund contribution will be approximately $909.1 million in fiscal year 2010 and approximately $878.2 million in fiscal year 2011, totaling approximately $1,787,300,000 for the 2010-2011 biennium. The balance of the government payments will be derived from ARRA monies awarded to the State for K-12 Education and will add approximately $102 million over the course of the 2010-2011 biennium. Total payments by the State to local school districts (including ARRA monies) will comprise 49.52% of the total cost of Essential Program and Services in fiscal year 2010 and 48% in fiscal year 2011.

Health and Human Services Funding

After education, spending on health and human services and programs comprises the second most significant area of expenditure, at approximately 26.8% of General Fund appropriations for the 2010-2011 biennium. Furthermore, General Fund expenditures for the State's Medicaid program, MaineCare, are the largest, and are approximately 55% 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. 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.

Continuing revenue declines, recently promulgated changes in federal Medicaid rules and an increasing demand for coverage and services have resulted in a substantial curtailment of spending within Maine's health and human services, including MaineCare. Authorized expenditures for these programs declined between the 2008-09 biennium and the 2010-11 biennium, reflecting the projected continued revenue decline. As a first priority, spending reductions were targeted to State-funded grant programs, thereby minimizing loss of available funds by avoiding loss of federal matching dollars. While these reductions do result in a loss of services to certain individuals, persons affected are not Medicaid eligible.

The enactment of ARRA has provided a substantial infusion of federal funds into Maine's Medicaid program which are primarily in the form of enhanced federal matching dollars. This funding will assist the State in meeting the increases in demand for MaineCare services occurring as a result of the economic downturn and in redeploying some General Fund resources to provide more timely payment of MaineCare settlements to Maine hospitals, helping to ensure those facilities are able to retain employees, avoid further job losses and maintain the spectrum of services required by residents, particularly in rural areas of the State. As noted elsewhere, the supplemental budget, 2009 Chapter 571, also anticipates the infusion of approximately $85 million in additional federal Medicaid matching dollars associated with the extension of the ARRA enhanced Medicaid match for states, although this provision has not yet been enacted by Congress.

Additional stimulus savings to Medicaid associated with a recent change in regulatory interpretation by the federal Centers for Medicare and Medicaid Services were recognized in the supplemental budget. These savings relate to the availability of enhanced Medicaid matching funds to state payments for Medicare Part D ("clawback" payments), which have a retroactive application reaching back to the fourth quarter of fiscal year 2009. These funds total approximately $22 million in fiscal year 2010 and $17.8 million in fiscal year 2011.

The supplemental budget, 2009 Chapter 571, includes net reductions to the General Fund budget of the Department of Health and Human Services of approximately $150 million. As noted above, spending reductions were first focused on State-funded grant programs, although they include some reductions in Medicaid provider reimbursement rates as well as certain reductions in services covered. No reductions in Medicaid eligibility have been proposed, thereby ensuring compliance with ARRA maintenance of effort requirements.

Under 2009 Chapter 213, section KK-2, the State is authorized to advance up to $25 million from the General Fund to the Dirigo Health Enterprise Fund (the "Dirigo Fund"), which had experienced funding shortfalls that resulted in a negative cash and equity position at the close of fiscal year 2009. This advance must be paid back to the General Fund with interest by June 30, 2010. As of April 30, 2010, the outstanding amount of the advance to the Dirigo Fund was $10.5 million. Public Laws of Maine 2009, Chapter 359, effective October 1, 2009, changed the method of funding for Dirigo to a structure in which health insurance carriers are required to pay an access fee of 2.14% on all paid claims, except claims under personal injury, specified disease, hospital indemnity, dental, vision, disability income, long-term care, Medicare supplement or other limited benefit health insurance. The new law was effective for claims paid by insurance companies on or after September 1, 2009. The first month that the new revenue stream was due was October 2009.

Debts of the State

As of April 30, 2010, there were outstanding general obligation bonds of the State in the principal amount of $500,450,000, including the principal amount of $380,830,000 to be paid from the General Fund and the principal amount of $119,620,000 to be paid from the Highway Fund. As of the date hereof, there are outstanding bond anticipation notes of the State in the principal amount of $42,245,000 ($41,245,000 sold publicly and $1,000,000 borrowed internally from the cash pool) which mature June 15, 2010. Debt service requirements to maturity for the outstanding general obligation bonds are set forth in Appendix D herein.

As of the date hereof, there are no outstanding tax anticipation notes of the State. As of the date hereof, the State has used interfund borrowings from the State investment pool in the amount of $190,000,000 to satisfy its fiscal year 2010 cash flow needs. Interfund borrowings from the State investment pool are expected in fiscal year 2011. Additional external borrowing may be needed. The amount budgeted to be borrowed externally in fiscal year 2011 is not currently expected to exceed $272,000,000. 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.

Immediately after delivery of the Bonds, there will be indebtedness authorized by the voters of the State for certain purposes, but unissued as either bonds or notes, in the aggregate principal amount of $95,605,334. As of the date hereof, the aggregate principal amount of bonds of the State authorized by the Constitution and implementing legislation for certain purposes, but unissued, is $99,000,000. See "Fiscal Management – Constitutional Debt Limit" and "Certain Public Instrumentalities – Finance Authority of Maine" and "– Maine State Housing Authority" herein.

Other than the Bonds, the State does not expect to issue any additional notes or bonds during the fiscal year ending June 30, 2010. For additional information concerning long-term debts of the State, see Appendix D hereto.

Bond Authorizations Subject to Voter Approval

Public Laws of Maine 2009, Chapter 414, effective June 16, 2009 ("2009 Chapter 414"), and Public Laws of Maine 2009, Chapter 645, effective April 12, 2010 ("2009 Chapter 645"), authorize the Treasurer of State, under the direction of the Governor, to issue general obligation bonds of the State not exceeding the following amounts and for the following purposes, provided that a majority of the voters of the State voting in elections to be held in June, 2010 and November, 2010 have approved each amount and the corresponding purposes set forth below. 2009 Chapter 645 modified some of the authorizations set forth in 2009 Chapter 414, enacted authorizations in addition to those set forth in 2009 Chapter 414 and increased the total amount of authorizations to be considered by the voters in such elections by $44,300,000.

Amounts	Purposes	Election Dates
$47,800,000	Purchase and repair rail lines; marine-related improvements, including a deep water pier and grants for small harbors	June, 2010
23,750,000	Capital investment to stimulate economic development and job creation by making investments under the Communities for Maine's Future Program and in historic properties; funding for research and development investments; funding for disbursements to qualifying small businesses; and grants for food processing for fishing, agricultural, dairy and lumbering businesses within the State and redevelopment projects at the Brunswick Naval Air Station	June, 2010
10,250,000	Improvements to water quality, support drinking water programs and the construction of wastewater treatment facilities	June, 2010
26,500,000	Energy and infrastructure upgrades at campuses of the University of Maine System, the Maine Community College System and the Maine Maritime Academy; research, development and product innovation for wind energy demonstration sites	June, 2010
9,750,000	Investments in land conservation and working waterfront preservation and to preserve state parks	November, 2010
5,000,000	Community-based teaching dental clinic and creation or upgrade of community-based health and dental care clinics	November, 2010
$123,050,000	Total	

Lease Financing Agreements

From time to time, the State enters into lease agreements for the purpose of acquiring or financing capital equipment and buildings. A lease agreement is secured solely by the equipment or building which is the subject of such agreement and is not a pledge of the full faith and credit of the State. Lease payment obligations are subject to appropriation by the Legislature. In certain instances, the State has issued certificates of participation in the lease payments to be made pursuant to certain lease agreements. As of March 31, 2010, the aggregate principal amount of such lease obligations outstanding was $45,393,308. For additional information regarding such lease agreements, see

Appendix D hereto. For information regarding rental payments to be made by the State, subject to appropriation, to the Maine Governmental Facilities Authority, see "CERTAIN PUBLIC INSTRUMENTALITIES - Maine Governmental Facilities Authority."

Retirement Obligations

The Maine Public Employees Retirement System was established as of July 1, 1942 to administer retirement plans for State employees. The System's coverage was extended as of July 1, 1947 to include the State's public school teachers. The System became an independent agency pursuant to legislation that took effect on July 1, 1993. For additional information about the System, including, in particular, the principal actuarial assumptions used in determining the State's annual contributions as well as the funded status and funding progress of the State plans, information regarding the State's net pension obligation to the System and certain other related information, see Note 9 of the State's financial statements on pages B-59 – 63 and B-97 – B-99 hereof and the System's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009 available at http://www.mainepers.org/.

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

On June 30, 2009, the System's State employee and teacher defined benefit plan membership, for actuarial purposes, was comprised of approximately 40,486 active members, 6,599 terminated vested members and 25,544 retirees and surviving beneficiaries. The defined benefit plan covering the State's judges had, at June 30, 2009, 57 active members, one terminated vested member and 53 retirees and surviving beneficiaries. At the same date, the defined benefit plan covering the State's legislators had 172 active members, 80 terminated vested members and 130 retirees and surviving beneficiaries. As of June 30, 2009, 279 PLD's participated in the Maine Public Employees Retirement System. The State itself has no retirement obligations to the PLD's or to their covered employees. As of June 30, 2009, the System's group life insurance plan, for actuarial purposes, was comprised of approximately 34,031 active members and 14,918 retirees, which includes 5,945 PLD active members and 2,254 PLD retirees.

Retirement, disability and death benefits provided by the System are financed by employee contributions as set by statute and by employer contributions determined on an actuarial basis. An actuarial valuation is prepared biennially in even years for each of the State's three defined benefit plans to determine the State's employer contribution requirements. For State employees and teachers, the State's annual required contribution (the "ARC") is comprised of the normal cost contribution plus the payment required to amortize the plan's unfunded actuarial liability. As of June 30, 2009, the actuarial value of assets of the plans for State employees, including members of the judicial and legislative plans, and teachers was $8,383,147,465 and the actuarial accrued liability was $12,377,262,461, resulting in an unfunded accrued actuarial liability of $3,994,114,996 and a funded ratio of approximately 67.7%. As of June 30, 2009, 19 years remained in the current amortization period for the unfunded liability. The judicial retirement plan had an unfunded liability of $2,064,976 at June 30, 2009. The legislative retirement plan had an actuarial surplus of $3,218,076 at June 30, 2009.

The State has generally funded its ARC for state employees and teachers, although actual contributions in the past have, in some cases, been less than the ARC and in other cases exceeded the ARC. As of June 30, 2009, the State had a net pension obligation to the System of $18,881,092. 2009 Chapter 213 fully funds the projected ARC for State employees and teachers for the current biennium.

The ARC proposed to be funded in the 2010-2011 biennial budget is based upon an actuarial valuation as of June 30, 2008 prepared by Cheiron. The valuation and the resulting calculation of the ARC is based upon a number of actuarial assumptions relating to various factors such as investment rate of return, projected salary increases, inflation assumptions, cost of living adjustments and mortality experience. To the extent the State's actual experience varies from these assumptions, the resulting funded status of the plans and the ARC for future years may be adversely affected.

The June 30, 2008 valuation projected that State contributions would increase from $288,146,000 in fiscal year 2009 to $437,520,000 in fiscal year 2018. The adverse market performance since June 30, 2008 will result in greater annual increases in the ARC, absent significant offsetting changes in other variables that affect the calculation of the ARC. The State anticipates significant increases in the ARC will occur after fiscal year 2011 but it cannot now predict the actual increases, as they are dependent upon many different factors, including both the market value and actuarial value of assets, the experience of the members and beneficiaries of the System and the actual employer contributions made by the State.

For example, the June 30, 2008 valuation did not take into account the substantially adverse financial market conditions that have occurred since June 30, 2008. The valuation assumed an annual rate of return on investments of 7.75%, subject to the use of a 3-year smoothing methodology to offset the volatility of market values. The following table shows the estimated market values as of the dates shown of the System's assets allocable to the State employee and teacher plans (unaudited and subject to change), in each case as compared to the June 30, 2008 market value of $8,311,970,624.

Date	Market Value	$ Increase / (Decrease)	Percentage Change
June 30, 2008	$8,311,970,624	-	-
April 30, 2009	6,294,078,372	$(2,017,892,252)	(24.28%)
June 30, 2009	6,620,849,642	(1,691,120,982)	(20.35%)
September 30, 2009	7,293,656,250	(1,018,314,374)	(12.25%)
December 31, 2009	7,503,836,000	(808,134,624)	(9.72%)
April 30, 2010	7,727,845,000	(584,125,624)	(7.03%)

The June 30, 2009 actuarial information set forth above is based upon an interim valuation only and the actuarial valuation as of June 30, 2010 will be used to determine the ARC for the 2012-2013 biennium. Neither the State nor the System can currently predict what the June 30, 2010 valuation will be or its impact on the ARC for the 2012-2013 biennium or later years.

Group life insurance benefits provided by the System are funded by premiums paid by employers and participants and by investment returns on reserves. As of June 30, 2009, the unfunded actuarial liability of the plan, excluding the unfunded liabilities attributable to PLD's, for which the State itself has no obligations, was approximately $87,400,000.

The actuarial balance sheet for the plan covering State employees and public school teachers from the June 30, 2008 valuation is set forth in Appendix E hereto. Also set forth in Appendix E hereto are the actuarial balance sheets for the judicial and legislative plans and for the group life insurance plan from the June 30, 2008 valuations of these plans.

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 cost of their respective plans.

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 who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2009, 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. 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.

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 employer's ARC, which is 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 2009 and the related information for each plan are as follows:

(Expressed in Thousands)	State Employees	Teachers	First Responders
Annual required contribution	$ 77,000	$ 60,000	$ 1,074
Interest on net OPEB obligation (asset)	(2,000)	1,000	47
Adjustment to annual required contribution	2,000	(1,000)	(76)
Annual OPEB cost	$ 77,000	$ 60,000	$ 1,045
Contributions made	50,384	18,387	257
Increase (decrease) in net healthcare obligation	26,616	41,613	788
Net healthcare obligation (asset) beginning of year	(55,388)	28,343	1,045
Net healthcare (asset) end of year	$ (28,772)		
Net healthcare obligation end of year		$ 69,956	$ 1,833

As of June 30, 2009, there were 8,772 retired eligible State employees, 9,201 retired teachers, and 69 retired first responders. In fiscal year 2009, the State made contributions for other post-employment benefits of $50.4 million for retired employees and $18.4 million for retired teachers.

The funded status of the plans as of June 30, 2009 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)
State Employees (in millions)	June 30, 2009	82	$ 1,311	$ 1,229	6.25%	$ 595	206.55%
	June 30, 2008	98	$ 1,242	$ 1,144	7.89%	$ 568	201.41%
Teachers (in millions)	June 30, 2009	0	$ 994	$ 994	0.00%	$ 1,215	85.93%
	June 30, 2008	0	$ 1,044	$ 1,044	0.00%	$ 1,160	85.69%
First Responders (in thousands)	June 30, 2009	0	$ 20,063	$ 20,063	0.00%	$ 51,876	38.67%
	June 30, 2008	0	$ 19,806	$ 19,806	0.00%	$ 51,021	38.82%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and 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. The State made an initial funding of this trust fund of $100 million in fiscal year 2008. A revised actuarial study was completed February 10, 2009 and a roll-forward actuarial valuation was completed December 1, 2009. No more recent study is available.

Employee Relations

As of April 30, 2010, the State had approximately 12,999 Executive Branch employees.

The State Employees Labor Relations Act allows State employees in the Executive Branch to engage in collective bargaining. As of April 15, 2010, approximately 11,769 employees were covered by the law. The Maine State Employees Association is the bargaining agent for four bargaining units which include approximately 9,678 employees. The American Federation of State, County, and Municipal Employees, AFL-CIO, represents the employees in State institutions, the Maine State Law Enforcement Association represents those in law enforcement activities excluding State Police and the Maine State Troopers Association 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. There are seven bargaining units within the Executive Branch. The current contracts with such units expire June 30, 2011.

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

Interfund Transactions

Due to Other Funds are amounts owed by one State fund to another for goods sold or services rendered. Due from Other Funds are amounts to be received from one State fund by another for goods sold or services rendered. The following is a summary of amounts due from other funds and due to other funds as of June 30, 2009:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal Fund**	**Other Special Revenue**	**Other Governmental**
General	$ 2,238	$ -	$ 2,287	$ -	$ 27
Highway	218	1	2,431	1	-
Federal	9,058	43	368	2,135	-
Other Special Revenue	17,495	370	634	582	-
Other Governmental	159	-	-	-	-
Employment Security	-	-	25	-	-
Non-Major Enterprise	98	47	357	4	-
Internal Service	18,677	1,948	1,941	2,023	-
Fiduciary	16,944	-	-	-	-
Total	$ 64,887	$ 2,409	$ 8,043	$ 4,745	$ 27

Due from Other Funds	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ 19,083	$ 14,038	$ 5,648	$ 43,321
Highway	-	222	-	2,873
Federal	-	4,435	-	16,039
Other Special Revenue	27	351	-	19,459
Other Governmental	-	-	-	159
Employment Security	-	-	-	25
Non-Major Enterprise	-	36	-	542
Internal Service	243	21,093	15	45,940
Fiduciary	-	-	-	16,944
Total	$ 19,353	$ 40,175	$ 5,663	$ 145,302

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, 2009:

Schedule of Advances to or from Other Funds
June 30, 2009

(Dollars in Thousands)

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

REVENUES OF THE STATE

General

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

Revenues for April 2010 totaled $344.6 million, over budget by $2.5 million (0.7%); year to date revenues are over budget $33.0 million (1.6%). Individual Income Tax was under budget by $10.4 million (4.8%) for the month, and $245 thousand (0.0%) under budget year to date. Sales and Service Provider Taxes, combined, were over budget for the month by $5.5 million (8.1%), and over budget by $5.5 million (0.8%) year to date. Corporate Tax revenues were $4.6 million (33.8%) over budget for the month and $15.5 million (12.6%) over budget year to date. Estate Taxes were over budget by $600 thousand (26.7%) for the month and $2.8 million (13.5%) over budget for the year. Tobacco Taxes were $380 thousand (3.2%) over budget for the month, and over budget by $5.3 million (4.6%) year to date. Insurance Companies Tax was over budget by $3.0 million (31.9%) for the month and over budget by $5.0 million (13.8%) year to date. Fines, Forfeits and Penalties were $502 thousand (19.1%) under budget for the month, and $22 thousand (0.1%) over budget year to date. Lottery income was under projections by $27 thousand (0.7%) for the month, and over projections by $1.5 million (3.7%) for the year. Transfers for Tax Relief were under projections by $227 thousand (10.8%) for the month, and $4 thousand (0.0%) under projections for the year. Other Taxes and Fees were over budget by $1.3 million (14.9%) for the month, and were under budget by $264 thousand (0.2%) for the year. "Other Revenues" were under budget for the month by $728 thousand (6.7%), and under budget by $1.0 million (3.2%) for the year.

As previously described in this Official Statement, adverse economic and fiscal circumstances necessitated ongoing adjustments to the budget for fiscal year 2010. 2009 Chapter 462 amended 2009 Chapter 213, the budget in effect at the beginning of fiscal year 2010, to reflect the approximately $30 million in General Fund budget reductions identified by the Appropriations Committee in accordance with the directive set out in 2009 Chapter 213, Part QQQ. 2009 Chapter 571 further amends 2009 Chapter 213, based on the changes in revenues projected in the December 2009 and March 2010 reports of the Revenue Forecasting Committee. See "State Budgets" herein, as well as "Fiscal Management – Revenue Forecasting – Fiscal Year 2010 Reports" above. The following table shows budgeted revenues by category at the beginning of fiscal year 2010 as adjusted to reflect the December 2009 and March

2010 revenue forecasts and budgeted revenues as modified by the supplemental budget, 2009 Chapter 571. The figures in the left column differ slightly from the March 2010 Revenue Forecasting Committee totals because of the emergency miscellaneous laws enacted in 2010 which are included in the totals in the right column.

CATEGORY	FISCAL YEAR 2010 BUDGET (2009 CHAPTER 213 INCL. RFC CHANGES)	FISCAL YEAR 2010 BUDGET (2009 CHAPTER 571 & MISC LAWS)
Sales and Use Tax	$883,839,994	$883,839,994
Service Provider Tax	55,590,852	55,590,852
Individual Income Tax	1,291,380,000	1,299,630,000
Corporate Income Tax	147,718,716	147,718,716
Cigarette and Tobacco Tax	140,139,902	140,139,902
Insurance Companies Tax	71,985,000	71,985,000
Estate Tax	29,593,253	29,593,253
Fines, Forfeits and Penalties	32,853,721	32,853,721
Income from Investments	103,246	103,246
Transfer from Lottery Commission	49,534,250	49,843,299
Transfer for Tax Relief Programs	(112,559,862)	(112,559,862)
Transfer to Municipal Revenue Sharing	(102,111,793)	(95,899,642)
Other Taxes and Fees	147,354,078	147,902,524
Other Revenues	41,640,403	42,264,386
Total Undedicated Revenues	**$2,677,062,360**	**$2,693,005,389**

Certain State Taxes

Individual Income Tax. The State assesses individual income taxes at progressive rates from 2% to 8.5%, based on classifications or brackets of taxable income, depending upon filing status and after specified deductions and exemptions. Taxable income of resident individuals is derived from federal adjusted gross income. The dollar amounts of the tax rate tables are indexed for inflation. For tax year 2009, the maximum rate applies to Maine taxable income of $40,350 or greater for married persons filing joint returns ($20,150 for single individuals and married persons filing separate returns and $30,250 for individuals filing as heads of households). A resident individual is allowed $2,850 for each exemption to which the individual is entitled for the tax year for federal income tax purposes. For resident taxpayers not itemizing deductions, the standard deduction is the same as the federal standard deduction of the taxpayer (the standard deduction for married joint filers does not conform to the recent federal marriage penalty relief adjustments), which is also indexed at the federal level. Nonresident Maine taxpayers are taxed in a similar fashion, but they are allowed a credit for their non-Maine sourced income.

Sales and Use Taxes. A sales tax is imposed on the value of all tangible personal property and taxable services sold at retail in the State. The rate of tax is 7% on the value of liquor sold in licensed establishments, 7% on the value of rental of living quarters in any hotel, rooming house, tourist or trailer camp, 10% on the value of rental for a period of less than one year of an automobile, 7% on the value of prepared food and 5% on the value of all other tangible personal property and taxable services.

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

No sales or use tax is imposed on sales, storage or use of certain tangible personal property. Some of the major exemptions are grocery staples (which do not include liquor, prepared food); prescription medicines; certain products used in agricultural and 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 $0.295 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 $0.307 per gallon of distillate. Low-energy fuel such as liquefied natural gas, propane, methane and butane is taxed at a rate based on the energy content of each fuel as compared to gasoline. Special fuels include all combustible gases and liquids used in an internal combustion engine, except fuel subject to the gasoline tax. Since 2003, motor fuel tax rates have been subject to indexing annually. Because there has been no increase in the applicable index, it is currently expected that there will not be any change of such rates in effect on the date hereof prior to July 1, 2011.

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.

Certain State Tax Legislation

General. As described below, Public Laws of Maine 2009, chapter 382, enacted in 2009 ("2009 Chapter 382") is intended to provide for several adjustments to the State's individual income and sales and use taxes. At the initiative of certain citizens of the State pursuant to the Constitution of the State, however, a question whether to repeal 2009 Chapter 382 will be placed before the voters of the State at the June 2010 election. Under the Constitution of the State, 2009 Chapter 382 does not take effect, if at all, until thirty days after the Governor has announced that such legislation has been ratified by the voters. As of the date hereof, the State estimates that, whether or not 2009 Chapter 382 becomes effective after the June 2010 election, there will be no material adverse effect on State revenues.

Individual Income Tax. Under the individual income tax, Chapter 382 makes no changes to Maine Adjusted Gross Income (MAGI), but it does eliminate the personal exemption and the standard/itemized deduction so that MAGI is equal to taxable income. The four individual income tax rates are repealed and replaced with a flat 6.5% rate and a surtax rate of 0.35% on taxable incomes above $250,000.

A new refundable household credit is enacted equal to $1,200 for joint filers ($700 for single filers and $1,050 for head of household filers) plus $250 for each exemption claimed on the return. The credit is phased out by $1.50 for every $1,000 that Maine taxable income exceeds $55,000 for a joint return ($27,500 for singles and $41,250 for head of household). The credit is refundable up to $70 for joint returns and $50 for all other returns. A refundable alternative household credit is available if the taxpayer chooses. The alternative household credit is equal to a base amount of $800 for joint filers ($400 for single filers and $600 for head of household filers) plus 5.5% of Maine itemized deductions up to a maximum of $2,300 ($1,150 for singles and $1,750 for head of household filers). The alternative household credit is increased by $250 for each exemption claimed as well. The phase-out rate and threshold applies to the alternative credit as well, and the credit is refundable up to the same amounts as the household credit.

Sales and Use Taxes. The sales and use tax changes in 2009 Chapter 382 include an increase in the meals and lodging rate from 7% to 8.5%, an increase in the tax rate on short-term auto rentals from 10% to 12% and an expansion of the sales tax base to include currently excluded services. Examples of services that will now be taxable are: amusement, entertainment and recreation services, installation, repair and maintenance services, personal property services, and transportation and courier services.

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.

Annual payments received by the State pursuant to the Settlement Agreement have ranged from approximately $63,000,000 in fiscal year 2000 to approximately $46,000,000 in fiscal year 2005. The State received $59,219,085 in fiscal year 2009 pursuant to the Settlement Agreement. The State projects that it will receive approximately $54,970,288 in fiscal year 2010 pursuant to the Settlement Agreement. As of April 30, 2010, the State had received approximately $53,132,290.

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 pursuing 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 pursuing similar arbitration seeking a determination of the amount to which they are entitled for previous years' tobacco settlement payments to their states.

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 $479,497,219 in fiscal year 2009. The balance of the State investment pool as of April 30, 2010 was approximately $556,000,000.

The State currently holds no commercial paper in its cash pool. More than 95% of cash pool holdings are currently collateralized with explicit federal guarantees, and approximately 4% are collateralized with implicit federal guarantees.

CERTAIN PUBLIC INSTRUMENTALITIES

Maine Governmental Facilities Authority

The Maine Governmental Facilities Authority is authorized to assist in financing the acquisition, construction, improvement, reconstruction or equipping of, or construction of an addition or additions to, structures designed for use as court facilities or state offices and the acquisition, construction, improvement, reconstruction or repair of equipment or other personal property, all of which are rented to agencies of the State. The Authority was created in 1987 and was known as the Maine Court Facilities Authority until 1997 when its name was changed and its purposes were broadened. Under current statutory limits, the Authority may not issue securities in excess of $325,485,000 outstanding at any one time except for the issuance of revenue refunding securities authorized by the Act and provided that no less than $136,000,000 shall be allocated to court facilities and provided further that no less than $85,000,000 shall be allocated to correctional facilities, no less than $33,000,000 shall be allocated to a psychiatric facility in Augusta and no less than $33,485,000 shall be allocated to capital repairs and improvements at various state facilities. No securities may be issued without the prior approval of the Legislature. Neither the faith and credit nor the taxing power of the State or of any political subdivision of the State is pledged to the payment of the principal of, redemption premium, if any, or interest on the Authority's bonds. The Authority has no taxing power. As of March 31, 2010, the aggregate principal amount of the Authority's bonds outstanding was $187,765,000. The State has agreed, subject to appropriation, to make rental payments to be applied to payment of the Authority's bonds. Debt service on the Authority's bonds for the State fiscal year ending June 30, 2010 is $17,130,000 and for the State fiscal year ending June 30, 2011 is $17,605,000.

Finance Authority of Maine

The Finance Authority of Maine was created in 1983 to undertake various economic development finance programs and to assume the responsibilities of several smaller state authorities. The Authority is currently authorized to insure repayment of commercial loans and to require the State to fund the Authority's insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations and bonds of the State issued to fund insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of $90,000,000 plus an additional $4,000,000 with respect to loans for eligible veterans. As of March 31, 2010, amounts outstanding pursuant to these authorizations were $42,036,000 and $745,000 respectively. See "FISCAL MANAGEMENT - Constitutional Debt Limit" herein. Since the creation of the Authority in 1983, the Treasurer of State has not been asked by the Authority to issue bonds of the State to pay off defaulted loans insured by the Authority pursuant to these authorizations.

In 1990, the Authority was authorized to provide certain student financial assistance services, including continuation of a student loan insurance program meeting certain federal requirements in order to secure loans to students attending institutions of higher education. Pursuant to this authorization, the Authority has entered into agreements with the United States Secretary of Education relating to federal, state and private programs of low-interest insured loans to students in institutions of higher education. The Constitution allows the Legislature to authorize the issuance of bonds in the amount of up to $4,000,000 to secure funds for loans to Maine students attending institutions of higher education. As of March 31, 2010, the student loan insurance obligations of the Authority were $1,020,791,000. 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.

In addition, the Authority may issue bonds and other obligations which shall not be a debt or liability of any municipality, the State or any political subdivision thereof. The statutes governing the Authority include Capital Reserve Provisions. As of March 31, 2010, the aggregate principal amount outstanding of the Authority's obligations undertaken pursuant to the Authority's Capital Reserve Provisions was $14,480,000 for electric rate stabilization projects, $14,495,000 for waste motor oil disposal site remediation projects, and $19,796,000 for other projects. The State has not been asked to restore the Authority's Capital Reserve since the inception of the Authority's Capital Reserve Provision. See "GOVERNMENTAL ORGANIZATION - Independent Authorities and Agencies" herein.

Maine State Housing Authority

The Maine State Housing Authority was created in 1969 to undertake various programs related to housing. The bonds and other obligations of the Authority shall not be a debt of any municipality, the State or any political subdivision thereof and neither the State nor any municipality nor any political subdivision thereof shall be liable thereon. As of March 31, 2010, the aggregate principal amount of the Authority's bonds and notes outstanding was approximately $1,449,410,000. The statutes governing the Authority include Capital Reserve Provisions. The State has not been asked to restore the Authority's

Capital Reserves since the inception of the Authority's Capital Reserve Provisions. See "GOVERNMENTAL ORGANIZATION -Independent Authorities and Agencies" herein.

The Authority is also authorized to insure repayment of mortgage loans on Indian housing and to require the State to fund the Authority's insurance obligations, from proceeds of bonds of the State or from other sources, provided that insurance obligations shall not exceed in the aggregate at any one time outstanding the principal amount of $1,000,000. As of March 31, 2010, the Authority's Indian housing mortgage insurance obligations were approximately $468,614. See "FISCAL MANAGEMENT – Constitutional Debt Limit" herein.

Maine Municipal Bond Bank

The Maine Municipal Bond Bank was created in 1972 to lend money to counties, cities, towns, school administrative districts, community school districts, and quasi-municipal corporations to finance certain capital expenditures (the "Original Program"). Bonds and notes issued by the Bond Bank shall not be in any way a debt or liability of the State and shall not create any debt or debts, liability or liabilities, on behalf of the State or be or constitute a pledge of the full faith and credit of the State. As of March 31, 2010, the aggregate principal amount of the Bond Bank's bonds outstanding was $1,052,385,000 of which (a) $51,245,000 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) $75,550,000 is attributable to certain grant anticipation bonds payable solely from annual federal highway grants to the State, (c) $183,035,000 is attributable to certain transportation revenue bonds payable solely from certain State revenues and (d) substantially all of the balance is attributable to the Original Program. The statutes governing the Bond Bank include Capital Reserve Provisions. The State has not been asked to restore the Bond Bank's Capital Reserves since the inception of the Bond Bank's Capital Reserve Provisions. See "GOVERNMENTAL ORGANIZATION – Independent Authorities and Agencies" herein.

Maine Health and Higher Educational Facilities Authority

The Maine Health and Higher Educational Facilities Authority was created in 1971 to provide the means to expand, enlarge and establish health care, hospital, nursing home and other related facilities and to assist institutions of higher education in the State to provide facilities and structures. Bonds and notes issued by the Authority do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or any political subdivision thereof other than the Authority or a loan of credit of the State or a pledge of the faith and credit of the State or of any political subdivision other than the Authority. As of March 31, 2010, the aggregate principal amount of the Authority's bonds outstanding was $1,436,625,000. The statutes governing the Authority include a Capital Reserve Provision. The State has not been asked to restore the Authority's Capital Reserve since the inception of the Authority's Capital Reserve Provision. See "GOVERNMENTAL ORGANIZATION - Independent Authorities and Agencies" herein.

Maine Educational Loan Authority

The Maine Educational Loan Authority was established in 1988 to carry out programs making financial and other assistance available to students and their parents to finance costs of attendance at institutions of higher education. Bonds of the Authority do not constitute or create any debt or debts, liability or liabilities, on behalf of the State or of any political subdivision of the State, other than the Authority, or a loan of the credit of the State or a pledge of the faith and credit of the State or of any political subdivision, other than the Authority. As of March 31, 2010, the aggregate principal amount of the Authority's bonds outstanding was $210,000,000. The statutes governing the Authority include a

Capital Reserve Provision. The State has not been asked to restore the Authority's Capital Reserve since the inception of the Authority's Capital Reserve Provision. See "GOVERNMENTAL ORGANIZATION - Independent Authorities and Agencies" herein.

Loring Development Authority

Loring Development Authority was established in 1993 to acquire and manage the former Loring Air Force Base in northern Maine. Bonds of the Authority are payable solely from the income, proceeds, revenues and funds of the Authority and do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. As of March 31, 2010, the Authority had not issued any bonds. The statutes governing the Authority include a Capital Reserve Provision. See "GOVERNMENTAL ORGANIZATION - Independent Authorities and Agencies" herein.

University of Maine System

The University of Maine System (the "System") includes the University of Maine, established in 1865, and all other public institutions of higher education in Maine, except the Maine Maritime Academy and the seven colleges of the Maine Community College System. Money borrowed by the System and evidences of indebtedness issued by the System do not constitute any debt or liability of the State or of any municipality or political subdivision of the State, but shall be payable solely from the revenues of the System or any project for which they are issued. As of March 31, 2010, the aggregate principal amount of the System's bonds outstanding was $198,115,000.

Maine Turnpike Authority

The Maine Turnpike Authority was created in 1941 and has constructed and operates and maintains a turnpike approximately 109 miles long between York and Augusta. Bonds issued by the Authority shall not be deemed to be a debt of the State, but such bonds shall be payable exclusively from tolls. The bonds shall not directly or indirectly or contingently obligate the State to levy or pledge any form of taxation whatever therefor or to make any appropriation for the payment thereof. As of March 31, 2010, the aggregate principal amount of the Authority's bonds outstanding was $408,645,000.

Maine Public Utility Financing Bank

The Maine Public Utility Financing Bank was created in 1981 to lend money to public utilities in the State. Bonds and notes issued by the Authority do not constitute a debt or liability of the State or of any municipality therein or any political subdivision thereof or a pledge of the faith and credit of the State or of any such municipality or political subdivision. As of March 31, 2010, the aggregate principal amount of the Bank's bonds outstanding was $22,600,000.

Maine Port Authority

The Maine Port Authority was established in 1945 and is authorized to acquire, construct and operate any kind of port terminal facility within the State and to acquire and construct any railroad facility within the State. Bonds of the Authority do not constitute a debt of the State, or of any agency or political subdivision thereof, but are payable solely from the revenues of the Authority, and neither the faith nor credit nor taxing power of the State, or any political subdivision thereof, is pledged to the payment of the Authority's bonds. As of March 31, 2010, there were no outstanding bonds of the Authority.

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 Appendix B hereto should be noted.

In addition, the following matters should be noted. The Center for Medicaid and Medicare Services ("CMS") has claimed a recoupment of federal financial reimbursement to the State for targeted case management services provided by the Maine Department of Health and Human Services, Office of Child and Family Services ("DHHS"), for the fiscal years 2003 and 2004. The amount of the recoupment claimed is approximately $29 million. DHHS appealed the recoupment to the federal Departmental Appeals Board and the appeal was denied. DHHS is considering an appeal to U. S. District Court.

In addition, L. L. Bean, Inc., pursuant to agreements with the State and pursuant to Maine statutes applicable to unclaimed property, has notified the State Treasurer that the State of New York has made a claim for the value of gift certificates previously paid to the State of Maine. L. L. Bean, Inc. has invoked Maine's obligation to defend and indemnify it against the claim of New York. The amount of the indemnity claimed is approximately $2.4 million.

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX B

Selected Financial Information Pertaining to the State of Maine for Fiscal Years 2005 through 2009

INDEX TO FINANCIAL INFORMATION

Section I - General Purpose Financial Statements of the State of Maine for the Year Ended June 30, 2009 **Page**

INDEX TO FINANCIAL INFORMATION

Section II - Certain Information from the State Controller's Budgetary and Legal Requirements Reports for Fiscal Years 2005 through 2009 (Unaudited) **Page**

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2009, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, Loring Development Authority, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine State Housing Authority, Maine Public Employees Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, Small Growth Enterprise Fund, and University of Maine System. We also did not audit the financial statements of the NextGen College Investing Plan. These financial statements reflect the following percentages of total assets and net assets or fund balance of the indicated opinion unit:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Net Assets/Fund Balance
Aggregate Discretely Presented Component Units	100%	100%
Aggregate Remaining Fund Information	95%	97%

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, a report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters will be issued under separate cover. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

As discussed in Note 3, the State has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and GASB No. 52, *Land and Other Real Estate Held as Investments by Endowments.*

The Management's Discussion and Analysis on pages 4 - 15 and budgetary comparison schedules and related notes, State Retirement Plan and Other Post-Employment Benefits Plans, Information About Infrastructure Assets Reported Using the Modified Approach, included on pages 102 - 113, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Neria R. Douglass, JD, CIA
State Auditor

December 23, 2009

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, 2009. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net assets decreased by 0.01 percent from the previous fiscal year, as restated. Net assets of Governmental Activities increased by $86.2 million, while net assets of Business-type Activities decreased by $86.6 million. The State's assets exceeded its liabilities by $4.2 billion at the close of fiscal year 2009. Component units reported net assets of $2.0 billion, an increase of $33.5 million (1.7 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 $202 million, an increase of $14 million from the previous year. The General Fund's total fund balance was a negative $273.4 million, a decline of $34.9 million from the previous year. The Highway Fund total fund balance was $34.9 million, an increase of $37 million from the prior year.

- The proprietary funds reported net assets at year end of $594.4 million, a decrease of $31.1 million from the previous year as restated. This decrease is due to several factors: an increase in the Retiree Health Insurance Fund of $40.9 million, an increase in the Dirigo Health Fund of $5.1 million, an increase in the Maine Military Fund of $4.4 million, an increase in the Alcoholic Beverages Fund of $12.5 million, and an increase in the Workers' Compensation Fund of $10.2 million, offset by a decrease in the Employment Security Fund of $109.8 million, and a decrease in the Employee Health Insurance Fund of $11.6 million,

Long-term Debt:

- The State's liability for general obligation bonds increased by $54.5 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $133.3 million in bonds and made principal payments of $79.2 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 7.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State of Maine's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Statements

The government-wide statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets are an indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both government-wide statements report three activities:

Governmental activities - Most basic services, such as health & human services, education, governmental support & operations, justice & protection, and transportation are included in this category. The Legislature, Judiciary and the general operations of the Executive departments fall within the Governmental Activities. Income taxes, sales and use taxes, and State and federal grants finance most of these activities.

Business-type activities - The State charges fees to customers to help cover all or most of the costs of certain services it provides. Operating costs not covered by customer fees are subsidized by the General Fund. Lottery tickets, transportation services, and the State's unemployment compensation services are examples of business-type activities.

Component units - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" one component unit, the Maine Governmental Facilities Authority (MGFA) with Governmental Activities as described above. Maine reports 15 other component units (6 major and 9 non-major) as discretely presented component units of the State, and one component unit is reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

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

- Capital assets used in governmental activities are not reported on governmental fund statements but are included on government-wide statements
- Certain tax revenues that are earned, but not available, are reported as revenues in the Governmental Activities, but are reported as deferred revenue on the governmental fund statements
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements
- Internal service funds are reported as Governmental Activities, but reported as proprietary funds in the fund financial statements
- Governmental fund long-term liabilities, such as certificates of participation, pension obligations, compensated absences, bonds and notes payable, and others appear as liabilities only in the government-wide statements
- Capital outlay spending results in capital assets on the government-wide statements, but is recorded as expenditures on the governmental fund statements
- Proceeds from bonds, notes and other long-term financing arrangements result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements

- Net asset balances are allocated as follows:

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

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

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

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the General Fund and major special revenue funds. Also included are notes and a reconciliation of fund balance from the budgetary basis to fund balance determined according to generally accepted accounting principles. This section also includes schedules of funding progress for certain pension 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 assets decreased by 0.01 percent (as restated) to $4.2 billion at June 30, 2009, as detailed in Tables A-1 and A-2.

Table A- 1: Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	**2008***	**2009**	**2008**	**2009**	**2008***
Current and other noncurrent assets	$ 1,901,420	$ 2,114,633	$ 410,353	$ 511,516	$ 2,311,773	$ 2,626,149
Capital assets	4,338,301	4,095,417	96,665	95,905	4,434,966	4,191,322
Total Assets	**6,239,721**	**6,210,050**	**507,018**	**607,421**	**6,746,739**	**6,817,471**
Current liabilities	1,419,356	1,602,289	42,720	44,095	1,462,076	1,646,384
Long-term liabilities	1,040,284	913,855	50,691	63,088	1,090,975	976,943
Total Liabilities	**2,459,640**	**2,516,144**	**93,411**	**107,183**	**2,553,051**	**2,623,327**
Net assets (deficit):						
Investment in capital assets, net of related debt	3,767,895	3,632,073	96,667	95,905	3,864,562	3,727,978
Restricted	162,240	200,888	383,970	493,733	546,210	694,621
Unrestricted (deficit)	(150,054)	(139,055)	(67,030)	(89,400)	(217,084)	(228,455)
Total Net Assets	**$ 3,780,081**	**$ 3,693,906**	**$ 413,607**	**$ 500,238**	**$ 4,193,688**	**$ 4,194,144**

*As Restated

Changes in Net Assets

The State's fiscal year 2009 revenues totaled $7.4 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 43.6 percent and 41.7 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 $7.4 billion for the year 2009. (See Table A-2) These expenses are predominantly (68.8 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 6.5 percent of total costs. Total net assets decreased by $456 thousand.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008*	2009	2008	2009	2008*
Revenues						
Program Revenues:						
Charges for Services	$ 452,597	$ 460,080	$ 482,911	$ 493,197	$ 935,508	$ 953,277
Operating Grants/Contributions	3,081,827	2,559,533	20,170	22,950	3,101,997	2,582,483
Capital Grants/Contributions	-	-	-	-	-	-
General Revenues:						
Taxes	3,245,180	3,512,767	-	-	3,245,180	3,512,767
Other	159,276	198,263	-	2	159,276	198,265
Total Revenues	6,938,880	6,730,643	503,081	516,149	7,441,961	7,246,792
Expenses						
Governmental Activities:						
Governmental Support	484,127	541,338			484,127	541,338
Education	1,689,036	1,669,353			1,689,036	1,669,353
Health & Human Services	3,428,680	3,290,482			3,428,680	3,290,482
Justice & Protection	419,027	407,879			419,027	407,879
Transportation Safety	301,355	329,914			301,355	329,914
Other	534,032	412,007			534,032	412,007
Interest	40,148	35,524			40,148	35,524
Business-Type Activities:						
Employment Security			225,181	122,518	225,181	122,518
Lottery			163,030	178,419	163,030	178,419
Military Equip. Maint.			71,380	80,306	71,380	80,306
Dirigo Health			58,861	76,860	58,861	76,860
Other			27,560	25,322	27,560	25,322
Total Expenses	6,896,405	6,686,497	546,012	483,425	7,442,417	7,169,922
Excess (Deficiency) before Special Items and Transfers	42,475	44,146	(42,931)	32,724	(456)	76,870
Special Items	-	(100,000)	-	-	-	(100,000)
Transfers	43,700	38,470	(43,700)	(38,470)	-	-
Increase (Decrease) in Net Assets	86,175	(17,384)	(86,631)	(5,746)	(456)	(23,130)
Net Assets, beginning of year	3,693,906	3,711,290	500,238	505,984	4,194,144	4,217,274
Ending Net Assets	$ 3,780,081	$ 3,693,906	$ 413,607	$ 500,238	$ 4,193,688	$ 4,194,144

*As Restated

Governmental Activities

Revenues for the State's Governmental Activities totaled $6.94 billion while total expenses equaled $6.90 billion. The increase in net assets for Governmental Activities was $86.2 million in 2009. This is due, primarily, to a decrease in General Fund expenditures resulting from participation in the federal American Recovery and Reinvestment Act of 2009. Additionally, program revenues were insufficient to cover program expenses. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes. Tax revenue decreased by $267.6 million from the prior year, however net expenses supported by tax revenue also decreased by approximately $304.9 million. Furthermore, the State's Business-type Activities transferred $43.7 million (net) to the Governmental Activities in statutorily required profit transfers.

The users of the State's programs financed $452.6 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $3.1 billion. $3.4 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 2009

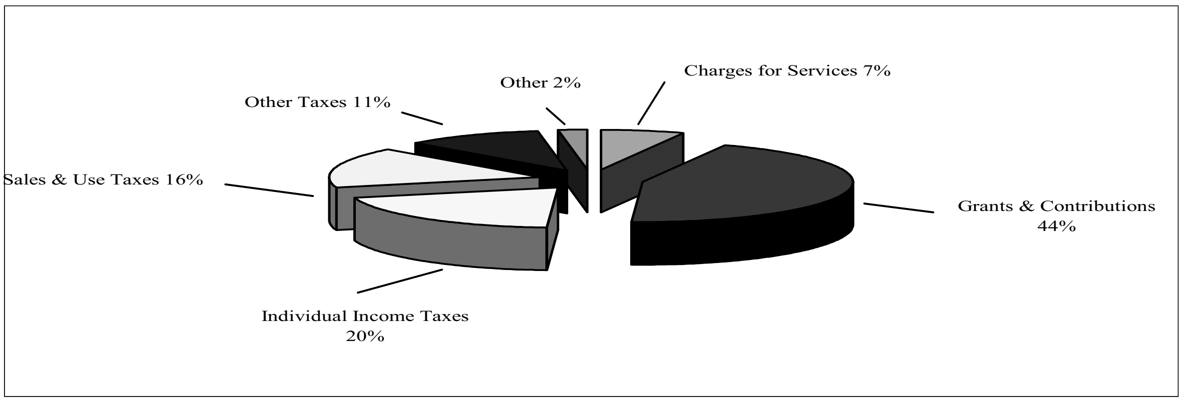
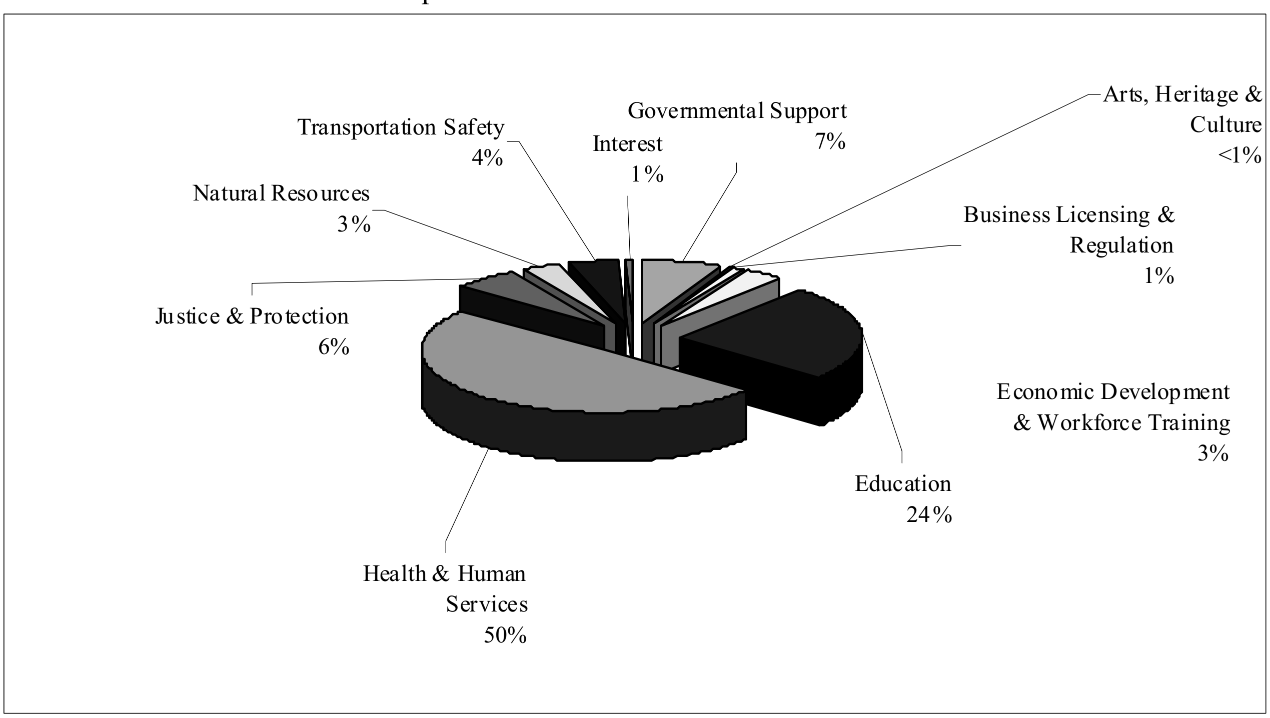


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2009



Business-type Activities

Revenues for the State's Business-type Activities totaled $503.1 million while expenses totaled $546 million. The decrease in net assets for Business-type Activities was $86.6 million in 2009, due mainly to the increase of unemployment compensation payments in the Employment Security fund.

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 2009	Total Cost 2008	Net (Cost) Revenue 2009	Net (Cost) Revenue 2008
Employment Security	$ 225,181	$ 122,518	$ (107,649)	$ 6,968
Alcoholic Beverages	-	-	12,530	12,527
Lottery	163,030	178,419	50,043	50,561
Military Equip. Maint.	71,380	80,306	4,404	(3,077)
Dirigo Health	58,861	76,860	9,843	(22,353)
Other	27,560	25,322	(12,102)	(11,902)
Total	$ 546,012	$ 483,425	$ (42,931)	$ 32,724

The cost of all Business-type Activities this year was $546 million. The users of the State's programs financed most of the cost. The State's net cost from Business-type Activities was $42.9 million, with Employment Security making up $107.6 million of the total. The State’s Business-type Activities transferred $43.7 million (net) to the Governmental Activities in statutorily required profit transfers.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Fund	Total Cost 2009	2008	Change
General	$ (273,393)	$ (238,472)	$ (34,921)
Highway	34,885	(2,263)	37,148
Federal	27,163	38,155	(10,992)
Other Special Revenue	300,263	291,084	9,179
Other Governmental	113,038	99,404	13,634
Total	$ 201,956	$ 187,908	$ 14,048

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $202 million, an increase of $14 million in comparison with the prior year. Of this amount, a net deficit fund balance of $357.6 million constitutes unreserved fund balance with 109 percent ($390.4 million) of the shortfall residing in the General Fund. The remainder of the fund balances for the governmental funds is reserved and is not available for new spending because it has already been dedicated for continuing appropriations ($417.3 million), Capital Projects ($53.0 million), and various other commitments ($89.4 million).

General Fund expenditures and other uses surpassed General Fund revenues and other sources resulting in a decrease in the fund balance by $34.9 million. While expenditures and other uses of the General Fund decreased by approximately $315.6 million (9 percent) led by an approximate decrease in health and human service expenditures (mainly Medicaid) of $277 million; General Fund revenues and other sources also decreased by $276.9 million (8 percent) which is mainly attributed to a reduction in tax revenue ($270.7 million).

The fund balance of the Highway Fund increased by $37.1 million from fiscal year 2008, due mainly to a reduction in the transportation, safety and development expenditures by $48.3 million in fiscal year 2009. In addition, the Highway Fund was reimbursed by approximately $23 million from the Federal Fund for prior period expenditures that were ultimately approved for federal funding.

Budgetary Highlights

For the 2009 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $3.1 billion, a decrease of about $59.1 million from the original legally adopted budget of approximately $3.2 billion. Actual expenditures on a budgetary basis amounted to approximately $100.4 million less than those authorized in the final budget; however, after deducting the encumbered obligations and other commitments that will come due in fiscal year 2010, including the budgeted starting balance for Fiscal Year 2010, there were no funds remaining to distribute in Fiscal Year 2009. General Fund revenues fell $31.7 million short of the revised projections. As a part of the final budget adjustment for Fiscal Year 2009, the Legislature approved transfers of $131.6 million from the Budget Stabilization Fund to unappropriated surplus. Interest earnings netted against the legislatively approved transfers decreased the balance in the Fund to $195 thousand as of June 30, 2009. 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 2009, the State had roughly $4.4 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2009, the State acquired or constructed more than $310.1 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	
	2009	2008	2009	2008	2009	2008
Land	$ 449,256	$ 434,230	$ 43,344	$ 43,345	$ 492,600	$ 477,575
Buildings	576,236	564,182	9,655	9,499	585,891	573,681
Equipment	250,031	250,828	47,134	44,194	297,165	295,022
Improvements	18,818	19,541	74,572	62,607	93,390	82,148
Infrastructure	3,378,914	3,178,666	-	-	3,378,914	3,178,666
Construction in Progress	57,350	24,175	3,416	10,368	60,766	34,543
Total Capital Assets	4,730,605	4,471,622	178,121	170,013	4,908,726	4,641,635
Accumulated Depreciation	392,304	376,205	81,456	74,108	473,760	450,313
Capital Assets, net	$ 4,338,301	$ 4,095,417	$ 96,665	$ 95,905	$ 4,434,966	$ 4,191,322

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 8,811 highway miles or 17,921 lane miles within the State. Bridges have a deck area of 12 million square feet among 2,963 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2009, 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 78 at June 30, 2009. Preservation costs for fiscal year 2009 totaled $76.1 million compared to estimated preservation costs of $56.5 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 39, PL 2007, $50 million was spent during FY 2009.

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 $1.2 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	
	2009	2008*	2009	2008	2009	2008*
General Obligation Bonds	$ 529,990	$ 475,835	$ -	$ -	$ 529,990	$ 475,835
Other Long-Term Obligations	671,940	580,805	880	750	672,820	581,555
Total	$1,201,930	$ 1,056,640	$ 880	$ 750	$1,202,810	$ 1,057,390

*As restated

During the year, the State reduced outstanding long-term obligations by $79.2 million for outstanding general obligation bonds and $263.1 million for other long-term debt. Also during fiscal year 2009, the State incurred $487.7 million of additional long-term obligations.

Credit Ratings

Two of the major bond rating agencies assessed the State's credit rating during fiscal year 2009. During fiscal year 2009, Moody's Investors Service rated the State at Aa3 and Standard & Poor's rated it at AA. For fiscal year 2008, the Moody's rating was Aa3 and Standard & Poor's was AA.

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

Inflation increased at a much slower rate during the past year. The Consumer Price Index rose only 1.4 percent from July 2008 to June 2009; fuel and utilities prices declined during the 12 month period. The rise in oil prices to over $140 a barrel in late summer 2008 due to unrest in the Middle East and a strained dollar put pressure on both household and government budgets. The subsequent crash in oil prices during the second half of 2008 and into early 2009 helped to offset the faltering economy for Maine households and governmental operations at all levels in the State during the 2008-09 winter heating season. Fuel oil prices started 2008 at approximately $3.34 per gallon rising steadily through the summer months to $4.65 per gallon in July which is the peak of the pre-buy season for consumers in Maine, and then declined steadily to $2.64 per gallon in December 2008. Home heating oil prices are currently averaging $2.56 a gallon. The decline in fuel oil prices was driven by the worsening economy in the US driven by the crises in the subprime mortgage credit markets which developed into a nationwide recession and banking credit crunch.

Personal income continued to rise in Maine faster than inflation. According to the latest statistics available, the average weekly wage in Maine is estimated to have risen by 3.2 percent in calendar year 2008 and personal income by 4.0 percent. The moderate growth in 2008 is in contrast to the much slower growth that is expected for 2009 as a result of the severe national recession. Unemployment has been below the national average throughout the year. The rate in Maine stood at 8.2 percent in October of 2009 which is which was below both the national and New England averages.

The recent General Fund Revenue estimate accepted by the Independent Revenue Forecasting Commission for the 2010-2011 Biennium provides approximately $5.4 billion in resources to be available for general purpose spending. The upcoming supplemental budget will require adjustments to keep in balance throughout the current biennium as revenues continue to erode. The Budget will be amended as necessary through public laws to ensure adequate resources are available for the fiscal years of the biennium as revenues and resources appear to be in decline as the result of the national recession.

The national economic recession has impacted Maine, but not as severely as some parts of the nation. While the housing market has slowed in Maine, homes prices have not fallen as much as the rest of the nation and most financial institutions in Maine are solid. Maine's economy is not heavily dependent on financial services jobs, and therefore was not significantly affected by the crisis in the nation's financial sector. The one area that was strongly affected by the recession is the retail sector. Employment in the retail sector is forecasted to contract during 2009 as consumers continue to retrench.

At the close of Fiscal Year 2009, the deficit in the State of Maine's Unreserved Fund Balance Account in the General Fund has decreased to $390.4 million (from a deficit $403.9 reported in the prior year). This reduction is primarily due to a reduction in Medicaid liabilities of $155.6 million. A significant amount of this reduction in Medicaid liabilities was offset by additional internal cash borrowing. The cash borrowing was necessary due to the use of the Budget Stabilization Fund to resolve budget shortfalls at the close of Fiscal Year 2009.

There are many factors that adversely affect our General Fund Balance Sheet that we should strive to resolve over the next several years. The paramount cause for the current condition is the Medicaid liabilities that accrue at the end of each fiscal year. The increases in funding that the State has provided to local school districts has also place a huge strain on resources. Other 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 factors as accruing tax revenues for budgetary purposes and for financial statement purposes without accruing the offsetting liabilities for budgetary purposes; the increase in the demand for carrying accounts and a lack of allowing money to accrue to the Unreserved Fund Balance of the General Fund.

These items together, conspire to cause the State of Maine's General Fund to be subjected to lack of liquidity each year and an inability to adequately manage its Balance Sheet within existing resources.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the finances of the State and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

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


DIRIGO
MAINE

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2009
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 325,090	$ 5,254	$ 330,344	$ 58,656
Cash and Cash Equivalents	296	757	1,053	58,484
Cash with Fiscal Agent	84,309	-	84,309	-
Investments	59,943	-	59,943	731,891
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	58,010	-	58,010	-
Restricted Deposits and Investments	3,053	358,893	361,946	-
Inventories	6,931	3,363	10,294	2,641
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	347,275	-	347,275	-
Loans Receivable	4,251	-	4,251	86,676
Notes Receivable	-	-	-	2
Other Receivables	196,588	62,016	258,604	56,179
Internal Balances	24,978	(24,978)	-	-
Due from Other Governments	644,247	-	644,247	147,380
Due from Primary Government	-	-	-	25,065
Loans receivable from primary government	-	-	-	9,590
Due from Component Units	1,377	136	1,513	-
Other Current Assets	4,495	3,578	8,073	89,545
Total Current Assets	1,760,843	409,019	2,169,862	1,266,109
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	7,942	130	8,072	1,429
Assets Held in Trust	-	-	-	798
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	1,396	-	1,396	-
Restricted Deposits and Investments	-	-	-	450,923
Investments	-	-	-	436,597
Receivables, Net of Current Portion:				
Taxes Receivable	81,013	-	81,013	-
Loans Receivable	-	-	-	2,543,849
Notes Receivable	-	-	-	260,695
Other Receivables	1,952	-	1,952	17,670
Due from Other Governments	19,506	-	19,506	1,230,445
Loans receivable from primary government	-	-	-	122,179
Due From Primary Government	-	-	-	1,560
Other Noncurrent Assets	-	-	-	32,474
Post-Employment Benefit Asset	28,768	1,204	29,972	-
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	3,885,520	46,760	3,932,280	74,749
Buildings, Equipment and Other Depreciable Assets	845,085	131,361	976,446	1,207,356
Less: Accumulated Depreciation	(392,304)	(81,456)	(473,760)	(415,008)
Capital Assets, Net of Accumulated Depreciation	4,338,301	96,665	4,434,966	867,097
Total Noncurrent Assets	4,478,878	97,999	4,576,877	5,965,716
Total Assets	$ 6,239,721	$ 507,018	$ 6,746,739	$ 7,231,825

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

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Liabilities				
Current Liabilities:				
Accounts Payable	$ 882,191	$ 9,518	$ 891,709	$ 75,252
Accrued Payroll	55,929	1,980	57,909	880
Tax Refunds Payable	135,128	-	135,128	-
Due to Component Units	25,048	17	25,065	-
Due to Primary Government	-	-	-	1,513
Undistributed Grants and Administrative Funds	-	-	-	15,560
Allowances for Losses on Insured Commercial Loans	-	-	-	10,971
Current Portion of Long-Term Obligations:				
Compensated Absences	5,509	189	5,698	2,385
Due to Other Governments	134,883	-	134,883	2,759
Amounts Held under State & Federal Loan Programs	-	-	-	61,646
Claims Payable	23,769	-	23,769	-
Bonds and Notes Payable	86,725	-	86,725	238,868
Notes Payable	-	-	-	12,500
Revenue Bonds Payable	17,130	-	17,130	50,371
Obligations under Capital Leases	6,367	-	6,367	330
Certificates of Participation and Other Financing Arrangements	22,525	-	22,525	-
Loans Payable to Component Unit	9,590	-	9,590	-
Accrued Interest Payable	7,946	-	7,946	46,885
Deferred Revenue	1,786	12,781	14,567	71,870
Current portion of OPEB obligation	-	-	-	3,033
Other Current Liabilities	4,830	18,235	23,065	35,862
Total Current Liabilities	1,419,356	42,720	1,462,076	630,685
Long-Term Liabilities:				
Compensated Absences	39,857	691	40,548	-
Due to Component Units	1,560	-	1,560	-
Due to Other Governments	183	-	183	16,669
Amounts Held under State & Federal Loan Programs	-	-	-	45,893
Claims Payable	34,842	-	34,842	-
Bonds and Notes Payable	443,265	-	443,265	3,114,011
Revenue Bonds Payable	175,805	-	175,805	1,276,923
Obligations under Capital Leases	31,267	-	31,267	6,183
Certificates of Participation and Other Financing Arrangements	27,554	-	27,554	-
Loans Payable to Component Unit	122,179	-	122,179	-
Deferred Revenue	8,226	50,000	58,226	21,728
Pension Obligation	18,881	-	18,881	-
Other Post-Employment Benefit Obligation	71,789	-	71,789	-
Pollution Remediation	64,876	-	64,876	-
Other Noncurrent Liabilities	-	-	-	91,591
Total Long-Term Liabilities	1,040,284	50,691	1,090,975	4,572,998
Total Liabilities	2,459,640	93,411	2,553,051	5,203,683
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,767,895	96,667	3,864,562	629,344
Restricted:				
Highway Fund Purposes	34,154	-	34,154	-
Federal Programs	27,163	-	27,163	-
Natural Resources	17,690	-	17,690	-
Unemployment Compensation	-	383,970	383,970	-
Other Purposes	23,159	-	23,159	1,114,591
Funds Held as Permanent Investments:				
Expendable	48,907	-	48,907	-
Nonexpendable	11,167	-	11,167	-
Unrestricted	(150,054)	(67,030)	(217,084)	284,207
Total Net Assets	$ 3,780,081	$ 413,607	$ 4,193,688	$ 2,028,142

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 484,127	$ 82,738	$ 7,030	$ -
Arts, Heritage & Cultural Enrichment	13,430	1,172	2,734	-
Business Licensing & Regulation	66,155	56,042	865	-
Economic Development & Workforce Training	229,838	4,531	157,826	-
Education	1,689,036	2,053	229,351	-
Health & Human Services	3,428,680	12,573	2,369,010	-
Justice & Protection	419,027	90,497	77,456	-
Natural Resources Development & Protection	224,609	91,562	41,665	-
Transportation Safety & Development	301,355	111,429	195,890	-
Interest Expense	40,148	-	-	-
Total Governmental Activities	6,896,405	452,597	3,081,827	-
Business-Type Activities:				
Employment Security	225,181	97,362	20,170	-
Alcoholic Beverages	-	12,530	-	-
Lottery	163,030	213,073	-	-
Transportation	8,473	3,961	-	-
Marine Ports	1,382	78	-	-
Ferry Services	10,210	4,347	-	-
Military Equipment Maintenance	71,380	75,784	-	-
Dirigo Health	58,861	68,704	-	-
Other	7,495	7,072	-	-
Total Business-Type Activities	546,012	482,911	20,170	-
Total Primary Government	$ 7,442,417	$ 935,508	$ 3,101,997	$ -
Component Units:				
Finance Authority of Maine	44,809	15,252	24,428	-
Maine Community College System	113,287	27,639	30,745	9,523
Maine Health & Higher Educational Facilities Authority	67,859	65,163	5,331	-
Maine Municipal Bond Bank	62,300	52,048	9,176	53,424
Maine State Housing Authority	259,670	75,283	190,847	-
University of Maine System	659,996	295,792	111,564	13,636
All Other Non-Major Component Units	105,335	37,547	47,526	1,730
Total Component Units	$ 1,313,256	$ 568,724	$ 419,617	$ 78,313

General Revenues:
Taxes:
Corporate
Individual Income
Fuel
Property
Sales & Use
Other
Unrestricted Investment Earnings
Non-Program Specific Grants, Contributions & Appropriations
Miscellaneous Income
Loss on Assets Held for Sale
Tobacco Settlement
Transfers - Internal Activities
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning (As Restated)
Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (394,359)	$ -	$ (394,359)	$ -
(9,524)	-	(9,524)	-
(9,248)	-	(9,248)	-
(67,481)	-	(67,481)	-
(1,457,632)	-	(1,457,632)	-
(1,047,097)	-	(1,047,097)	-
(251,074)	-	(251,074)	-
(91,382)	-	(91,382)	-
5,964	-	5,964	-
(40,148)	-	(40,148)	-
(3,361,981)	-	(3,361,981)	-
-	(107,649)	(107,649)	-
-	12,530	12,530	-
-	50,043	50,043	-
-	(4,512)	(4,512)	-
-	(1,304)	(1,304)	-
-	(5,863)	(5,863)	-
-	4,404	4,404	-
-	9,843	9,843	-
-	(423)	(423)	-
-	(42,931)	(42,931)	-
$ (3,361,981)	$ (42,931)	$ (3,404,912)	$ -
-	-	-	(5,129)
-	-	-	(45,380)
-	-	-	2,635
-	-	-	52,348
-	-	-	6,460
-	-	-	(239,004)
-	-	-	(18,532)
$ -	$ -	$ -	$ (246,602)
266,551	-	266,551	-
1,374,681	-	1,374,681	-
177,103	-	177,103	-
39,120	-	39,120	-
1,137,428	-	1,137,428	-
250,297	-	250,297	-
6,417	-	6,417	(1,448)
-	-	-	282,840
91,528	-	91,528	1,199
(57)	-	(57)	(2,450)
61,388	-	61,388	-
43,700	(43,700)	-	-
3,448,156	(43,700)	3,404,456	280,141
86,175	(86,631)	(456)	33,539
3,693,906	500,238	4,194,144	1,994,603
$ 3,780,081	$ 413,607	$ 4,193,688	$ 2,028,142

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2009
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ 55,824	$ 35,044	$ 47,726	$ 9,647	$ 132	$ 148,373
Cash and Short-Term Investments	130	116	4	43	-	293
Cash with Fiscal Agent	217	1,669	-	68,404	-	70,290
Investments	-	-	-	-	59,943	59,943
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	738	-	-	-	58,668	59,406
Inventories	1,475	-	1,387	-	-	2,862
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	396,815	20,433	-	11,040	-	428,288
Loans Receivable	1	53	-	4,197	-	4,251
Other Receivable	45,117	1,989	72,575	70,332	-	190,013
Due from Other Funds	42,125	9,995	3,838	202,835	-	258,793
Due from Other Governments	-	-	643,651	-	-	643,651
Due from Component Units	4	-	12	1,254	107	1,377
Other Assets	3,556	-	488	-	13	4,057
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 546,113	$ 69,299	$ 769,681	$ 367,752	$ 118,863	$ 1,871,708
Liabilities and Fund Balances						
Accounts Payable	$ 210,154	$ 12,922	$ 588,874	$ 25,172	$ 2,426	$ 839,548
Accrued Payroll	25,315	10,332	6,531	9,690	-	51,868
Tax Refunds Payable	135,124	4	-	-	-	135,128
Due to Other Governments	-	-	105,883	-	-	105,883
Due to Other Funds	223,361	3,678	32,800	3,172	81	263,092
Due to Component Units	1,912	69	6,000	337	3,317	11,635
Deferred Revenue	220,452	7,005	1,387	27,918	-	256,762
Other Accrued Liabilities	3,188	404	1,043	1,200	1	5,836
Total Liabilities	819,506	34,414	742,518	67,489	5,825	1,669,752
Fund Balances:						
Reserved						
Continuing Appropriations	110,930	49,568	61,535	195,128	120	417,281
Capital Projects	-	-	-	-	52,964	52,964
Permanent Trusts	-	-	-	-	11,167	11,167
Other	6,056	195	-	23,149	48,787	78,187
Unreserved	(390,379)	(14,878)	(34,372)	81,986	-	(357,643)
Total Fund Balances	(273,393)	34,885	27,163	300,263	113,038	201,956
Total Liabilities and Fund Balances	$ 546,113	$ 69,299	$ 769,681	$ 367,752	$ 118,863	$ 1,871,708

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

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

June 30, 2009
(Expressed in Thousands)

Total fund balances for governmental funds		$ 201,956
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	4,405,945	
Less: Accumulated depreciation	(205,687)	4,200,258
Other Post-Employment Benefit Assets are not financial resources		28,768
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:		
Bonds Payable	(529,990)	
Interest Payable Related to Long-term Financing	(4,302)	
Certificates of Participation and Other Financing Arrangements	(17,077)	
Due to Federal Government - Disallowed Costs in Litigation	(29,000)	
Loans Payable to Component Unit	(131,769)	
Compensated Absences	(41,144)	
Pension Obligation	(18,881)	
Other Post-Employment Benefit Obligation	(71,789)	
Pollution Remediation Obligation	(64,876)	(908,828)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		270,070
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		(12,143)
Net assets of governmental activities		$ 3,780,081

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, 2009
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,808,997	$ 222,998	$ -	$ 208,274	$ -	$ 3,240,269
Assessments and Other Revenue	120,682	98,401	6	103,150	-	322,239
Federal Grants and Reimbursements	14,844	3	3,070,383	7,527	-	3,092,757
Service Charges	44,211	7,587	678	96,428	-	148,904
Investment Income	8,425	957	282	2,375	(12,303)	(264)
Miscellaneous Revenue	9,892	92	378	122,980	5,398	138,740
Total Revenues	3,007,051	330,038	3,071,727	540,734	(6,905)	6,942,645
Expenditures						
Current:						
Governmental Support & Operations	273,595	36,728	7,770	140,728	7,783	466,604
Economic Development & Workforce Training	35,751	-	161,048	21,667	10,624	229,090
Education	1,451,223	-	226,957	5,430	19,307	1,702,917
Health and Human Services	786,512	-	2,376,870	282,619	2,400	3,448,401
Business Licensing & Regulation	6	-	810	64,419	-	65,235
Natural Resources Development & Protection	67,669	41	41,831	101,407	11,999	222,947
Justice and Protection	270,594	37,547	78,685	57,683	880	445,389
Arts, Heritage & Cultural Enrichment	8,096	-	2,843	1,197	1,072	13,208
Transportation Safety & Development	1	225,602	166,325	73,667	59,208	524,803
Debt Service:						
Principal Payments	65,685	13,505	4,135	2,434	-	85,759
Interest Payments	15,179	3,848	2,810	1,434	-	23,271
Total Expenditures	2,974,311	317,271	3,070,084	752,685	113,273	7,227,624
Revenue over (under) Expenditures	32,740	12,767	1,643	(211,951)	(120,178)	(284,979)
Other Financing Sources (Uses):						
Transfer from Other Funds	87,178	34,068	20,867	171,894	1,501	315,508
Transfer to Other Funds	(155,566)	(10,385)	(33,502)	(51,123)	(3,724)	(254,300)
COP's and Other	727	698	-	359	2,690	4,474
Loan Proceeds from Component Unit	-	-	-	100,000	-	100,000
Bonds Issued	-	-	-	-	133,345	133,345
Net Other Finance Sources (Uses)	(67,661)	24,381	(12,635)	221,130	133,812	299,027
Revenues and Other Sources over (under) Expenditures and Other Uses	(34,921)	37,148	(10,992)	9,179	13,634	14,048
Fund Balances at Beginning of Year	(238,472)	(2,263)	38,155	291,084	99,404	187,908
Fund Balances at End of Year	$ (273,393)	$ 34,885	$ 27,163	$ 300,263	$ 113,038	$ 201,956

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, 2009
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 14,048
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	249,929	
Depreciation expense	(18,262)	231,667
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(5,320)
Post-employment benefit asset funding, net		(24,435)
The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Assets. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Assets. This is the amount that proceeds exceed repayments:		
Bond proceeds	(133,345)	
Proceeds from other financing arrangements	(1,425)	
Loan proceeds from component unit	(100,000)	
Repayment of bond principal	79,190	
Repayment of other financing debt	10,084	
Repayment of pledged revenue principal	6,569	
Accrued interest	348	(138,579)
Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from the Statement of Activities as follows:		
Pension obligation	(173)	
Other post-employment benefit obligation	(36,924)	
Pollution remediation obligation	723	
Due to Federal Government - Disallowed Costs in Litigation	(29,000)	
Compensated absences	(358)	(65,732)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		3,345
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.		71,181
Changes in net assets of governmental activities		$ 86,175

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

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2009
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ -	$ 5,254	$ 5,254	$ 180,265
Cash and Short-Term Investments	-	757	757	3
Cash with Fiscal Agent	-	-	-	14,019
Restricted Assets:				
Restricted Deposits and Investments	358,893	-	358,893	3,053
Inventories	-	3,363	3,363	4,069
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	17,130
Other Receivable	31,262	30,754	62,016	3,066
Due from Other Funds	123	362	485	24,332
Due from Component Units	-	136	136	-
Other Current Assets	-	3,578	3,578	438
Total Current Assets	390,278	44,204	434,482	246,375
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	130	130	4,394
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	175,805
Post-Employment Benefit Asset	-	1,204	1,204	-
Capital Assets - Net of Depreciation	-	96,665	96,665	138,043
Total Noncurrent Assets	-	97,999	97,999	318,242
Total Assets	390,278	142,203	532,481	564,617
Liabilities				
Current Liabilities:				
Accounts Payable	4,006	5,512	9,518	17,633
Accrued Payroll	-	1,980	1,980	4,061
Due to Other Governments	-	-	-	183
Due to Other Funds	808	25,742	26,550	15,469
Due to Component Units	-	17	17	14,973
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	12,641
Revenue Bonds Payable	-	-	-	17,130
Obligations Under Capital Leases	-	-	-	6,367
Claims Payable	-	-	-	23,769
Compensated Absences	-	189	189	654
Deferred Revenue	-	12,781	12,781	399
Other Accrued Liabilities	1,494	16,741	18,235	2,638
Total Current Liabilities	6,308	62,962	69,270	115,917
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Deferred Revenue	-	50,000	50,000	867
Certificates of Participation and Other Financing Arrangements	-	-	-	20,361
Revenue Bonds Payable	-	-	-	175,805
Obligations Under Capital Leases	-	-	-	31,267
Claims Payable	-	-	-	34,842
Compensated Absences	-	691	691	3,568
Total Long-Term Liabilities	-	50,691	50,691	266,821
Total Liabilities	6,308	113,653	119,961	382,738
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	96,667	96,667	82,452
Restricted for:				
Unemployment Compensation	383,970	-	383,970	-
Other Purposes	-	-	-	4,341
Unrestricted	-	(68,117)	(68,117)	95,086
Total Net Assets	$ 383,970	$ 28,550	412,520	$ 181,879
Amounts reported for business-type activities in the government-wide Statement of Net Assets are different due to elimination of the State's internal business-type activities.			1,087	
Net Assets of Business-Type Activities			$ 413,607	

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

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

Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Operating Revenues				
Charges for Services	$ -	$ 369,136	$ 369,136	$ 454,648
Assessments	97,331	1,758	99,089	-
Miscellaneous Revenues	31	29	60	89
Total Operating Revenues	97,362	370,923	468,285	454,737
Operating Expenses				
General Operations	-	311,862	311,862	382,806
Depreciation	-	8,647	8,647	18,876
Claims/Fees Expense	225,181	-	225,181	8,837
Other Operating Expenses	-	-	-	138
Total Operating Expenses	225,181	320,509	545,690	410,657
Operating Income (Loss)	(127,819)	50,414	(77,405)	44,080
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	20,170	-	20,170	6,681
Interest Expense	-	-	-	(17,181)
Other Nonoperating Revenues (Expenses)- net	-	14,626	14,626	(1,423)
Total Nonoperating Revenues (Expenses)	20,170	14,626	34,796	(11,923)
Income (Loss) Before Capital Contributions, Transfers and Special Items	(107,649)	65,040	(42,609)	32,157
Capital Contributions, Transfers and Special Items				
Capital Contributions from (to) Other Funds	-	9,474	9,474	17,979
Transfers from Other Funds	-	5,404	5,404	19,209
Transfers to Other Funds	(2,114)	(56,464)	(58,578)	(14,112)
Special Items	-	-	-	-
Total Capital Contributions, Transfers In (Out) and Special Items	(2,114)	(41,586)	(43,700)	23,076
Change in Net Assets	(109,763)	23,454	(86,309)	55,233
Total Net Assets - Beginning of Year (as restated)	493,733	5,096		126,646
Total Net Assets - End of Year	$ 383,970	$ 28,550		$ 181,879
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			(322)	
Changes in Business-Types Net Assets			$ (86,631)	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2009
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds: Major Employment Security	Non-Major Other Enterprise	Totals	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 96,275	$ 365,814	$ 462,089	$ 493,962
Payments of Benefits	(221,103)	-	(221,103)	-
Payments to Prize Winners	-	(131,544)	(131,544)	-
Payments to Suppliers	-	(147,046)	(147,046)	(339,710)
Payments to Employees	-	(36,436)	(36,436)	(79,099)
Net Cash Provided (Used) by Operating Activities	(124,828)	50,788	(74,040)	75,153
Cash Flows from Noncapital Financing Activities				
Operating Transfers in	-	5,404	5,404	12,517
Operating Transfers out	(2,114)	(56,464)	(58,578)	(14,112)
Net Cash Provided (Used) by Noncapital Financing Activities	(2,114)	(51,060)	(53,174)	(1,595)
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(511)	(511)	(14,041)
Proceeds from Financing Arrangements	-	-	-	42,285
Principal and Interest Paid on Financing Arrangements	-	-	-	(87,727)
Proceeds from Sale of Capital Assets	-	576	576	177
Net Cash Provided (Used) by Capital Financing Activities	-	65	65	(59,306)
Cash Flows from Investing Activities				
Interest Revenue	20,170	2,128	22,298	6,681
Net Cash Provided (Used) by Investing Activities	20,170	2,128	22,298	6,681
Net Increase (Decrease) in Cash/Cash Equivalents	(106,772)	1,921	(104,851)	20,933
Cash/Cash Equivalents - Beginning of Year	465,665	4,220	469,885	180,801
Cash/Cash Equivalents - End of Year	$ 358,893	$ 6,141	$ 365,034	$ 201,734
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (127,819)	$ 50,414	$ (77,405)	$ 44,080
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	8,647	8,647	18,876
Decrease (Increase) in Assets				
Accounts Receivable	(989)	(5,265)	(6,254)	15,790
Interfund Balances	710	6,569	7,279	(3,168)
Inventories	-	(2,514)	(2,514)	1,252
Increase (Decrease) in Liabilities				
Accounts Payable	2,648	(616)	2,032	(3,621)
Accrued Payroll Expenses	-	348	348	694
Change in Compensated Absences	-	130	130	374
Other Accruals	622	(6,925)	(6,303)	876
Total Adjustments	2,991	374	3,365	31,073
Net Cash Provided (Used) by Operating Activities	$ (124,828)	$ 50,788	$ (74,040)	$ 75,153
Non Cash Investing, Capital and Financing Activities				
Property Leased, Accrued, or Acquired	-	-	-	5,057
Contributed Capital Assets	-	9,474	9,474	17,979
Decrease of deferred revenue from the sale of liquor operations	-	12,500	12,500	-

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

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2009
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 1,995	$ 6,413
Cash and Short-Term Investments	31,530	-	27
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	11,283	-	-
Interest and Dividends	15,408	31	-
Due from Brokers for Securities Sold	465,884	-	-
Investments at Fair Value:			
Debt Securities	1,332,356	-	-
Equity Securities	1,462,431	-	-
Common/Collective Trusts	5,741,472	-	-
Other	225	9,079	-
Securities Lending Collateral	199,188	-	-
Due from other funds	-	25,010	-
Investments Held on Behalf of Others	-	4,209,169	66,021
Capital Assets - Net of Depreciation	10,168	-	-
Other Assets	-	4,365	4,009
Total Assets	9,269,945	4,249,649	76,470
Liabilities			
Accounts Payable	6,071	2,827	9
Due to Other Funds	-	7	3,502
Due to Brokers for Securities Purchased	321,133	-	-
Agency Liabilities	-	-	72,959
Obligations Under Securities Lending	199,188	-	-
Other Accrued Liabilities	300,405	-	-
Total Liabilities	826,797	2,834	76,470
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	8,443,148	4,246,815	-
Total Net Assets	$ 8,443,148	$ 4,246,815	$ -

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

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

Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 161,015	$ 1,433,070
State and Local Agencies	392,332	-
Investment Income (Loss):		
Net Increase (Decrease) in the Fair Value of Investments	(2,154,696)	(1,120,795)
Capital Gains Distributions from Investments	-	34,375
Interest and Dividends	155,370	120,980
Securities Lending Income	23,924	-
Less Investment Expense:		
Investment Activity Expense	23,245	-
Securities Lending Expense	15,586	-
Net Investment Income (Loss)	(2,014,233)	(965,440)
Miscellaneous Revenues	-	12,348
Transfers In	-	644
Total Additions	(1,460,886)	480,622
Deductions:		
Benefits Paid to Participants or Beneficiaries	685,836	1,544,126
Refunds and Withdrawals	46,115	-
Administrative Expenses	10,479	35,370
Claims Processing Expense	718	-
Transfers Out	-	13,775
Total Deductions	743,148	1,593,271
Net Increase (Decrease)	(2,204,034)	(1,112,649)
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	10,647,182	5,359,464
End of Year	$ 8,443,148	$ 4,246,815

The accompanying notes are an integral part of the financial statements.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STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2009
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Assets			
Current Assets:			
Equity in Treasurer's Cash Pool	$ 27,992	$ 9,840	$ -
Cash and Cash Equivalents	4,001	822	12,705
Investments	137,611	23,689	25,122
Restricted Assets:			
Inventories	-	1,324	-
Receivables, Net of Allowance for Uncollectibles:			
Loans Receivable	-	-	49,363
Notes Receivable	-	-	-
Other Receivables	4,570	3,601	2,716
Due from Other Governments	131	-	-
Due from Primary Government	-	13,338	-
Loans receivable from primary government	-	-	-
Other Current Assets	2,759	1,068	307
Total Current Assets	177,064	53,682	90,213
Noncurrent Assets:			
Equity in Treasurer's Cash Pool	682	240	-
Assets Held in Trust	-	-	-
Restricted Assets:			
Restricted Deposits and Investments	-	1,163	155,318
Investments	-	9,097	-
Receivables, Net of Current Portion:			
Loans Receivable	-	-	1,152,749
Notes Receivable	216,162	-	-
Other Receivables	-	-	132
Due from Other Governments	-	-	-
Due from Primary Government	-	-	-
Loans receivable from primary government	-	-	-
Capital Assets - Net of Depreciation	2,515	114,794	2,743
Other Noncurrent Assets	-	272	1,038
Total Noncurrent Assets	219,359	125,566	1,311,980
Total Assets	396,423	179,248	1,402,193
Liabilities			
Current Liabilities:			
Accounts Payable	1,595	3,178	537
Accrued Payroll	-	-	-
Compensated Absences	-	1,936	-
Due to Other Governments	-	-	57
Due to Primary Government	-	-	-
Amounts Held under State & Federal Loan Programs	-	-	-
Undistributed Grants and Administrative Funds	11,905	-	-
Allowances for Losses on Insured Commercial Loans	10,971	-	-
Bonds Payable	67,813	-	50,235
Notes Payable	-	-	-
Obligations under Capital Leases	-	-	-
Accrued Interest Payable	647	-	26,653
Deferred Revenue	1,672	1,808	2,859
Current portion of OPEB obligation	-	-	-
Other Current Liabilities	14	7,368	1,872
Total Current Liabilities	94,617	14,290	82,213
Long-Term Liabilities:			
Due to Other Governments	1,250	-	1,476
Amounts Held under State & Federal Loan Programs	45,893	-	-
Bonds Payable	219,677	23,371	1,274,780
Obligations under Capital Leases	-	3,490	-
Deferred Revenue	-	-	-
Other Noncurrent Liabilities	-	-	-
Total Long-Term Liabilities	266,820	26,861	1,276,256
Total Liabilities	361,437	41,151	1,358,469
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,515	89,367	2,743
Restricted	4,947	16,056	3,243
Unrestricted	27,524	32,674	37,738
Total Net Assets	$ 34,986	$ 138,097	$ 43,724

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

Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
$ -	$ -	$ 19,983	$ 841	$ 58,656
248	2,918	1,468	36,322	58,484
24,285	378,200	140,282	2,702	731,891
-	-	-	1,317	2,641
-	26,750	-	10,563	86,676
-	2	-	-	2
1,160	15,969	26,233	1,930	56,179
130,298	3,880	9,760	3,311	147,380
-	-	6,181	5,546	25,065
9,590	-	-	-	9,590
75,714	-	7,460	2,237	89,545
241,295	427,719	211,367	64,769	1,266,109
-	-	487	20	1,429
-	-	-	798	798
284,495	-	6,314	3,633	450,923
-	155,415	238,843	33,242	436,597
-	1,268,194	-	122,906	2,543,849
-	690	41,721	2,122	260,695
-	-	9,233	8,305	17,670
1,230,445	-	-	-	1,230,445
-	-	1,560	-	1,560
122,179	-	-	-	122,179
769	2,634	645,103	98,539	867,097
2,627	5,496	15,739	7,302	32,474
1,640,515	1,432,429	959,000	276,867	5,965,716
1,881,810	1,860,148	1,170,367	341,636	7,231,825
551	48,389	12,576	8,426	75,252
-	-	-	880	880
-	-	-	449	2,385
792	334	-	1,576	2,759
1,254	-	-	259	1,513
61,646	-	-	-	61,646
3,655	-	-	-	15,560
-	-	-	-	10,971
111,162	39,920	8,412	11,697	289,239
-	-	-	12,500	12,500
-	-	310	20	330
10,798	8,320	-	467	46,885
24,209	8,965	15,638	16,719	71,870
-	-	3,033	-	3,033
-	-	24,667	1,941	35,862
214,067	105,928	64,636	54,934	630,685
3,692	6,592	-	3,659	16,669
-	-	-	-	45,893
1,127,362	1,405,526	202,169	138,049	4,390,934
-	-	2,646	47	6,183
-	20,072	-	1,656	21,728
-	-	91,409	182	91,591
1,131,054	1,432,190	296,224	143,593	4,572,998
1,345,121	1,538,118	360,860	198,527	5,203,683
-	2,634	436,233	95,852	629,344
473,396	305,104	288,153	23,692	1,114,591
63,293	14,292	85,121	23,565	284,207
$ 536,689	$ 322,030	$ 809,507	$ 143,109	$ 2,028,142

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Expenses	$ 44,809	$ 113,287	$ 67,859
Program Revenues			
Charges for Services	15,252	27,639	65,163
Program Investment Income	4,058	(1,512)	5,331
Operating Grants and Contributions	20,370	32,257	-
Capital Grants and Contributions	-	9,523	-
Net Revenue (Expense)	(5,129)	(45,380)	2,635
General Revenues			
Unrestricted Investment Earnings	-	(415)	1,265
Non-program Specific Grants, Contributions and Appropriations	-	55,259	-
Miscellaneous Income	3,150	1,617	146
Gain (Loss) on Assets Held for Sale	-	(1,379)	-
Total General Revenues	3,150	55,082	1,411
Change in Net Assets	(1,979)	9,702	4,046
Net Assets, Beginning of the Year	36,965	128,395	39,678
Net Assets, End of Year	$ 34,986	$ 138,097	$ 43,724

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

Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
$ 62,300	$ 259,670	$ 659,996	$ 105,335	$ 1,313,256
52,048	75,283	295,792	37,547	568,724
5,929	26,900	-	1,442	42,148
3,247	163,947	111,564	46,084	377,469
53,424	-	13,636	1,730	78,313
52,348	6,460	(239,004)	(18,532)	(246,602)
757	322	(2,853)	(524)	(1,448)
-	-	210,663	16,918	282,840
1,511	-	-	(5,225)	1,199
-	-	(1,110)	39	(2,450)
2,268	322	206,700	11,208	280,141
54,616	6,782	(32,304)	(7,324)	33,539
482,073	315,248	841,811	150,433	1,994,603
$ 536,689	$ 322,030	$ 809,507	$ 143,109	$ 2,028,142

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

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

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

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

The State is able to impose its will upon these discretely presented component units:

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

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

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

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

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

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

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Turnpike Authority and the Maine Veteran's Home. The primary government has no material accountability for these organizations beyond making board appointments.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $546.2 million of restricted net assets, of which $17.7 million is restricted by enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

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

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

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with a GASB pronouncement. The FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

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

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

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

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

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

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

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

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

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

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally restricted to expenditures for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal 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 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's retiree healthcare benefits. The investment trust, managed by the Maine Public Employees Retirement System, holds the long-term investments of the trust. The trustees of the 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, Permanent School funds, NextGen College Investing Plan, and the Energy and Carbon Savings Trust.

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

D. FISCAL YEAR-ENDS

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

E. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCE

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

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

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

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

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

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

Investments Held on Behalf of Others
These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. Generally, these investments are reported at fair value or at amortized cost which approximates fair value. The State also holds \$168 million of Workers' Compensation, \$47 million of Bureau of Insurance, and \$24 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. Food commodities are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when food stamps are used (EBT cards) and when food commodities are issued. Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost.

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

Receivables
Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units' column arise in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts. Receivables due from related providers for interim payments are $3.1 million, net of an allowance for uncollectible amounts of $7.7 million.

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

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

Due from/to Primary Government/Component Units
Numerous transactions are made between the primary government and component units to finance operations, provide services, acquire or construct assets, or repay bonds. To the extent that transactions between funds were not completed as of June 30, "Due from Primary Government" and "Due to Component Unit" receivables and payables have been recorded. Two component units have December 31 year ends, therefore the "due to" and "due from" amounts 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. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

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

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

Accounts Payable
Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate at June 30, 2009 is $321 million.

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

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

Compensated Employee Absences
In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

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

Loans Payable to Component Unit
In the Statement of Net Assets, the amount of bond proceeds received by a component unit for unmatured GARVEE and TransCap 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 Assets/Fund Balances
The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balances" on governmental fund statements.

Fund Balance Reservations
Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: funds legally restricted for a specific future use, or assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund.

The State reported the following fund balance reservations:

Continuing Appropriations - indicates appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year, if unexpended.

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

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

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

F. REVENUES AND EXPENDITURES/EXPENSES

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

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

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

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

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

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

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

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

Budget Stabilization Fund
The Maine Budget Stabilization Fund, a fund designation established under Title 5 MRSA C. 142, is included in the negative $390.4 million unreserved General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. Per Public Law 2009, Chapter 1, Part E and Public Law 2009, Chapter 371, Part B $131.6 million was transferred from the Budget Stabilization fund to the General Fund unappropriated surplus.

The statutory cap for the fund is 12 percent of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2009 actual General Fund revenue, the statutory cap at the close of fiscal year 2009 and during fiscal year 2009 was $337.4 million. At the close of fiscal year 2009, the balance of the Maine Budget Stabilization Fund was $195 thousand. 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	$ 128,877
Decrease in fund balance	(128,682)
Balance, end of year	$ 195

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 a supplemental budget. For the year ended June 30, 2009, the Legislature decreased supplemental appropriations to the General Fund by $217.2 million.

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

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
During fiscal year ended June 30, 2009, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This Statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning.

The provisions of GASB 49 require the measurement of pollution remediation liabilities at July 1, 2008; therefore, the State's beginning net assets have been restated. Beginning net assets for Governmental Activities were reduced by $48.6 million.

In addition, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 52, Land and Other Real Estate Held as Investments by Endowments. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. Implementation of the statement did not require any modification to the financial statements.

Change in Accounting Estimate
During fiscal year ended June 30, 2009, the State recognized a receivable in the Dirigo Health Fund related to Savings Offset Payments (SOP) due from insurance companies. In prior fiscal years the State was unable to estimate quarterly SOP receivables due to inconsistency of payments and a lack of adequate historical data. The effect of this change was to increase revenue by $9.3 million, which resulted in a $5 million change in net assets (that would have otherwise been a deficit $4.3 million).

Subsequent to year end, the Dirigo Health Agency transitioned from quarterly SOP to monthly Access Payments. Pursuant to new Legislation, 24-A MRSA §6917, an Access Payment of 2.14 percent will apply to claims paid beginning on or after September 1, 2009 regardless of plan year.

Restatement – Primary Government
The beginning net assets of the Information Services Fund and the Internal Service Funds increased by $8.4 million to correct an error in reported Certificates of Participation.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Four internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2009. The Workers' Compensation Fund reported a deficit of $1.4 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $4.2 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $1.5 million because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. The Financial & Personnel Services Fund had a fund balance deficit of $796 thousand because rates charged were insufficient to cover expenses incurred. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of $62.5 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The Dirigo Health Enterprise Fund shows a deficit of $10.9 million. This deficit is the result of the timing of revenue collections from the Savings Offset Program.

The General Fund shows a deficit fund balance of $273.4 million at June 30, 2009. This deficit is due to the full recognition of the State's share of Medicaid liabilities at fiscal year end, which are funded throughout the year with the aforementioned tax revenue. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under Governmental Accounting Standards Board (GASB) Statement No. 33. Per GASB 33, revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 36 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 months; prime commercial paper; tax-exempt obligations;

corporate bonds rated "AAA" that mature within 36 months from the date of investment; banker's acceptances; and "no-load" shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares maintain a constant share price. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by Title 5 MRSA § 138. The Treasurer, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions and the Attorney General, shall invest the funds in securities that are legal investments in accordance with Title 9-B MRSA. The investments need not be segregated to the separate trusts, but the identity of each trust must be maintained. The Treasurer may enter into custodial care and servicing contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

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

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

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2009:

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	$ 333,032	$ 5,384	$ 1,995	$ 6,413	$ 346,824
Cash and Cash Equivalents	296	757	-	27	1,080
Cash with Fiscal Agent	84,309	-	-	-	84,309
Investments	59,943	-	9,079	-	69,022
Restricted Equity in Treasurer's Cash Pool	59,406	-	-	-	59,406
Restricted Deposits and Investments	3,053	358,893	-	-	361,946
Investments Held on Behalf of Others	-	-	4,209,169	66,021	4,275,190
Other Assets	-	-	-	-	-
Total Primary Government	$ 540,039	$ 365,034	$ 4,220,243	$ 72,461	$ 5,197,777

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, 2009:

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	$15,460	$ 9,542	$ -	$ -	$ -	$ -	$ 25,002
US Treasury Notes	-	-	-	-	-	-	-
Repurchase Agreements	-	-	-	-	-	-	-
Corporate Notes and Bonds	2,365	-	-	-	-	-	2,365
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	7,144	-	-	-	-	-	7,144
Money Market	365,333	-	-	-	-	-	365,333
Cash and Cash Equivalents	-	-	-	-	-	2,084	2,084
Unemployment Fund							
Deposits with US Treasury	-	-	-	-	-	358,893	358,893
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	806	2,656	526	1,124	3,763	-	8,875
US Treasury Notes	3,800	12,044	4,544	6,386	3,869	-	30,644
Repurchase Agreements	-	-	-	-	-	-	-
Corporate Notes and Bonds	86	2,802	3,472	405	1,275	5,453	13,493
Other Fixed Income Securities	635	-	136	-	22	-	794
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	6,756	7	-	-	-	3,100	9,863
Money Market	7,721	-	-	-	-	358	8,080
Cash and Cash Equivalents	-	-	-	-	-	20,440	20,440
Equities	-	-	-	-	-	49,349	49,349
Other	-	-	-	-	-	1,940	1,940
	$ 410,107	$ 27,050	$ 8,679	$ 7,915	$ 8,929	$ 441,618	$ 904,299
NextGen College Investing Plan							4,209,169
Other Assets							-
Cash with Fiscal Agent							84,309
Total Primary Government							$ 5,197,777

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

The Primary Government's total investments by credit quality rating as of June 30, 2009 are presented below:

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

	A1	A	AA	AA+	AAA	BB	BBB	Not Rated	Total
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	$ -	$ -	$ -	$ -	$ 25,002	$ -	$ -	$ -	$ 25,002
US Treasury Notes	-	-	-	-	-	-	-	-	-
Corporate Notes and Bonds	-	-	2,365	-	-	-	-	-	2,365
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	365,333	365,333
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	-	-	-	2,949	-	-	5,926	8,875
US Treasury Notes	-	-	-	-	3,960	-	-	26,684	30,644
Corporate Notes and Bonds	-	2,328	309	-	975	23	921	8,937	13,493
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	8,080	8,080
Other Fixed Income Securities	-	22	-	-	-	-	136	636	794
Total Primary Government	$ -	$ 2,350	$ 2,674	$ -	$ 32,886	$ 23	$ 1,057	$415,596	$ 454,586

Concentration of Credit Risk –Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than 10 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2009, 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 $6.3 million invested in non-negotiable certificates of deposit, none exceeded the FDIC insured amounts for the institutions at which they were held. The State does not have a policy regarding custodial credit risk for its trusts. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name.

The fair value of the trust's investments as of June 30, 2009 was $48.7 million and was comprised of the following:

U.S. Instrumentalities	$ 5,380
US Treasury Notes	2,934
Corporate Notes and Bonds	3,770
Other Fixed Income Securities	771
Equities	34,126
Cash and Equivalents	995
Other	761
Total	$ 48,737

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2009 these disbursements, on average, exceeded $184.6 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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. As of June 30, 2009 the fair value of forward currency contracts held by the System was $7.1 million. The System's fixed income managers invest in CMOs and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2009 the carrying value of the System's CMO and Asset-Backed Security holdings totaled $111.0 million. The System also invests in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. As of June 30, 2009 the System carried swaps with a fair market values of $(3.4) million and notional values of $244.1 million.

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

Cash open collateral is invested in a short-term investment pool, the Global Core Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2009 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, 2009 was $200.0 million and $193.2 million, respectively.

NEXTGEN COLLEGE INVESTING PLAN

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

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

NextGen's investments are comprised of 47 different investment portfolios which are reported at fair value and total $4.2 billion at June 30, 2009.

Custodial Credit Risk – NextGen, in accordance with its Program Description, primarily invests in open-end mutual funds, which, according to GASB Statement No. 40, do not bear custodial credit risk; hence, the Program's exposure to custodial credit risk arising from its investment in mutual funds is considered to be insignificant.
The Program makes some investments in entities which are not mutual funds including a Guaranteed Investment Contract (GIC) issued by Transamerica Life Insurance Company in the Principal Plus Portfolio. Because an investment in a GIC represents a contractual investment rather than a security, it is not deemed to be subject to custodial credit risk.

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

Credit Risk - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2009 was $204.5 million.

The assets of the Account are invested in a portfolio of high-quality, short-term money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, and other short-term debt securities issued by U.S. and foreign entities repurchase agreements. In addition, the Account invests in certificates of deposit issued by Maine financial institutions in accordance with instructions of FAME and the Treasurer. All Maine Certificate of Deposit's are FDIC insured or fully collateralized. The value of the Account at June 30, 2009 was $291.8 million.

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

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

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

	Fair Value
Principal Plus Portfolio	$ 204,483
Cash Allocation Account	291,796
Fixed Income Securities	989,959
Total Fair Value	$1,486,238

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 13 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 $60.1 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes $18.5 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements 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	$533,778	$96,166	$1	($188,012)	$441,933
Highway	28,204	2,005	53	(7,787)	22,475
Federal	-	93,998	-	(21,423)	72,575
Other Special Revenue	11,491	77,538	4,197	(7,657)	85,569
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	573,473	269,707	4,251	(224,879)	622,552
Allowance for Uncollectibles	(145,185)	(79,694)	-		
Net Receivables	$428,288	$190,013	$4,251		$622,552
Proprietary Funds:					
Employment Security	$0	$41,702	$0	($10,440)	$31,262
Nonmajor Enterprise	-	31,577	-	(823)	30,754
Internal Service	-	3,066	192,935	-	196,001
Total Proprietary Funds	-	76,345	192,935	(11,263)	258,017
Allowance for Uncollectibles	-	(11,263)	-		
Net Receivables	$0	$ 65,082	$ 192,935		$258,017

Component Units – Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$4,570	$ -	$223,114	($6,952)	$220,732
Maine Community College System	4,686	-	-	(1,085)	3,601
Maine Health and Educational Facilities Authority	3,580	1,202,112	-	(732)	1,204,960
Maine Municipal Bond Bank	1,160	-	-	-	1,160
Maine State Housing Authority	15,969	1,305,463	798	(10,625)	1,311,605
University of Maine System	39,057	-	43,111	(4,981)	77,187

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, 2009 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ 315	$ 13	$ 18,033	$ 93	$ -
Highway	12	15	9,754	-	-
Federal	2,220	82	886	450	-
Other Special Revenue	180,800	356	647	560	79
Other Governmental	-	-	-	-	-
Employment Security	-	-	123	-	-
Non-Major Enterprise	32	50	236	2	-
Internal Service	14,972	3,162	3,121	2,067	2
Fiduciary	25,010	-	-	-	-
Total	$ 223,361	$ 3,678	$ 32,800	$ 3,172	$ 81

Due from Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ 808	$ 5,560	$ 13,806	$ 3,497	$ 42,125
Highway	-	-	214	-	9,995
Federal	-	-	200	-	3,838
Other Special Revenue	-	20,052	341	-	202,835
Other Governmental	-	-	-	-	-
Employment Security	-	-	-	-	123
Non-Major Enterprise	-	-	42	-	362
Internal Service	-	130	866	12	24,332
Fiduciary	-	-	-	-	25,010
Total	$ 808	$ 25,742	$ 15,469	$ 3,509	$ 308,620

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.

The more significant balance included in Due to/Due from other funds is $165 million due to the Other Special Revenue Fund related to the General Fund's negative cash position in the Treasurer's Cash Pool. This type of temporary loan is typical; cash is frequently borrowed and returned depending on cash flow needs. Due to current economic conditions, it is likely that the General Fund will remain in a negative cash position through fiscal year 2010.

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

During fiscal year 2009, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The Highway Fund transferred $5 million to the TransCap Trust Fund of the Other Special Revenue Fund.

The Other Special Revenue Fund transferred $10.6 million to the unappropriated surplus of the General Fund.

The Retiree Health Insurance Fund transferred $6.7 million to the unappropriated surplus of the General Fund.

The Accident, Sickness, and Health Insurance Fund transferred $1.4 million to the unappropriated surplus of the General Fund.

Interfund transfers for the year ended June 30, 2009, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

Transferred To	Transferred From: General	Highway	Federal	Other Special Revenue	Other Governmental
General	$ -	$ -	$ 168	$ 23,689	$ -
Highway	2,395	-	22,986	8,068	-
Federal	207	-	-	17,648	-
Other Special Revenue	140,330	5,000	9,410	-	1,579
Other Governmental Funds	-	-	-	-	1,501
Employment Security	-	-	-	-	-
Non-Major Enterprise	269	4,177	-	586	-
Internal Service	12,365	1,208	938	1,132	-
Fiduciary	-	-	-	-	644
Total	$ 155,566	$ 10,385	$ 33,502	$ 51,123	$ 3,724

Transferred To	Transferred From: Employment Security	Non-Major Enterprise	Internal Service	Fiduciary	Total
General	$ -	$ 49,870	$ 8,320	$ 5,131	$ 87,178
Highway	-	-	619	-	34,068
Federal	2,114	-	896	2	20,867
Other Special Revenue	-	6,156	775	8,644	171,894
Other Governmental Funds	-	-	-	-	1,501
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	3	369	-	5,404
Internal Service	-	435	3,131	-	19,209
Fiduciary	-	-	2	-	646
Total	$ 2,114	$ 56,464	$ 14,112	$ 13,777	$ 340,767

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, 2009:

Primary Government – Capital Assets
(Expressed in Thousands)

	Beginning Balance	Increases and Other Additions	Decreases and Other Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 434,230	$ 18,270	$ 3,244	$ 449,256
Construction in progress	24,175	35,318	2,143	57,350
Infrastructure	3,178,666	200,248	-	3,378,914
Total capital assets not being depreciated	3,637,071	253,836	5,387	3,885,520
Capital assets being depreciated:				
Buildings	564,182	15,908	3,854	576,236
Equipment	250,828	20,101	20,898	250,031
Improvements other than buildings	19,541	388	1,111	18,818
Total capital assets being depreciated	834,551	36,397	25,863	845,085
Less accumulated depreciation for:				
Buildings	200,801	15,617	2,570	213,848
Equipment	165,252	20,555	18,032	167,775
Improvements other than buildings	10,152	1,640	1,111	10,681
Total accumulated depreciation	376,205	37,812	21,713	392,304
Total capital assets being depreciated, net	458,346	(1,415)	4,150	452,781
Governmental Activities Capital Assets, net	$ 4,095,417	$ 252,421	$ 9,537	$ 4,338,301

	Beginning Balance	Net Additions	Net Deletions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 43,345	$ -	$ 1	$ 43,344
Construction in progress	10,368	3,043	9,995	3,416
Total capital assets not being depreciated	53,713	3,043	9,996	46,760
Capital assets being depreciated:				
Buildings	9,499	226	70	9,655
Equipment	44,194	4,615	1,675	47,134
Improvements other than buildings	62,607	11,965	-	74,572
Total capital assets being depreciated	116,300	16,806	1,745	131,361
Less accumulated depreciation	74,108	8,061	713	81,456
Total capital assets being depreciated, net	42,192	8,745	1,032	49,905
Business-Type Activities Capital Assets, net	$ 95,905	$ 11,788	$ 11,028	$ 96,665

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	$ 21
Business Licensing and Regulation	430
Economic Development and Workforce Training	1,376
Education	500
Governmental Support and Operations	6,194
Health and Human Services	5,554
Justice and Protection	10,703
Natural Resources Development and Protection	4,004
Transportation Safety and Development	8,357
Total Depreciation Expense – Governmental Activities	$ 37,139

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTIONS

The Maine Public Employees Retirement System, formerly named the Maine State 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 public employee retirement system established and administered under the Title 5 MRSA C. 421, 423, and 425. The System provides pension, disability, and death benefits to its members, which includes employees of the State, public school employees (defined by Maine law as teachers and for whom the State is the employer for retirement contribution and benefit purposes, or SETP) and employees of 279 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 issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2009 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Maine Public Employees Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering an agent, multiple-employer plan for financial reporting purposes. The statements include $2.1 billion of assets related to the PLD's. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

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

The System administers three defined contribution plans for employees of PLD's that elect to participate. At June 30, 2009, there were 44 employers participating in these plans. The 567 participants individually direct the $7.7 million in assets covered by the plans.

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

BASIS OF ACCOUNTING

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.

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.

CONTRIBUTION INFORMATION

Membership in each defined benefit plan consisted of the following at June 30, 2009:

	State Employees and Teachers Plan	Consolidated Plan for PLD
Active vested and nonvested members	40,715	9,762
Terminated vested participants	6,680	1,102
Retirees and benefit recipients	27,727	7,235
Total	75,122	18,099
Number of participating employers/sponsors	1	279

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

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 6 percent.

STATE EMPLOYEES AND TEACHERS PENSION PLAN SPECIFICS

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is age 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993 (effective October 1, 1999, the prior ten-year requirement was reduced to five years by legislative action). The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

PARTICIPATING LOCAL DISTRICTS PLAN SPECIFICS

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

SPECIAL FUNDING SITUATION – TEACHERS DEFINED BENEFIT PENSION PLAN

The State is legally responsible for contributions to the Teacher Group that covers retirees of other governmental entities. The State is the sole "employer" contributor for the teachers; therefore, is acting as the employer.

FUNDED STATUS AND FUNDING PROGRESS – DEFINED BENEFIT PENSION PLANS

The funded status of each plan as of June 30, 2009, the most recent biennial actuarial valuation date, is as follows:

Plans	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
SETP	8,383,147,465	12,377,262,461	3,994,114,996	67.7%	1,678,930,948	237.9%
PLD's	2,083,711,056	2,032,737,408	(50,973,648)	102.5%	382,515,248	-13.3%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. Additional information as of the latest actuarial valuation date follows:

	SETP		PLD's
Valuation date	June 30, 2009		June 30, 2009
Actuarial cost method	Entry age		Entry age
Amortization method	Level percent closed		Level percent open
Remaining amortization period	19	1	15
Asset valuation method	3-Year smoothed market		3-Year smoothed market
Actuarial assumptions:			
Investment rate of return	7.75%		7.75%
Projected salary increases	4.75% - 10.00%		4.50% - 10.50%
Includes inflation at	4.50%		4.50%
Cost of living adjustments	3.75%		3.75%
Most recent review of plan experience:	2006		2008
Plan changes from last valuation	none		none

[1] The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13

years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2009 was determined by the 2006 valuation, as revised, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 8 years remained at June 30, 2009.

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.

In order to reduce any unfunded pension liability for State employees and teachers under Title 5 MRSA § 1536, the State is required to remit 20 percent of its General Fund unappropriated surplus to the System at year-end. For fiscal 2009, no General Fund unappropriated surplus existed.

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

The actuarially determined contribution rates in effect for 2009 for participating entities:

State		
Employees	1	7.65 - 8.65%
Employer	1	15.85 - 50.14%
Teachers		
Employees		7.65%
Employer		16.72%
Participating Local Entities		
Employees	1	3.0 - 8%
Employer	1	1.5 - 6.5%

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees and/or, in the case of participating local districts (PLDs), on benefit plan options selected by a particular participating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

ANNUAL PENSION COST AND NET PENSION OBLIGATION

The State is one of several employers whose employees are System members. The State's net pension obligation shown at the end of the year includes the pension liability related to its employees. It does not include the pension liability related to PLD's. The State's annual pension cost and net pension obligation to the System for the current year were:

Net Pension Obligation
(Expressed in Thousands)

Annual required contribution	$ 320,112
Interest on net pension obligation	1,446
Adjustment to annual required contribution	(1,273)
Annual pension cost	320,285
Contributions made	320,112
Increase (decrease) in net pension obligation	173
Net pension obligation beginning of year	18,708
Net pension obligation end of year	$ 18,881

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2009	320,285	100.00%	18,881
2008	305,625	99.91%	18,708
2007	303,470	99.87%	18,444

Employer contributions met actuarially determined contribution requirements.

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. For financial reporting purposes, employees of the Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, and the Northern New England Passenger Rail Authority are combined with State employees for retirement benefit purposes and are included in the pension disclosures of the State.

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 also agreed to fund a set percentage of retiree healthcare costs for teachers. Statute prescribes what portion of health insurance costs are funded by the State.

The State of Maine funds post retirement 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 post retirement 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 with retirees who worked 50 percent or more of full-time hours receiving 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 5 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 one major, and two non-major discretely presented component units and a few small commissions. Under the last plan, the State acts as the plan administrator only.

Beginning in the fiscal year ending June 30, 2008, each participating employer is 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	14,654	27,180	912	1,452
Retirees	8,772	9,201	69	239
Total	23,426	36,381	981	1,691
Number of employers	1			3
Contributing entities		1	1	3

STATE EMPLOYEES PLAN FUNDING POLICY

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 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.

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 239 retirees of three component units: Maine Community College System, Maine School for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. The plan also covers 21 retirees of five small councils and commissions. 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	$ 77,000	$ 60,000	$ 1,074
Interest on net OPEB obligation (asset)	(2,000)	1,000	47
Adjustment to annual required contribution	2,000	(1,000)	(76)
Annual OPEB cost	$ 77,000	$ 60,000	$ 1,045
Contributions made	50,384	18,387	257
Increase (decrease) in net healthcare obligation	26,616	41,613	788
Net healthcare obligation (asset) beginning of year	(55,388)	28,343	1,045
Net healthcare (asset) end of year	$ (28,772)		
Net healthcare obligation end of year		$ 69,956	$ 1,833

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 Asset	Net OPEB Obligation
State Employees	6/30/2009	77,000	65.43%	28,772	
	6/30/2008	111,000	149.90%	55,388	
Teachers	6/30/2009	60,000	30.65%		69,956
	6/30/2008	46,000	38.38%		28,343
First Responders	6/30/2009	1,045	24.69%		1,833
	6/30/2008	1,045	0.00%		1,045

Second year of prospective implementation.

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plans as of June 30, 2009 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)
State Employees (in millions)	June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
	June 30, 2008	98	1,242	1,144	7.89%	568	201.41%
Teachers (in millions)	June 30, 2009	0	994	994	0.00%	1,215	85.93%
	June 30, 2008	0	1,044	1,044	0.00%	1,160	85.69%
First Responders (in thousands)	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%
	June 30, 2008	0	19,806	19,806	0.00%	51,021	38.82%

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	6/30/2008 rollforward to 6/30/2009	6/30/2008 rollforward to 6/30/2009	June 30, 2009
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	29	29	28
Plan changes	30-year fixed	30-year fixed	20-year fixed
Actuarial (gains) /losses	10-year fixed	rolling 17 year period	rolling 15 year period
Asset valuation method	market	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.50% initial 7.50% ultimate	4.50%	4.50%
Projected salary increases	4.75%	4.75%	3.75%
Inflation rate	3.75%	3.75%	3.75%
Healthcare inflation rate	initial 8% ultimate 4.5%	initial 9% ultimate 5%	initial 8% ultimate 4.5%

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 and for whom the State acts like the employer for retirement contribution and benefit purposes), members of the Judiciary and the Legislature, that are eligible for membership in the System. Group life insurance benefits are also provided to employees of 431 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, 2009 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Plan provides Basic group life insurance benefits, during retirement, to retirees 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 $.56 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 per $1,000 of coverage per month during the post-employment retired period.

ANNUAL OPEB COST

The State's OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the second year of implementation is as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Net OPEB Asset	Net OPEB Obligation	Percentage of OPEB Cost Contributed
June 30, 2009	5,700	12,377	1,200		217.14%
June 30, 2008	5,500	23		5,477	0.42%

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of June 30, 2009 was as follows:

(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, 2009	17,500	67,900	50,400	25.77%	601,100	8.38%
	June 30, 2008	21,100	64,900	43,800	32.51%	601,100	7.29%
	June 30, 2007	20,800	65,200	44,400	31.90%	521,200	8.52%
Teachers	June 30, 2009	17,700	54,700	37,000	32.36%	591,100	6.26%
	June 30, 2008	19,900	52,100	32,200	38.20%	591,100	5.45%
	June 30, 2007	19,100	54,100	35,000	35.30%	559,100	6.26%

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:

Valuation date	June 30, 2009
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Asset valuation method	3-Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75% - 10.00%
Cost of living increases in life benefits	N/A
Participation percent for future retirees	100.00%
Form of benefit payment	lump sum

NOTE 11 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT

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

GENERAL OBLIGATION BONDS

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

Changes in general obligation bonds of the primary government during fiscal year 2009 were:

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

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009	Due Within One Year
General Obligation Debt:					
General Fund	$ 378,575	$ 96,035	$ 65,685	$ 408,925	$ 74,905
Special Revenue Fund	97,260	37,310	13,505	121,065	11,820
Self Liquidating	-	-	-	-	-
Total	$ 475,835	$ 133,345	$ 79,190	$ 529,990	$ 86,725

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2009 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2010	$ 86,725	$ 20,254	$ 106,979
2011	81,370	17,113	98,483
2012	77,340	14,238	91,578
2013	74,580	11,304	85,884
2014	57,625	8,507	66,132
2015 - 2019	152,350	15,936	168,286
Total	$ 529,990	$ 87,352	$ 617,342

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2009 are as follows:

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

	Amounts Issued	Outstanding June 30, 2009	Fiscal Year Maturities First Year	Last Year	Interest Rates
General Fund:					
Series 2000	66,290	5,605	2000	2010	4.875% - 7.75%
Series 2001	22,050	4,210	2002	2011	4.00% - 6.08%
Series 2002	27,610	8,280	2003	2012	3.00% - 5.75%
Series 2003	97,080	38,820	2003	2013	1.50% - 5.00%
Series 2004	117,275	58,670	2005	2014	2.00% - 5.27%
Series 2005	137,525	91,600	2006	2015	2.00% - 5.27%
Series 2006	52,390	36,665	2007	2016	4.00% - 5.51%
Series 2007	33,975	27,170	2008	2017	4.00% - 5.50%
Series 2008	46,525	41,870	2009	2018	3.00% - 5.13%
Series 2009	96,035	96,035	2011	2019	2.50% - 5.00%
Total General Fund		$ 408,925			
Special Revenue Fund:					
Series 2001	19,225	3,840	2002	2011	4.00% - 5.00%
Series 2004	13,000	6,520	2005	2014	2.00% - 4.00%
Series 2007	27,000	21,600	2008	2017	4.00% - 5.50%
Series 2008	57,550	51,795	2009	2018	3.00% - 5.13%
Series 2009	37,310	37,310	2011	2019	2.50% - 5.00%
Total Special Revenue		$ 121,065			

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, 2009, general obligations bonds authorized and unissued totaled $82.9 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY
The State included $192.3 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 $325.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2009, MGFA did not issue any bonds. At June 30, 2009, there were approximately $71.9 million of MGFA in-substance defeased bonds outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS
The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance construction of certain State buildings, 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 issued and retired $112.1 million in Bond Anticipation Notes during fiscal year 2009. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2008 and June 30, 2009 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

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

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2009, are summarized as follows:

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

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 208,560	$ -	$ 15,625	$ 192,935	$ 17,130
COP's and Other Financing	66,493 *	6,191	22,605	50,079	22,525
Compensated Absences	44,634	5,940	5,208	45,366	5,509
Claims Payable	66,086	197,894	205,369	58,611	23,769
Capital Leases	37,522	7,110	6,998	37,634	6,367
Loans Payable to Component Unit	38,338	100,000	6,569	131,769	9,590
Net Pension Obligation	18,708	173	-	18,881	-
Other Post-Employment Benefit Obligation	34,865	36,924	-	71,789	-
Pollution Remediation	65,599	-	723	64,876	-
Total Governmental Activities	$ 580,805	$ 354,232	$ 263,097	$ 671,940	$ 84,890
Business-Type Activities:					
Compensated Absences	$ 750	$ 130	$ -	$ 880	$ 189
Total Business-Type Activities	$ 750	$ 130	$ -	$ 880	$ 189

* As restated

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2009 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
2010	$ 9,884	$ 610	$ 10,494	$ 29,770	$ 9,589	$ 39,359
2011	4,047	247	4,294	25,006	8,388	33,394
2012	2,246	104	2,350	22,367	7,413	29,780
2013	359	34	393	21,720	6,544	28,264
2014	126	25	151	17,464	5,647	23,111
2015 - 2019	415	38	453	73,740	17,168	90,908
2020 - 2024	-	-	-	26,300	4,343	30,643
2025 - 2029	-	-	-	9,570	1,138	10,708
Total	$ 17,077	$ 1,058	$ 18,135	$ 225,937	$ 60,230	$ 286,167

CONDUIT DEBT OBLIGATIONS

Under a General Bond Resolution adopted on June 5, 1973, Maine Health and Higher Educational Facilities Authority (MHHEFA) issues tax exempt bonds to assist in financing health care institutions and institutions for higher education. Loans to institutions made with proceeds of general resolution bonds are written for the entire amount of the bonds, including debt service reserve funds. Security for these bonds is limited to debt service reserve funds of and the loans to the specific institution for which the bond was issued. Therefore, these bonds are considered conduit debt.

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.

Changes in GARVEE and TransCap revenue bonds during fiscal year 2009 were:

Primary Government - Changes in GARVEE and TransCap Revenue Bonds
(Expressed in Thousands)

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009	Due Within One Year
Loans Payable to Component Unit:					
Federal Funds	$ 38,338	$ 50,000	$ 4,135	$ 84,203	$ 7,625
Special Revenue Fund	-	50,000	2,434	47,566	1,965
Total	$ 38,338	$100,000	$ 6,569	$ 131,769	$ 9,590

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 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 debt or liability of the State.

GARVEE and TransCap Revenue bonds issued and outstanding at June 30, 2009 are as follows:

GARVEE and TransCap Revenue Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2009	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
Federal Funds:					
Series 2004	49,423	34,203	2005	2015	2.50% - 5.00%
Series 2008	50,000	50,000	2010	2021	3.25% - 4.00%
Total Federal Funds		$ 84,203			
Special Revenue Fund:					
Series 2008	50,000	47,566	2010	2024	3.00% - 5.50%
Total Special Revenue		$ 47,566			

Total principal and interest requirements over the life of the 2004 GARVEE bonds are $60.2 million, with annual requirements of up to $5.6 million; for the 2008 GARVEE bonds total principal and interest requirements are $63.1 million, with annual requirements of up to $5.3 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the 2004 GARVEE bonds totaled $175 million. Total federal highway transportation funds received in federal fiscal year 2009 were $147.5 million. Current year payments to MMBB for GARVEE bonds were $6.4 million (4.3 percent of federal highway transportation funds received).

Total principal and interest requirements over the life of the 2008 TransCap Revenue Bond are $71.9 million, with annual requirements up to $4.8 million. Total revenue received for revenue sources used as pledged revenues were $37.9 million in fiscal year 2008. Pledged revenues will be transferred to the TransCap Fund beginning in fiscal year 2010.

OBLIGATIONS UNDER CAPITAL LEASES

The State leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below. At June 30, 2009 capital assets include $72.1 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $38.7 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 $1.9 million during the year.

A summary of the operating and noncancelable capital lease commitments to maturity follows:

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

Fiscal Year	**Capital Leases**	**Operating Leases**
2010	$ 6,156	$ 1,781
2011	5,790	679
2012	5,528	334
2013	4,488	199
2014	3,924	175
2015 - 2019	14,007	227
2020 - 2024	5,076	1
2025 - 2029	975	-
2030 - 2034	-	-
Total Minimum Payments	45,944	$ 3,396
Less: Amount Representing Interest	8,521	
Present Value of Future Minimum Payments	$ 37,423	

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 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 liabilities as required by GASB. In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. The liabilities are liquidated by the funds that account for the salaries and wages of the related employees.

COMPONENT UNITS

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State. The following table summarizes bonds outstanding for selected material balances of discretely presented component units, as reported in their separately issued financial statements, utilizing their respective fiscal year-ends:

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	1.0 - 3.31%	287,490	2009 – 2037
Maine Community College System	4.0 - 5.0%	23,371	2012 - 2036
Maine Health and Higher			
Educational Facilities Authority			
debt	2.0 - 6.2%	1,325,015	2009 - 2038
conduit debt	4.5- 7.3%	149,080	2009 - 2039
Maine Municipal Bond Bank	1.0 - 10.25%	1,238,524	2009 – 2038
Maine State Housing Authority	2.00 - 6.50%	1,445,446	2009 – 2042
University of Maine System	2.0 - 5.75%	210,581	2009 – 2037

MHHEFA advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future payment on the debt. On December 3, 2008, MHHEFA issued $41.7 million Series 2008D reserve fund revenue bonds with an average interest rate of 5.38%. A portion of the $16.2 million proceeds was used to refund $16.1 million in in-substance defeased bonds. On May 14, 2009, MHHEFA issued $118.5 million Series 2009A and 2009B general resolution bonds with a combined average interest rate of 5.29 percent. A portion of the $123.6 million proceeds was used to refund $111.6 million of in substance defeased bonds. At June 30, 2009, there were approximately $114.0 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund resolution. At June 30, 2009, there were approximately $13.6 million of defeased bonds outstanding with respect to advance refunded bond issues of the general resolution. The general resolution bonds are considered conduit debt.

UMS advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future debt service payment on the debt. At June 30, 2009, $34.9 million of in-substance defeased bonds remained outstanding.

In periods of declining interest rates, MMBB has refunded 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. At June 30, 2009 the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately $128 million.

For the period ended December 31, 2008, MSHA redeemed $298.4 million of its Mortgage Purchase Fund group bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds. Mortgage Purchase Fund losses of $441 thousand were attributable to recognition of the redemption premium, bond discount and debt issuance expenses associated with the redeemed bonds. MSHA also redeemed $335.4 million of its General Housing Draw Down Bond Fund group from the bond escrow funds.

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	UMS	MHHEFA
2010	$ 67,814	$ 111,071	$ -	$ 39,920	$ 8,073	$ 50,235
2011	805	111,420	-	38,540	8,514	52,810
2012	55	102,763	-	38,725	39,408	55,600
2013	56	97,441	545	41,185	7,603	59,085
2014	57	90,924	565	40,785	7,960	58,300
2015-2019	292	378,046	3,190	231,080	37,161	287,685
2020-2024	306	233,790	3,955	282,605	35,420	272,955
2025-2029	52	97,075	5,020	274,055	30,970	230,445
2030-2034	41,638	11,000	6,400	279,570	28,560	170,640
2035-2039	177,352	1,400	2,947	172,415	4,340	87,260
2040-2044	-	-	-	21,890	-	
2045-2049	-	-	-	-	-	-
Net unamortized premium or (deferred amount)	(937)	3,594	749	(15,324)	2,572	-
Total Principal Payments	$ 287,490	$ 1,238,524	$ 23,371	$ 1,445,446	$ 210,581	$ 1,325,015

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. All departments have elected to insure through the Risk Management Division. The Department of Transportation elected to purchase general liability insurance as of April 1, 2007; in prior fiscal years the Department of Transportation had elected not to purchase general liability insurance through the Risk Management Division.

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

* 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.

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, 2008. 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, 2009 and 2008, the present value of the claims payable for the State's self-insurance plan was estimated at $3.5 million and $3.5 million, respectively. The actuary calculated this based on the State's rate on investments.

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

	2009	2008
Liability at Beginning of Year	$ 3,525	$ 3,190
Current Year Claims and Changes in Estimates	530	1,058
Claims Payments	530	723
Liability at End of Year	$ 3,525	$ 3,525

As of June 30, 2009, fund assets of $22.5 million exceeded fund liabilities of $4.1 million by $18.4 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added $50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400 thousand. The effect of this change has been partially incorporated into the estimate used to determine claims payable as of June 30, 2009.

B. UNEMPLOYMENT INSURANCE

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $1.1 million for the fiscal year ended June 30, 2009.

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, 2009:

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

	2009	2008
Liability at Beginning of Year	$ 45,358	$ 45,358
Current Year Claims and Changes in Estimates	1,622	9,474
Claims Payments	8,307	9,474
Liability at End of Year	$ 38,673	$ 45,358

Based on the actuarial calculation as of June 30, 2009, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $45.4 million. The discounted amount is $38.7 million and was calculated based on a 3.5 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 Anthem Blue Cross and Blue Shield provides catastrophic coverage for individual claims exceeding $500 thousand.

The State retained an independent contractor for claims administration, utilization review, and case management services. Premiums are paid to the independent contractor based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. The Group Companion Plan is a supplement to Medicare Parts A & B and is available to Medicare eligible retirees. Total enrollment averaged approximately 40,200 covered individuals. This total includes 29,000 active employees and dependents, 4,400 pre-Medicare retirees and dependents, and 6,800 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, 2009, the State recorded a payable of $9.9 million for an underpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $16.4 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2009 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 10,956	$ 6,582
Current Year Claims and Changes in Estimates	145,775	49,632
Claims Payments	144,326	52,206
Liability at End of Year	$ 12,405	$ 4,008

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. $38.4 million in retiree healthcare costs were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $12 million of active employee healthcare costs was 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 2009, 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	$	32,251
Noncurrent Assets		69,707
Total Assets	$	101,958
Current Liabilities	$	21,630
Long-term Liabilities		64,752
Total Liabilities		86,382
Designated Prize Reserves		4,345
Reserve for Unrealized Gains		11,231
Total Net Assets		15,576
Total Liabilities and Net Assets	$	101,958
Total Revenue	$	65,303
Total Expenses		44,446
Allocation to Member States		20,857
Change in Unrealized Gain on Investments Held for Resale		(287)
Change in Net Assets	$	(287)

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 32 member State lotteries, including the District of Columbia and the United States Virgin Islands. The MUSL is managed by a board of directors, which is comprised of the lottery directors or their designee from each of the party States, and authorized to initiate, promulgate, administer and carry out one or more lottery product offerings that will enhance the participating party lottery's revenue.

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the board are divided equally among all of the participating lotteries.

Jackpot prizes payable in installments are satisfied through investments purchased by the MUSL. The MUSL purchases US government obligations which are held in irrevocable trusts established by the MUSL for the benefit of participating State lotteries. Each week the MUSL allocates 50 percent of sales to the prize pool. If no winning ticket is selected, the available jackpot is carried over to the following jackpot drawing.

The Multi-State Lottery Association's financial report for fiscal year 2009, 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	$ 116,777
Investments in US Government Securities	113,564
US Government Securities Held for Prize Annuities	561,399
Due from Party Lotteries	22,758
Other Assets	1,992
Total Assets	$ 816,490
Amount Held for Future Prizes	$ 225,677
Grand Prize Annuities Payable	586,653
Other Liabilities	3,366
	815,696
Net Assets, Unrestricted	794
Total Liabilities and Net Assets	$ 816,490
Total Revenue	$ 4,140
Total Expenses	3,621
Excess of revenue over expenses	519
Net assets, beginning	275
Net assets, ending	$ 794

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

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

By statute, program assets are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen had approximately $4.2 billion in net assets at June 30, 2009, which have been recorded in a Private Purpose Trust Fund on the financial statements of the State.

The State of Maine pays a local company as a provider for mental health and independent living services through the MaineCare program. The Executive Director of the Company also serves as House Chair of the Joint Standing Committee on Health and Human Services in the Maine Legislature. During fiscal 2009, the State paid $14.7 million for these services; $3.7 million from the General Fund; $8.8 million from the Federal Fund and $2.2 from the Other Special Revenue Fund. At June 30, 2009, the State had no outstanding balance with this vendor.

The State of Maine pays a family owned company as a provider for road reconstruction through the Department of Transportation. The family includes a House Representative on the Utilities and Energy Committee. During fiscal 2009, the State paid $12.5 million for these services; $11.3 million from the Highway Fund, $.5 million from the Transit, Aviation and Rail Transportation Fund and $.7 million from the Capital Projects Fund. At June 30, 2009, the State owed $458 thousand to this vendor.

The State of Maine pays subsidiaries of a local business for nursing facilities medical care services for seniors. The Chief Executive Officer of the company is the spouse of a Deputy Director. During fiscal 2009, the State paid $10.8 million for these services; $3.9 million from the General Fund and $6.9 million from the Federal Fund. At June 30, 2009, the State had no outstanding balance with this vendor.

The State of Maine pays a local non-profit to provide medical care, nursing facilities and MaineCare services to individuals with developmental disabilities. The Chief Executive Officer of the company is the spouse of the Commissioner of the Department of Health and Human Services. During fiscal 2009, the State paid $5.6 million for these services; $3.6 million from the Federal Fund and $2.0 million from the General Fund. At June 30, 2009, the State had no outstanding balance with this vendor.

The State of Maine entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Public Lands and the Bureau of Parks and Recreation. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated May 1991.

COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $236.1 million; Maine Community College System, $62.9 million; Maine Municipal Bond Bank, $10.8 million; Finance Authority of Maine, $12.1 million; and Maine State Housing Authority, $3.2 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $32.2 million at June 30, 2009, as a liability in Amounts Held Under State Revolving Loan Programs in their financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2009, the State expended $3.9 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. During fiscal year 2007, the NextGen College Savings grant funds and the Maine State Grant funds were pooled into the new State of Maine Grant. FAME paid approximately $7.8 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

RELATED ORGANIZATIONS
The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature defined operating surplus within the Maine Turnpike Authority statute to be the total operating revenues of the Authority after money has been set aside to pay reasonable operating expenses and to meet the requirements of any resolution authorizing bonds. The Authority, with the concurrence of the Maine Department of Transportation, established the operating surplus at $4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 2009.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

PRIMARY GOVERNMENT

LITIGATION
The State of Maine, its units, and its employees are parties to numerous legal proceedings, many of which are the result of normal governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. The following cases have the potential for liability in excess of $1 million. Even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, the State could incur a large judgment.

In various lawsuits, Plaintiffs seek damages in excess of $1 million against the State or against State officials, and various notices of claim also specify damages in excess of $1 million where no lawsuit has been filed. In none of these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed $1 million. Therefore, these suits have not been individually identified.

Numerous workers' compensation claims are now pending against various State agencies. Since most claims involve the possibility for significant long-term damages, and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

FEDERAL GRANTS
The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

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, 2009 is $64.9 million. Superfund sites account for approximately $54.3 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 $15.5 million. 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 $30.1 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in August of 2012, the State will assume 100 percent of the operation and maintenance and monitoring costs. As of June 30, 2009 the State has received $2.2 million in recoveries from the Department of Defense. The State expects to recover additional costs of $12.9 million.

Union Chemical Co., Inc. – The State recorded a liability for pollution remediation activities of approximately $1.2 million related to future response costs. The State expects to recover the $1.2 million.

Callahan Mine – The State recorded a liability for pollution remediation activities of approximately $7.5 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 $10.6 million related to seven of eight uncontrolled hazardous substance sites. The State expects to recover $10 million in costs. The pollution remediation liability for one of these sites could not be reasonably estimated. 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

Title 38 MRSA §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for landfill remediation projects totaled $528 thousand for fiscal year 2009.

During the 2009 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills, except the Commissioner may make grants or payments up to 30 percent, if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. No additional cost share eligible closures have been approved by DEP. Consequently, the DEP expects no further expenditures for municipal landfill closures.

During the 2009 fiscal year, the State expended $528 thousand of general obligation bond funds for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue for 90 percent of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50 percent for structures constructed after that date. The DEP recognizes that, in the future, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs could be as much as $3.5 million, based on current site knowledge, the increasing frequency of residential development near closed municipal landfills, the discovery of older abandoned dump sites now occupied by residential homes, and recent issues involving gas migration from two municipal landfills in the state. Approximately $275 thousand remains in the existing municipal landfill bond account. The bond funds currently available are insufficient to fully cover identified obligations. Additional bond funds will be necessary to cover current outstanding obligations as well as potential future remedial actions.

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 $24 million. This consists of approximately $18 million for State-owned facilities and approximately $6 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 MRSA § 411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2009 fiscal year, $4.7 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2009, amounts encumbered for pollution abatement projects totaled $9.5 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $2.6 million. As of June 30, 2009, DEP estimated the total cost (federal, State, and local) of future projects to be $533 million.

GROUND WATER OIL CLEAN-UP FUND

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

A report to the legislature dated February 15, 2007, submitted by the Maine Department of Environmental Protection (DEP), identified 359 long-term remediation sites as of January 2007 that are covered by the insurance program. As of August 28, 2007 there were 377 sites on the long-term remediation priority list. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes 51.0 percent of the annual payments. As of June 30, 2009, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $947.3 million.

At June 30, 2009, the Department of Transportation had contractual commitments of approximately $34.4 million for construction of various highway projects. The State's share of that amount is expected to be approximately $8.5 million. Of these amounts, $1.6 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

At June 30, 2009, UMS had outstanding commitments on uncompleted construction contracts totaled $9.6 million.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and six civil jurisdictions (collectively known under the MSA as the "Settling States"), entered into a Master Settlement Agreement (MSA) with certain Participating

Tobacco Manufacturers (PMs). 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 PMs to protect public health. In this settlement, the PMs 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 (NPMs) 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 PMs claim an NPM Adjustment for a given year and prove that they lost market share to the NPMs 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 PMs 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 PMs, and calculated as set forth in the MSA, was approximately 18 percent of the total amount paid by the PMs 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 PMs 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 2009, Maine received a total of $59.2 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, 2009, the Fund included $4.4 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2009 of approximately $153.4 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, 2009, the amount reported in the Fund for claimant liability is $29.9 million. The General Fund shows a $25 million payable to the Escheat Fund.

NURSING HOME LOANS

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

MHHEFA advanced approximately $542 thousand from the operating fund as of June 30, 2009 to other financially troubled institutions, with combined loan amounts due the Authority of approximately $9.5 million at June 30, 2009, including loans of $9.1 million reserved at June 30, 2009. These advances were primarily made to assist these institutions in meeting debt service requirements in years prior to fiscal 2009. MHHEFA also has approximately $.4 million of other receivables outstanding with the operating fund at June 30, 2009, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf. MHHEFA established a $.7 million reserve in its operating fund related to the above loans, advances and other receivables outstanding.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2009, loans outstanding pursuant to these authorizations are $34.1 million, less than $1 million, and less than $1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2009.

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, 2009, 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, 2009.

MORAL OBLIGATIONS

The State of Maine, through statute, enables certain Authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the Authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the Authority to issue debt that is not secured by these funds.

On or before December first of each year, the Authority is required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The Governor shall certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then-current State fiscal year.

These moral obligations are not considered to be "full faith and credit" obligations of the State, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.

The following summarizes information regarding outstanding moral obligations:

Moral Obligation Bonds
(Expressed in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Maine Health and Higher Educational Facilities Authority - debt	$ 1,325,015	$107,373	no limit	22 MRSA § 2075
conduit debt	149,080		no limit	22 MRSA § 2075
Finance Authority of Maine	37,403	-	$ 698,685	10 MRSA §1032, 1053
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority *	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,234,930	132,281	no limit	30-A MRSA §6006
Maine Educational Loan Authority *	32,115	1,029	50,000	20-A MRSA §11424
Maine State Housing Authority	1,445,446	-	2,150,000	30-A MRSA §4906
Total	$ 4,223,989	$240,683		

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

NOTE 16 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On October 29, 2009 the State issued $14.4 million, of Bond Anticipation Notes that mature on June 15, 2010.

COMPONENT UNITS

On February 24, 2009, the Maine State Housing Authority (MSHA) redeemed at par $23.8 million of its 1997 through 2006 Mortgage Purchase Fund bonds.

On July 22, 2009, the Maine Municipal Bond Bank (MMBB) issued $105 million of Series A Transportation Infrastructure Revenue Bonds. The Bonds mature from 2010 to 2023 and carry an interest rate ranging from 2.5 percent to 5 percent. On August 27, 2009, MMBB issued $21.6 million of its 2009 Series C General Resolution Bonds. The bonds mature from 2010 to 2029 and carry an interest rate ranging from 1.1 percent to 4.25 percent. Also on August 27, 2009 MMBB issued $34.9 million of its 2009 Series D Bonds $4.7 million of Series E Refunding Bonds and $19.1 million of Series F Refunding Bonds. The 2009 Series E Refunding Bonds refunded the 1994 Series D Bonds maturing in 2014 for $4.7 million, and the Series F Refunding Bonds refunded the 1998 Series C and 199 Series C and E Bonds maturing in 2010 to 2012, aggregating $19.4 million.

On September 30, 2009, the Maine Health and Higher Educational Facilities Authority sold all of the assets of Portland Center for Assisted Living to a third-party. The purchase price exceeded the carrying value of the assets sold.

STATE GENERAL FUND REVENUES

Subsequent to year-end, the State's General Fund revenues have not met budgeted estimates based on the revenue reforecast in May, 2009. The October 2009 revenue forecast has estimated that revenues for the fiscal year 2010 and 2011 biennium will be reduced by a total of $383.7 million. The fiscal year 2010 impact of this revenue reduction is expected to be $209.4 million. On November 20, 2009 the Governor signed a curtailment order reducing General Fund allotment by $63.1 million as the first step in addressing the revenue shortfall. A supplemental budget package for the biennium will be submitted to the legislature in January 2010.

TAX RECEIVABLES REDUCTION INITIATIVE

In August 2009, Governor Baldacci and the Legislature authorized the Tax Receivables Reduction Initiative (TRRI). This program is intended to encourage delinquent taxpayers to pay existing tax obligations. TRRI will allow taxpayers with tax liabilities that were assessed as of September 1, 2009 to resolve those liabilities with payment of the tax, the interest and 10 percent of the penalty. By making the payment and signing the TRRI application, the remaining 90 percent of the penalties will be waived.

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues								
Taxes	$ 2,993,244	$ 2,721,660	$ 2,682,299	$ (39,361)	$ 234,197	217,243	$ 216,201	$ (1,042)
Assessments and Other	115,806	118,677	120,089	1,412	105,306	98,046	97,744	(302)
Federal Grants	3,091	14,613	14,844	231	400	400	3	(397)
Service Charges	46,312	42,553	44,211	1,658	5,070	4,684	7,587	2,903
Income from Investments	(3,205)	1,028	3,831	2,803	1,000	458	480	22
Miscellaneous Revenue	7,025	9,570	11,132	1,562	2,157	2,111	542	(1,569)
Total Revenues	3,162,273	2,908,101	2,876,406	(31,695)	348,131	322,942	322,557	(385)
Expenditures								
Governmental Support and Operations	262,247	260,779	239,485	21,294	39,249	38,405	36,626	1,779
Economic Development & Workforce Training	41,051	38,986	37,030	1,956	-	-	-	-
Education	1,493,007	1,476,164	1,455,087	21,077	-	-	-	-
Health and Human Services	1,026,428	981,669	929,836	51,833	-	-	-	-
Business Licensing & Regulation	40	38	-	38	-	-	-	-
Natural Resources Development & Protection	71,778	69,055	68,114	941	46	45	38	7
Justice and Protection	265,798	275,133	271,853	3,280	37,988	37,552	36,401	1,151
Arts, Heritage & Cultural Enrichment	8,696	8,108	8,084	24	-	-	-	-
Transportation Safety & Development	-	-	-	-	270,681	280,418	230,279	50,139
Total Expenditures	3,169,045	3,109,932	3,009,489	100,443	347,964	356,420	303,344	53,076
Revenues Over (Under) Expenditures	(6,772)	(201,831)	(133,083)	68,748	167	(33,478)	19,213	52,691
Other Financing Sources (Uses)								
Operating Transfers Net	(66,458)	(53,338)	(57,247)	(3,909)	2,112	2,207	(6,270)	(8,477)
Proceeds from Pledged Future Revenues								
Net Other Financing Sources (Uses)	(66,458)	(53,338)	(57,247)	(3,909)	2,112	2,207	(6,270)	(8,477)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (73,230)	$ (255,169)	$ (190,330)	$ 64,839	$ 2,279	$ (31,271)	$ 12,943	$ 44,214
Fund Balances at Beginning of Year			321,351				114,914	
Fund Balances at End of Year			$ 131,021				$ 127,857	

Federal Funds				Other Special Revenue Fund			
Original Budget	**Final Budget**	**Actual**	**Variance with Final Budget**	**Original Budget**	**Final Budget**	**Actual**	**Variance with Final Budget**
$ -	$ -	$ -	$ -	$ 224,627	$ 220,724	$ 207,016	$ (13,708)
7	-	6	6	133,303	132,363	104,035	(28,328)
2,293,825	3,319,643	2,852,181	(467,462)	16,086	17,512	7,527	(9,985)
7	1,007	678	(329)	143,327	161,121	159,807	(1,314)
17	17	211	194	2,355	2,324	1,675	(649)
1,975	2,225	3,078	853	249,336	294,739	170,413	(124,326)
2,295,831	3,322,892	2,856,154	(466,738)	769,034	828,783	650,473	(178,310)
9,039	15,598	6,092	9,506	166,690	170,965	152,218	18,747
117,978	220,890	158,622	62,268	34,463	26,565	17,843	8,722
189,501	255,135	224,307	30,828	7,867	9,922	6,326	3,596
1,901,772	2,384,031	2,132,268	251,763	505,751	516,139	398,219	117,920
972	1,557	817	740	76,547	114,183	64,070	50,113
42,830	62,177	39,237	22,940	120,797	146,540	101,303	45,237
102,256	141,924	66,248	75,676	39,356	43,659	35,910	7,749
3,475	3,556	2,873	683	2,015	2,217	1,179	1,038
194,395	263,835	178,337	85,498	14,866	91,984	80,668	11,316
2,562,218	3,348,703	2,808,801	539,902	968,352	1,122,174	857,736	264,438
(266,387)	(25,811)	47,353	73,164	(199,318)	(293,391)	(207,263)	86,128
258	258	4,334	4,076	145,087	126,136	136,201	10,065
				-	66,000	55,543	(10,457)
258	258	4,334	4,076	145,087	192,136	191,744	(392)
$ (266,129)	$ (25,553)	$ 51,687	$ 77,240	$ (54,231)	$ (101,255)	$ (15,519)	$ 85,736
		2,683				222,117	
		$ 54,370				$ 206,598	

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 131,021	$ 127,857	$ 54,370	$ 206,598
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	207,972	1,433	-	9,751
Intergovernmental Receivables	-	-	643,441	-
Other Receivables	4,899	2,134	67,814	66,325
Inventories	1,473	-	1,387	-
Due from Component Units	4		12	1,254
Due from Other Funds	29,336	14,452	2,312	81,635
Other Assets	3,187	-	436	-
Deferred Revenues	(220,452)	(7,005)	(1,387)	(27,564)
Total Revenue Accruals/Adjustments	26,419	11,014	714,015	131,401
Expenditure Accruals/Adjustments:				
Accounts Payable	(210,121)	(13,091)	(588,969)	(24,537)
Due to Component Units	(1,912)	(69)	(6,000)	(337)
Bonds Issued	-	-	-	-
Accrued Liabilities	(25,315)	(10,332)	(7,570)	(9,690)
Taxes Payable	(135,124)	(4)	-	-
Intergovernmental Payables	-	-	(105,883)	-
Due to Other Funds	(58,361)	(80,490)	(32,800)	(3,172)
Total Expenditure Accruals/Adjustments	(430,833)	(103,986)	(741,222)	(37,736)
Fund Balances - GAAP Basis	$ (273,393)	$ 34,885	$ 27,163	$ 300,263

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING

Statutory/Budgetary Presentation

In accordance with statute, the Governor presents a biennial budget for the General Fund and special revenue funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

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

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

Detailed budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2009, the legislature deappropriated $217.2 million of original appropriations for the General Fund.

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

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

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

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most "operating" funds.

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2008-2009, 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 7, 2007, 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, 2009 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.

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(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, 2009	8,383,147,465	12,377,262,461	3,994,114,996	67.7%	1,678,930,948	237.9%
June 30, 2008	8,691,075,704	11,721,271,968	3,030,196,264	74.1%	1,628,421,362	186.1%
June 30, 2007	8,302,466,643	11,209,708,127	2,907,241,484	74.1%	1,595,199,514	182.2%
June 30, 2006	7,556,514,663	10,598,346,071	3,041,831,408	71.3%	1,546,315,522	196.7%
June 30, 2005	7,013,846,148	10,048,587,643	3,034,741,495	69.8%	1,516,390,862	200.1%
June 30, 2004	6,498,608,717	9,485,605,608	2,986,996,891	68.5%	1,472,429,214	202.9%
June 30, 2003	6,085,632,834	9,007,851,422	2,922,218,588	67.6%	1,442,278,362	202.6%

Major changes in actuarial assumptions include the following:

Valuation date	June 30, 2008	June 30, 2006	June 30, 2004
Actuarial assumptions:			
Investment rate of return	7.75%	7.75%	8.00%
Projected salary increases	4.75% - 10.00%	4.75% - 10.00%	5.50% - 9.50%
Includes inflation at	4.50%	4.50%	4.50%
Cost of living adjustments	3.75%	3.75%	4.00%

The Maine Public Retirement System (the System), which is a component unit of the State, is the administrator of an agent, multiple-employer, defined benefit public employee retirement system. The June 30, 2009 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2009 was determined by the 2006 valuation, as revised, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 8 years remained at June 30, 2009.

Note: Actuarial valuations are performed biennially on even years. Rollforward valuations occur on odd numbered years. The latest actuarial valuation occurred June 30, 2008.

Required Supplementary Information – Other Post-employment Benefit Plans

Schedules of Funding Progress
(Expressed in millions)

State Employees Healthcare Plan

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued Liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
June 30, 2008	98	1,242	1,144	7.89%	568	201.41%

Teachers Healthcare Plan

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued Liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 2009	$-	994	994	0.00%	1,215	81.81%
June 30, 2008	$-	1,044	1,044	0.00%	1,160	90.00%

State Employees Group Life Insurance Plan

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued Liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 2009	17.5	67.9	50.4	25.77%	601.1	8.38%
June 30, 2008	21.1	64.9	43.8	32.51%	601.1	7.29%
June 30, 2007	20.8	65.2	44.4	31.90%	521.2	8.52%

Teachers Group Life Insurance Plan

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued Liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 2009	17.7	54.7	37.0	32.36%	591.1	6.26%
June 30, 2008	19.9	52.1	32.2	38.20%	591.1	5.45%
June 30, 2007	19.1	54.1	35.0	35.30%	559.1	6.26%

Schedules of Funding Progress

(Expressed in 000's)

First Responders Healthcare Plan

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(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, 2009	$-	20,063	20,063	0.00%	51,876	38.67%
June 30, 2008	$-	19,806	19,806	0.00%	51,021	38.82%

Schedule of Employer Contributions

(Expressed in 000's)

	Employer Contributions							
	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 - 2009	77,000	65.43%		60,000	30.65%		1,045	.25%
Healthcare - 2008	111,000	149.90%		46,000	38.38%		1,045	0%
Group Life - 2009	5,700	217.14%					N/A	N/A
Group Life - 2008	5,500	.42%					N/A	N/A

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 8,811 highway miles or 17,921 lane miles of roads and 2,963 bridges having a total deck area of 12 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.

<u>**Highways**</u>

Measurement Scale for Highways

The Maine Department of Transportation (MDOT) uses six indicators to determine the condition of highway adequacy. The six indicators and their relative point weighting are listed in the table below.

Data Element	Point Rating (%)	Description
Pavement Condition Rating (PCR)	45	PCR is defined as the composite condition of the pavement on a roadway only, and is compiled from the severity and extent of pavement distresses such as cracking, rutting and patching. It is the key indicator used to determine the optimum time to treat a particular section of road. Points decrease as PCR decreases.
Safety	20	Statewide crash rates are used to allocate points. Locations with high rates get fewer points.
Backlog (Built v Unbuilt roadway)	15	A “Built” road is one that has been constructed to a modern standard, usually post 1950. This includes adequate drainage, base, and pavement to carry the traffic load, and adequate sight distance and width to meet current safety standards. “Unbuilt” (backlog) is defined as a roadway section that has not been built to modern standards. Yes or No (15 or 0).
Annual Average Daily Traffic divided by the hourly highway capacity (AADT/C)	10	This ratio measures how intensely a highway is utilized. As a highway facility’s AADT/C ratio increases, the average speed of vehicles on that facility tends to decrease. This decrease in average speed is evidence of reduced mobility. As congestion increases, points decrease (0-10).
Posted Speed	5	Lower speeds equal fewer points.
Paved Shoulder	5	In general, roadways with paved shoulders perform at a higher level and last longer than those without shoulders or with only gravel shoulders. Yes or No (5 or 0).
	100	

Bridges

MDOT uses four separate factors to obtain a numerical value used to indicate the ability of bridges to remain in service at the current level of usage. The numeric value is a percentage ranging from 0% to represent an entirely insufficient or deficient bridge, and 100% to represent an entirely sufficient bridge. The four indicators and their relative point weighting are listed in the table below. The composite numeric value is based on the sufficiency rating formula in the Recording and Coding Guide for Structure Inventory and Appraisal of the Nation's Bridges.

Data Element	Point Rating (%)	Description
Structural Adequacy and Safety	55	This category considers inventory rating, superstructure, substructure and culverts.
Serviceability and Functional Obsolescence	30	Serviceability and functional obsolescence that addresses the number of lanes, average daily traffic, roadway width, bridge width, deck condition, under clearances, waterway adequacy, alignment, and defense highway designation.
Essentiality for Public Use	15	This considers detour length, average daily traffic, and defense highway designation.
Special Reductions	(13)	The sufficiency rating also includes consideration of special reductions for detour length, safety features, and type of structure.

Assessed Conditions
The following table shows adequacy ratings for maintenance levels from Excellent to Poor.

Adequacy Rating	Total
Excellent	80-100
Good	70-80
Fair	60-70
Poor	0-60

MDOT intends to maintain highways and bridges at an adequacy rating of 60 or higher. The following table shows adequacy ratings achieved by MDOT.

Fiscal Year	Highways	Bridges
2009	75.3	78.0
2008	75.6	79.0
2007	76.0	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
(Amounts in millions)

	2009	2008	2007	2006	2005
Highways	$ 74.5	$ 80.0	$ 71.7	$ 46.3	$ 42.1
Bridges	1.6	1.6	1.6	4.8	4.0
Total	**$ 76.1**	**$ 81.6**	**$ 73.3**	**$ 51.1**	**$ 46.1**

Estimated Preservation Costs
(Amounts in millions)

	2009	2008	2007	2006	2005
Highways	$ 52.2	$ 97.7	$ 59.7	$ 47.1	$ 43.8
Bridges	4.3	2.0	1.3	4.9	4.2
Total	**$ 56.5**	**$ 99.7**	**$ 61.0**	**$ 52.0**	**$ 48.0**

Transportation Bonds
Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 39, PL 2007, $50 million was spent during FY2009.

INDEX TO FINANCIAL INFORMATION

Section II - Certain Information from the State Controller's Budgetary and Legal Requirements Reports for Fiscal Years 2005 through 2009 (Unaudited) **Page**

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

GOVERNMENTAL FUNDS

COMBINED STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY

For the Years Ended June 30

(thousands $000's)

	2005	2006	2007	2008(1)	2009
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 1,033,595	$ 1,105,148	$ 1,142,801	$ 1,157,608	$ 1,083,760
Individual Income Tax	1,345,416	1,323,049	1,427,163	1,521,890	1,302,912
Corporate Income Tax	142,792	197,604	193,184	216,503	184,939
Cigarette and Tobacco Tax	96,351	156,951	158,953	150,499	144,425
Inheritance and Estate Tax	32,256	75,331	54,820	39,891	31,819
Gasoline, Use Fuel and Motor Carrier Tax	224,033	225,889	231,214	229,600	220,526
Insurance Tax	93,326	103,108	89,437	102,032	92,353
Public Utilities Tax	50,515	45,975	40,758	49,564	46,300
Other Industry or Occupation Taxes	131,831	150,888	202,616	182,327	194,516
Real Estate Transfer Tax	32,995	33,953	29,355	24,685	17,708
Unorganized Territories Property Tax	17,264	19,354	19,864	19,159	21,127
Other Taxes	28,470	41,073	9,047	15,003	14,963
Total Taxes	3,228,844	3,478,323	3,599,212	3,708,762	3,355,349
From Federal Government	2,323,057	2,372,356	2,166,136	2,211,181	2,861,697
From Cities, Towns and Counties	9,945	8,264	12,050	13,672	22,167
From Private Sources	173,608	171,569	168,051	189,838	197,675
Service Charge for Current Services	234,561	196,689	153,736	157,515	163,369
Fines, Forfeitures & Penalties	43,800	47,908	52,386	55,033	54,854
Vehicle Registration and Drivers Licenses	87,801	90,830	90,457	89,096	94,938
Hunting, Fishing and Related Licenses	18,275	18,262	18,566	17,917	17,587
Transferred from Bureau of Alcoholic Beverages	(155)	26	-	-	-
Transferred from Lottery Commission	49,328	51,788	50,625	49,491	49,839
Transferred from Other Funds	42,543	30,881	30,958	30,998	33,130
Transferred for Revenue Sharing	(119,713)	(124,222)	(130,491)	(135,820)	(102,134)
Income from Investments	13,078	16,228	9,672	5,861	4,944
Other Revenues	13,094	9,207	11,680	30,266	15,695
	2,889,224	2,889,786	2,633,826	2,715,049	3,413,760
Other Financial Resources					
Proceeds of General Obligation Bonds	144,325	52,944	61,535	108,590	141,469
Other	55,349	(89,766)	36,912	29,219	69,619
Total Revenues and Resources	6,317,742	6,331,287	6,331,485	6,561,621	6,980,197
Expenditures					
Governmental Support & Operations	483,930	426,868	448,559	458,393	442,218
Arts, Heritage & Cultural Enrichment	13,329	12,564	13,349	12,710	13,185
Business Licensing & Regulation	52,025	55,207	60,357	65,603	64,887
Economic Development & Workforce Training	177,525	163,136	164,201	151,141	223,104
Education	1,427,663	1,496,135	1,620,175	1,668,137	1,705,111
Health & Human Services	2,889,647	3,039,911	2,983,031	3,055,914	3,462,723
Justice & Protection	373,969	410,304	396,099	396,502	411,042
Natural Resources Development & Protection	184,554	187,130	202,609	198,049	220,264
Transportation Safety & Development	494,060	497,402	494,624	522,473	547,269
Total Expenditures	6,096,704	6,288,657	6,383,004	6,528,922	7,089,802
Excess Resources Over (Under) Expenditures	221,038	42,630	(51,519)	32,699	(109,606)
Fund Equity July 1 of preceding calendar year	461,831	682,866	725,572	660,728	693,428
Fund Equity June 30	$ 682,869	$ 725,496	$ 674,053	$ 693,427	$ 583,822

(1)Fund Equity for General Fund as restated.

GENERAL FUND

COMBINED STATEMENT OF RESOURCES, EXPENDITURES AND CHANGES IN FUND EQUITY

For the Years Ended June 30

(thousands $000's)

	2005	2006	2007	2008(5)	2009
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 941,222	$ 993,203	$ 1,020,856	$ 1,035,158	$ 974,636
Individual Income Tax	1,277,638	1,254,511	1,353,934	1,443,468	1,242,506
Corporate Income Tax	135,863	188,015	183,853	207,093	178,961
Cigarette and Tobacco Tax	96,351	156,951	158,953	150,499	144,425
Inheritance and Estate Tax	32,256	75,331	54,820	39,891	31,819
Insurance Tax	75,669	76,066	74,452	72,293	79,770
Public Utilities Tax	25,403	20,627	16,317	16,858	19,536
Other Industry or Occupation Taxes	30,842	36,242	72,180	50,340	43,502
Real Estate Transfer Tax	24,113	24,595	22,207	17,465	17,185
Unorganized Territories Property Tax	10,623	11,559	11,376	12,217	12,634
Other Taxes	19,021	31,215	2,956	3,809	3,752
Total Taxes	2,669,001	2,868,315	2,971,904	3,049,092	2,748,726
From Federal Government	24,308	17,987	15,311	11,040	12,456
From Cities, Towns and Counties	1,768	57	116	163	143
From Private Sources	2,664	5,379	6,500	8,023	7,526
Service Charges for Current Services	81,126	35,196	30,256	26,157	24,653
Fines, Forfeitures & Penalties	35,507	37,781	41,415	44,466	44,024
Hunting, Fishing and Related Licenses	16,691	16,840	16,401	15,683	15,379
Transferred from Bureau of Alcoholic Beverages	(155)	26	-	-	-
Transferred from Lottery Commission	49,328	50,880	50,625	49,491	49,839
Transferred from Other Funds	24,233	15,090	15,051	18,823	9,605
Transferred for Revenue Sharing	(119,713)	(124,222)	(130,491)	(135,820)	(102,134)
Income from Investments	5,855	8,272	1,216	1,074	1,100
Other Revenues	232	224	4,247	21,724	7,701
	121,844	63,510	50,647	60,324	70,292
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	27,688	(49,100)	14,134	31,074	141
Total Revenues and Resources	2,818,533	2,882,725	3,036,684	3,140,490	2,819,159
Expenditures					
Governmental Support & Operations (1)	297,169	228,574	253,529	245,992	239,485
Arts, Heritage & Cultural Enrichment	8,508	8,433	8,999	8,682	8,084
Business Licensing & Regulation	-	-	-	2	-
Economic Development & Workforce Training	41,756	45,361	40,668	38,253	37,030
Education (2)	1,206,089	1,277,692	1,419,036	1,471,239	1,455,087
Health & Human Services (3)	892,524	970,178	1,008,391	985,139	929,836
Justice & Protection	219,571	227,565	242,654	262,299	271,853
Natural Resources Development & Protection	68,922	70,525	71,143	72,957	68,114
Transportation Safety & Development (4)	3,584	188	-	-	-
Total Expenditures	2,738,123	2,828,516	3,044,420	3,084,563	3,009,489
Excess Resources Over (Under) Expenditures	80,410	54,209	(7,736)	55,927	(190,330)
Fund Equity July 1 of preceding calendar year	151,867	232,277	286,486	265,424	321,351
Fund Equity June 30	$ 232,277	$ 286,486	$ 278,750	$ 321,351	$ 131,021

(1) Governmental Support & Operations includes the Governor's Office, the State Treasurer's Office and the Attorney General, Audit, Finance and Administration, Judicial, Legislative and State Departments.

(2) Education includes the Education Department, the Maine Technical College System, the Maine Maritime Academy and the University of Maine System.

(3) Health & Human Services includes the Human Services, Mental Health and Retardation and Corrections Departments.

(4) Transportation Safety & Development includes the Transportation Department.

(5) Fund Equity as restated.

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

	2005	2006	2007	2008	2009
Revenues					
Taxes					
Gasoline, Use Fuel and Motor Carrier Tax	$ 220,485	$ 221,575	$ 226,824	$ 225,235	$ 216,216
Other Taxes	1,089	1,201	1,169	1,748	1,785
Total Taxes	221,574	222,776	227,993	226,983	218,001
From Federal Government	-	-	-	465	3
Service Charges for Current Services	4,988	5,397	5,440	5,038	5,201
Fines, Forfeitures & Penalties	1,518	1,810	1,668	1,183	1,014
Vehicle Registration and Drivers Licenses	87,801	90,830	90,457	89,096	94,938
Income from Investments	1,441	1,834	1,106	1,152	480
Other Revenues	8,756	3,899	4,062	4,188	1,785
	104,504	103,770	102,733	101,122	103,422
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	(1,410)	(1,336)	15,179	6,185	(5,136)
Total Revenues and Resources	324,668	325,210	345,905	334,291	316,287
Expenditures					
Governmental Support & Operations	34,239	34,304	35,405	37,646	36,626
Economic Development & Workforce Training	-	-	-	-	-
Justice & Protection	32,460	35,453	36,806	35,476	36,401
Natural Resources Development & Protection	30	33	40	28	38
Transportation Safety & Development (1)	232,868	245,443	272,746	276,294	230,279
Total Expenditures	299,597	315,233	344,997	349,444	303,344
Excess Resources Over (Under) Expenditures	25,071	9,977	908	(15,153)	12,943
Fund Equity July 1 of preceding calendar year	94,111	119,182	129,159	130,067	114,914
Fund Equity June 30	$ 119,182	$ 129,159	$ 130,067	$ 114,914	$ 127,857

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

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

	2005	2006	2007	2008	2009
Revenues					
Taxes					
Sales, Use and Service Provider Tax	$ 92,374	$ 111,945	$ 121,944	$ 122,450	$ 109,123
Individual Income Tax	67,778	68,538	73,229	78,422	60,407
Corporate Income Tax	6,929	9,589	9,332	9,410	5,978
Gasoline, Use Fuel and Motor Carrier Tax	3,548	4,314	4,390	4,365	4,311
Insurance Tax	17,657	27,042	14,985	29,740	12,582
Public Utilities Tax	25,112	25,348	24,441	32,705	26,763
Other Industry or Occupation Taxes	100,988	114,646	130,436	131,986	151,015
Real Estate Transfer Tax	8,882	9,358	7,148	7,220	523
Unorganized Territories Property Tax	6,641	7,795	8,488	6,941	8,494
Other Taxes	8,360	8,657	4,923	9,446	9,423
Total Taxes	338,269	387,232	399,316	432,687	388,622
From Federal Government	2,298,749	2,354,369	2,150,825	2,199,675	2,849,238
From Cities, Towns and Counties	8,177	8,207	11,934	13,509	22,024
From Private Sources	170,944	166,190	161,551	181,815	190,148
Service Charges for Current Services	148,448	156,096	118,040	126,320	133,515
Fines, Forfeitures & Penalties	6,775	8,317	9,303	9,385	9,816
Hunting, Fishing and Related Licenses	1,584	1,422	2,165	2,234	2,208
Transfers from Other Funds	18,310	16,699	15,907	12,676	23,526
Income from Investments	2,153	4,199	5,344	2,514	1,860
Other Revenues	3,938	5,080	3,371	4,355	6,209
	2,659,078	2,720,579	2,478,440	2,552,483	3,238,543
Other Financial Resources					
Proceeds of General Obligation Bonds	-	-	-	-	-
Other	31,708	(37,337)	10,008	(8,172)	75,540
Total Revenues and Resources	3,029,055	3,070,474	2,887,764	2,976,998	3,702,705
Expenditures					
Governmental Support & Operations	143,526	154,236	154,215	167,300	158,310
Arts, Heritage & Cultural Enrichment	3,247	3,372	3,791	3,751	4,052
Business Licensing & Regulation	52,025	55,207	60,357	65,601	64,887
Economic Development & Workforce Training	112,620	110,875	113,633	105,163	176,465
Education	187,699	186,611	192,720	184,633	230,633
Health & Human Services	1,996,523	2,067,953	1,972,766	2,068,054	2,530,487
Justice & Protection	99,552	146,474	116,260	98,281	102,158
Natural Resources Development & Protection	121,702	110,776	127,570	121,020	140,540
Transportation Safety & Development	224,576	239,314	182,571	173,491	259,005
Total Expenditures	2,941,470	3,074,818	2,923,883	2,987,294	3,666,537
Excess Resources Over (Under) Expenditures	87,585	(4,344)	(36,119)	(10,295)	36,168
Fund Equity July 1 of preceding calendar year	187,973	275,558	271,214	235,095	224,800
Fund Equity June 30	$ 275,558	$ 271,214	$ 235,095	$ 224,800	$ 260,968

GOVERNMENTAL FUNDS
COMBINED BALANCE SHEETS

JUNE 30, 2009

(Thousands $000's)

	Total (Memorandum) (only)	General Fund	Highway Fund	Other Special Revenues	Capital Projects	Debt Service
ASSETS						
Equity in Treasurer's Cash Pool	$ 221,432	$ 65,963	$ 32,225	$ 59,283	$ 58,690	$ 5,271
Cash - Other	292	130	115	47	-	-
Accounts, Bonds and Grants Receivable						
Net of Reserves for Uncollectible Accounts	262,453	229,062	19,137	14,254	-	-
Due from Other Funds	192,842	3,593	31	189,218	-	-
Working Capital Advances to Other Funds	111	111	-	-	-	-
Prepaid Expenses and Other Assets	77,183	384	76,583	203	13	-
TOTAL ASSETS	754,313	299,243	128,092	263,005	58,703	5,271
LIABILITIES AND EQUITY						
LIABILITIES:						
Accounts Payable	404	34	(169)	539	-	-
Other Liabilities	170,086	168,188	403	1,498	(3)	-
TOTAL LIABILITIES	170,490	168,222	234	2,037	(3)	-
EQUITY:						
Reserved for Encumbrances	151,907	23,108	2,219	83,305	43,275	-
Reserved for Authorized Expenditures	353,745	87,822	47,349	203,143	15,431	-
Reserved for Utility Loans	53	-	53	-	-	-
Working Capital Advances to Other Funds	111	111	-	-	-	-
Designated for Other Purposes	83,636	6,912	76,724	-	-	-
Budget Stabilization Fund	195	195	-	-	-	-
Unappropriated Surplus	(5,824)	12,873	1,512	(25,480)	-	5,271
TOTAL EQUITY	583,823	131,021	127,857	260,968	58,706	5,271
TOTAL LIABILITIES AND EQUITY	$ 754,313	$ 299,243	$ 128,091	$ 263,005	$ 58,703	$ 5,271

GENERAL FUND UNAPPROPRIATED SURPLUS
For the Years Ended June 30

	General Fund Unappropriated Surplus (Million)	General Fund Revenues (Million)	Surplus as Percentage of Revenues
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%
1993	4.1	1,561.4	0.26%
1992	13.3	1,512.4	0.88%
1991	3.5	1,424.0	0.24%
1990	61.0	1,420.3	4.22%
1989	163.1	1,431.5	11.39%

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STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX C

Certain Revenues of the State (Unaudited)

Page

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

	2006				2007			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Sales and Use Tax	$946,174,276	$930,641,080	$15,533,196	1.70%	$971,455,721	$974,740,367	($3,284,646)	-0.30%
Service Provider Tax	47,028,431	46,494,165	534,266	1.10%	49,400,532	48,911,765	488,767	1.00%
Individual Income Tax	1,254,510,746	1,228,307,845	26,202,901	2.10%	1,353,934,495	1,347,619,508	6,314,987	0.50%
Corporate Income Tax	188,015,557	175,150,000	12,865,557	7.30%	183,851,533	172,078,755	11,772,778	6.80%
Cigarette and Tobacco Tax	156,951,370	151,738,325	5,213,045	3.40%	158,953,466	158,502,981	450,485	0.30%
Public Utilities Tax	20,627,030	21,440,000	-812,970	-3.80%	16,317,029	16,891,746	-574,717	-3.40%
Insurance Companies Tax	76,065,864	72,141,931	3,923,933	5.40%	74,452,542	76,336,389	-1,883,847	-2.50%
Inheritance & Estate Tax	75,330,514	70,099,322	5,231,192	7.50%	54,820,038	55,465,498	-645,460	-1.20%
Property Tax - Unorganized Territory	11,559,305	11,278,476	280,829	2.50%	11,376,293	11,597,312	-221,019	-1.90%
Income from Investments	8,271,870	6,563,582	1,708,288	26.00%	1,215,836	1,517,319	-301,483	-19.90%
Transfer to Municipal Revenue Sharing	-124,222,180	-121,410,248	-2,811,932	2.30%	-130,490,756	-129,710,869	-779,887	0.60%
Transfer from Liquor Commission	25,653	-	25,653	-	-	-	-	-
Transfer from Lottery Commission	50,879,646	50,334,250	545,396	1.10%	50,624,741	50,334,250	290,491	0.60%
Other Revenues	220,607,603	214,959,376	5,648,227	2.60%	223,683,920	220,713,733	2,970,187	1.30%
Transfer to Sales Tax Reserve/ME Rainy Day	-	-	-	-	-	-	-	-
Total Undedicated Revenue	**$2,931,825,685**	**$2,857,738,104**	**$74,087,581**	**2.60%**	**$3,019,595,390**	**$3,004,998,754**	**$14,596,636**	**0.50%**

STATE OF MAINE
UNDEDICATED REVENUES
GENERAL FUND
FISCAL YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2009

	2008				2009			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Sales and Use Tax	$983,057,278	$978,060,502	$4,996,776	0.50%	$921,823,720	$929,698,051	($7,874,331)	-0.80%
Service Provider Tax	52,100,664	51,181,910	918,754	1.80%	52,812,595	53,452,742	-640,147	-1.20%
Individual Income Tax	1,443,468,204	1,400,047,321	43,420,883	3.10%	1,242,505,909	1,281,982,990	-39,477,081	-3.10%
Corporate Income Tax	184,514,568	182,170,000	2,344,568	1.30%	143,085,966	148,940,000	-5,854,034	-3.90%
Cigarette and Tobacco Tax	150,499,432	154,786,180	-4,286,748	-2.80%	144,424,712	143,213,844	1,210,868	0.80%
Public Utilities Tax	16,858,472	17,476,987	-618,515	-3.50%	19,536,483	18,405,029	1,131,454	6.10%
Insurance Companies Tax	72,292,532	76,751,673	-4,459,141	-5.80%	79,770,431	71,978,985	7,791,446	10.80%
Inheritance & Estate Tax	39,890,577	44,562,240	-4,671,663	-10.50%	31,819,188	34,335,010	-2,515,822	-7.30%
Property Tax - Unorganized Territory	12,217,081	12,611,986	-394,905	-3.10%	12,633,755	12,969,540	-335,785	-2.60%
Income from Investments	1,074,143	950,648	123,495	13.00%	1,100,029	1,154,221	-54,192	-4.70%
Transfer to Municipal Revenue Sharing	-135,820,176	-133,184,448	-2,635,728	2.00%	-102,160,745	-103,412,337	1,251,592	-1.20%
Transfer from Lottery Commission	49,491,086	49,154,250	336,836	0.70%	49,839,434	49,549,250	290,184	0.60%
Other Revenues	218,175,129	206,171,173	12,003,956	5.80%	214,176,818	212,495,823	1,680,995	0.80%
Transfer to Sales Tax Reserve/ME Rainy Day	-	-	-	-	-	-	-	-
Total Undedicated Revenue	**$3,087,818,990**	**$3,040,740,422**	**$47,078,568**	**1.50%**	**$2,811,368,295**	**$2,854,763,148**	**($43,394,853)**	**-1.50%**

STATE OF MAINE
PRELIMINARY UNDEDICATED REVENUES
GENERAL FUND
TEN MONTHS ENDED APRIL 30, 2010

	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 6/30/10
Sales and Use Tax	$ 69,047,464	$ 63,376,439	$ 5,671,025	8.9%	$ 667,094,951	$ 660,742,566	$ 6,352,385	1.0%	$ 883,839,994
Service Provider Tax	4,476,385	4,607,058	(130,673)	(2.8%)	41,141,196	42,026,712	(885,516)	(2.1%)	55,590,852
Individual Income Tax	205,504,367	215,929,526	(10,425,159)	(4.8%)	1,036,966,409	1,037,211,125	(244,716)	(0.0%)	1,299,630,000
Corporate Income Tax	18,063,589	13,500,000	4,563,589	33.8%	137,857,294	122,394,337	15,462,957	12.6%	147,718,716
Cigarette and Tobacco Tax	12,321,957	11,941,632	380,325	3.2%	122,257,247	116,922,073	5,335,174	4.6%	140,139,902
Insurance Companies Tax	12,552,762	9,515,771	3,036,991	31.9%	41,048,085	36,065,884	4,982,201	13.8%	71,985,000
Estate Tax	2,844,196	2,245,136	599,060	26.7%	23,391,592	20,616,861	2,774,731	13.5%	29,593,253
Fines, Forfeits and Penalties	2,123,396	2,625,167	(501,771)	(19.1%)	27,692,664	27,670,723	21,941	0.1%	32,853,721
Income from Investments	(35,586)	(94,927)	59,342	62.5%	103,888	51,145	52,743	103.1%	103,246
Transfer from Lottery Commission	3,842,689	3,869,372	(26,683)	(0.7%)	42,541,230	41,020,058	1,521,172	3.7%	49,843,299
Transfers for Tax Relief Programs	(2,328,506)	(2,101,143)	(227,363)	(10.8%)	(110,614,196)	(110,609,862)	(4,334)	(0.0%)	(112,559,862)
Transfer to Municipal Revenue Sharing	(3,949,115)	(2,898,290)	(1,050,825)	(36.3%)	(79,598,955)	(78,547,765)	(1,051,190)	(1.3%)	(95,899,642)
Other Taxes and Fees	9,972,995	8,682,610	1,290,385	14.9%	105,656,055	105,920,211	(264,156)	(0.2%)	148,808,830
Other Revenues	10,139,263	10,866,882	(727,619)	(6.7%)	30,975,151	32,005,113	(1,029,962)	(3.2%)	41,358,080
Total Undedicated Revenue	**$ 344,575,855**	**$342,065,233**	**$ 2,510,622**	**0.7%**	**$ 2,086,512,611**	**$2,053,489,181**	**$ 33,023,430**	**1.6%**	**$ 2,693,005,389**

NOTES:

(1) Included in the above is $3,949,115 for the month and $79,598,955 year to date that was set aside for Revenue Sharing with cities and towns.

(2) The amounts set forth above under the headings "Month – Budget," "Year to Date – Budget " and "Total Budgeted" reflect estimates of the Maine State Revenue Forecasting Committee approved in March 2010. For additional information concerning the revisions to the State's fiscal year 2010 budget, see "Revenues of the State – General," including the table therein, in Appendix A to this Official Statement.

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

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

	2006				2007			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Fuel Taxes	$221,575,309	$226,776,993	($5,201,684)	-2.30%	$226,824,018	$227,484,941	($660,923)	-0.30%
Motor Vehicle Registration & Fees	87,658,962	87,172,358	486,604	0.60%	87,291,874	86,476,317	815,557	0.90%
Inspection Fees	4,373,692	4,397,970	-24,278	-0.60%	4,342,519	4,379,756	-37,237	-0.90%
Fines, Forfeits & Penalties	1,809,813	1,973,665	-163,852	-8.30%	1,668,000	2,018,239	-350,239	-17.40%
Earnings on Investments	1,833,807	1,300,000	533,807	41.10%	1,105,987	795,000	310,987	39.10%
All Other Revenues	9,294,574	9,286,173	8,401	0.10%	9,588,686	9,603,076	-14,390	-0.10%
TOTAL	**$326,546,157**	**$330,907,159**	**($4,361,002)**	**-1.30%**	**$330,821,084**	**$330,757,329**	**$63,755**	**0.00%**

Source: Revenue Highway General Accounting

STATE OF MAINE
HIGHWAY FUND
REVENUES
FISCAL YEARS ENDED JUNE 30, 2008 AND JUNE 30, 2009

	2008				2009			
	Actual	Budget	Actual More/(Less)	Percent More/(Less)	Actual	Budget	Actual More/(Less)	Percent More/(Less)
Fuel Taxes	$ 225,235,339	$ 223,368,718	$ 1,866,621	0.8%	$ 216,215,544	$ 217,243,255	$ (1,027,711)	(0.5%)
Motor Vehicle Registration & Fees	86,094,837	85,953,481	141,356	0.2%	91,886,824	92,254,651	(367,827)	(0.4%)
Inspection Fees	4,193,874	4,468,458	(274,584)	(6.1%)	4,057,978	3,996,421	61,557	1.5%
Fines, Forfeits & Penalties	1,747,986	1,794,049	(46,063)	(2.6%)	1,785,197	1,795,049	(9,852)	(0.5%)
Earnings on Investments	1,152,491	1,000,000	152,491	15.2%	480,419	458,391	22,028	4.8%
All Other Revenues	9,712,051	9,771,333	(59,282)	(0.6%)	9,816,188	9,401,872	414,316	4.4%
TOTAL	**$ 328,136,578**	**$ 326,356,039**	**$ 1,780,539**	**0.5%**	**$ 324,242,150**	**$ 325,149,639**	**$ (907,489)**	**(0.3%)**

Source: Revenue Highway General Accounting

STATE OF MAINE
PRELIMINARY HIGHWAY FUND
REVENUES
TEN MONTHS ENDED APRIL 30, 2010

	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 6-30-2010
Fuel Taxes	$ 16,679,206	$16,121,893	$ 557,313	3.5%	$ 163,891,761	$ 160,865,668	$ 3,026,093	1.9%	$ 220,305,526
Motor Vehicle Registration & Fees	9,829,569	7,775,933	2,053,636	26.4%	63,838,026	61,387,093	2,450,933	4.0%	75,043,693
Inspection Fees	405,151	355,659	49,492	13.9%	3,270,130	3,198,756	71,374	2.2%	3,896,915
Fines, Forfeits & Penalties	117,950	145,913	(27,963)	(19.2%)	1,265,104	1,446,294	(181,190)	(12.5%)	1,745,049
Earnings on Investments	18,165	5,200	12,965	249.3%	123,935	102,930	21,005	20.4%	113,330
All Other	412,928	566,569	(153,641)	(27.1%)	7,201,325	7,379,995	(178,670)	(2.4%)	8,387,253
Total Revenue	**$ 27,462,969**	**$24,971,167**	**$ 2,491,802**	**10.0%**	**$ 239,590,282**	**$ 234,380,736**	**$ 5,209,546**	**2.2%**	**$ 309,491,766**

Note: This report has been prepared from preliminary month end figures and is subject to change.
The amounts set forth above under the headings "Month – Budget," "Year to Date – Budget " and "Total Budgeted" reflect estimates of the Maine State Revenue Forecasting Committee approved in March 2010. For additional information concerning the revisions to the State's fiscal year 2010 budget, see "Revenues of the State – General," including the table therein, in Appendix A to this Official Statement.

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STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX D

Selected Information Regarding Authorized and Outstanding Debt of the State

Page

AUTHORIZED EXPENDITURES

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

Agency	Law	Description	Acct Codes	Total Bond Sale Taxable authorizations	Total Bond Sale Tax-Exempt Authorizations	Authorized but Unissued after FY 2010 Bond sale
DECD	2005 PL, Chapter 462	Provides funds for the Maine Biomedical Research Fund to support capital infrastructure and equipments.	018-19A-0617-04	$	$500,000	$750,000
DECD	2005 PL, Chapter 462	Provides funds for the Marine Infrastructure and Technology Fund administered by the Maine Technology Institute.	018-19A-0995-02		100,000	150,000
DEP	2007 PL, Chapter 39	Waste Water Construction grants	018-06A-0248-47		3,000,000	2,000,000
DEP	2007 PL, Chapter 39	Community Grants	018-06A-0248-48		450,000	
DEP	2007 PL, Chapter 39	Hazardous Waste	018-06A-0247-51		700,000	600,000
DEP	2007 PL, Chapter 39	Landfills	018-06A-0247-41			
DEP	2007 PL, Chapter 39	Industrial landfills				300,000
DEP	2007 PL, Chapter 673	wastewater treatment	018-06A-0248-49		1,700,000	
DIFW	2007 PL, Chapter 39	Dam Repair	018-09A-0530-01			100,000
DIFW	2007 PL, Chapter 39	Hatchery Rehab	018-09A-0535-02		800,000	455,000
DOC	2007 PL, Chapter 39	Bureau of Parks and Lands. Provides funds to make necessary capital improvements in the State's parks and historic sites.	018-04A-0246-49		1,197,000	
DOE	2005 PL, Chapter 462	Provides funds for the development of the Sunrise Business and Career Center in the Town of Jonesboro	018-05A-0837-01			762,000
DOT	2009 PL, Chaper 414, Part A	Highway Repair-Highway Fund	016-17A-0406-94		25,000,000	25,000,000
DOT	2009 PL, Chaper 414, Part A	Highway Repair-General Fund				5,000,000
DOT	2009 PL, Chaper 414, Part A	Railroad	017-17E-0350-72	500,000		3,500,000
DOT	2009 PL, Chaper 414, Part A	Ports (includes funds for port improvements in Eastport & Searsport)	018-17C-0346-73		200,000	5,750,000
DOT	2009 PL, Chaper 414, Part A	Ferry				1,000,000
DOT	2009 PL, Chaper 414, Part A	Islander Explorer Phase II				400,000
DOT	2009 PL, Chaper 414, Part A	Aviation-FAA				2,000,000
DOT	2009 PL, Chaper 414, Part A	Island Airport Program	018-17B-0294-74		200,000	300,000
DOT	2009 PL, Chaper 414, Part A	Augusta Airport Upgrade				200,000
DOT	2009 PL, Chaper 414, Part A	Lifeflight	018-17B-0294-70		333,333	333,334
DOT /DECD	2009 PL, Chaper 414, Part A	Bulkhead-Gulf of ME Research Institute	018-17C-0346-71		825,000	1,000,000
DOT	2007 PL, Chapter 39	Portland IMT	017-17C-0346-60	300,000		
DOT	2007 PL, Chapter 39	IRAP,FRIP, and State Rail Track Improvement	017-17E-0350-61	200,000		1,000,000
DOT	2007 PL, Chapter 39	Aviation	018-17B-0294-63		400,000	1,450,000
DOT	2005 PL, Chapter 462	Ferry Vessels and facilities	018-17C-0346-56			1,350,000
DOT	2007 PL, Chapter 39	SHIP and Searsport Study	018-17C-0346-60			400,000
DOT	2007 PL, Chapter 39	Ferry and Port-Casco Bay Island Transit District, Bulkhead and wharf	018-17C-0346-67		950,000	550,000
DOT	2007 PL, Chapter 39	State funded aviation projects	018-17B-0294-66		100,000	
DOT	2007 PL, Chapter 39	Pedestrian and Bike	018-17E-0350-64			550,000
DOT	2007 PL, Chapter 39, G	Rail-Rockland Branch Station Community Investments				500,000
MCCS	2007 PL, Chapter 39	Provides funds for interior and exterior	018-99T-0560-17		2,100,000	700,000

		building renovations, improvements and additions at all campuses of the Maine Community College System.				
MSCAF	2005 PL, Chapter 462	Provides funds for the New Century Community Program	018-94O-0904-25		50,000	
MSCAF	2007 PL, Chapter 39	New Century Community program. Provides funds to revitalize downtown areas, preserve and strengthen state and community historic and cultural assets and expand access to digital and educational resources.	018-940-0904-26		825,000	205,000
MTI	2007 PL, Chapter 39	Provides funds for research, development and commercialization as prioritized by the Office of Innovation's 2005 Science and Technology Action Plan for Maine. The funds must be allocated to biotechnology, aquaculture and marine technology, composite materials technology, environmental technology, advanced technologies for forestry and agriculture, information technology and precision manufacturing technology through a competitive process, and must be awarded to Maine-based public and private entities to leverage matching funds on at least a one-to-one basis.	017-19A-0995-01	6,000,000		29,000,000
SPO	2007 PL, Chapter 39	Land for Maine's Future Board. Provides funds in order to leverage $8,500,000 in other funds to be used for the acquisition of land and interest in land for conservation; water access, which must receive $1,700,000; outdoor recreation; wildlife and fish habitat; and farmland preservation, which much receive $1,700,000.	018-07B-0060-05		4,750,000	9,250,000
SPO	2007 PL, Chapter 39	Provides funds to be used for working waterfront preservation in order to leverage $3,000,000 in other funds.	018-07B-0060-06		2,000,000	
UMS	2005 PL, Chapter 462	Provides funds for the Laboratory for Surface Science Technology	017-78A-0361-07	200,000		
UMS	2007 PL, Chapter 39	Provides funds for interior and exterior building renovations, improvements and additions at all campuses of the University of Maine System.	018-78A-0361-15		5,000,000	800,000
TOTAL				**$ 7,200,000**	**$ 51,180,333**	**$ 95,355,334**

	Taxable	**Tax-Exempt**
October BAN	$ 200,000*	$ 14,325,000**
January BAN	800,000*	26,920,000**
Additional draw	6,200,000	9,760,000
Total Proceeds Required	$ 7,200,000	$ 51,005,000

* Taxable portions have been borrowed internally from the state cash pool.

** Proceeds needed to retire the tax-exempt BANs differ from authorizations utilized because premium on the tax-exempt BANs was counted against the related authorizations even though such premium is not paid off with bond proceeds.

GENERAL FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2009

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2010	$74,905,000.00	$15,451,419.89	$90,356,419.89
2011	68,875,000.00	12,694,857.13	81,569,857.13
2012	63,170,000.00	10,284,186.16	73,454,186.16
2013	60,060,000.00	7,870,904.56	67,930,904.56
2014	43,805,000.00	5,614,946.46	49,419,946.46
2015	37,320,000.00	3,957,806.98	41,277,806.98
2016	21,985,000.00	2,688,294.00	24,673,294.00
2017	16,725,000.00	1,734,484.90	18,459,484.90
2018	13,350,000.00	941,955.30	14,291,955.30
2019	8,730,000.00	354,787.50	9,084,787.50
	$408,925,000.00	**$61,593,642.88**	**$470,518,642.88**

HIGHWAY FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2009

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2010	$11,820,000.00	$4,803,042.20	$16,623,042.20
2011	12,495,000.00	4,418,544.38	16,913,544.38
2012	14,170,000.00	3,953,756.25	18,123,756.25
2013	14,520,000.00	3,433,462.50	17,953,462.50
2014	13,820,000.00	2,892,350.00	16,712,350.00
2015	13,060,000.00	2,351,325.00	15,411,325.00
2016	13,085,000.00	1,812,500.00	14,897,500.00
2017	13,110,000.00	1,258,750.00	14,368,750.00
2018	10,385,000.00	649,012.50	11,034,012.50
2019	4,600,000.00	186,762.50	4,786,762.50
	$121,065,000.00	**$25,759,505.33**	**$146,824,505.33**

INFORMATION REGARDING LEASE FINANCING AGREEMENTS

Agency	Date of Agreement	Original Principal Amount	Principal Amount Outstanding 3/31/2010	Principal & Interest Due 4/1/2010 - 6/30/2010
Department of Transportation	May, 2002	$ 5,000,000	$ 1,290,000	$ 29,494
Department of Transportation	December, 2003	793,200	37,632	38,026
Department of Transportation	May, 2005	1,200,000	97,645	99,461
Administrative & Financial Services	April, 2006	4,100,000	1,056,331	1,077,933
Department of Transportation	September, 2005	2,000,000	130,077	-
Administrative & Financial Services	July, 2006	10,000,000	4,545,408	-
Department of Corrections	August, 2006	3,600,000	1,901,484	-
Department of Education	September, 2006	19,278,694	1,312,431	1,329,943
Administrative & Financial Services	February, 2007	14,000,000	7,967,814	-
Department of Transportation	March, 2007	2,500,000	660,440	-
Administrative & Financial Services	April, 2007	4,500,000	1,771,552	614,294
Department of Education	August, 2007	4,618,993	1,532,844	319,360
Department of Education	October, 2007	139,414	43,567	8,713
Public Safety	April, 2008	1,800,000	616,542	-
Administrative & Financial Services	April, 2008	2,248,970	1,370,742	241,880
Administrative & Financial Services	June, 2008	1,700,416	1,214,752	185,055
Administrative & Financial Services	June, 2008	2,800,000	2,119,428	733,197
Department of Transportation	July, 2008	565,925	290,053	99,961
Public Safety	March, 2009	1,425,000	963,423	-
Administrative & Financial Services	April, 2009	4,200,000	3,701,143	559,935
Administrative & Financial Services	January, 2010	10,000,000	10,000,000	-
Department of Transportation	January, 2010	2,770,000	2,770,000	-
TOTALS:		$ 99,240,612	$ 45,393,308	$ 5,337,252

Debt Ratios

The following table sets forth certain ratios relating to the State's general obligation debt and certain lease financing agreements as of June 30, 2009.

	Amount of Debt	Per Capita (1)	Debt to Estimated Full Valuation (2)	Debt to Personal Income (3)
General Fund	$408,925,000	$310.63	0.24%	0.84%
Highways & Bridges	121,065,000	91.96	0.07%	0.25%
Total	$529,990,000	$402.59	0.31%	1.09%

(1) Based on population estimate of 1,316,456 for 2009 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 2010 of $170,336,350,000.

(3) Based on State of Maine total personal income reported by the U.S. Department of Commerce for 2009 of $48,441,221,000.

Debt Ratio Statistics

June 30, 2009

Debt to Full Value	
2000	0.58%
2010	0.31%
Debt to Personal Income	
2000	1.39%
2010	1.14%
Per Capita Debt	
2000	$355.61
2010	$402.59

DEBT SERVICE PAID OVER PAST TEN FISCAL YEARS

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

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

Year Ended	General Fund	Highway Fund	Self-Liquidating	Total	Total Governmental Funds Revenue	Percent of State Revenues
1989	221,645,000	98,850,000	17,605,000	338,100,000	2,428,486,000	13.9
1990	202,405,000	87,610,000	16,260,000	306,275,000	2,421,264,000	12.6
1991	277,710,000	102,870,000	14,840,000	395,420,000	2,533,777,000	15.6
1992	308,890,000	107,395,000	13,395,000	429,680,000	2,995,325,000	14.0
1993	405,823,000	136,320,000	2,562,000	544,705,000	3,178,491,000	17.2
1994	383,618,000	143,355,000	2,312,000	529,285,000	3,311,809,213	16.0
1995	377,055,000	136,950,000	2,055,000	516,060,000	3,381,332,000	15.3
1996	369,457,945	144,440,000	1,792,055	515,690,000	3,598,717,000	14.3
1997	339,620,600	129,060,000	1,529,400	470,210,000	3,756,557,734	12.5
1998	337,575,000	139,180,000	1,290,000	478,045,000	4,168,141,000	11.5
1999	334,725,000	133,700,000	1,115,000	469,540,000	4,257,340,458	11.0
2000	341,205,000	111,230,000	940,000	453,375,000	4,604,954,195	9.8
2001	297,405,000	108,635,000	765,000	406,805,000	4,608,742,000	8.8
2002	260,790,000	85,335,000	600,000	346,725,000	4,808,788,859	7.2
2003	293,990,000	64,120,000	445,000	358,555,000	5,114,542,674	7.0
2004	355,025,000	61,105,000	290,000	416,420,000	5,902,866,220	7.1
2005	439,110,000	47,825,000	160,000	487,095,000	6,114,225,943	8.0
2006	433,585,000	33,875,000	90,000	467,550,000	6,336,819,316	7.4
2007	398,280,000	50,460,000	20,000	448,760,000	6,906,395,835	6.5
2008	378,575,000	97,260,000	0	475,835,000	6,406,301,524	7.4
2009	408,925,000	121,065,000	0	529,990,000	6,827,986,832	7.7

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APPENDIX E

Maine Public Employees Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet, June 30, 2009

ASSETS **(Present Value of expected income)**	**State Employees**	**MTRA Teachers**	**All Employees**
(1) Invested Assets			
(a) Members Contribution Fund	$ 726,523,325	$1,276,261,442	$2,002,784,767
(b) Retirement Allowance Fund	$2,209,494,708	$4,113,671,761	$6,323,166,469
(c) Total Invested Assets (a + b)*	$2,936,018,033	$5,389,933,203	$8,325,951,236
(2) Future Contributions			
(a) Future Contributions	$ 404,654,678	$ 694,190,098	$ 1,098,844,776
(b) Actuarial Costs	$1,728,546,470	$3,052,147,559	$ 4,780,694,029
(c) Total Contribution Income (a + b)	$2,133,201,148	$3,746,337,657	$ 5,879,538,805
(3) Present Value of Total Income (1 + 2)	$5,069,219,181	$9,136,270,860	$14,205,490,041
LIABILITIES **(Present Value of expected benefit payments)**			
(1) Active Employees			
(a) Current Accrued Benefits	$1,351,663,287	$2,802,764,820	$ 4,154,428,107
(b) Future Benefit Accruals	$1,168,146,822	$2,260,771,503	$ 3,428,918,325
(c) Total Active Benefits (a + b)	$2,519,810,109	$5,063,536,323	$ 7,583,346,432
(2) Inactive Employees			
(a) Total Inactive Benefits	$2,549,409,072	$4,072,734,537	$ 6,622,143,609
(3) Present Value of Total Benefits (1 + 2)	$5,069,219,181	$9,136,270,860	$14,205,490,041

*Actuarial Value

Maine Public Employees Retirement System

Judicial Plan

Actuarial Balance Sheet, June 30, 2009

Assets
(Present Value of expected income)

(1) Invested Assets	
(a) Members Contribution Fund	$ 7,980,202
(b) Retirement Allowance Fund	$40,498,142
(c) Total Invested Assets (a+b)*	$48,478,344
(2) Future Contributions	
(a) Member Contributions	$ 982,456
(b) Actuarial Costs	$ 9,844,277
(c) Total Contribution Income (a+b)	$ 10,826,733
(3) Present Value of Total Income (1+2)	$59,305,077

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees	
(a) Current Accrued Benefits	$23,162,039
(b) Future Benefit Accruals	$10,573,030
(c) Total Active Benefits (a+b)	$33,735,069
(2) Inactive Employees	
(a) Total Inactive Benefits	$25,570,008
(3) Present Value of Total Benefits (1+2)	$59,305,077

*Actuarial Value

Maine Public Employees Retirement System

Legislative Plan

Actuarial Balance Sheet, June 30, 2009

Assets
(Present Value of expected income)

(1) Invested Assets	
(a) Members Contribution Fund	$ 2,005,895
(b) Retirement Allowance Fund	$ 6,711,990
(c) Total Invested Assets (a+b)*	$ 8,717,885
(2) Future Contributions	
(a) Future Contributions	$ 863,937
(b) Actuarial Costs	($1,513,501)
(c) Total Contribution Income (a+b)	($649,564)
(3) Present Value of Total Income (1+2)	$ 8,068,321

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees	
(a) Current Accrued Benefits	$ 1,922,577
(b) Future Benefit Accruals	$ 2,509,093
(c) Total Active Benefits (a+b)	$ 4,431,670
(2) Inactive Employees	
(a) Total Inactive Benefits	$ 3,636,651
(3) Present Value of Total Benefits (1+2)	$ 8,068,321

*Actuarial Value

Maine Public Employees Retirement System
State Employees and Public School Teachers
Actuarial Balance Sheet for Group Life Insurance, June 30, 2009

ASSETS **(Present Value of expected income)**	**State Employees**	**MTRA Teachers**	**All Employees**
(1) Invested Assets			
(a) Members Contribution Fund	$0	$0	$0
(b) Retirement Allowance Fund	$17,180,609	$17,712,869	$ 34,893,478
(c) Total Invested Assets (a + b)*	$17,180,609	$17,712,869	$ 34,893,478
(2) Future Contributions			
(a) Future Contributions	$0	$0	$0
(b) Actuarial Costs	$55,438,647	$39,790,913	$ 95,229,560
(c) Total Contribution Income (a + b)	$55,438,647	$39,790,913	$ 95,229,560
(3) Present Value of Total Income (1 + 2)	$72,619,256	$57,503,782	$130,123,038
LIABILITIES **(Present Value of expected benefit payments)**			
(1) Active Employees			
(a) Current Accrued Benefits	$22,100,226	$19,396,646	$ 41,496,872
(b) Future Benefit Accruals	$13,718,176	$11,174,067	$ 24,892,243
(c) Total Active Benefits (a + b)	$35,818,402	$30,570,713	$ 66,389,115
(2) Inactive Employees			
(a) Total Inactive Benefits	$36,800,854	$26,933,069	$ 63,733,923
(3) Present Value of Total Benefits (1 + 2)	$72,619,256	$57,503,782	$130,123,038

*Actuarial Value

Maine Public Employees Retirement System

Judicial Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2009

Assets
(Present Value of expected income)

(1) Invested Assets	
(a) Members Contribution Fund	$0
(b) Retirement Allowance Fund	$ 267,662
(c) Total Invested Assets (a+b)*	$ 267,662
(2) Future Contributions	
(a) Future Contributions	$0
(b) Actuarial Costs	$ 853,785
(c) Total Contribution Income (a+b)	$ 853,785
(3) Present Value of Total Income (1+2)	$1,121,447

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees	
(a) Current Accrued Benefits	$ 554,356
(b) Future Benefit Accruals	$ 141,152
(c) Total Active Benefits (a+b)	$ 695,508
(2) Inactive Employees	
(a) Total Inactive Benefits	$ 425,939
(3) Present Value of Total Benefits (1+2)	$1,121,447

*Actuarial Value

Maine Public Employees Retirement System

Legislative Plan

Actuarial Balance Sheet for Group Life Insurance, June 30, 2009

Assets
(Present Value of expected income)

(1) Invested Assets	
(a) Members Contribution Fund	$ 0
(b) Retirement Allowance Fund	$ 47,880
(c) Total Invested Assets (a+b)*	$ 47,880
(2) Future Contributions	
(a) Future Contributions	$0
(b) Actuarial Costs	$139,765
(c) Total Contribution Income (a+b)	$139,765
(3) Present Value of Total Income (1+2)	$187,645

Liabilities
(Present Value of Expected Benefit Payments)

(1) Active Employees	
(a) Current Accrued Benefits	$ 10,261
(b) Future Benefit Accruals	$ 4,030
(c) Total Active Benefits (a+b)	$ 14,291
(2) Inactive Employees	
(a) Total Inactive Benefits	$173,354
(3) Present Value of Total Benefits (1+2)	$187,645

*Actuarial Value

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX F

Selected Economic Information with Respect to the State

Maine Population

Year	**Population**	**Rank U.S.**	**Percent Increase**	**Per Square Mile**
1920	768,000	35	-	24.9
1930	797,000	-	3.8%	25.8
1940	847,000	35	6.3%	27.4
1950	914,000	35	7.9%	29.6
1960	969,000	36	6.0%	31.4
1970	992,000	38	2.4%	32.1
1980	1,126,000	38	13.5%	36.5
1990	1,227,928	38	9.1%	39.8
2000	1,274,923	40	3.8%	41.3
2001	1,284,470	40	0.7%	41.6
2002	1,294,464	40	0.8%	41.9
2003	1,305,728	40	0.9%	42.3
2004	1,317,253	40	0.9%	37.2
2005	1,321,505	40	0.3%	41.3
2006	1,321,574	40	0.005%	43.0
2007	1,317,207	40	(.3%)	42.7
2008	1,316,456	40	(.06%)	43
2009	1,318,301	40	.14%	37

Source: U.S. Census Bureau.

Personal Income and Earnings by Industry in Maine 2005-2009

	2005	**2006**	**2007**	**2008**	**2009**
Total Personal Income (thousands of dollars)	41,982,618	44,306,081	46,142,069	47,994,130	48,441,221
Earnings by Place of Work	30,456,585	31,864,396	32,876,034	33,667,733	33,083,763
Farm earnings	187,265	167,968	175,387	158,370	200,988
Nonfarm earnings	30,269,320	31,696,428	32,700,647	33,509,363	32,882,775
Forestry, Fishing, Related Activities and other	356,925	375,240	379,447	Confidential	Confidential
Mining	9,805	12,319	10,749	Confidential	Confidential
Utilities	169,663	184,708	189,298	194,696	194,765
Construction	2,393,870	2,537,373	2,495,828	2,227,286	1,838,009
Manufacturing	3,442,674	3,522,338	3,660,370	3,797,871	3,438,542
Wholesale Trade	1,267,153	1,327,411	1,381,880	1,376,184	1,295,995
Retail Trade	2,794,868	2,813,245	2,870,767	2,896,725	2,826,416
Transportation and Warehousing	823,801	911,865	949,892	960,643	933,647
Information	624,823	642,631	672,903	659,825	626,419
Finance and Insurance	1,744,484	1,805,085	1,866,376	1,891,513	1,866,462
Real Estate and Rental and Leasing	479,619	467,626	415,784	401,823	386,934
Professional and Technical Services	1,797,779	1,924,311	2,017,030	2,164,784	2,115,511
Management of Companies and Enterprises	401,606	491,463	534,740	608,906	555,916
Administrative and Waste Services	848,742	929,566	981,591	1,056,818	1,006,244
Educational Services	445,066	483,493	514,263	534,236	567,156
Arts, Entertainment, and Recreation	336,419	351,701	365,839	378,183	373,337
Accommodation and Food Services	1,065,754	1,104,518	1,147,244	1,165,523	1,147,295
Other Services, except Public Administration	1,165,541	1,192,160	1,213,299	1,262,745	1,251,491
Government and Government Enterprises	5,638,704	5,871,532	6,098,435	6,328,169	6,621,485

Source: U.S. Bureau of Economic Analysis

Per Capita Personal Income
Maine, New England, U.S.
2000-2009

	Per Capita			As Percent of Income of		Annual Percent Increase		
	US	NE	Maine	US	NE	US	NE	Maine
2000	30,318	36,601	26,696	88.1%	72.9%			
2001	31,145	37,965	28,201	90.5%	74.3%	2.7%	3.7%	5.6%
2002	31,462	38,089	28,892	91.8%	75.9%	1.0%	0.3%	2.5%
2003	32,271	38,758	29,930	92.7%	77.2%	2.6%	1.8%	3.6%
2004	33,881	40,801	31,466	92.9%	77.1%	5.0%	5.3%	5.1%
2005	35,424	42,335	32,008	90.4%	75.6%	4.6%	3.8%	1.7%
2006	37,698	45,569	33,694	89.4%	73.9%	6.4%	7.6%	5.3%
2007	39,392	47,897	35,028	88.9%	73.1%	4.5%	5.1%	4.0%
2008	40,166	48,944	36,368	90.5%	74.3%	2.0%	2.2%	3.8%
2009	39,138	47,994	36,745	93.9%	76.6%	-2.6%	-1.9%	1.0%

Source: U.S. Bureau of Economic Analysis.

State Valuation of Taxable Real and Personal Property

January 1990	$ 57,085,900,000
January 1991	64,905,350,000
January 1992	68,471,100,000
January 1993	67,751,400,000
January 1994	66,565,550,000
January 1995	66,425,500,000
January 1996	67,102,925.900
January 1997	68,286,600,000
January 1998	69,691,900,000
January 1999	71,779,350,000
January 2000	74,260,000,000
January 2001	78,389,400,000
January 2002	84,874,550,000
January 2003	94,034,050,000
January 2004	104,219,950,000
January 2005	118,038,020,000
January 2006	133,628,600,000
January 2007	148,946,200,000
January 2008	162,744,550,000
January 2009	168,006,150,000
January 2010	170,336,350,000

Source: State Revenue Services.

The State valuation of taxable property is equal to 100% of value.
The State valuation filed in January of each year is based on the value of property as of April 1, 21 months prior to the filing date.

Selected Labor Market Information for Maine

Annual Averages, 2005 through 2009

	2005	2006	2007	2008	2009
Nonfarm Wage and Salary Employment	611,700	614,700	617,700	617,200	595,000
Manufacturing Employment	61,400	60,000	59,400	58,800	52,500
Nonmanufacturing Employment	550,300	554,700	558,300	558,400	542,500
Average Weekly Hours of Manufacturing Production Workers	39,600	41,400	41,900	41,400	40,100
Average Hourly Earnings of Manufacturing Production Workers	$17.28	$18.58	$19.19	$19.71	$19.97
Unemployment Rate	4.9%	4.7%	4.7%	5.3%	8.0%
Number Unemployed	33,791	32,624	32,788	37,554	56,669

Source: Maine Department of Labor, Center for Workforce Research and Information.

Civilian Labor Force
Employed and Unemployed by Labor Market Area, Not Seasonally Adjusted
February, 2010

	Civilian Labor Force			Employment			Unemployment			Unemployment Rate		
LABOR MARKET AREA	Feb-10	Jan-10	Feb-09	Feb-10	Jan-10	Feb-09	Feb-10	Jan-10	Feb-09	Feb-10	Jan-10	Feb-09
Augusta	43,670	43,730	43,630	40,020	40,170	40,000	3,640	3,560	3,630	8.30%	8.10%	8.30%
Augusta-Waterville Combined	66,120	66,360	66,160	60,320	60,640	60,550	5,800	5,730	5,620	8.8	8.6	8.5
Bangor	72,700	72,100	72,400	66,500	66,000	66,500	6,200	6,100	5,800	8.5	8.4	8
Belfast	13,150	13,240	13,320	11,630	11,760	11,890	1,520	1,490	1,430	11.6	11.2	10.7
Boothbay Harbor	3,690	3,680	3,660	3,270	3,260	3,280	420	420	380	11.3	11.4	10.3
Bridgton-Paris	14,050	14,110	14,130	12,480	12,540	12,490	1,570	1,560	1,630	11.2	11.1	11.6
Brunswick	34,440	34,530	34,580	31,680	31,770	31,930	2,760	2,760	2,650	8	8	7.7
Calais	5,800	5,770	5,800	4,970	4,940	5,000	830	840	800	14.3	14.5	13.8
Camden	7,200	7,320	7,160	6,440	6,550	6,440	760	760	730	10.5	10.4	10.1
Conway, NH-ME	3,950	3,950	3,950	3,600	3,640	3,620	350	310	330	8.7	7.9	8.3
Dover-Foxcroft	9,300	9,410	9,350	8,100	8,230	8,060	1,200	1,180	1,300	12.9	12.6	13.9
Ellsworth	27,330	27,320	27,700	23,900	23,940	24,400	3,430	3,380	3,300	12.5	12.4	11.9
Farmington	17,340	16,880	17,740	15,490	14,990	15,940	1,850	1,890	1,800	10.7	11.2	10.2
Houlton	8,490	8,530	8,560	7,510	7,540	7,550	990	980	1,010	11.6	11.5	11.8
Lewiston-Auburn	57,500	57,600	57,600	52,100	52,300	52,300	5,300	5,400	5,300	9.3	9.3	9.1
Lincoln	3,620	3,630	3,670	3,230	3,250	3,250	390	390	420	10.7	10.7	11.6
Machias	7,890	7,780	7,810	6,880	6,800	6,860	1,010	980	950	12.8	12.6	12.2
Madawaska	2,910	2,960	2,890	2,620	2,660	2,610	290	300	280	10.1	10.1	9.8
Millinocket	3,860	3,880	3,890	3,250	3,260	3,240	610	620	650	15.7	15.9	16.7
Pittsfield	7,600	7,600	7,730	6,540	6,550	6,590	1,050	1,050	1,140	13.9	13.8	14.7
Portland-South Portland-Biddeford	201,100	201,300	200,600	185,500	185,900	186,600	15,600	15,400	14,100	7.7	7.6	7
Portland-South Portland-Sanford Combined	212,800	213,100	212,100	195,800	196,200	196,800	17,000	16,900	15,300	8	7.9	7.2
Portsmouth, NH-ME	9,520	9,490	9,210	8,820	8,790	8,610	700	700	600	7.3	7.4	6.5
Presque Isle	24,600	24,480	24,760	22,020	21,990	22,240	2,580	2,490	2,520	10.5	10.2	10.2
Rochester-Dover, NH-ME	11,690	11,460	11,420	10,540	10,300	10,450	1,150	1,160	970	9.9	10.1	8.5
Rockland	11,900	12,020	11,870	10,720	10,830	10,640	1,180	1,190	1,230	9.9	9.9	10.3
Rumford	10,420	10,520	10,730	9,140	9,230	9,550	1,270	1,290	1,180	12.2	12.2	11
Saint George	1,390	1,390	1,340	1,250	1,260	1,240	140	130	100	10.1	9.4	7.7
Sanford	11,710	11,750	11,500	10,240	10,230	10,230	1,470	1,510	1,270	12.6	12.9	11
Skowhegan	14,800	14,830	14,710	12,910	12,970	12,910	1,890	1,860	1,800	12.7	12.5	12.3
Waldoboro	9,130	9,210	9,110	8,290	8,370	8,270	840	840	840	9.2	9.1	9.3
Waterville	22,450	22,630	22,530	20,300	20,460	20,540	2,150	2,170	1,990	9.6	9.6	8.8
York	16,290	16,220	16,120	14,710	14,630	14,760	1,580	1,590	1,350	9.7	9.8	8.4
MAINE	696,200	696,100	696,100	630,800	631,200	634,100	65,300	64,900	62,000	9.4	9.3	8.9
UNITED STATES (000)	153,194	152,957	153,804	137,203	136,809	140,105	15,991	16,147	13,699	10.4	10.6	8.9

Source: Maine Dept. of Labor, Center for Workforce Research & Information

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STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

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

EDWARDS ANGELL PALMER & DODGE LLP

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

[Date of Delivery]

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

$26,870,000
State of Maine
General Obligation Bonds, 2010 Series C
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 and is not 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 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.

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

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

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

Edwards Angell Palmer & Dodge LLP

PROPOSED FORM OF BOND COUNSEL OPINION

Upon delivery of the Series A Bonds and Series B Bonds, Edwards Angell Palmer & Dodge LLP, as Bond Counsel, proposes to issue its approving opinion as to the Series A Bonds and Series B Bonds in substantially the following form:

EDWARDS ANGELL PALMER & DODGE LLP

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

[Date of Delivery]

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

$7,200,000
State of Maine
General Obligation Bonds, 2010 Series A
(Federally Taxable)

and

$22,765,000
State of Maine
General Obligation Bonds, 2010 Series B
(Federally Taxable – Build America Bonds – Direct Payment)
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 Edwards Angell Palmer & Dodge 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.

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

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

EDWARDS ANGELL PALMER & DODGE LLP

STATE OF MAINE
GENERAL OBLIGATION BONDS

APPENDIX H

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 B, D and E of this Official Statement;

B. If not submitted as part of the annual financial information described in paragraph A above, then when and if available, the State will provide to 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, to the MSRB notice of any of the following events with respect to the Bonds, if material:

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

D. The State will provide, in a timely manner, to the MSRB, notice of any failure of the State to comply with paragraph A above.

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

The State expects to provide the information described in paragraph A above by providing an official statement or a preliminary official statement for its bonds, notes or other obligations that includes such information for the preceding fiscal year or, if no such official statement is available within one year after the end of such preceding fiscal year, by providing its controller's annual financial report within such one year.

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 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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NAIC
National Association *of* Insurance Commissioners
& The CENTER *for* INSURANCE POLICY *and* RESEARCH

May 17, 2010

Mr. David G. Lemoine
Treasurer - State of Maine
39 State House Station
Burton M. Cross Office Building - 3rd Floor
111 Sewall Street
Augusta, Maine 04333-0039

Re: NAIC – Securities Valuation Office – Credit Risk Assessment

$58,000,000 State of Maine
General Obligation Bonds
2010 Series A (Federally Taxable)
2010 Series B (Build America Bonds – Federally Taxable – Direct Pay)
2010 Series C
Dated June 1, 2010

Dear Mr. Lemoine:

You requested that we opine on the regulatory guidance that would apply to the above captioned securities if an insurance company purchased them and sought to report it to state insurance regulators under the current NAIC regulatory guidance.

In our opinion, existing regulatory guidance would adequately capture the risks posed by the securities. Using the procedures in the December 31, 2009 *Purposes and Procedures Manual* (P&P), we would assign the following treatment to the captioned security.

1. Asset Classification for Risk Based Capital Purposes – We would assign the security to the debt category under the classification procedure for new instruments discussed in Part Three, Section 1(c) of the P&P.

2. Credit Assessment - We would assign the captioned security an NAIC "1" Designation.

> "NAIC 1 is assigned to obligations exhibiting the highest quality. Credit risk is at its lowest and the issuer's credit profile is stable. This means that interest, principal or both will be paid in accordance with the contractual agreement and the repayment of principal is well protected. An NAIC 1 obligation should be eligible for the most favorable treatment provided under the NAIC Financial Conditions Framework."

EXECUTIVE OFFICE	444 N. Capitol Street, NW, Suite 701	Washington, DC 20001-1509	p | 202 471 3990	f | 816 460 7493
CENTRAL OFFICE	2301 McGee Street, Suite 800	Kansas City, MO 64108-2662	p | 816 842 3600	f | 816 783 8175
SECURITIES VALUATION OFFICE	48 Wall Street, 6th Floor	New York, NY 10005-2906	p | 212 398 9000	f | 212 382 4207

www.naic.org

3. Reporting Instructions - The captioned security is eligible for reporting on Schedule D.

4. Statutory Accounting Guidance – Applicable statutory accounting guidance for the captioned security can be found in Statement of Statutory Accounting Principles (SSAP) No. 26 "Bonds, excluding Loan-backed and Structured Securities" of the NAIC Accounting Practices and Procedures Manual.

5. Risk Based Capital – For insurers maintaining an AVR, the factor for the captioned security would be 0.230%. For insurers not maintaining an AVR, the factor would be 0.100 on a pre-tax basis.

6. Summary - Securities Valuation Office Designation of an NAIC "1" is supported by:

   - Strength of the General Obligation, full faith and credit pledge supporting these bonds;
   - State Constitutional provision which obligates the State Treasurer to set aside the first available General Fund revenues in the event that sufficient revenues are not legislatively appropriated;
   - Conservative debt practices along with a moderate General Obligation debt level which amortizes rapidly; and,
   - A State economy that in areas has fared better than most during the current national recession

   Potential Risks:
   - Extremely narrow liquidity position which may require a return to cash flow borrowing;
   - A negative GAAP General Fund Position; and,
   - Considerable budgetary pressures which are expected to continue into the next biennium in light of the sizeable decline in revenues over the past two years and the expected slow pace of recovery

   Longer Term Challenges:
   - Challenges posed by an aging population and shrinking labor force; and
   - Significant unfunded pension and other post employment benefit obligations

NAIC Disclosures and Limitations

This letter conveys our opinion of how the risks, features or aspects of the captioned security would be treated pursuant to the named publication of the Purposes and Procedures Manual and/or other applicable NAIC guidance, or our opinion of the regulatory guidance we would recommend to the Valuation of Securities Task Force or other appropriate group of regulators.

Our opinion reflects a review of the preliminary documents you presented to us and the terms, representations, and assumptions they contained. No assurance can be given that the opinion expressed herein may not change if any material aspect of the transaction is modified.

We will not publicly disclose characteristics or features of the security which you have indicated to us is proprietary or confidential until either you inform us or we independently discover that public disclosure of that feature or aspect has been made. We will make full disclosure of confidential information to members of the regulatory community, including the Valuation of Securities Task Force, as necessary and appropriate in private communications. You may disclose the content of this letter with anyone, provided that the regulatory purposes and objective of the SVO and this process are disclosed.

NAIC Designations are produced solely for NAIC members and are indications of eligibility for certain regulatory treatment under the NAIC Financial Conditions Framework. SVO asset classification opinions are rendered solely in furtherance of specific and unique procedures developed by the NAIC and state insurance regulators for statutory reporting purposes. SVO assessments of, and opinions on, other investment risks in securities are similarly intended for application by state insurance regulators within this context of the developing and evolving NAIC framework and individual state regulatory statutes, regulations and investment guidance based on the NAIC framework. Because SVO opinion and analytic products are intended for regulatory purposes, they may be derived by the application of criteria that is relevant only to state insurance regulators. Accordingly, no SVO opinion in this letter should be treated as if it were intended to assist investors in making buy or sell investment decisions.

We appreciate this opportunity to have been of service to you. Please contact Gerard Durr at 212-386-1938 should you have any questions or concerns you wish to discuss.

Sincerely,

Chris Evangel
Managing Director, SVO
For the Senior Credit Committee

Cc: Robert Carcano, Senior Counsel
Gary Mescher, Senior Advisor, Investment Research Unit
Gerard Durr, Senior Analyst, Credit and Regulatory Unit

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STATE OF MAINE • GENERAL OBLIGATION BONDS